KOMERCIJALNA BANKA AD

PUBLIC COMPANY'S ANNUAL CONSOLIDATED REPORT FOR 2019

CONTENTS

Completed by bank		
Registration number: 07737068	Activity code: 6 4 1 9	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

BALANCE SHEET - CONSOLIDATED
as at 31.12.2019

(in RSD thousand)

Group of accounts, account	ITEM	ADP code	Note number	Current year amount	Previous year amount	
					Closing balance	Opening balance
1	2	3	4	5	6	7
00 (except 002), 010, 025, 05 (except 050, 052 and part of 059), 060, 07, 085, 196, 296 and parts of account 009, 019, 029, 069, 089, 199 and 299	**ASSETS** Cash and assets held with the central bank	0001	3k; 21	76.654.402	73.992.039	
	Pledged financial assets	0002		-	-	
125, 225	Receivables under derivatives	0003	3j; 22	-	4.070	
120, 122, 124, 220, 222, 224, 129 and 229	Securities	0004	3j; 23	144.479.431	137.514.720	
002, 01 (except 010 and part of 019), 020, 028, 050, 052, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, 493 and 593 as deductibles (SSKR-SS code 1 (without code 17), code 70 and parts of codes 71 and 74) and parts of account 009, 029, 059, 089, 199 and 299	Loans and receivables from banks and other financial organisations	0005	3j; 24	26.990.004	21.037.537	
01 (except 010 and part of 019), 020, 028, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, 493 and 593 as deductibles (SSKR – SS code 17 and all other codes, except code 70 and parts of codes 71 and 74) and parts of account 029, 089, 199 and 299	Loans and receivables from clients	0006	3j; 25	208.234.158	191.448.642	
123 and 223	Change in fair value of hedged items	0007		-	-	
126 and 226	Receivables under hedging derivatives	0008		-	-	
130, 131, 230, 231,part of 139 and part of 239	Investments in associated companies and joint ventures	0009		-	-	
132, 232, part of 139 and part of 239	Investments into subsidiaries	0010		-	-	
33	Intangible investments	0011	3lj; 26	754.500	627.468	
34	Property, plant and equipment	0012	3l; 27	7.254.391	6.047.384	
35	Investment property	0013	3m; 28	2.202.616	2.259.815	
034 and part of 039	Current tax assets	0014	20	6.786	1.650	
37	Deferred tax assets	0015	20	1.076.255	840.967	
36	Non-current assets held for sale and discontinued operations	0016	29	500.740	659.003	
021, 022, 024, 027, 03 (except 034 and part of 039), 081, 082, 084, 087, 09, 134,192, 194, 195, 234, 292, 294, 295, 30, 38 and parts of account 029, 089, 139, 199, 239 and 299	Other assets	0017	3j; 30	7.602.611	7.153.664	
	TOTAL ASSETS (from 0001 to 0017)	0018		**475.755.894**	**441.586.959**	

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount	
					Closing balance	Opening balance
1	2	3	4	5	6	7
411 and 511	**LIABILITIES** LIABILITIES **Liabilities under derivatives**	0401		-	-	
40, 420, 421, 490, 50, 520, 521, 590, part of 193 and part of 293 as deductibles (SSKR – SS code 1 (without code 17), code 70 and parts of codes 71 and 74)	Deposits and other liabilities to banks, other financial organisations and central bank	0402	3o;31	8.318.606	8.228.284	
40, 420, 421, 490, 50, 520, 521, 590, part of 193 and part of 293 as deductibles (SSKR – SS code 17 and all other codes, except code 70 and parts of codes 71 and 74)	Deposits and other financial liabilities to clients	0403	3o;32	370.987.710	350.668.156	
417 and 517	Liabilities under hedging derivatives	0404		-	-	
418 and 518	Change in fair value of hedged items	0405		-	-	
410, 412, 415, 423, 496, 510, 512, 515, 523, 596, 127 and 227 as deductibles	Liabilities under securities	0406		-	-	
424, 425, 482, 497, 524, 525, 582, 597, part of 193 and part of 293 as deductibles	Subordinated liabilities	0407		-	-	
450, 451, 452, 453 and 454	Provisions	0408	3p; 33	2.483.410	1.808.853	
46	Liabilities under assets held for sale and discontinued operations	0409		-	-	
455	Current tax liabilities	0410	20	2.673	11.044	
47	Deferred tax liabilities	0411	20	32.349	14.677	
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0412	3h;34	14.559.570	9.333.894	
	TOTAL LIABILITIES (from 0401 to 0412)	0414		**396.384.318**	**370.064.908**	-
80	CAPITAL Share capital	0415	3t; 35	40.034.550	40.034.550	
128	Own shares	0416		-	-	
83	Profit	0417	35.1	9.981.896	9.277.755	
84	Loss	0418	35.1	1.370.332	1.481.701	
81 and 82 – credit balance	Reserves	0419	3t; 35.1	30.725.392	23.691.381	
81 and 82 – debit balance	Unrealized losses	0420		-	-	
	Non-controlling participation	0421	3t;35	70	66	
	TOTAL CAPITAL **(0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) ≥ 0**	0422		**79.371.576**	**71.522.051**	-
	TOTAL CAPITAL SHORTFALL **0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) < 0**	0423		-	-	-
	TOTAL LIABILITIES (0413 + 0421 - 0422)	0424		**475.755.894**	**441.586.959**	-

In Belgrade

On 16.03.2020

Legal representative of the bank

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Completed by bank		
Registration number: 07737068	**Activity code: 6419**	**TIN: 100001931**
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, 14, Svetog Save		

INCOME STATEMENT - CONSOLIDATED

in the period from January 1st to December 31 st, 2019

(in RSD thousand)

Group of accounts, account	I T E M	ADP code	Note number	Current year	Previous year
1	2	3	4	5	6
70	Interest income	1001	3c; 8	15.098.191	15.092.523
60	Interest expenses	1002	3c; 3h; 8	1.327.673	1.145.879
	Net interest gains (1001-1002)	1003		**13.770.518**	**13.946.644**
	Net interest losses (1002-1001)	1004		**-**	**-**
71	Income from fees and commissions	1005	3d; 9	7.662.254	7.653.028
61	Expenses on fees and commissions	1006	3d; 9	1.935.130	2.112.581
	Net gains from fees and commissions (1005 - 1006)	1007		**5.727.124**	**5.540.447**
	Net losses on fees and commissions (1006 - 1005)	1008		**-**	**-**
774-674+776-676+777-677	Net gains from changes in fair value of financial instruments	1009	3e; 10	75.058	48.572
674-774+676-776+677-777	Net losses from changes in fair value of financial instruments	1010		-	-
727+728-627-628	Net gains from reclassification of financial instruments	1011		-	-
627+628-727-728	Net losses on reclassification of financial instruments	1012		-	-
720-620+721-621	Net gains from derecognition of the financial instruments measured at fair value	1013	3f; 11	353.502	247.084
620-720+621-721	Net losses on derecognition of the financial instruments measured at fair value	1014		-	-
775-675+770-670	Net gains from hedging	1015		-	-
675-775+670-770	Net losses on hedging	1016		-	-
78-68	Net exchange rate gains and gains from agreed currency clause	1017	3b;12	44.240	-
68-78	Net exchange rate losses and losses on agreed currency clause	1018	3b;12	-	1.532
750-650+751-651+756-656+760-660+729-629	Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	3j;13	1.587.676	51.681
650-750+651-751+656-756+660-760+629-729	Net expenses on impairment of financial assets not measured at fair value through income statement	1020		-	-
726-626	Net gains from derecognition of the financial instruments measured at amortised cost	1021	14	-	526.547
626-726	Net losses on derecognition of the financial instruments measured at amortised cost	1022	14	579.933	-
723-623	Net gains from derecognition of investments in associated companies and joint ventures	1023		-	-
623-723	Net losses on derecognition of investments in associated companies and joint ventures	1024		-	-
74, 766	Other operating income	1025	3g; 15	166.546	174.795
	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		**21.144.731**	**20.534.238**
	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		**-**	**-**
63, 655 - 755	Salaries, salary compensations and other personal expenses	1028	3p; 16	5.537.942	5.043.937
642	Depreciation costs	1029	3l; 3h; 17	1.193.480	629.754

Group of accounts, account	I T E M	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
752, 753, 761, 762, 767, 768, 773	Other income	1	0	3	0	18	810.907	375.392
64 (осим 642), 652, 653, 661, 662, 667, 668, 673	Other expenses	1	0	3	1	19	7.497.888	6.854.773
	PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1	0	3	2		**7.726.328**	**8.381.166**
	LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1	0	3	3		**-**	**-**
850	Profit tax	1	0	3	4	3i; 20	14.088	18.376
861	Gains from deferred taxes	1	0	3	5	3i; 20	1.488.290	702.775
860	Losses on deferred taxes	1	0	3	6	3i; 20	800.665	685.231
	PROFIT AFTER TAX (1032-1033-1034+1035-1036) ≥ 0	1	0	3	7		**8.399.865**	**8.380.334**
	LOSSES AFTER TAX (1032-1033-1034+1035-1036) < 0	1	0	3	8		**-**	**-**
769-669	Net profit from discontinued operations	1	0	3	9		-	-
669-769	Net losses on discontinued operations	1	0	4	0		-	-
	RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1	0	4	1		**8.399.865**	**8.380.334**
	RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1	0	4	2		**-**	**-**
	Profit belonging to a parent entity	1	0	4	3		**8.399.863**	**8.380.332**
	Profit belonging to non-controlling owners	1	0	4	4		**2**	**2**
	Losses belonging to a parent entity	1	0	4	5		**-**	**-**
	Losses belonging to non-controlling owners	1	0	4	6		**-**	**-**
	EARNINGS PER SHARE							
	Basic earnings per share (in dinars, without paras)	1	0	4	7	3u; 35.2	532	484
	Diluted earnings per share (in dinars, without paras)	1	0	4	8	3u; 35.2	532	484

In Belgrade
On 16.03.2020

Legal representative of the bank

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Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

in the period from January 1st to December 31st, 2019

(in RSD thousand)

Group of accounts, account	ITEM	ADP code	Note No	Current year	Previous year
1	2	3	4	5	6
	PROFIT FOR THE PERIOD	2001		8.399.865	8.380.334
	LOSS FOR THE PERIOD	2002		-	-
820	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	20	111.214	-
820	Decrease in revaluation reserves based on intangible assets and fixed assets	2004		-	-
822	Actuarial gains	2005	33;35	9	53.844
822	Actuarial losses	2006	33;35	12.780	248
821	Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	20	651.534	230.026
821	Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008		-	-
825	Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009		-	-
825	Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010		-	-
825	Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011		-	-
825	Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012		-	-
825	Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013		-	-
825	Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014		-	-
823	**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	35	2.460.710	17.976
823	Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	35	-	218.660
824	Gains from cash flow hedges	2017		-	-
824	Losses from cash flow hedges	2018		-	-
826	Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019		-	-
826	Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	35	28.698	10.582
826	Unrealised gains from hedge of net investments in foreign operations	2021		-	-
826	Unrealised losses from hedge of net investments in foreign operations	2022		-	-
826	Unrealised gains from other hedging instruments	2023		-	-
826	Unrealised losses from other hedging instruments	2024		-	-
826	Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025		-	-
826	Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026		-	-
82	Tax gains relating to other comprehensive income for the period	2027	35	1.908	34.091

Group of accounts, account	ITEM	ADP code				Note No	Current year	Previous year
1	2	3				4	5	6
82	Tax losses relating to other comprehensive income for the period	2	0	2	8	35	471.992	55.421
	Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) ≥ 0	2	0	2	9		**2.711.905**	**51.026**
	Total negative other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) < 0	2	0	3	0		**-**	**-**
	TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2	0	3	1		**11.111.770**	**8.431.360**
	TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2	0	3	2		**-**	**-**
	Total positive comprehensive income for the period attributable to the parent entity	2	0	3	3		**11.111.765**	**8.431.358**
	Total positive comprehensive income for the period attributable to non-controlling owners	2	0	3	4		**5**	**2**
	Total negative comprehensive income for the period attributable to the parent entity	2	0	3	5		-	-
	Total negative comprehensive income for the period attributable to non-controlling owners	2	0	3	6		-	-

In Belgrade,

Date 16.03.2020

Legal representative of the bank

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Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

CASH FLOW STATEMENT - CONSOLIDATED
in the period from 01.01 to 31.12.2019.

(in RSD thousand)

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
A.	**CASH FLOW FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities (from 3002 to 3005)**	3001	**24.794.516**	**24.165.499**
1.	Interest	3002	15.747.810	15.259.607
2.	Fees	3003	7.710.913	7.658.142
3.	Other operating income	3004	1.324.658	1.239.225
4.	Dividends and profit sharing	3005	11.135	8.525
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	**14.457.466**	**14.498.061**
5.	Interest	3007	1.195.178	1.149.108
6.	Fees	3008	1.868.018	2.082.570
7.	Gross salaries, salary compensations and other personal expenses	3009	4.978.046	4.950.310
8.	Taxes, contributions and other duties charged to income	3010	1.007.715	950.252
9.	Other operating expenses	3011	5.408.509	5.365.821
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	**10.337.050**	**9.667.438**
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	**21.850.450**	**38.820.086**
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	-	918.426
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	21.850.450	37.901.660
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	**31.609.298**	**12.279.151**
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	26.312.607	12.279.151
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	5.296.691	-
18.	Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	-	-
20.	Decrease in other financial liabilities	3026	-	-
21.	Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3028	**578.202**	**36.208.373**
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	**-**	**-**
22.	Profit tax paid	3030	27.433	5.126
23.	Dividends paid	3031	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	**550.769**	**36.203.247**
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	**-**	**-**

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
B. I.	**CASH FLOW FROM INVESTING ACTIVITIES Cash inflow from investing activities (from 3035 to 3039)**	3034	**50.268.438**	**42.486.574**
1.	Investment in investment securities	3035	50.266.390	42.419.693
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	2.048	3.447
4.	Sale of investment property	3038	-	63.434
5.	Other inflow from investing activities	3039	-	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	**49.745.542**	**59.249.571**
6.	Investment into investment securities	3041	49.163.453	58.607.653
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	582.089	611.512
9.	Purchase of investment property	3044	-	27.098
10.	Other outflow from investing activities	3045	-	3.308
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	**522.896**	**-**
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	**-**	**16.762.997**
C. I.	**CASH FLOW FROM FINANCING ACTIVITIES Cash inflow from financing activities (from 3049 to 3054)**	3048	**97.161.351**	**87.230.198**
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	97.161.351	87.230.198
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	**98.353.909**	**91.165.062**
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	97.870.436	91.165.062
10.	Issuance of securities	3059	-	-
11.	Other outflow from financing activities	3060	483.473	-
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	**-**	**-**
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	**1.192.558**	**3.934.864**
D.	**TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)**	3063	**194.074.755**	**192.702.357**
E.	**TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	**194.193.648**	**177.196.971**
F.	**NET INCREASE IN CASH (3063-3064)**	3065	**-**	**15.505.386**
G.	**NET DECREASE IN CASH (3064-3063)**	3066	**118.893**	**-**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	**44.530.135**	**28.957.649**
I.	**EXCHANGE RATE GAINS**	3068	**1.386.966**	**777.270**
J.	**EXCHANGE RATE LOSSES**	3069	**1.278.588**	**710.170**
K.	**CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)**	3070	**44.519.620**	**44.530.135**

In Belgrade
On 16.03.2020.

Legal representative of the bank

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Completed by bank		
Registration number: 07737068	**Activity code: 6419**	**TIN: 100001931**
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED

in the period from 01.01. to 31.12.2019

(in RSD thousand)

No	DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 128)	ADP	Premium on issue of shares (account 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82 credit balance)	ADP	Revaluation reserves (group of accounts 82 debit balance)	ADP	Profit (group of accounts 83)	ADP	Loss (accounts 840, 841, 842)	ADP	Non-controlling participation	ADP	Total comumns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP	Total (columns 2-3+4+5+6-7+8-9+10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
1	**Opening balance as at 1 January of the previous year**	4001	17.191.466	4033	-	4065	22.843.084	4097	14.439.523	4129	6.043.758	4147	109.194	4165	8.357.092	4203	1.665.678	4241	65	4285	67.100.116	4291	-
2	Effects of the first implementation of new IFRS - increase	4002	-	4034	-	4066	-	4098	-	4130	222.611	4148	-	4166	-	4204	46.350	4242	-	x	x	x	x
3	Effects of the first implementation of new IFRS – decrease	4003	-	4035	-	4067	-	4099	100.823	4131	105.324	4149	108.862	4167	1.155.433	4205	-	4243	-	x	x	x	x
4	Changes in accounting policies and correction of prior period error – increase	4004	-	4036	-	4068	-	4100	-	4132	-	4150	-	4168	-	4206	-	4244	-	x	x	x	x
5	Changes in accounting policies and correction of prior period error – decrease	4005	-	4037	-	4069	-	4101	-	4133	-	4151	-	4169	-	4207	-	4245	-	x	x	x	x
6	**The adjusted opening balance as at 1 January of the previous year (No. 1+2-3+4-5)**	4006	17.191.466	4038	-	4070	22.843.084	4102	14.338.700	4134	6.161.045	4152	332	4170	7.201.659	4208	1.712.028	4246	65	4286	66.023.659	4292	-
7	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4135	26.749	4153	75	x	x	x	x	4247	-	x	x	x	x
8	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4136	-	4154	0	x	x	x	x	4248	-	x	x	x	x
9	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4171	8.380.332	x	x	4249	2	x	x	x	x
10	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4209		4250	-	x	x	x	x
11	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4172	-	4210	-	4251	-	x	x	x	x
12	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4173	-	4211	-	4252	-	x	x	x	x
13	Transactions with owners recognized directly in equity – increase	4007	-	4039	-	4071	-	4103	-	x	x	x	x	4174	-	4212	-	4253	-	x	x	x	x
14	Transactions with owners recognized directly in equity – decrease	4008	-	4040	-	4072	-	4104	-	x	x	x	x	4175	-	4213	-	4254	-	x	x	x	x
15	Distribution of profit – increase	4009	-	4041	-	4073	-	4105	3.166.101	x	x	x	x	4176	-	4214	-	4255	-	x	x	x	x
16	Distribution of profit and/or coverage of losses – decrease	4010	-	4042	-	4074	-	4106	-	x	x	x	x	4177	3.392.409	4215	226.308	4256	-	x	x	x	x
17	Dividend payments	4011	-	4043	-	4075	-	4107	-	x	x	x	x	4178	2.535.916	4216	-	4257		x	x	x	x
18	Other – increase	4012	-	4044	-	4076	-	4108	-	x	x	x	x	4179	23.509	4217	-	4258		x	x	x	x
19	Other – decrease	4013	-	4045	-	4077	-	4109	957	x	x	x	x	4180	399.420	4218	4.019	4259	1	x	x	x	x
20	**Total transactions with owners (No. 13-14+15-16-17+18-19) ≥ 0**	4014	-	4046	-	4078	-	4110	3.165.144	x	x	x	x	4181	-	4219	-	4260	-	x	x	x	x
21	**Total transactions with owners (No. 13-14+15-16-17+18-19) < 0**	4015	-	4047	-	4079	-	4111	-	x	x	x	x	4182	6.304.236	4220	230.327	4261	1	x	x	x	x
22	**Balance as at 31 December of the previous year (No. 6+7-8+9-10+11-12+20-21 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 6+8-7)**	4016	17.191.466	4048	-	4080	22.843.084	4112	17.503.844	4137	6.187.794	4155	257	4183	9.277.755	4221	1.481.701	4262	66	4287	71.522.051	4293	-

No	DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 128)	ADP	Premium on issue of shares (account 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82 credit balance)	ADP	Revaluation reserves (group of accounts 82 debit balance)	ADP	Profit (group of accounts 83)	ADP	Loss (accounts 840, 841, 842)	ADP	Non-controlling participation	ADP	Total comumns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP	Total (columns 2-3+4+5+6-7+8-9+10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
23	**Opening balance as at 1 January of the current year**	4017	17.191.466	4049	-	4081	22.843.084	4113	17.503.844	4138	6.187.794	4156	257	4184	9.277.755	4222	1.481.701	4263	66	4288	71.522.051	4294	-
24	Effects of the first implementation of new IFRS - increase	4018	-	4050	-	4082	-	4114	-	4139	-	4157	-	4185	-	4223	-	4264	-	x	x	x	x
25	Effects of the first implementation of new IFRS – decrease	4019	-	4051	-	4083	-	4115	-	4140	-	4158	-	4186	-	4224	-	4265	-	x	x	x	x
26	Changes in accounting policies and correction of prior period error – increase	4020	-	4052	-	4084	-	4116	-	4141	-	4159	-	4187	-	4225	-	4266	-	x	x	x	x
27	Changes in accounting policies and correction of prior period error – decrease	4021	-	4053	-	4085	-	4117	-	4142	-	4160	-	4188	-	4226	-	4267	-	x	x	x	x
28	**Adjusted opening balance as at 1 January of the current year (No. 23+24-25+26-27)**	4022	17.191.466	4054	-	4086	22.843.084	4118	17.503.844	4143	6.187.794	4161	257	4189	9.277.755	4227	1.481.701	4268	66	4289	71.522.051	4295	-
29	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4144	2.688.252	4162	9	x	x	x	x	4269	-	x	x	x	x
30	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4145	-	4163	-	x	x	x	x	4270	-	x	x	x	x
31	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4190	8.399.863	x	x	4271	2	x	x	x	x
32	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4228	-	4272	-	x	x	x	x
33	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191	-	4229	-	4273	-	x	x	x	x
34	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4192	-	4230	-	4274	-	x	x	x	x
35	Transactions with owners recognized directly in equity – increase	4023	-	4055	-	4087	-	4119	-	x	x	x	x	4193	-	4231	-	4275	-	x	x	x	x
36	Transactions with owners recognized directly in equity – decrease	4024	-	4056	-	4088	-	4120	-	x	x	x	x	4194	-	4232	-	4276	-	x	x	x	x
37	Distribution of profit – increase	4025	-	4057	-	4089	-	4121	4.347.844	x	x	x	x	4195	-	4233	-	4277	-	x	x	x	x
38	Distribution of profit and/or coverage of losses – decrease	4026	-	4058	-	4090	-	4122	-	x	x	x	x	4196	4.451.668	4234	103.824	4278	-	x	x	x	x
39	Dividend payments	4027	-	4059	-	4091	-	4123	-	x	x	x	x	4197	3.258.073	4235	-	4279	-	x	x	x	x
40	Other – increase	4028	-	4060	-	4092	-	4124	-	x	x	x	x	4198	22.366	4236	-	4280	2	x	x	x	x
41	Other – decrease	4029	-	4061	-	4093	-	4125	2.094	x	x	x	x	4199	8.347	4237	7.545	4281	-	x	x	x	x
42	**Total transactions with owners (No. 35-36+37-38-39+40+41) ≥ 0**	4030	-	4062	-	4094	-	4126	4.345.750	x	x	x	x	4200	-	4238	-	4282	2	x	x	x	x
43	**Total transactions with owners (No. 35-36+37-38-39+40+41) < 0**	4031	-	4063	-	4095	-	4127	-	x	x	x	x	4201	7.695.722	4239	111.369	4283	-	x	x	x	x
44	**Balance as at 31 December of the current year (No. 28+29-30+31-32+33-34+42-43 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 28+30-29)**	4032	17.191.466	4064	-	4096	22.843.084	4128	21.849.594	4146	8.876.046	4164	248	4202	9.981.896	4240	1.370.332	4284	70	4290	79.371.576	4296	-

In Belgrade
Date 16.03.2020

Legal representative of the bank

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KOMERCIJALNA BANKA AD BEOGRAD

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2019

Belgrade, March 2020

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

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

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

Republic of Serbia	83.23%

The Parent Bank has three dependent legal entities with ownership:

- 100% - Komercijalna banka ad, Podgorica, Montenegro
- 100% - Investment Management Company KomBank INVEST ad, Belgrade, Serbia
- 99.998% - Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina.

The minority owner in Komercijalna banka ad, Banja Luka, with 0.002% is the Agency for Export, Insurance and Financing of the Republic of Serbia.

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

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

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

Investment Management Company KomBank INVEST ad, Belgrade was established in December 2007 and registered on February 5, 2008. The Company's registration number is 20379758.

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

On December 31, 2019, the Group consists of: the head office and the headquarters of the Home Bank in Belgrade, at St. Sava Street no. 14; the headquarters of Komercijalna banka ad, Podgorica in Podgorica – Cetinjska 11, Business Centre Capital Plaza; headquarters of Komercijalna banka ad, Banja Luka in Banja Luka - Jevrejska street no. 69; the head office of the Investment Management Company KomBank INVEST AD, Belgrade, Belgrade, Kralja Petra br.19; 6 business centres, 3 sectors that work with small and medium enterprises 20 branches and 213 sub-branches in the territory of Serbia, Montenegro and Bosnia and Herzegovina (2018:6 business centres, 19 branches and 211 sub-branches).

As at December 31, 2019 the Group had 3,056 employees, and on December 31, 2018 had 3,076 employees.

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

2.1. Basis for preparation and presentation of consolidated financial statements

The Group's consolidated financial statements for 2019 were compiled in accordance with International Financial Reporting Standards (IFRS).

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

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

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

During 2019, the Group members kept their accounts and compiled individual financial statements in accordance with local legal regulations, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as regulations of competent central banks and regulatory body. The individual financial statements have been audited by external auditors, in accordance with local regulations.

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

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

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

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

2.2. Changes and additions to IFRSs whose implementation will be mandatory the following year

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2019:

- **IFRS 16: Leases**

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Please refer to Note 3.h for the effects of the adoption of the Standard and detailed disclosures.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

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

2.2. Changes and additions to IFRSs whose implementation will be mandatory the following year (continued)

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs:*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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

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

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

➢ **Conceptual Framework in IFRS standards**

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

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

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

- **IFRS 3: Business Combinations (Amendments)**

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

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

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

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

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

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

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

3. OVERVIEW OF BASIC ACCOUNTING POLICIES

In the preparation and presentation of the financial statements for the period January-December 2018, the implementation of IFRS 9 amended the NBS regulatory framework, according to which the banks were obliged to apply new forms of financial statements with validity starting from January 1, 2018.

(a) Consolidation

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

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

In order to prepare Consolidated Income Statement and the Consolidated Cash Flow Statement reclassified forms of subsidiaries' standalone Income Statement and Cash Flow Statement were recalculated using the average exchange rate in the Republic of Serbia for 2019 of 117.8593 for one EUR and 60.2605 for one BAM. For other financial statements (balance sheet, other comprehensive income and statement of changes in equity) recalculation was done using the closing exchange rate on the balance sheet date of 117.5928 for one EUR or 60.1242 for one BAM.

(b) Conversion of foreign exchange amounts

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

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

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

	2019	In RSD 2018
USD	104.9186	103.3893
EUR	117.5928	118.1946
CHF	108.4004	104.9779
BAM	60.1242	60.4319

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

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

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

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

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

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

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

(d) Fees and commissions

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

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

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

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

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(g) Dividends

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

(h) Leasing

Accounting policy applied after 1 January 2019

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

Group as leasee

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

(i) Right of use assets

The Group recognizes right of use asset on the day the lease begins (i.e. the date the asset is available for use). The right of use asset is measured at cost less accumulated depreciation and impairment losses, and is adjusted for any subsequent measurement of the lease liability. The cost of right of use asset includes the amount of recognized leasing liabilities, initial direct costs and lease payments made on or before the commencement date, less any lease incentives received.
Right of use assets is amortized on a pro rata basis over a period shorter than the lease term or the estimated useful life of the asset.
Right of use assets are amortized at a rate ranging from 92.31% to 6.70% annually, depending on the contractual right to use the asset.

(ii) Leasing liabilities

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

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

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

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

(h) Leasing *(continued)*

(ii) Leasing liabilities (continued)

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

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

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

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

Group as a leasor

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

Accounting policy applied before 1 January 2019

Leasing is classified as financial when all the benefits and risks arising from the ownership of the leased asset are transferred to the Group. Leasing is classified as operating when the benefits and risks arising from the ownership of the leased asset are not transferred to the Group. The Group does not invest in financial or operating leasing, i.e. it appears solely as a beneficiary of a financial or operating lease.

(i) Leasing liabilities

All operating lease payments during the year are recorded as an expense in the income statement on a straight-line basis over the lease term. Approved leasing incentives are recognized within the total cost of the lease over the lease term.

Minimum lease rates for financial leases are apportioned between the finance charge and the reduction in the remaining amount of the finance lease liability. Financial expenses are deferred to all periods during the lease term, so that they give a uniform periodic interest rate on the remaining amount of the lease liability.

The assets used by the Group on a lease basis for which all benefits and risks arising from the ownership of the leased asset are transferred to the Group are disclosed in the Group's balance sheet. Financial leasing assets are initially measured at a value equal to the fair value of the leased asset, or at the present value of the minimum lease payments, if this is lower. Subsequent measurement of financial leasing assets is carried out according to the accounting policy applicable to the specific asset.

Leases of space used for branches and branches are primarily recorded as operating leases. Total operating lease payments are recognized in the income statement on a straight-line basis over the life of the lease. Assets used by the Group under operating leases are classified as operating leases and are not recognized in the Group's balance sheet.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(i) Tax expense

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

(i) Current Profit tax

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

(ii) Deferred taxes

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

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

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

(iii) Other taxes and contributions

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

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

Financial assets

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

Financial liability

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

Principles of valuation of financial instruments

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

Financial assets

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

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Financial assets can be classified into the following categories:

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

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

- **Loans and receivables** as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Group does not intend to sell in the short term
- **Securities** that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- **Securities, which include debt securities and equity securities (capital instruments)**:
  - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.
  - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
  - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and
- **Financial derivatives** that include forward and swap transactions.

Classification and measurement

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

According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). The Standard eliminates existing categories under IAS 39, "Recognition and Measurement", held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Equity instruments in subsidiaries that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

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

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

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

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

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

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

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

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

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

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

The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other comprehensive income.

Taking into account the nature of the Group's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Group does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Impairment of financial assets

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

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

Stage 1

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

Stage 2

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

Stage 3

As in accordance with IAS 39, financial instruments are included in stage 3, where there is objective evidence of impairment. There is no change in the treatment of loans classified in that stage, apart from the fact that multiple collection scenarios were introduced. The impairment calculation on an individual basis will continue on the same principle.

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

(iii) Derecognition

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

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

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

(iiii) Netting

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

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

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with a maturity shorter than 3 months, low risk of change in value, used by the members of the Short-Term Liquidity Management Group.

Cash is measured at amortized cost in the balance sheet.

(l) Property and equipment

(i) Recognition and measurement

Initial measurement of property and equipment is done at cost or at purchase price.

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

After initial recognition, the equipment is measured at cost less accumulated amortization and total accumulated losses due to the decrease in value.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) Property and equipment (continued)

(i) Recognition and measurement (continued)

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

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

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

(ii) Subsequent measurement

The cost of replacing an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Group member and if the cost of the cost of that part can be reliably measured. The carrying amount of the replacement part is written off. The cost of regular servicing of property and equipment is recognized in the income statement when it arises.

(iii) Depreciation

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

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

Asset	**Estimated useful life (in years)**	**Rate %**
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70%-50.00%
Investments in other fixed assets	1 – 23.5	4.25%-86.20%
Leased fixed assets	1.1-14.6	6.90-92.31%

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

Maintenance costs are recognized in the income statement for the period in which they are incurred.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(lj) Intangible assets

Intangible assets are valued at cost or purchase price less depreciation and impairment losses.

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

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

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

(m) Investment property

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

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

For the subsequent evaluation of investment property, the Group members use the cost model, ie investment property is measured at cost less accumulated amortization and impairment losses.

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(n) Impairment of non-financial assets

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

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

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

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

(o) Deposits, loans and subordinated liabilities

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

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

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

(p) Provisions

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

(r) Benefits to employees

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

In accordance with the Labour Law, members of the Group are obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at 31 December 2019, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in note 33.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(s) Financial guarantees

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

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

(t) Capital and reserves

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

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

(u) Earnings per share

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

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

(v) Segment reporting

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

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

When determining the operational segments, the following were used:

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

3.1. Changes of accounting policies for leases

IFRS 16 – Leasing is implemented and put into effect for the reporting periods on or after the January, 1 2019. IFRS 16 is superseding IAS 17 – Leasing, IFRIC 4 Determination of whether a contract contains a leasing element, SIC-15 Operational leasing – incentives and SIC-27 Assessment of substance of transactions which include a legal form of leasing. The Standard establishes principles for the recognition, measurement, presentation and disclosure of leasing and requirements of lessees so that the majority are recognized in the Income Statement.

The Group adopted IFRS 16 by applying a modified retrospective approach on the day of the initial application January 1, 2019, so that the cumulative effects of the application of the standard are recognized on the day of the initial application.

The Standard allows two exceptions when recognizing leases – leases of low-value assets and short-term leases (i.e. leases that have a term which is less than 12 months). The Group decided on using these two standard allowed exceptions.

From January 1, 2019, the Group recognizes rights of use as leasing assets and liabilities for leasing contracts which satisfy all of the standard's terms and conditions, except for leases of low-value assets and short-term leases. Rights of use are recognized as the amount equal to the leasing liability adjusted for any advance or calculated lease payments that refer to those contracts that were recognized. Leasing liabilities are recognized by the level of the present value of the outstanding leasing payments, discounted for the incremental borrowing rate on the day of the initial application.

Comparative data on December 31, 2018 do not reflect these policy changes.

4. RISK MANAGEMENT

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

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment.

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

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

In view of the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Group was during the 2019 performed adequate changes in the internal acts regulating risk management.

Risk Management System

The risk management system is defined by the following acts:

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

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The risk management strategy defines:

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

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

The Banking Group has identified the basic principles of risk management in order to fulfil its long-term goals:

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

The principles of managing bad assets and 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;
• Transparent reporting.

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

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

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

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

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

Jurisdictions

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

Jurisdiction (continued)

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

The *Compliance function* is obliged to identify and assess at least annually the risks of compliance of the operations of the parent Bank, as well as the Group member, and propose risk management plans, on which it draws up a report that is submitted to the Executive Board and the Board for monitoring the operations of the parent Bank.

Risk management process

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

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

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

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

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

Types of risk

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

The basic principles of credit risk management are:

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

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

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

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

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

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

The basic techniques of credit risk mitigation are:

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

IFRS 9 Financial instruments

Starting from January 1, 2019, The Group applies IFRS 9 that replaced the IAS 39. In accordance with IFRS 9, the financial assets can be classified and measured as:

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

The Group's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Group has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured 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 Group calculates impairment for credit placements given to the countries and Central Banks of the Group's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

Identification of problematic and restructured receivables

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

In accordance with the application of IFRS 9, starting from January 1, 2019, The Group 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 fulfilment 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Identification of problematic and restructured claims (continued)

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Identification of problematic and restructured claims (continued)

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

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

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Risk of asset quality change - asset delinquency

The quality of the Group's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 17 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of loans.

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

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

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

Risk of asset value change – impairment of assets

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual and Group Assessment at Stage 3

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

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

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

Individual assessment

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

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

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

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

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9, which is applicable from January 1, 2018. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment

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

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

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

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

- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Group calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

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

All financial instruments in which significant increase in credit risk has been 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 Group considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like).

In 2019. The Group has improved the Methodology of impairment assessment in the part of additional criteria for inclusion of clients in Level 2, where the quantitative criterion for the deterioration of credit risk from the moment of loan approval to the impairment date is included.

The Group 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment (continued)

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

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

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

PD represents an estimation of the probability of default in a given period of time. Failure to fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Group is still exposed. Based on historical data, the group calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Group includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

In 2019 the Group has improved the way of inclusion of forward looking components in the calculation Angel of the PD (Beta factor that adjusts the expected movement of default rates envisioned in the developed econometric model taking into account the implemented PD rates at the bank level), by including the Beta factor in the value of all three scenarios of the movement of macroeconomic variables (optimistic, realistic and pessimistic), after which the annulment is performed with the probability of the anticipated realization of the above scenarios, in order to obtain the final Beta Factor that contains all three scenarios (optimistic, realistic, pessimistic).

To calculate impairment for Stage 1, the Group uses one-year PDs for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment (continued)

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Group uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, i.e. the probability of default for the entire life of the financial instrument.

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 Group, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Group applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Group takes into account all internally available collaterals where there is an estimate of the probability of collectability.

The final step in calculating the impairment is the discount factor - **DF** for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Group. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).
For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Group uses a different method of calculating impairment. The Group does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure of financial instruments of the state, its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment (continued)

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

Determining the probable loss on off-balance sheet items

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

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

Means of protection against credit risk (collateral)

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

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

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

In thousands of RSD

	31.12.2019		31.12.2018	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**501,197,864**	**475,755,894**	**468,202,521**	**441,586,959**
Cash and balances with the central bank	76,654,402	76,654,402	73,992,038	73,992,039
Loans and advances to banks and other financial institutions	27,209,396	26,990,004	21,265,408	21,037,537
Loans and receivables from customers	221,020,005	208,234,158	206,358,685	191,448,642
Financial assets (securities and derivatives)	144,480,034	144,479,432	137,520,384	137,518,790
Other assets	10,376,428	7,602,610	9,892,999	7,153,663
Assets	21,457,599	11,795,288	19,173,007	10,436,287
II. Off-balance sheet items	**55,934,191**	**55,723,796**	**45,669,661**	**45,360,450**
Payable guarantees	4,983,412	4,943,117	3,899,996	3,807,747
Performance guarantees	5,754,471	5,702,687	3,628,533	3,580,265
Irrevocable liabilities	44,634,858	44,540,969	37,774,785	37,632,128
Other	561,450	537,023	366,347	340,310
Total (I+II)	**557,132,055**	**531,479,690**	**513,872,182**	**486,947,408**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by level of risk during 2019 *In thousands of RSD*

	Stage 1	Stage 2	Stage 3	Total
31.12.2018	**180,935,918**	**4,994,088**	**20,428,679**	**206,358,685**
New receivables	40,092,219	1,102,129	89,142	41,283,490
Decrease/collection of receivables	(22,258,413)	(1,485,728)	(2,956,694)	(26,700,835)
Transfer to stage 1	399,634	(959,698)	(305,910)	(865,974)
Trasnfer to stage 2	(6,968,196)	390,709	(198,855)	(6,776,342)
Transfer to stage 3	(555,124)	(233,940)	136,734	(652,330)
Transfer from other stages	1,204,700	6,845,775	786,638	8,837,113
Other changes	2,932,113	(2,214,472)	(1,181,443)	(463,802)
31.12.2019	**195,782,851**	**8,438,863**	**16,798,291**	**221,020,005**

Changes in impairment allowance of loans and receivables to customers by level of risk during 2019
In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2018	**1,245,099**	**305,423**	**13,359,522**	**14,910,044**
New receivables	338,166	29,030	105,952	473,148
Decrease/collection of receivables	(277,787)	(65,597)	(1,679,445)	(2,022,829)
Transfer to stage 1	28,495	(23,328)	(137,088)	(131,921)
Transfer to stage 2	(92,657)	4,479	(67,482)	(155,660)
Transfer to stage 3	(4,501)	(5,939)	23,672	13,232
Transfer from other stages	160,299	155,545	20,846	336,690
Other changes	(315,865)	(254,154)	(66,838)	(636,857)
31.12.2019	**1,081,249**	**145,459**	**11,559,139**	**12,785,847**

During 2019, transitions of exposures by Stages are consequence of regular business transactions:

- transition to Stage 1 from Stage 2 and 3 is a consequence of the improvement of business parameters according to the financial statements for 2018, or due to the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1 is a consequence of the modification made to the segment of Methodology that refers to the criteria for transfers to Stage 2, as well as an increase in credit risk in a certain number of clients;
- Transition to Stage 3 from Stage 1 and 2 is a consequence of an increase in credit risk (account blockage longer than 60 days, and an increase in over 90 days in most cases). During the year, Stage 1 receivables were at Stage 2 before they went to Stage 3. Reduction of Stage 3 receivables is due to the regulation of risk claims (collection from collateral and regular business operations of clients).
- The decrease of impairment allowance in other changes is mostly due to the improvement of risk parameters that are used for the impairment of PL (good) placements and were placed in the Bank's portfolio on the December 31, 2018 and December 31, 2019.
- Other changes are mainly related to increase / decrease of exposure with clients who did not change stages on both dates. Additionally, other changes include the calculation of interest, exchange rate differences and more.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk ***In thousands of RSD***

31.12.2019	Stage 1	Stage 2	Stage 3	**Total**	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	**Impairment allowance**	**Net**
Housing Loans	44,781,851	1,088,516	1,135,502	47,005,869	60,507	19,892	533,451	613,850	46,392,019
Cash Loans	37,099,788	519,553	309,188	37,928,529	185,900	23,444	234,389	443,733	37,484,796
Agricultural Loans	9,359,411	131,203	276,017	9,766,631	103,736	12,524	127,686	243,946	9,522,685
Other Loans	4,917,081	55,704	166,639	5,139,424	40,117	2,258	159,509	201,884	4,937,540
Micro Business	11,129,442	1,340,718	857,497	13,327,657	163,001	32,559	427,704	623,264	12,704,393
Total retail	**107,287,573**	**3,135,694**	**2,744,843**	**113,168,110**	**553,261**	**90,677**	**1,482,739**	**2,126,677**	**111,041,433**
Large corporate clients	33,820,703	4,177,912	6,273,603	44,272,218	135,538	43,053	3,714,018	3,892,609	40,379,609
Middle corporate clients	10,930,280	383,397	1,804,172	13,117,849	63,502	3,614	1,377,025	1,444,141	11,673,708
Small corporate clients	5,682,357	327,676	1,538,864	7,548,897	34,708	2,628	923,232	960,568	6,588,329
State owned clients	24,493,519	413,490	170,672	25,077,681	141,136	5,464	132,088	278,688	24,798,993
Other	13,568,419	694	4,266,137	17,835,250	153,106	21	3,930,037	4,083,164	13,752,086
Total corporate	**88,495,278**	**5,303,169**	**14,053,448**	**107,851,895**	**527,990**	**54,780**	**10,076,400**	**10,659,170**	**97,192,725**
Total	**195,782,851**	**8,438,863**	**16,798,291**	**221,020,005**	**1,081,251**	**145,457**	**11,559,139**	**12,785,847**	**208,234,158**
Due from banks	**26,994,979**	**-**	**214,417**	**27,209,396**	**4,975**	**-**	**214,417**	**219,392**	**26,990,004**

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk ***In thousands of RSD***

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage2	Impairment allowance Stage 3	Impairment allowance	Net
Housing loans	41,169,671	1,128,707	1,649,460	43,947,838	37,690	21,066	766,147	824,902	43,122,935
Cash loans	32,134,316	403,332	282,914	32,820,561	123,542	17,172	192,578	333,293	32,487,269
Agriculture Loans	8,403,020	102,421	265,238	8,770,680	61,768	4,247	140,095	206,111	8,564,569
Other Loans	5,467,471	128,473	195,775	5,791,720	36,706	2,655	175,980	215,341	5,576,379
Micro bussines	10,966,226	410,455	945,043	12,321,724	155,377	9,868	451,632	616,877	11,704,847
Total retail	**98,140,704**	**2,173,388**	**3,338,430**	**103,652,523**	**415,084**	**55,008**	**1,726,433**	**2,196,524**	**101,455,999**
Large corporate clients	36,875,197	2,076,200	11,595,741	50,547,139	331,352	237,377	7,901,653	8,470,382	42,076,757
Middle corporate clients	10,275,020	323,692	1,990,077	12,588,790	128,244	5,554	1,322,112	1,455,910	11,132,879
Small corporate clients	5,530,375	288,722	1,595,043	7,414,139	66,100	2,614	864,980	933,694	6,480,445
State owned clients	14,973,115	132,086	503,850	15,609,052	109,603	4,870	139,219	253,692	15,355,359
Other	15,141,506	-	1,405,537	16,547,043	194,716	-	1,405,126	1,599,842	14,947,202
Total clients	**82,795,214**	**2,820,700**	**17,090,248**	**102,706,163**	**830,015**	**250,415**	**11,633,089**	**12,713,520**	**89,992,643**
Total	**180,935,918**	**4,994,088**	**20,428,679**	**206,358,685**	**1,245,099**	**305,423**	**13,359,522**	**14,910,044**	**191,448,642**
Due from banks	**21,054,117**	**-**	**211,292**	**21,265,409**	**16,579**	**-**	**211,292**	**227,871**	**21,037,538**

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in impairment allowance of receivables in the Balance Sheet ***In thousands of RSD***

	31.12.2018	Incerase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2019
Total retail	2,196,524	1,706,047	(1,297,726)	(478,167)	2,126,678
Total corporate	12,713,520	3,880,424	(5,002,693)	(932,082)	10,659,169
Total	**14,910,044**	**5,586,472**	**(6,300,419)**	**(1,410,249)**	**12,785,847**
Due from banks	**229,193**	**41,773**	**(53,644)**	**2,071**	**219,393**

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Problematic loans and receivables – stage 3

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

Non-problematic loans and receivables – stages 1 and 2

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

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

In thousands of RSD

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivables by days past due

In RSD thousands

	Stage 1						Stage 2					
31.12.2018	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	40,790,027	379,643	-	-	-	**41,169,671**	786,365	94,658	134,976	112,708	-	**1,128,707**
Cash Loans	29,749,339	2,384,977	-	-	-	**32,134,316**	97,540	83,776	170,356	51,659	-	**403,332**
Agricultural Loans	8,249,595	153,425	-	-	-	**8,403,020**	33,764	4,604	47,628	16,426	-	**102,421**
Other Loans	5,123,965	343,506	-	-	-	**5,467,471**	69,361	18,165	28,755	12,193	-	**128,473**
Micro business	9,865,744	1,100,482	-	-	-	**10,966,226**	235,535	101,374	61,516	12,030	-	**410,455**
Total retail	**93,778,670**	**4,362,034**	**-**	**-**	**-**	**98,140,704**	**1,222,564**	**302,577**	**443,230**	**205,017**	**-**	**2,173,388**
Large corporate clients	36,462,226	412,971	-	-	-	**36,875,197**	1,558,103	196,700	321,397	-	-	**2,076,200**
Middle corporate clients	9,951,646	323,374	-	-	-	**10,275,020**	187,209	93,527	42,955	-	-	**323,692**
Small corporate clients	5,342,188	188,187	-	-	-	**5,530,375**	227,567	61,146	9	-	-	**288,722**
State owned clients	14,964,539	8,576	-	-	-	**14,973,115**	100,167	31,754	165	-	-	**132,086**
Other	15,061,289	80,217	-	-	-	**15,141,506**	-	-	-	-	-	**-**
Corporate clients	**81,781,889**	**1,013,325**	**-**	**-**	**-**	**82,795,214**	**2,073,046**	**383,128**	**364,527**	**-**	**-**	**2,820,700**
Total	**175,560,559**	**5,375,359**	**-**	**-**	**-**	**180,935,918**	**3,295,610**	**685,705**	**807,756**	**205,017**	**-**	**4,994,088**
Out of which: restrucured	1,142,686	214,745	-	-	-	1,357,431	632,639	34,643	17,921	19,881	-	705,085
Due from banks	**21,054,117**	**-**	**-**	**-**	**-**	**21,054,117**	**-**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due – stage 3

In RSD thousands

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due

In RSD thousands

	Stage 3					
31.12.2018	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	316,657	69,763	48,503	60,150	1,154,388	**1,649,460**
Cash Loans	63,363	29,025	15,718	32,189	142,618	**282,914**
Agricultural Loans	18,824	6,326	3,129	824	236,136	**265,238**
Other Loans	12,458	2,193	843	1,487	178,794	**195,775**
Micro business	97,967	33,701	5,536	27,535	780,304	**945,043**
Total retail	**509,268**	**141,008**	**73,729**	**122,185**	**2,492,241**	**3,338,430**
Large corporate clients	1,850,211	7,008	258,670	372,861	9,106,992	**11,595,741**
Middle corporate clients	74,482	-	-	-	1,915,595	**1,990,077**
Small corporate clients	39,097	326,954	13,413	-	1,215,579	**1,595,043**
State owned clients	324,552	8,458	-	-	170,839	**503,850**
Other	1,404,715	-	-	-	822	**1,405,537**
Corporate clients	**3,693,058**	**342,420**	**272,083**	**372,861**	**12,409,827**	**17,090,248**
Total	**4,202,326**	**483,428**	**345,812**	**495,046**	**14,902,068**	**20,428,679**
Out of which: restrucured	2,148,552	26,553	40,609	26,846	11,387,669	13,630,228
Due from banks	**211,292**	**-**	**-**	**-**	**-**	**211,292**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans

In RSD thousands

31.12.2019	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**113,168,107**	**2,126,677**	**2,744,842**	**673,160**	**1,482,739**	**2,43%**	**2,328,726**
Housing Loans	47,005,868	613,850	1,135,501	262,548	533,451	2,42%	1,122,941
Cash Loans	37,928,529	443,733	309,281	41,006	234,389	0,82%	126,137
Agricultural Loans	9,766,631	243,946	276,017	44,886	127,686	2,83%	255,180
Other Loans	5,139,423	201,884	166,546	-	159,509	3,24%	779
Micro business	13,327,656	623,264	857,497	324,720	427,704	6,43%	823,689
Corporate clients	**107,851,898**	**10,659,170**	**14,053,449**	**7,203,252**	**10,076,400**	**13,03%**	**12,563,919**
Agriculture	4,295,672	65,120	60,217	-	56,463	1,40%	60,385
Electric Energy	14,295,642	1,234,575	2,973,633	2,890,382	1,176,505	20,80%	2,973,633
Construction	1,633,891	7,892	-	-	-	0,00%	-
Wholesale and Retail	10,172,505	633,151	813,973	150,578	615,670	8,00%	814,321
Service Activites	26,852,727	767,801	1,129,204	844,721	623,052	4,21%	1,122,879
Real Estate Activitis	15,612,463	1,358,306	1,579,328	1,571,626	1,220,425	10,12%	1,578,182
Other	5.210.840	490,298	1,031,805	687,601	482,859	19,80%	1,029,573
	29,778,158	6,102,026	6,465,289	1,058,344	5,901,426	21,71%	4,984,946
Total	**221,020,005**	**12,785,847**	**16,798,291**	**7,876,412**	**11,559,139**	**7,60%**	**14,892,645**
Due from banks	**27,209,396**	**219,393**	**214,417**	**-**	**214,417**	**0,79%**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Participation of problematic receivables, stage 3 in total loans *In RSD thousands*

31.12.2018	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**103,652,523**	**2,196,524**	**3,338,430**	**994,393**	**1,726,433**	**3,22%**	**3,021,353**
Housing Loans	43,947,838	824,902	1,649,460	484,505	766,147	3,75%	1,634,862
Cash Loans	32,820,561	333,293	282,914	41,846	192,578	0,86%	146,273
Agricultural Loans	8,770,680	206,111	265,238	16,409	140,095	3,02%	239,149
Other Loans	5,791,720	215,341	195,775	4,320	175,980	3,38%	10,936
Micro business	12,321,724	616,877	945,043	447,313	451,632	7,67%	990,134
Corporate clients	**102,706,163**	**12,713,520**	**17,090,248**	**12,635,835**	**11,633,089**	**16,64%**	**15,423,523**
Agriculture	5,504,088	115,265	222,617	13,411	85,212	4,04%	222,785
Electric Energy	15,786,292	2,449,957	4,180,027	3,830,527	2,333,590	26,48%	4,186,056
Construction	1,064,602	3,105	27,298	-	19	2,56%	27,298
Wholesale and Retail	9,037,935	1,336,673	1,738,493	978,193	1,119,397	19,24%	1,738,866
Service Activites	26,627,325	1,086,664	2,151,168	1,849,888	786,641	8,08%	2,163,875
Real Estate Activitis	9,673,368	1,296,356	1,494,901	1,477,865	1,187,702	15,45%	1,494,901
Other	4.770.586	729,500	1,323,324	983,040	704,066	27,74%	1,323,799
	30,241,966	5,695,999	5,952,421	3,502,911	5,416,462	19,68%	4,265,943
Total	**206,358,685**	**14,910,044**	**20,428,679**	**13,630,228**	**13,359,522**	**9,90%**	**18,444,876**
Due from banks	**21,265,409**	**227,871**	**211,292**	**-**	**211,292**	**0,99%**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables *In RSD thousands*

	Gross 31.12.2018	New problematic receivables – stage 3	Decrease in problematic receivables – stage 3	Foreign exchange rate effect	Other changes	Gross 31.12.2019	Net 31.12.2019
Housing Loans	1,649,460	287,089	(755,110)	16,833	(62,769)	1,135,503	602,051
Cash Loans	282,914	219,918	(164,611)	(157)	(28,876)	309,188	74,799
Agricultural Loans	265,238	138,504	(101,398)	(1,045)	(25,282)	276,017	148,331
Other Loans	195,775	68,799	(97,231)	(89)	(615)	166,639	7,130
Micro business	945,043	183,143	(90,464)	(2,926)	(177,300)	857,496	429,792
Total retail	**3,338,430**	**897,453**	**(1,208,814)**	**12,616**	**(294,842)**	**2,744,842**	**1,262,103**
Large corporate clients	11,595,741	52,229	(2,369,380)	(38,523)	(2,966,464)	6,273,603	2,559,584
Middle corporate clients	1,990,077	13,744	(42,887)	(8,168)	(148,594)	1,804,172	427,147
Small corporate clients	1,595,043	35,761	(67,381)	(5,244)	(19,315)	1,538,864	615,633
State owned clients	503,850	118	(35,756)	(2,177)	(295,363)	170,672	38,584
Other	1,405,537	6,438	(412)	(5,634)	2,860,208	4,266,137	336,100
Corporate clients	**17,090,248**	**108,290**	**(2,515,816)**	**(59,746)**	**(569,528)**	**14,053,448**	**3,977,048**
Total	**20,428,679**	**1,005,743**	**(3,724,630)**	**(47,130)**	**(864,370)**	**16,798,291**	**5,239,151**
Due from banks	**211,292**	**-**	**-**	**-**	**3,125**	**214,417**	**-**

The decrease of problematic receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the Parent Bank.

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

In RSD thousand

	31.12.2019				31.12.2018			
	Low (IR 1, 2)	Medium and High (IR 3,4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 1, 2)	Total	Value of collaterals
Housing Loans	45,740,283	130,084	45,870,367	45,399,172	42,123,365	175,013	42,298,378	42,030,683
Cash Loans	37,432,081	187,260	37,619,341	11,566,724	32,204,582	333,066	32,537,648	7,006,684
Agricultural Loans	9,468,503	22,110	9,490,613	8,072,417	8,475,549	29,893	8,505,441	6,667,316
Other Loans	4,951,194	21,590	4,972,784	103,517	5,557,274	38,671	5,595,945	280,321
Micro business	11,646,346	823,813	12,470,159	11,600,384	10,798,757	577,924	11,376,681	11,081,615
Total retail	**109,238,407**	**1,184,857**	**110,423,264**	**76,742,214**	**99,159,526**	**1,154,567**	**100,314,093**	**67,066,619**
Large corporate clients	34,089,406	3,909,212	37,998,618	35,032,867	33,479,142	5,472,256	38,951,398	33,648,145
Middle corporate clients	11,255,132	58,545	11,313,677	9,375,458	10,491,602	107,110	10,598,712	9,402,845
Small corporate clients	5,967,441	42,592	6,010,033	5,176,952	5,744,738	74,359	5,819,096	5,300,314
State owned clients	17,502,936	7,404,073	24,907,009	24,334,367	12,910,092	2,195,210	15,105,302	10,906,404
Other	8,020,596	5,548,518	13,569,114	7,671,134	14,001,791	1,139,615	15,141,406	9,354,027
Corporate clients	**76,835,511**	**16,962,940**	**93,798,451**	**81,590,778**	**76,627,365**	**8,988,550**	**85,615,914**	**68,611,735**
Total	**186,073,918**	**18,147,797**	**204,221,715**	**158,332,992**	**175,786,891**	**10,143,116**	**185,930,007**	**135,678,355**
Due from banks	**26,994,979**	**-**	**26,994,979**	**-**	**21,054,117**	**-**	**21,054,117**	**14,262**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In RSD thousand

31.12.2019	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restrucutered receivables – stage 2	Impairmentof restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percantage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	**113,168,107**	**2,126,679**	**1,987,885**	**310,165**	**1,314,725**	**31,745**	**673,160**	**278,420**	**1,76%**	**1,343,717**
Housing Loans	47,005,868	613,851	755,459	117,505	492,911	13,840	262,548	103,664	1,61%	753,106
Cash Loans	37,928,529	443,733	659,229	35,098	618,223	7,827	41,006	27,271	1,74%	161,891
Agricultural Loans	9,766,631	243,946	51,963	8,103	7,077	326	44,886	7,778	0,53%	51,571
Other Loans	5,139,423	201,884	1,426	19	1,426	19	-	-	0,03%	-
Micro business	13,327,656	623,264	519,809	149,440	195,089	9,733	324,720	139,707	3,90%	377,149
Corporate clients	**107,851,898**	**10,659,169**	**8,653,448**	**4,383,944**	**1,450,195**	**40,711**	**7,203,253**	**4,343,233**	**8,02%**	**8,121,660**
Agriculture	4,295,671	65,120	8,786	-	8,786	-	-	-	0,20%	8,786
Manufacturing industry	14,295,642	1,234,575	2,890,382	1,148,459	-	-	2,890,382	1,148,459	20,22%	2,890,382
Electric Energy	1,633,891	7,892	-	-	-	-	-	-	0,00%	-
Construction	10,172,505	633,150	910,027	139,577	759,449	4,895	150,578	134,683	8,95%	909,822
Wholesale and Retail	26,852,727	767,801	1,202,523	473,206	357,802	7,332	844,721	465,874	4,48%	965,339
Service Activites	15,612,463	1,358,306	1,866,025	1,247,647	294,399	28,484	1,571,626	1,219,163	11,95%	1,571,626
Real Estate Activitis	5.210.840	490,298	695,244	452,272	7,643	0	687,601	452,272	13,34%	695,244
Other	29,778,158	6,102,026	1,080,459	922,782	22,115	0	1,058,344	922,782	3,63%	1,080,459
Total	**221,020,005**	**12,785,847**	**10,641,333**	**4,694,109**	**2,764,920**	**72,456**	**7,876,413**	**4,621,653**	**4,81%**	**9,465,377**
Due from banks	**27,209,396**	**219,393**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

31.12.2018	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restrucutered receivables – stage 2	Impairmentof restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percantage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	**103,652,523**	**2,196,524**	**2,062,902**	**410,451**	**287,479**	**10,716**	**994,393**	**390,900**	**1,99%**	**1,820,561**
Housing Loans	43,947,838	824,902	1,028,436	206,236	244,146	7,577	484,505	198,529	2,34%	1,028,238
Cash Loans	32,820,561	333,293	437,955	24,854	18,782	731	41,846	20,354	1,33%	202,531
Agricultural Loans	8,770,680	206,111	17,857	5,531	1,448	-	16,409	5,531	0,20%	17,630
Other Loans	5,791,720	215,341	4,748	304	429	19	4,320	285	0,08%	4,034
Micro business	12,321,724	616,877	573,906	173,525	22,675	2,390	447,313	166,200	4,66%	568,129
Corporate clients	**102,706,163**	**12,713,520**	**13,629,841**	**8,986,728**	**417,606**	**50,089**	**12,635,835**	**8,929,910**	**13,27%**	**13,602,036**
Agriculture	5,504,088	115,265	80,289	-	-	-	13,411	-	1,46%	80,289
Manufacturing industry	15,786,292	2,449,957	3,830,527	2,311,289	-	-	3,830,527	2,311,289	24,26%	3,824,668
Electric Energy	1,064,602	3,105	-	-	-	-	-	-	0,00%	-
Construction	9,037,935	1,336,673	978,193	931,745	-	-	978,193	931,745	10,82%	978,193
Wholesale and Retail	26,627,325	1,086,664	2,254,045	670,629	104,299	15,253	1,849,888	648,648	8,47%	2,232,099
Service Activites	9,673,368	1,296,356	1,780,738	1,222,452	302,874	34,836	1,477,865	1,187,615	18,41%	1,780,738
Real Estate Activitis	4,770,586	729,500	993,473	683,104	10,433	-	983,040	683,104	20,82%	993.473
Other	30,241,966	5,695,999	3,712,575	3,167,509	-	-	3,502,911	3,167,509	12,28%	3,712,575
Total	**206,358,685**	**14,910,044**	**15,692,744**	**9,397,178**	**705,085**	**60,806**	**13,630,228**	**9,320,810**	**7,60%**	**15,422,597**
Due from banks	**21,265,409**	**227,871**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	Gross 31.12.2018	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes	Gross 31.12.2019	Net 31.12.2019
Housing Loans	1,028,436	17,803	(71,533)	11,110	(230,356)	755,460	637,955
Cash Loans	437,955	228,345	(2,514)	(92)	(4,464)	659,230	624,131
Agricultural Loans	17,857	36,993	(173)	(91)	(2,623)	51,963	43,860
Other Loans	4,748	1,426	(4,440)	(24)	(284)	1,426	1,407
Micro business	573,906	86,473	(9,172)	(1,022)	(130,380)	519,805	370,369
Total retail	**2,062,902**	**371,040**	**(87,832)**	**9,881**	**(368,107)**	**1,987,884**	**1,677,722**
Large corporate clients	11,331,103	736,238	(5,416,046)	(35,592)	(49,095)	6,566,608	3,430,533
Middle corporate clients	1,257,285	36,535	0	(5,075)	(638)	1,288,107	535,520
Small corporate clients	831,789	32,480	(64,430)	(2,793)	(20,428)	776,618	281,335
State owned clients	-	-	-	-	-	-	-
Other	209,664	-	(187,549)	-	-	22,115	22,115
Corporate clients	**13,629,841**	**805,253**	**(5,668,025)**	**(43,460)**	**(70,161)**	**8,653,448**	**4,269,503**
Total	**15,692,743**	**1,176,293**	**(5,755,857)**	**(33,579)**	**(438,268)**	**10,641,332**	**5,947,225**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Group implements in the restructuring of receivables

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration

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

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures ***In RSD thousand***

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

In RSD thousand

31.12.2018	Stage 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Total retail	**90,888,589**	**5,253,961**	**4,171,542**	**-**	**-**	**2,848,318**	**282,282**	**207,831**	**-**	**-**
Housing Loans	38,051,990	2,397,779	1,848,609	-	-	1,521,937	105,355	22,168	-	-
Cash Loans	30,328,202	1,342,620	866,826	-	-	226,782	39,524	16,607	-	-
Agricultural Loans	8,449,046	5,661	50,734	-	-	263,341	252	1,645	-	-
Other Loans	5,249,338	28,314	318,293	-	-	179,373	2,761	13,642	-	-
Micro business	8,810,013	1,479,588	1,087,081	-	-	656,884	134,391	153,768	-	-
Corporate clients	**59,521,054**	**7,052,300**	**19,042,560**	**-**	**-**	**16,648,632**	**245,749**	**195,867**	**-**	**-**
Agriculture	5,146,080	111,151	24,241	-	-	222,617	-	-	-	-
Manufacturing industry	10,444,552	43,008	1,118,705	-	-	4,160,130	12,108	7,789	-	-
Electric Energy	72,008	-	965,296	-	-	27,298	-	-	-	-
Construction	6,188,277	202,276	908,889	-	-	1,592,833	145,661	-	-	-
Wholesale and Retail	21,801,978	1,484,572	1,189,607	-	-	1,875,109	87,981	188,078	-	-
Service Activites	5,785,984	1,092,256	1,300,226	-	-	1,494,901	-	-	-	-
Real Estate Activitis	3,376,422	69,562	1,279	-	-	1,323,324	-	-	-	-
Other	6,705,753	4,049,474	13,534,318	-	-	5,952,421	-	-	-	-
Total	**150,409,643**	**12,306,261**	**23,214,103**	**-**	**-**	**19,496,950**	**528,032**	**403,697**	**-**	**-**
Due from banks	**6,475,642**	**3,792**	**912,089**	**11,075,238**	**2,587,355**	**-**	**-**	**-**	**-**	**211,292**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

In RSD thousand

	31.12.2019		31.12.2018	
	Gross	Net	Gross	Net
Financial assets:				
-at fair value trough profit and loss	10,289,019	10,289,019	4,956,659	4,956,659
-at fair value trough other comprehensive income	134,191,014	134,190,412	132,563,725	132,562,131
Total	**144,480,033**	**144,479,431**	**137,520,384**	**137,518,790**

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

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska, the Republic of Montenegro, municipality bonds and bonds of other banks. Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

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December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral)

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

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

Loans and receivables from customers covered by collateral — In RSD thousand

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

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

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December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral In RSD thousand

31.12.2018	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	37,805,655	29,309	-	3,064,373	40,899,337	1,099,674	13,157	-	18,516	1,131,346
Cash Loans	594,117	570,097	-	5,650,432	6,814,647	66,690	15,445	-	109,902	192,038
Agricultural Loans	3,140,795	127,429	21,059	3,285,027	6,574,310	59,772	27	3,363	29,844	93,006
Other Loans	123,135	4,576	-	92,355	220,066	59,388	647	-	220	60,255
Micro business	2,861,209	674,733	81,707	7,049,261	10,666,910	200,345	76,362	3,022	134,976	414,705
Total reatail	**44,524,911**	**1,406,144**	**102,767**	**19,141,448**	**65,175,270**	**1,485,870**	**105,637**	**6,384**	**293,459**	**1,891,349**
Large corporate clients	21,629,141	393,087	101,803	9,477,508	31,601,539	554,800	-	-	1,491,806	2,046,606
Middle corporate clients	3,323,924	280,297	-	5,474,932	9,079,153	180,036	-	21,718	121,939	323,692
Small corporate clients	2,028,365	210,265	21,377	2,732,970	4,992,976	200,390	54,796	-	52,151	307,338
State owned clients	614,943	1,182	2,426,895	7,731,818	10,774,837	-	-	-	131,567	131,567
Other	84,330	-	129,717	9,139,981	9,354,027	-	-	-	-	-
Corporate clients	**27,680,702**	**884,832**	**2,679,792**	**34,557,208**	**65,802,533**	**935,226**	**54,796**	**21,718**	**1,797,463**	**2,809,202**
Total	**72,205,613**	**2,290,976**	**2,782,559**	**53,698,656**	**130,977,803**	**2,421,095**	**160,433**	**28,102**	**2,090,922**	**4,700,552**
Of which: restructured	647,930	-	129,717	360,058	1,137,705	329,321	-	-	347,427	676,747
Due from banks	**-**	**14,262**	**-**	**-**	**14,262**	**-**	**-**	**-**	**-**	**-**

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral — In RSD thousand

31.12.2018			Stage 3		
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	1,559,454	-	-	75,408	1,634,862
Cash Loans	22,856	1,887	-	121,530	146,273
Agricultural Loans	173,236	-	192	65,721	239,149
Other Loans	8,119	-	-	2,817	10,936
Micro business	795,477	5,157	2,855	186,645	990,134
Total retail	**2,559,141**	**7,044**	**3,047**	**452,121**	**3,021,353**
Large corporate clients	9,904,778	-	-	1,686,932	11,591,710
Middle corporate clients	1,572,673	-	4,100	321,250	1,898,022
Small corporate clients	1,485,758	-	-	116,175	1,601,933
State owned clients	7,306	-	297,254	27,298	331,859
Other	-	-	-	-	-
Corporate clients	**12,970,515**	**-**	**301,354**	**2,151,655**	**15,423,523**
Total	**15,529,656**	**7,044**	**304,401**	**2,603,776**	**18,444,876**
Of which: restructured	12,026,732	-	-	1,581,413	13,608,145
Due from banks	**-**	**-**	**-**	**-**	**-**

4 RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

In thousands of RSD

	Decembar 31, 2019.	Decembar 31, 2018.
Less than 50%	29,944,251	29,756,845
50% - 70%	23,291,285	19,940,392
71% - 100%	25,410,056	26,117,784
101% - 150%	6,493,745	9,039,303
More than 150%	7,625,676	10,445,887
Total exposure	**92,765,013**	**95,300,211**
Average LTV	**62.79%**	**68.61%**

4.1.8. Foreclosed assets

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

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Lannd and Forests	Securities	Total
31.12.2018	**582,605**	**2,630,875**	**122,410**	**260,052**	**-**	**3,595,942**
Acquisition	-	76,107	8,115	1,155	1,940	87,317
Sale	(6,613)	(306,971)	(3,262)	-	-	(316,846)
Transfer to investment property	-	60,474)	-	-	-	(60,474)
Transfer to assets held for sale	-	-	-	11,289	-	11,289
Transfer to fixed assets	-	(21,344)	-	-	-	(21,344)
Other	(8,060)	(2,605)	-	(495)	-	(11,160)
31.12.2019	**567,932**	**2,315,588**	**127,263**	**272,001**	**1,940**	**3,284,726**
Impairment allowance	**223,431**	**1,023,183**	**97,568**	**140,644**	**1,940**	**1,486,766**
Net	**344,501**	**1,292,405**	**29,695**	**131,357**	**-**	**1,797,960**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

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

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

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

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

In order to minimize liquidity risk, the Group:

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

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

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

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

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	2019	2018	2019	2018	2019	2018
As at Decembar 31	3.95	3.86	3.70	3.56	402%	414%
Average for the period	4.02	4.05	3.76	3.82	430%	401%
Maximum for the period	4.08	4.23	3.82	4.07	457%	414%
Minimum for the period	3.95	3.86	3.70	3.56	402%	387%

During 2019, the liquidity indicator, the narrow liquidity indicator and the liquidity coverage ratio ranged above the defined limits.

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

Compliance with internally defined liquidity limits on the last day:

	Limits	2019	2018
GAP up to 1 month / Total assets	Max (10%)	0.79%	1.99%
Cumulative GAP up to 3 months / Total assets	Max (20%)	0.57%	1.81%

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

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

In thousand RSD

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2018

In thousands RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash founds held with the central bank	73,992,039	-	-	-	-	73,992,039
Loans and receivables due from other banks and other financial institutions	17,381,560	2,290,401	240,630	1,124,946	-	21,037,537
Loans and receivables due from customers	9,542,916	9,388,245	42,203,745	81,450,663	48,863,073	191,448,642
Financial assets (securities)	11,210,413	10,552,128	17,775,934	90,150,487	7,829,828	137,518,790
Other assets	1,877,006	563,471	1,399,901	-	-	3,840,378
Total	**114,003,934**	**22,794,245**	**61,620,210**	**172,726,096**	**56,692,901**	**427,837,386**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,386,160	1,846,942	491,821	2,503,361	-	8,228,284
Deposits and other liabilities due to customors	252,122,048	12,808,624	54,048,285	29,181,484	2,507,715	350,668,156
Other liabilities	2,414,912	175,398	6,173,267	19,445	-	8,783,022
Total	**257,923,120**	**14,830,964**	**60,713,373**	**31,704,290**	**2,507,715**	**367,679,462**
Net liquidity gap As of Decembar 31, 2018	**(143,919,186)**	**7,963,281**	**906,837**	**141,021,806**	**54,185,186**	**60,157,924**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

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

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

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

In thousands RSD

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

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2018.

In thousands RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash founds held with the central bank	73,992,038					73,992,038
Loans and receivables due from other banks and other financial institutions	17,388,011	2,302,500	254,799	1,137,335		21,082,645
Loans and receivables due from customers	10,362,533	10,890,948	48,069,453	98,486,884	63,385,690	231,195,508
Financial assets (securities)	11,210,413	10,564,322	17,804,171	90,307,063	7,829,828	137,715,797
Other assets	1,877,009	563,471	1,399,900	-	-	3,840,380
Total	**114,830,004**	**24,321,241**	**67,528,323**	**189,931,282**	**71,215,518**	**467,826,368**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,396,667	1,870,016	523,577	2,552,011	-	8,342,271
Deposits and other liabilities due to customors	252,316,922	12,885,014	54,556,906	30,491,471	2,969,792	353,220,105
Other liabilities	2,447,731	175,398	6,173,268	19,445	-	8,815,842
Total	**258,161,320**	**14,930,428**	**61,253,751**	**33,062,927**	**2,969,792**	**370,378,218**
Net liquidity gap As of Decembar 31, 2018	**(143,331,316)**	**9,390,813**	**6,274,572**	**156,868,355**	**68,245,726**	**97,448,150**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

Market risks

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

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

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

4.3. Interest rate risk

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

The Group manages the following types of interest rate risk:

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

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

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

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

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

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

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

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

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

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

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

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

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

	Limits	**2019**	**2018**
Relative GAP	Max 15%	0.82%	1.48%
Coefficient of Disparity	0.75 – 1.25	1.01	1.02

During 2019, interest rate risk indicators moved within internally defined limits.

Compliance with internally defined limits of economic value of capital:

	2019	**2018**
On December 31st	4.05%	4.48%
Average for period	4.36%	5.36%
Maximum for period	4.67%	6.24%
Minimum for period	4.05%	4.48%
Limit	**20%**	**20%**

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:
Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2019.

In thousands RSD

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

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4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2018

In thousands RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Ineterst Bearing	Total
Cash and cash founds held with the central bank	28,710,086	-	-	-	-	28,710,086	45,281,953	73,992,039
Loans and receivables due from other banks and other financial institutions	16,369,533	2,278,351	32,357	247,637	-	18,927,878	2,109,659	21,037,537
Loans and receivables due from customers	51,821,705	17,835,405	53,083,130	60,706,216	7,516,746	190,963,202	485,440	191,448,642
Financial assets (securities)	11,208,649	10,552,011	17,313,063	90,148,094	7,829,710	137,051,527	467,263	137,518,790
Other assets	-	-	-	-	-	-	3,840,378	3,840,378
Total	**108,109,973**	**30,665,767**	**70,428,550**	**151,101,947**	**15,346,456**	**375,652,693**	**52,184,693**	**427,837,386**
Deposits and other liabilities due to banks, other financial institutions and central bank								
Deposits and other liabilities due to customors	3,388,392	1,845,725	693,519	2,300,743	-	8,228,379	(95)	8,228,284
Other liabilities	253,469,172	13,642,671	52,730,960	27,578,599	2,229,472	349,650,874	1,017,282	350,668,156
Total	-	-	-	-	-	-	8,783,022	8,783,022
Net liquidity gap	**256,857,564**	**15,488,396**	**53,424,479**	**29,879,342**	**2,229,472**	**357,879,253**	**9,800,209**	**367,679,462**
As of Decembar 31, 2018	**(148,747,591)**	**15,177,371**	**17,004,071**	**121,222,605**	**13,116,984**	**17,773,440**	**42,384,484**	**60,157,924**

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

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

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

Risk of interest rate changes

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

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

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

Report on GAP Interest Rate Risk of the Monetary Sub-balance on December 31, 2019 (continued)

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

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2019		
As at December 31,	443,617	(443,617)
2018		
As at December 31,	442,304	(442,304)

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk

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

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

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

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

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

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

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

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

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

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

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

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

	2019	2018
Total risk foreign exchange position	6,835,647	6,997,500
Foreign exchange risk indicator	10.61%	12.25%
Regulatory limit	20%	20%

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

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

In thousands RSD

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

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2018

In thousands RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash founds held with the central bank	36,151,062	273,785	710,028	7,127,817	44,262,692	-	-	-	29,729,347	73,992,039
Loans and receivables due from other banks and other financial institutions	9,084,054	2,381,279	3,071,605	2,691,227	17,228,165	-	-	-	3,809,372	21,037,537
Loans and receivables due from customers	36,995,011	-	-	2,205,124	39,200,135	101,017,998	-	3,651,403	47,579,106	191,448,642
Financial assets (securities)	70,581,056	11,273,911	1,702,199	-	83,557,166	249,591	-	-	53,712,033	137,518,790
Other assets	1,178,684	95,892	63,825	22,348	1,360,749	-	-	-	2,479,629	3,840,378
Total	**153,989,867**	**14,024,867**	**5,547,657**	**12,046,516**	**185,608,907**	**101,267,589**	**-**	**3,651,403**	**137,309,487**	**427,837,386**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,563,400	379,330	246,907	3,945,523	6,135,160	19,073	-	-	2,074,051	8,228,284
Deposits and other liabilities due to customors	246,275,960	12,908,254	8,756,910	6,862,782	274,803,906	468,239	19,705	-	75,376,306	350,668,156
Other liabilities	812,752	122,798	108,507	183,930	1,227,987	-	-	-	7,555,035	8,783,022
Total	**248,652,112**	**13,410,382**	**9,112,324**	**10,992,235**	**282,167,053**	**487,312**	**19,705**	**-**	**85,005,392**	**367,679,462**
Net Currency Position, December 31, 2018	**(94,662,245)**	**614,485**	**(3,564,667)**	**1,054,281**	**(96,558,146)**	**100,780,277**	**(19,705)**	**3,651,403**	**52,304,095**	**60,157,924**

4. RISK MANAGEMENT (continued)

4.5. A review of the ten-day VaR

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

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

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

A review of the ten-day VaR with a confidence interval of 99% for 2019 and 2018 is shown as follows:

In thousands of RSD

	As at December 31	Average	Maximum	Minimal
2019				
Foreign currency risk	9,542	9,052	28,214	800
2018				
Foreign currency risk	19,264	15,478	39,766	1,972

4.6. Operational risk

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

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

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

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

4. RISK MANAGEMENT (continued)

4.6. Operational risk (continued)

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

4.7. Risks of investment

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

4.8. Risk of exposure

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

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

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

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

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

4.9. Country risk

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities

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

In thousands of RSD

	31.12.2019					31.12.2018	
	Carrying value	**Fair value**	**Stage 1**	**Stage 2**	**Stage 3**	**Carrying value**	**Fair value**
Financial Assets							
Loans and receivables from clients	208,234,158	207,050,215	9,221,958	780,536	190,047,721	191,448,642	187,064,015
						-	-
Financial Liabilities							
Deposits and other financial liabilities to clients	370,987,710	370,854,153	-	-	370,854,153	350,668,156	350,658,898

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

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

4. RISK MANAGEMENT (continued)

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

Financial instruments measured at fair value

In thousands of RSD

	31.12.2019				31.12.2018			
Financial assets	**Stage 1**	**Stage 2**	**Stage 3**	**Total fair value**	**Stage 1**	**Stage 2**	**Stage 3**	**Total fair value**
Financial assets at fair value through profit and loss in RSD	512,632	4,877,762	-	5,390,394	597,571	1,197,682	-	1,795,253
Financial assets at fair value through profit and loss in foreign currency	174,460	4,724,165	-	4,898,625	323,293	2,838,113	-	3,161,406
Financial assets at fair value through other comprehensive income in RSD	-	59,800,166	-	59,800,166	-	51,916,780	-	51,916,780
Financial assets at fair value through other comprehensive income in foreign currency	13,444,011	60,772,618	173,617	74,390,246	13,656,359	66,739,402	249,590	80,645,351
Total	**14,131,103**	**130,174,711**	**173,617**	**144,479,431**	**14,577,223**	**122,691,977**	**249,590**	**137,518,790**

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

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

4. RISK MANAGEMENT (continued)

4.11. Capital management

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

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

The main goals of managing the capital are:

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

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

4. RISK MANAGEMENT (continued)

4.11. Capital management (continued)

Capital adequacy ratios

In thousands of RSD

	31.12.2019	31.12.2018
Tier 1 capital	67,653,138	60,605,577
Common Equity Tier 1 capital	67,279,628	60,232,067
Additional Tier 1 capital	373,510	373,510
Tier 2 capital	-	-
Deductible items of capital	(3,242,622)	(3,469,604)
Capital	**64,410,516**	**57,135,973**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	198,636,182	190,017,311
Risk exposure amount for operational risk	35,269,629	33,733,114
Risk exposure amount for market isks	4,238,173	2,833,830
Capital adequacy ratio (min. 14.04%)	**27.05%**	**25.22%**
Tier 1 capital adequacy ratio (min. 12.04%)	**27.05%**	**25.22%**
Common Equity Tier 1 capital adequacy ratio (min. 10.54%)	**26.89%**	**25.05%**

During 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 adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively) .

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

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

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

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

4. RISK MANAGEMENT (continued)

4.11. Capital management (continued)

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

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

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

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

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

5. USE OF ASSESSMENT

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

Key sources of estimation uncertainty

Provisions for credit losses

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

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

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

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

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

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

5. USE OF ASSESSMENT (continued)

Individual assessment

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

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

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

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

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

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

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

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

5. USE OF ASSESSMENT (continued)

Group assessment

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

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

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

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

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

Determining the probable loss on off-balance sheet items

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

5. USE OF ASSESSMENT (continued)

Determination of fair value

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

The Group performs valuation of financial instruments by:

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

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

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

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

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

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

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

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

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

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

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

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

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

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

The concept of fair value

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

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

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

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

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

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

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

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

6. SEGMENT REPORTING

6.1. Reporting by strategic segments - members of the Group

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

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

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

The Group has four members representing strategic organizational parts:

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

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

The balance sheet sum of the Parent Bank amounts to 90.14% of the total balance sheet sum of the consolidated balance sheet (2018: 90.23%).

The balance sheet sum of Komercijalna banka ad Podgorica, amounts to 3.67% of total consolidated assets (2018: 3.48%), Komercijalna banka ad Banja Luka 6.15% (2018: 6.26%) and KomBank INVEST 0.04 % (2018: 0.03%).

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

6. SEGMENT REPORTING (continued)

6.1. Reporting by strategic segments - members of the Group

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

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

Based on the observed clear indications of the positive effects on the business of subsidiary banks, and in order to determine fair value of stakes in the capital of subsidiary banks, the Parent bank has engaged the independent appraiser. Based on the results of the assessment, the reversal of the previously recognized impairment in the total amount of RSD 821,838 thousand in the standalone financial statements of the Parent Bank is recognized. In accordance with the prescribed elimination of all interrelationships and mutual revenues and expenditures of the Parent bank and the Group members for the purpose of consolidating, the elimination of stakes in equity in subsidiaries with accompanying impairement recognized in 2016, as well as reversal of imapirement in 2019, from the Parent Bank segment, on one hand, and equity of subsidisaries, on the other hand.

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

As at December 31, 2019 the following reclassifications are made in the balance sheet and profit and loss accounts of the Group members, except for the member of KomBank INVEST, which did not have the effect of reclassification:

Balance sheet

	In thousand of RSD
Balance sheet sum of Parent Bank	**432,380,443**
Reclassification for impairment allowance related to equity instruments in the subsidiary	2,047,191
Reclassification for impairment allowance that relate to placements to subsidiary banks	1,036
Reclassified balance sheet sum of Parent Bank	**434,428,670**
Statutory balance sheet sum of KB Banja Luka	**29,411,265**
Dedutiction for the accrued income for receivables measured at amotised cost using EIR method	(53,049)
Reclassification for the impairment allowance that relates to the Parent Bank	353
Revalaution of securities	52,607
Netting of deferred tax assets and liabilities	(937)
Reclassified balance sheet sum in accordance with the Parent Bank's model	**29,410,239**
Statutory balance sheet KB Podgorica	**18,316,310**
Right of use assets	121,844
Reclassification for the impairment allowance that relates to the Parent Bank	2,181
Netting of deferred tax assets and liabilities	(17,719)
Reclassified balance sheet sum in accordance with the Parent Bank's model	**18,422,616**

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6. SEGMENT REPORTING (continued)

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

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

Income statement

	In thousand of RSD
Result of Parent Bank	**8,955,759**
Reclassification for the effect of net change in impairment allowance of placements that are related to subsidiary banks (negative effect)	**(822,118)**
Reclassification for the effect of net change in provisions for losses on off-balance sheet assets (positive effect)	**10,828**
Reclassified result of Parent Bank	**8,144,469**

Statutory result of KB Banja Luka	**139,703**
Reclassification for the effect of net change in impairment allowance of placements that are related to Parent bank (negative effect)	(90)
Exchange rate differences on tax on local tax and deferred taxes - effect recognized in equity (positive effect)	29
Reclassified result of KB Banja Luka	**139,642**

Statutory result of KB Podgorica	**118,903**
Reclassification for the effect of net change in impairment allowance of placements that are related to Parent bank (negative effect)	(1,238)
Exchange rate differences on tax on local tax and deferred taxes - effect recognized in equity (positive effect)	6
Reclassified result of KB Podgorica	**117,671**

During the consolidation, the elimination of all mutual relations from the balance sheet was carried out in the amount of RSD 6,675,149 thousand (2018: RSD 7,209,128 thousand). From income statement total income in the amount of RSD 29,500 thousand (2018: RSD 28,802 thousand) and expenditures in the amount of RSD 22,641 thousand (2018: RSD 23,059 thousand).

6. SEGMENT REPORTING (continued)

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

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

Standalone reclassified balance sheets as at December 31, 2019:

	In thousands of RSD
KB Beograd	434,428,670
KB Podgorica	18,422,616
KB Banja Luka	29,410,239
KomBank Invest	169,518
Summed reclassified unconsolidated balance sheets	**482,431,043**

Standalone reclassified income statements (before tax) as at December 31st, 2019:

	In thousands of RSD
KB Beograd	7,457,395
KB Podgorica	120,360
KB Banja Luka	152,545
KomBank INVEST	2,887
Summed reclassified unconsolidated income statement (before tax)	**7,733,187**

6.1.b. Overview of intercompany transactions

Balance sheet 2019

In thousands of RSD

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

Income Statement 2019

In thousands of RSD

Collective unconsolidated profit in the Income statement (before tax)	**Amount of consolidation of the income statement**		**Consolidated profit (before tax)**
	Income	**Expense**	
7,733,187	**29,500**	**22,641**	**7,726,328**
Interest	4,320	4,320	
Fees	10,514	10514	
Other income/expenses	519	519	
Exchange rate differences (reclassified to equity)	14,147	7,288	

6. SEGMENT REPORTING (continued)

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

6.1.b. Overview of intercompany transactions (continued)

Balance sheet 2018

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
448,796,087	**7,209,128**	**441,586,959**
Cash / Payables	8,848	
Placements / Liabilities	1,719,392	
Equity stakes / Capital	5,480,888	

Income Statement 2018

In thousands of RSD

Collective unconsolidated profit in the Income statement (before tax)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	Income	**Expense**	
8,386,909	**28,802**	**23,059**	**8,381,166**
Interest	3,449	3,449	
Fees	8,671	8,671	
Other income/expenses	618	618	
Exchange rate differences(reclassified to equity)	16,064	10,321	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group

6.1.c. Owerview of the activities of Strategic Segments

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

A. BALANCE SHEET - CONSOLIDATED on December 31, 2019

In thousand RSD

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

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

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

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

In thousands RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komoercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Deposits and other liabilities due to bank, other financial institutions and the Central bank	3,917,547	280,246	4,120,813	-	8,318,606
Deposits and other financial liabilities to clients	335,317,154	15,189,836	20,480,720	-	370,987,710
Provisions	2,310,039	140,546	20,370	12,455	2,483,410
Currents tax liabilities	-	1,949	724	-	2,673
Deffered tax liabilities	-	10,945	21,404	-	32,349
Other liabilities	13,861,230	215,937	481,686	717	14,559,570
Total liabilities	**355,405,970**	**15,839,459**	**25,125,717**	**13,172**	**396,384,318**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/loss	8,859,734	(614,040)	350,089	15,781	8,611,564
Reserves	29,866,059	616,591	242,429	313	30,725,392
Non-controlling participation	-	-	70	-	70
Total capital	**78,760,343**	**2,551**	**592,588**	**16,094**	**79,371,576**
Total liabilities and equity	**433,166,313**	**15,842,010**	**25,718,305**	**29,266**	**475,755,894**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

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

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

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2018

In thousands RSD

	Komercijalna banka a.d Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
ASSETS					
Cash and cash funds held at the Central bank	63,595,710	2,466,997	7,929,332	-	73,992,039
Liabilities under derivatives	4,070	-	-	-	4,070
Securities	133,177,598	1,967,042	2,227,301	142,779	137,514,720
Loans and receivables from banks and other financial organisations	18,371,519	1,143,293	1,506,349	16,376	21,037,537
Loans and receivables from clients	167,545,674	8,597,573	15,305,395	-	191,448,642
Intangible assets	557,051	25,194	45,223	-	627,468
Property, plant and equipment	5,619,078	306,695	121,592	19	6,047,384
Investment property	1,896,347	94,956	268,512	-	2,259,815
Current tax assets	-	-	1,650	-	1,650
Deffered tax assets	840,967	-	-	-	840,967
Fixed assets held for sale and assets from discontinued operations	227,630	255,595	175,778	-	659,003
Other assets	6,612,032	496,610	43,046	1,976	7,153,664
Total assets	**398,447,676**	**15,353,955**	**27,624,178**	**161,150**	**441,586,959**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

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

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

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2018 (continued)

In thousands RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Deposits and other liabilities due to bank, other financial institutions and the Central bank	4,042,274	237,889	3,948,121	-	8,228,284
Deposits and other financial liabilities to clients	317,229,084	13,840,132	19,598,940	-	350,668,156
Provisions	1,646,400	130,585	22,732	9,136	1,808,853
Currents tax liabilities	-	119	10,782	143	11,044
Deffered tax liabilities	-	9,841	4,836	-	14,677
Other liabilities	9,059,972	95,359	177,810	753	9,333,894
Total liabilities	**331,977,730**	**14,313,925**	**23,763,221**	**10,032**	**370,064,908**
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/loss	8,300,982	(734,409)	218,749	10,732	7,796,054
Reserves	22,979,387	618,124	93,638	232	23,691,381
Non-controlling participation	-	-	66	-	66
Total capital	**71,314,919**	**(116,285)**	**312,453**	**10,964**	**71,522,051**
Total liabilities and equity	**403,292,649**	**14,197,640**	**24,075,674**	**20,996**	**441,586,959**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

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

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

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

In thousands RSD

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

Within the stated consolidated profit, the gain that accrues to owners without the control right is RSD 2 thousand.

6. SEGMENT REPORTING (continued)

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

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

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2018

In thousands RSD

	Komercijalna banka a.d. Beogard	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Interest income	13,741,459	558,654	791,833	577	15,092,523
Interest expenses	(910,270)	(83,003)	(152,606)	-	(1,145,879)
Net interest gains	**12,831,189**	**475,651**	**639,227**	**577**	**13,946,644**
Income from fees and commissions	7,200,038	188,349	241,604	23,037	7,653,028
Expenses from fees and commissions	(1,996,886)	(45,230)	(70,170)	(295)	(2,112,581)
Net gains from fees and commissions	**5,203,152**	**143,119**	**171,434**	**22,742**	**5,540,447**
Net gains from changes in fair value of financial instruments	44,076	-	-	4,496	48,572
Net gains from derecognition of the financial instruments measured at fair value	230,194	-	16,872	18	247,084
Net income/(expense) from exchange rate differences and effects of contractual currency clause	2,863	(3,274)	(1,122)	1	(1,532)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	11,818	29,335	10,528	-	51,681
Net gains from derecognition of the financial instruments measured at amortised cost	526,547	-	-	-	526,547
Other operating income	155,351	7,636	11,808	-	174,795
Total operating income	**19,005,190**	**652,467**	**848,747**	**27,834**	**20,534,238**
Selaries, salary compesations and other personal expenses	(4,442,799)	(265,618)	(320,675)	(14,845)	(5,043,937)
Depreciation costs	(551,988)	(34,940)	(42,816)	(10)	(629,754)
Other income	280,229	58,264	36,886	13	375,392
Other expenses	(6,167,977)	(296,849)	(379,966)	(9,981)	(6,854,773)
Profit/Loss before taxes	**8,122,655**	**113,324**	**142,176**	**3,011**	**8,381,166**
Profit tax	-	(119)	(18,076)	(181)	(18,376)
Profit/Loss on deffered taxes	24,109	(7,381)	816	-	17,544
Profit/Loss for the year	**8,146,764**	**105,824**	**124,916**	**2,830**	**8,380,334**

Within the stated consolidated profit, the gain that accrues to owners without the control right is RSD 2 thousands.

6. SEGMENT REPORTING (continued)

6.2. Operational segments report - business lines

The Parent bank has three operating segments:

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

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

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

Significant impact on the result in 2019 had net income from indirect write-offs amounting to RSD 1,587,676 thousand (of which the collected written off receivables amounted to RSD 1,086,560 thousand). In addition to the net income of indirect write-offs, Net gains from derecognition of the financial instruments measured at amortised cost in the amount of RSD 579,933 thousand under the Low on conversion of hoam loans indexes in CHF.

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

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

Direct operating expenses at the Group level amount to RSD 8,705,940 thousand and account for 70% of the total operating costs. Direct operating costs mostly comprise costs that are directly related to segment segments (salaries, rental costs, depreciation costs, marketing and other costs), and to a lesser extent they are also costs that are allocated to segments based on a management decision.

The segment of deals with the population of the Parent bank refers to the amount of RSD 5,818,576 thousand of direct costs (67% of the total direct costs of the Group), which is a consequence of the large business network and the number of employees in the work with the population.

In accordance with the above said, the Group achieved profit before tax in the business year 2019 in the amount of RSD 7,726,328 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2019 is shown below:

In thousand RSD

31.12.2019	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other Parent bank	Subsidiaries	Adjustments and consolidation	Total of the Group (consolidated)
Revenues and expenses							
Interest incomes	6,980,294	2,189,786	4,458,633	-	1,469,478	-	15,098,191
Interest expenses	(705,481)	(211,120)	(86,797)	(19,534)	(304,741)	-	(1,327,673)
Net interest gains	6,274,813	1,978,666	4,371,836	(19,534)	1,164,737	-	13,770,518
Net income/expenses from related party transactions	-	-	(397)	-	397	-	-
Net fees	3,912,956	812,561	593,764	-	407,843	-	5,727,124
Net fees from related party transactions	-	-	9,715	-	(9,715)	-	-
Profit before impairment alloowance	10,187,769	2,791,227	4,974,918	(19,534)	1,563,262	-	19,497,642
Net gains/losses from impairment allowance	(479,074)	2,029,565	64,150	-	(25,637)	(1,328)	1,587,676
Impairmet allowance from related party transactions	-	-	811,290	-	-	(811,290)	-
Profit before operating expensses	9,708,695	4,820,792	5,850,358	(19,534)	1,537,625	(812,618)	21,085,318
Direct operating expenses	(5,818,576)	(1,734,099)	(206,586)	-	(946,679)	-	(8,705,940)
Net exchange rate gain/loss	-	-	45,516	-	(1,276)	-	44,240
Net exchange difference from related party transactions	-	-	(7,288)	-	14,147	(6,859)	-
Net other income/expenses	(1,101,763)	(136,598)	172,597	-	77,096	-	(988,668)
Net other income/expenses from related party transactions	173	173	173	-	(519)	-	-
Profit before indirect operating expenses	2,788,529	2,950,268	5,854,770	(19,534)	680,394	(819,477)	11,434,950
Indirect operating expenses	(1,868,570)	(1,158,962)	(277,817)	-	(403,273)	-	(3,708,622)
Profit before taxes	**919,959**	**1,791,306**	**5,576,953**	**(19,534)**	**277,121**	**(819,477)**	**7,726,328**
Assets per segment							
Cash and cash equivalents	-	-	67,558,219	-	9,096,165	18	76,654,402
Cash from related party transactions	-	-	-	-	8,378	(8,378)	-
Due from banks	-	-	24,644,242	-	2,342,212	3,550	26,990,004
Due from banks from related party transactions	-	-	89,716	-	1,095,830	(1,185,546)	-
Due from customers	98,957,179	81,895,385	-	-	27,381,594	-	208,234,158
Investment securities	-	-	138,469,551	-	5,957,273	52,607	144,479,431
Investment in subsidiaries	-	-	3,433,697	-	-	(3,433,697)	-
Other	-	-	-	17,332,119	2,065,778	2	19,397,899
Other from related parties transactions	-	-	-	337	-	(337)	-
	98,957,179	**81,895,385**	**234,195,425**	**17,332,456**	**47,947,230**	**(4,571,781)**	**475,755,894**
Liabilities per segment							
Liabilities to banks	-	-	3,917,547	-	4,401,059	-	8,318,606
Liabilities to banks from related parties transactions	-	-	1,104,209	-	89,716	(1,193,925)	-
Liabilities to customers	281,378,192	47,948,280	5,990,682	-	35,670,556	-	370,987,710
Subordinated liabilities							
Other	-	-	-	16,189,360	906,733	(18,091)	17,078,002
Other from related parties transaction	-	-	-	-	337	(337)	-
	281,378,192	**47,948,280**	**11,012,438**	**16,189,360**	**41,068,401**	**(1,212,353)**	**396,384,318**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2018 is shown below:

In thousand RSD

31.12.2018	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other Parent bank	Subsidiaries	Adjustment and consolidation	Total for the Group (consolidation)
Revenues and expenses							
Interest incomes	6,680,346	2,461,416	4,599,696	-	1,351,065	-	15,092,523
Interest expenses	(630,059)	(178,255)	(101,956)	-	(235,609)	-	(1,145,879)
Net interest gains	6,050,287	2,283,161	4,497,740	-	1,115,456	-	13,946,644
Net income/expenses from related party transactions	-	-	3,449	-	(3,449)	-	-
Net fees	3,835,447	757,668	610,037	-	337,295	-	5,540,447
Net fees from related party transactions	-	-	6,997	-	(6,997)	-	-
Profit before impairment alloowance	9,885,734	3,040,829	5,118,223	-	1,442,305	-	19,487,091
Net gains/losses from impairment allowance	(25,518)	22,453	12,558	-	36,548	5,640	51,681
Impairmet allowance from related party transactions	-	-	-	-	-	-	-
Profit before operating expensses	9,860,216	3,063,282	5,130,781	-	1,478,853	-	19,538,772
Direct operating expenses	(5,764,006)	(1,410,121)	(179,085)	-	(911,560)	-	(8,264,772)
Net exchange rate gain/loss	-	-	2,863	-	(4,395)	-	(1,532)
Net exchange difference from related party transactions	-	-	(10,321)	-	16,064	(5,743)	-
Net other income/expenses	(174,657)	488,433	233,641	-	68,701	-	616,118
Net other income/expenses from related party transactions	206	206	206	-	(618)	-	-
Profit before indirect operating expenses	3,921,759	2,141,800	5,178,085	-	647,045	-	11,888,586
Indirect operating expenses	**(1,590,127)**	**(1,193,677)**	**(336,767)**	**-**	**(386,849)**	**-**	**(3,507,420)**
Profit before taxes	**2,331,632**	**948,123**	**4,841,318**	-	**260,196**	(103)	**8,381,166**
Assets per segment							
Cash and cash equivalents	-	-	63,595,710	-	10,396,316	13	73,992,039
Cash from related party transactions	-	-	-	-	8,848	(8,848)	-
Due from banks	-	-	18,370,198	-	2,662,152	5,187	21,037,537
Due from banks from related party transactions	-	-	107,531	-	1,611,625	(1,719,156)	-
Due from customers	91,855,167	75,690,507	-	-	23,902,968	-	191,448,642
Investment securities	-	-	133,177,598	-	4,337,122	-	137,514,720
Investment in subsidiaries	-	-	2,611,859	-	-	(2,611,859)	-
Other	-	-	-	15,757,175	1,836,845	1	17,594,021
Other from related parties transactions	**-**	**-**	**-**	**236**	**-**	**(236)**	**-**
	91,855,167	75,690,507	**217,862,896**	**15,757,411**	**44,755,876**	(4,334,898)	**441,586,959**
Liabilities per segment							
Liabilities to banks	-	-	4,042,274	-	4,186,010	-	8,228,284
Liabilities to banks from related parties transactions	-	-	1,620,474	-	107,531	(1,728,005)	-
Liabilities to customers	261,120,783	49,937,553	6,170,748	-	33,439,072	-	350,668,156
Subordinated liabilities	-	-	-	-	-	-	-
Other	-	-	-	10,713,635	462,096	(7,263)	11,168,468
Other from related parties transaction	-	-	-	-	236	(236)	-
	261,120,783	**49,937,553**	**11,833,496**	**10,713,635**	**38,194,945**	**(1,735,504)**	**370,064,908**

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

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

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

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

(ii) Instruments with a fixed interest rate

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

8. NET INTEREST INCOME / (EXPENSES)

Net interest income / (expenses) consist of:

		In thousand RSD For the year that ends December 31,
Income from:	**2019**	**2018**
Banks and REPO placements	171,122	249,625
Clients	10,444,419	10,314,604
Central Bank (liquid assets and required reserves deposits)	265,487	283,703
Securities	4,216,664	4,244,591
Based on the leasing contract – derecognition	499	-
Interest income	**15,098,191**	**15,092,523**
Expenses from:		
Deposits and other liabilities to banks and other financial oragnisation	(121,463)	(121,653)
Deposits to customers	(1,124,024)	(916,472)
Received loans	(48,678)	(107,754)
Based on the leasing contract	(33,508)	-
Interest expenses	**(1,327,673)**	**(1,145,879)**
Net interest gains	**13,770,518**	**13,946,644**

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

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

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

	In thousand RSD For the year that ends December 31, 2019	2018
Income in RSD		
Fees from payment services	3,421,717	3,577,857
Fees for granted loans and guarantees	108,163	114,521
Fees for purchase of foreing currency	587,035	410,146
Fees for brokerage and custody services	34,531	29,906
Card payment fees	1,974,583	2,188,081
Fees based on inquiries in the Credit Bureau	79,848	69,291
Fees and commissions on other banking services	597,868	499,570
	6,803,745	**6,889,372**
Revenues in foreign currency		
Fees for payment services	388,144	354,737
Fees for granted loans and guarantees	63,093	35,991
Fees for brokerage and custody services	21,713	20,844
Card payment fees	296,192	273,557
Fees and commissions on other banking services	89,367	78,527
	858,509	**763,656**
	7,662,254	**7,653,028**
Expenses in RSD		
Fees for payment services	(150,202)	(135,377)
Foreign currency sale and purchase fees	(18,431)	(32,831)
Card payment fees	(557,488)	(931,306)
Credit Bureau fees	(72,110)	(64,462)
Fees and commissions on other banking services	(158,218)	(131,657)
	(956,449)	**(1,295,633)**
Expenses in foreign currency		
Fees for payment services	(148,667)	(103,010)
Card payment fees	(720,886)	(623,138)
Fees and commissions on other banking services	(109,128)	(90,800)
	(978,681)	**(816,948)**
	(1,935,130)	**(2,112,581)**
Net fee and commission income	**5,727,124**	**5,540,447**

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

Net gains from changes in fair value of financial instruments:

	In thousands of RSD For the year that ended December 31 2019	2018
Revenue from the change in fair value of derivatives intended for trading – SWAP	-	11,915
Gains on the fair value adjustment of securities – investment units	12,090	14,114
Revenue from the change in the fair value of securities – treasury bills and bonds of the Republic of Serbia and other financial instruments	84,157	22,647
Total revenues	**96,247**	**48,676**
Expenses from the change in the fair value of derivatives held for trading - SWAP	(4,070)	-
Losses on the fair value adjustment of securities – investment units	(14)	(32)
Losses on the changes in value of securities - bonds	(17,105)	(72)
Total expenses	**(21,189)**	**(104)**
Net trading gain	**75,058**	**48,572**

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

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

	In thousands RSD For the year that ends December 31, 2019	2018
Gains arising from the derecognition of financial instruments valued at fair value trough other comprehensive income	238,373	103,863
Gains arising from the derecognition of financial instruments valued at fair value trough income statement	117,575	162,443
Gains on derecognition of derivatives valued at fair value trough income statement - FORWARD	3,789	-
Losses arising from the derecognition of financial instruments valued at fair value trough other comprehensive income	(69)	(688)
Losses arising from the derecognition of financial instruments valued at fair value trough income statement	(6,166)	(18,534)
Net gain	**353,502**	**247,084**

Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income in the amount of RSD 238,373 thousand relate to the bonds of the Republic of Serbia and bonds of the Republic of Srpska, in the amount of RSD 52,679 thousand in the local and RSD 185,694 thousand in the foreign currency.

Gains arising from the derecognition of securities at fair value through income statement in the amount of RSD 117,575 thousand relate to bonds of the Republic of Serbia in the amount of RSD 70,314 thousand, and bonds of the Republic of Srpska in foreign currency in the amount of RSD 43,963 thousand and investment units in RSD in the amount of 3,298 thousand.
Gains on derecognition of derivatives valued at fair value trough income statement in the amount of RSD 3,789 thousands relate to income from sale of freign currency to commercial banks.

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

Losses arising from the derecognition of financial instruments valued at fair value trough other comprehensive income in the amount of RSD 69 thousands relate, entirely to bonds of the Republic of Serbia.

Losses arising from the derecognition of financial instruments valued at fair value through income statement in the amount of RSD 6,166 thousand relate to: bonds of the Republic of Serbia in the amount of RSD 3,789 thousand and bonds of the Republic of Srpska in foreign currency, in the amount of RSD 2,377 thousand.

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

		In thousands RSD For the year that ends December 31,
	2019.	2018.
Positive currency clause effect - corporate clients	562,986	1,345,260
Positive currency clause effect - value adjustment of securities	808	2,627
Foreign exchange gains - value adjustement of liabilities	2,587	5,503
Positive currency clause effect - leasing contract	8,970	-
Positive currency clause effect	3,363,836	2,586,267
Total gains	**3,939,187**	**3,939,657**
Negative currency clause effect - corporate clients	(1,086,510)	(1,452,551)
Negative currency clause effect - value adjustment of securities	(2,035)	(3,357)
Foreign exchange losses – value adjustment of liabilities	(1,580)	(4,636)
Negative currency clause effect - leasing contract	(3,528)	-
Negative currency clause effect	(2,801,294)	(2,480,645)
Total losses	**(3,894,947)**	**(3,941,189)**
Net gains/losses	**44,240**	**(1,532)**

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

Net impairment charges relate to:

	2019	In thousands RSD For the year that ends December 31, 2018
Impairment allowance of financial assets measured at amortised cost	(6,292,787)	(6,290,137)
Provisions for off-balance sheet items	(282,248)	(383,333)
Impairment allowance of direct write-off of placements	(814)	(3,638)
Impairment allowance for debt securities measured through other comprehensive income	(104,869)	(114,688)
Losses airising from the modification of financial instruments	(14,631)	-
Reversal of impairment allowance of financial assets valued at amortised cost	6,753,161	6,097,706
Reversal of provisions for off-balance sheet items	380,863	330,916
Reversal of allowance for debt securities measured through other comprehensive income	62,434	85,404
Income from collection of receivables previously written-off	1,086,567	329,451
Total	**1,587,676**	**51,681**

Within the position of indirect write-offs of placements of balance sheet items, the Group recorded the impairment of material values acquired through collection of receivables in the amount of RSD 95,846 thousand, based on estimation of the value of real estate and equipment by authorized appraisers and in accordance with internal acts of the Group.

In the course of 2019 collected written-off receivables amount to RSD 1,086,567 thousand. Out of the total amount of collected written-off receivables, the largest individual amount refers to a collection from Febuary 2019, which the Parent Bank achived through the realization of a contract between two clients, in compliance with the legal provisions of Reorganization Plan (UPPR), on the basis of the purchase of storage space over which the Bank is entitled to the mortgage. The total collection amount of RSD 442,089 thousand was recognized in the income statement on the basis of the collection of writen-off receivables.
The other remaining part of the full amount is mostly related to debt collection from off-balance records for which their was a previously executed write-off carried out by a transfer from on-balance to off-balance, out of which collection from retail clients amounts to RSD 148,765 thousand and the remained of RSD 495,706 thousand relates to the collection of loans from legal entities.

By the end of January 2020 the Group did not make materially significant collections from imapaired placements that would affect the reversal of impairment.
Effects arising from the credit risks of debt securities in the amount of net loss of RSD 42,435 thousand the Group recognised in Equity, in the position losses of the debt instruments (Expenses of debt securities at fair value through Other Comprehensive Income in the amount of RSD 104,869 thousand and income on the same basis in amount of RSD 62,434 thousand). These positions are exempt from the structure of the table of changes in the impairment and provisions for off-balance sheet items.

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

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

In thousands RSD

	Loans and receivables due from banks (note 24.2)	Loans and receivables from clients (note 25.2)	Securities (note 23)	Other assets (Note 30)	Off-balance sheet liabilities (note 33)	Total
Balance as at January 1 , 2019	**227,871**	**14,910,043**	**1,594**	**2,637,699**	**309,212**	**18,086,419**
New impairment allowance	44,177	5,873,799	74	374,737	282,248	6,575,035
Decrease in impairment allowance	(56,187)	(6,578,751)	(1,059)	(117,164)	(380,863)	(7,134,024)
Postive effect form reversal of impairment in acc. with Law on conversion of CHF loans	-	(278,567)*	-	-	-	(278,567)
Foreign exchange differences	3,098	(26,707)	(7)	(3,903)	(202)	(27,721)
Permanent write-offs		(1,294,991)	-	(11,234)	-	(1,306,225)
Write off - reversal of impairment in acc. with Law on conversion of CHF loans	-	(1,733)*	-		-	(1,733)
Other changes	-	182,754**	-	(196,808)	-	(14,054)
Balance as of December 31, 2019	**218,959**	**12,785,847**	**602**	**2,683,327**	**210,395**	**15,899,130**

*effect of the implementation of the Law of conversion of loans indexed in CHF – the part that refers to the reversal of impairments in CHF before the conversion of loans to EUR ,in accordance with the instructions of the NBS
** effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments

In 2019, the Group made an increase in the net expense of impairment and provisioning in the total amount of RSD 558,989 thousand.

Of the other changes in the accounts of impairment allowance and provisions, the amount of RSD 1,306,225 thousand refers to the decrease on the basis of permanent write-off by transfer to off-balance with the Parent Bank, KB Podgorica and KB Banja Luka, based on the application of uniform accounting policies.

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

		In thousands of RSD For the year ended 31 December
	2019	**2018**
Gain / (loss) on the derecognition of financial instruments that are valued at amortised cost	(579,933)	526,547
Total	**(579,933)**	**526,547**

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

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

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

15. OTHER OPERATING INCOME

		In thousands of RSD For the year ended December 31
	2019	**2018**
Other income from operations	152,535	164,059
Income from dividends and equity participations	14,011	10,736
Total	**166,546**	**174,795**

Within other income from operations of RSD 152,535 thousand, the most significant amounts relate to: income from rental of real estate, including received advances for lease in the amount of RSD 64,216 thousand, reimbursement of court costs and utilities in the amount of 48,456 thousand dinars and revenues from the charged expenses of official mobile phones under the authorization of employees and the use of official vehicles for private purposes in the amount of RSD 14,033 thousand.

During 2019, the Parent Bank received dividends on the basis of shares and stocks intended for trading in the amount of RSD 14,011 thousand (2018: RSD 10,736 thousand) and form part of the position of other income, dividends from the participation in the ownership of VISA Inc. in the amount of RSD 7,893 thousand, Dunav Osiguranje ADO in the amount of RSD 4,422 thousand and MasterCard in the amount of RSD 1,696 thousand.

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

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

	In thousands of RSD For the year ended December 31 2019	2018
Net salaries	2,923,235	2,956,795
Net benefits	538,362	509,985
Payroll taxes	429,226	429,588
Payroll contributions	997,564	993,431
Considerations paid to seasonal and temporary staff	4,774	8,192
Provisions for retirement benefits – net (Note 33)	33,570	81,701
Other personal expenses	611,211	64,245
Total	**5,537,942**	**5,043,937**

In 2019, majority of other personal expenses relates to annual benefits to employees.

17. DEPRECIATION COSTS

	In thousands RSD For the year that ends December 31, 2019	2018
Depreciation cost - intangible assets (Note 26.2)	234,678	161,229
Depreciation cost - property and equipment (Note 27.2)	424,061	419,447
Depreciation cost - investment property (Note 28.1)	50,871	49,078
Depreciation cost - leasing assets (Note 27.2)	483,870	-
Total	**1,193,480**	**629,754**

18. OTHER INCOME

	In thousands RSD For the year that ends December 31, 2019	2018
Income from reversal of unused provisions for litigations and other liabilities (Note 33)	513,269	147,719
Gains from sale of equipment / real estate	148	3,718
Income from decerase liabilities	9,582	41,080
Other income	287,908	182,875
	810,907	**375,392**

18. OTHER INCOME (continued)

Within the position of other income of the Parent Bank in 2019, the most significant items are income:

- Based on court disputes adjudicated in favour of the Bank or disputes in termination until the end of the previously connected procedure in the amount of RSD 512,334 thousand
- Based on the decrease in liabilities in the amount of RSD 5,391 thousand.
- Based on the changes in the value of fixed assets in the amount of RSD 19,018 thousand,
- Based on interest from previous years – private individuals in the amount of RSD 30,863 thousand and from entrepreneurs in the amount of RSD 291 thousand
- Based on interest from previous years – corporate clients in the amount of RSD 129,961 thousand

19. OTHER EXPENSES

Other expenses relate to:

		In thousands RSD For the year that ends December 31,
	2019	**2018**
Cost of materials	336,527	373,201
Cost of production services	1,520,502	2,130,158
Non – material costs (without taxes and contributions)	2,895,635	2,704,964
Tax expenses	188,168	164,807
Contribution expenses	749,554	780,027
Other operating cost	25,805	26,427
Other expenses	436,028	342,617
Losses from sale of fixed assets and intangible assets	709	-
Expenditure and writte -off losses of fixed assets and intangible assets	6,693	12,405
Losses arising as a result of changes in value in investment properties and assets held for sale	82,372	43,627
Provisions for litigations and other liabilities (note 33)	1,255,895	276,540
Total	**7,497,888**	**6,854,773**

a) Other expenses

Within the position of other expenses of the Parent Bank in the amount of RSD 422,499 thousand among others were recorded expenses based on paid invoices to the insurance company for the life insurance policies of clients, in the amount of RSD 219,695 thousand, and whose payment has been done by the Parent Bank. These policies are used as a collateral for approved loans to individuals. Also, in this position, expenses by policy for users of sets of current accounts and travel insurance of international payment cards in the amount of RSD 67,243 thousand are shown in this position.

b) Expenses arising from provisions for litigation

Expenses arising from provisions for litigation in the Parent Bank in the total amount of RSD 1,252,461 thousand (Note 33) refer to increase of expenses for 3,435 new case during 2019 and net increase in provisions for active cases from previous years.

20. PROFIT TAX – current and deferred taxes

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

Tax rates for 2019 are:	
Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

The Group's profit tax components as of December 31 are as follows:

	In thousands of RSD For the year ended December 31 2019	2018
Current Profit tax	(14,088)	(18,376)
Gains from deferred taxes	1,488,290	702,775
Losses on deferred taxes	(800,665)	(685,231)
Total	**673,537**	**(832)**

Given the impossibility of tax consolidation, tax components are separately disclosed as follows:

20.1. The Parent Bank

20.1.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year ended December 31 2019	2018
Gains from deferred taxes	1,482,667	700,754
Losses on deferred taxes	(795,593)	(676,645)
Total	**687,074**	**24,109**

In 2019 and 2018, the Bank did not disclose current profit tax on the basis of current tax regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

20. PROFIT TAX (continued)

20.1. The Parent Bank (continued)

20.1.2. The adjustment of the effective tax rate is shown in the following table:

In thousand RSD

	2019.	2019.	2018.	2018.
Profit / Loss for the year before taxes		**8,268,685**		**8,121,073**
Tax calculated using the local Profit tax rate	15%	1,240,303	15%	1,218,161
Expenses not recognized for tax purposes	2.61%	216,264	1.05%	85,015
Tax effects of the net capital profit / losses	-0.01%	(386)	-0.01%	(621)
Tax effects on income reconciliation	-0.91%	(75,645)	-0.24%	(19,773)
Tax effects by IFRS 9	-0.42%	(34,851)	-0.43%	(34,851)
Tax credit received and used in the current year	-9.02%	(746,013)	-7.80%	(632,773)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-6.77%	(599,672)	-7.57%	(615,158)
Deffered tax effect adjustments	-8.31%	(687,074)	-0.30%	(24,109)
Tax effects stated within the income statement		**687,074**		**24,109**

20.1.3. Deferred tax liabilities at 31 December are shown as follows:

In thousands of RSD
For the year that ends December 31

	2019	2018
Balance at 1 January	840,967	857,096
Creation and elimination of temporary differences	233,230	(16,129)
Balance at December 31	**1,074,197**	**840,967**

In the course of 2019, the Bank has not paid taxes on the profit, given that when it calculated tax on income for 2018 it did not state it's liability to pay tax, due to the usage of tax losses carried forward and withholding tax paid in another country.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

20. PROFIT TAX (continued)

20.1. The Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities

20.1.4.1 Deferred tax assets and liabilities relate to:

In thousands RSD

	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purpose	39,299	-	39,299	69,359	-	69,359
Tax losses carried forward	1,259,350	-	1,259,350	878,000	-	878,000
Effects of increase in deferred tax liabilities for securities available for sale and equity investments	570	(1,008,254)	(1,007,684)	4,885	(570,187)	(565,302)
Long-term provisions for retirement benefits	53,838	-	53,838	49,098	-	49,098
Impairment of assets	324,847	-	324,847	295,225	-	295,225
Employee benefits under Article 9 paragraph 2. CIT Law calculated but not paid in accounting period	1,213	-	1,213	1,183	-	1,183
Calculated but not paid public liabilities	163	-	163	13	-	13
First application of IFRS 9	104,552	-	104,552	-	-	-
Tax loan based on loan conversion in CHF	76,119	-	76,119	-	-	-
Provisions for litigation	242,231	-	242,231	135,023	-	135,023
Actuarial gains on provisions for severance payments	-	(19,741)	(19,741)	-	(21,632)	(21,632)
	2,102,192	**(1,027,995)**	**1,074,197**	**1,432,786**	**(591,819)**	**840,967**

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed, but can be used to cover taxes on profits in the coming periods amount to RSD 595,917 thousand which relate to a part of the tax loss realized in 2016.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 12,508 thousand, while tax credit for intercompany dividends of RSD 13,154 thousand is entirely utilized in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

20. PROFIT TAX (continued)

20.1. The Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities (continued)

20.1.4.2 Overview of tax credits on which no deferred tax assets are formed:

In thousand RSD

Type of tax credit	Year	Amount as at 31.12.2019	Amount as at 31.12.2018	Expiration date of use
	2014			2019
	2015			2020
Transferred tax losses	2016	595,917	7,979,816	2021
Total tax losses		**595,917**	**7,979,816**	
Impact of tax credit on future Profit tax(15%)		89,338	1,196,972	2019 -2021
Tax credit on the basis of investment in fixed assets	2013	12,508	15,692	2023
Tax credit on the basis on intercompany dividends	2014	-	13,154	2019
Total tax credit for future Profit tax liabilities		**101,896**	**1,225,818**	

20.1.4.3. Movements under temporary differences in 2019 and 2018 are presented as follows:

In thousand RSD

2019	As of 1 January	Through P&L	Through OCI	As of 31 December
Property, plant and equipment	69,359	(16,707)	(13,353)	39,299
Tax losses carried forward	878,000	381,350	-	1,259,350
Securities	(565,302)	-	(442,382)	(1,007,684)
Long term provisions for employee benefits	49,098	4,740	-	53,838
Actuarial gains	(21,632)	-	1,891	(19,741)
Impairment of assets	295,225	29,632	-	324,857
Employee benefits under Ar.9, paragraph 2, CIT	1,183	30	-	1,213
Accrued and unpaid public duties	13	150	-	163
Tax credit based on first implementation of IFRS 9	-	104,552	-	104,552
Tax credit based on conversion of CHF loans	-	76,119	-	76,119
Provisions for legal disputes	135,023	107,208	-	242,231
Total	**840,967**	**687,074**	**(453,844)**	**1,074,197**

20. PROFIT TAX (continued)

20.1. The Parent bank (continued)

20.1.4. Deferred tax assets and liabilities (continued)

20.1.4.3. Movements under temporary differences in 2019 and 2018 are presented as follows:

In thousand RSD

2018	As at 1 January	Through income statement	Through other results	As at 31 December
Property, plant and equipment	112,277	(46,444)	3,526	69,359
Transferred tax losses	867,146	10,854	-	878,000
Securities	(529,547)	-	(35,755)	(565,302)
Long-term provisions for employee benefits	35,322	13,776	-	49,098
Acturial gains	(13,623)	-	(8,009)	(21,632)
Impairment of assets	265,532	29,693	-	295,225
Employee benefits under Article 9 paragraph 2 CIT Law	1,192	(9)	-	1,183
Calculuted but not paid public liabilities	-	13	-	13
Provisions for litigation	118,797	16,226	-	135,023
Total	**857,096**	**24,109**	**(40,238)**	**840,967**

20.1.5. Tax effects related to the Other comprehensive income

In thousands RSD

	2019			2018		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities (increase on debt and equity securities)	2,920,446	(438,067)	2,482,379	54,832	(8,224)	46,608
Net decrease due to actuarial losses	(12,609)	1,891	(10,718)	53,387	(8,008)	45,379
Valuation of property	111,214	(13,353)	97,861	-	3,526	3,526
Decrease due to fair value adjustments of equity investments and securities	28,767	(4,315)	24,452	(28,403)	4,260	(24,143)
Total	**3,047,818**	**(453,844)**	**2,953,974**	**79,816**	**(8,446)**	**71,370**

20. PROFIT TAX (continued)

20.2. Komercijalna banka ad, Podgorica

20.2.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st	
	2019	2018
Tax expense of the period	(1,949)	(119)
Gains from deferred taxes	3,565	1,205
Deferred Profit tax expense	(4,305)	(8,586)
	(2,689)	**(7,500)**

20.2.2. The adjustment of the effective tax rate is shown in the following table:

	2019	2019	2018	2018
Profit / (Loss) before tax		**121,323**		**118,517**
Tax calculated at the local rate of 9%	9.00%	10,919	9.00%	10,667
Taxable income - related parties and capital gains	-1.61%	(1,949)	-0.10%	(119)
Tax deductible expenses	0.99%	1,199	-4.80%	(5,687)
Tax credits - received and used in the current year	-8.38%	(10,169)	-4.10%	(4,860)
Effective Profit tax	1.61%	1,949	0.10%	119
Correction of tax effects on the basis of tax deduction	0.61%	740		7,381
Tax effects of items reported in the income statement		**(2,689)**		**(7,500)**

20.3. Komercijalna banka ad, Banja Luka

20.3.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st	
	2019	2018
Tax expense of the period	(12,137)	(18,076)
Gains / (losses) from deferred taxes	(766)	815
	(12,903)	**(17,261)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

20. PROFIT TAX (continued)

20.3. Komercijalna banka ad, Banja Luka (continued)

20.3.2. The adjustment of the effective tax rate is shown in the following table:

In thousands RSD

	2019.	2019.	2018.	2018.
Profit / (Loss) before tax		**152,290**		**139,879**
Tax calculated at the local rate of 10%	10.00%	15,229	10.00%	13,988
Tax loss tranferred from previous years	0.00	-	0.00	-
Tax deductible expenses	3.81%	5,801	8.09%	11,302
Effects of delayed income tax	0.00%	-	0.00%	-
Revenues freed from tax	-5.84%	(8,893)	-5.16%	(7,214)
Effective Profit tax	7.97%	12,137	12.93%	18,076
Correction of tax effects on the basis of tax deduction	0.50%	766	-0.58%	(815)
Tax effects of items reported in the income statement		**(12,903)**		**(17,261)**

20.3.3. Deferred tax liabilities at 31 December are shown as follows:

In thousands of RSD
For the year that ends December 31st

	2019	2018
Balance at 1 January	4,836	1,647
Creation and elimination of temporary differences	16,568	3,189
Balance at 31 December	**21,404**	**4,836**

20.4. KomBank INVEST Investment fund management company ad, Belgrade

20.4.1. The components of the corporate Profit tax as at December 31 are as follows:

In thousands of RSD
For the year that ends December 31st

	2019.	2018.
Tax expense of the period	(2)	(181)
Gains from deferred taxes	2,058	-
	2,056	**(181)**

20. PROFIT TAX (continued)

20.4. KomBank INVEST Investment fund management company ad, Belgrade (continued)

20.4.2. The adjustment of the effective tax rate is shown in the following table:

	2019	In thousands of RSD For the year that ends December 31, 2018
Profit before tax	2,887	1,624
Profit tax at the statutory tax rate of 15%	433	244
The tax effects of net capital gains	2	181
Tax effects of differences of depreciation for tax purposes and accounting depreciation	36	40
Correction of tax effects (effect of used and new)	(471)	(465)
Other	2	181
Tax effects of items reported in the income statement	**(2)**	**(181)**
Effective tax rate	**0.07%**	**11.15%**

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and balances with the central bank include:

	December 31, 2019	In thousands RSD December 31, 2018
In RSD		
Cash on hand	4,339,383	4,247,196
Giro account	23,873,701	25,485,437
Other RSD cash funds	99	99
	28,213,183	**29,732,732**
In foreign currencies		
Casn on hand	10,118,526	3,956,036
Foreign currency obligatory reserves	37,256,392	39,287,392
Other cash funds	1,066,301	1,015,879
	48,441,219	**44,259,307**
Total	**76,654,402**	**73,992,039**
Adjustment to cash for the purpose of preparing cash flow statement		
Foreign currency accounts held with foreign banks (note 24.1)	5,121,610	9,825,488
Foreign currency obligatory reserves	(37,256,392)	(39,287,392)
	(32,134,782)	**(29,461,904)**
Cash and cash equivalents reported in statement of cash flows	**44,519,620**	**44,530,135**

The Group in the Cash Flow Statement records cash on giro accounts with the central bank, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

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

The Parent Bank

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

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

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 1.25% annually up until 18.08.2019, 1% from 18.08 to 17.11 and 0,75% from 18.11.2019.

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

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated 11.12.2015 (Official Gazzete 102/2015), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

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

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

Other foreign currency cash in the amount of RSD 1,463 thousand (2018: RSD 110 thousand) relate to an accruals account at the Central Registry of securities for security trading.

Komercijalna banka ad Podgorica

The mandatory reserve of the Bank as of December 31, 2019 represents the minimum amount of deposited deposits in accordance with the regulations of the Central Bank of Montenegro, to which the "Decision on Required Reserves of Banks with the Central Bank of Montenegro" ("Official Gazette of Montenegro" No. 73 / 15, 78/15 and 3/16). In accordance with the above, the Bank calculates the required reserve on demand deposits and time deposits.

Deposit accounts with depository institutions in Montenegro refer to the obligatory reserve, which is allocated at the rate of 7.5% on the part of the base that consists of demand deposits and deposits with maturity up to one year, ie up to 365 days, and 6.5% per share of the base deposits are contracted with maturity over one year, or over 365 days. Deposits with a maturity of over one year that have a clause on the possibility of the disposal of these deposits within less than 365 days shall be applied at a rate of 7.5%.

The amount up to 50% is included in available-for-sale assets as an amount that is allowed to dispose of in order to maintain the daily liquidity of the Bank.

The Bank may allocate up to 25% of the required reserve in the form of government bonds issued by Montenegro.

At 50% of the allocated funds, the Central Bank pays the Bank a monthly fee of 1% per annum.

The Bank did not use the reserve requirement funds during 2019.

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

Komercijalna banka ad Banja Luka

Cash and cash equivalents include deposited surpluses of liquid assets with the Central Bank of Bosnia and Herzegovina in accordance with the regulations of the Central Bank of Bosnia and Herzegovina.

The obligatory reserve with the Central Bank of Bosnia and Herzegovina represents the minimum reserve of funds in domestic currency calculated in accordance with the Decision on Required Reserves with the Central Bank of Bosnia and Herzegovina.

From July 1, 2016, the Central Bank of Bosnia and Herzegovina calculates remuneration to banks in the following manner:

a) on the amount of the required remuneration means - does not charge compensation,
b) for the amount of funds above the required reserve - charges shall be calculated at a rate equal to the rate applied by the European Central Bank to Deposit Facility Rate - (Official Gazette of the Republic of Srpska 28/19 from April 4, 2019.

If during the maintenance period there is a change in the value of the Deposit Facility Rate, the rate applicable on the first day of the maintenance period during which the Change Deposit Facility Rate.

22. RECEIVABLES UNDER DERIVATIVES

	In thousands of RSD For the year that ends December 31, 2019	2018
Receivables on the basis of derivative value changes in local currency - SWAP	-	4,070
Total	**-**	**4,070**

23. SECURITIES

23.1. Securities comprise:

	December 31, 2019.	In thousands RSD December 31, 2018.
Securities measured at fair value through income statement (in RSD)	5,538,859	1,795,977
Securities measured at fair value through income statement (in foreign currency)	4,898,625	3,156,612
Total	**10,437,484**	**4,952,589**
Securities measured at fair value through other comprehensive income (in RSD)	59,825,920	52,167,965
Securities measured at fair value through other comprehensive income (in foreign currency)	74,216,629	80,395,760
Total	**134,042,549**	**132,563,725**
Impairment allowance	(602)	(1,594)
Total	**144,479,431**	**137,514,720**

23. SECURITIES (continued)

23.2. The structure of securities measured at fair value through income statement is shown in the following table:

	In thousands of RSD For the year that ends 2019	2018
Bonds of the Republic of Serbia (in RSD)	4,877,762	1,193,611
Investment units of OIF monetary fund (in foreign currency)	4,832	4,794
Investment units of OIF monetary fund (in RSD)	656,625	597,572
Bonds of the Republic of Serbia (in foreign currency)	4,898,625	3,156,612
Total	**10,437,484**	**4,952,589**

Investment units as at December 31, 2019 in the amount of RSD 661,097 RSD comprise investment units Kombank Monetary fund Beograd and OIF in foreign currency fund.

23.3 The structure of securities measured at fair value through other comprehensive income statement is shown in the following table:

	December 31, 2019	In thousands RSD December 31, 2018
In RSD		
Bonds of the Republic of Serbia	59,651,702	51,916,780
Municipality bonds (city of Sabac and municipality of Stara Pazova)	174,218	251,185
Total in RSD	**59,825,920**	**52,167,965**
In foreign currency		
Bonds of the Republic of Serbia	66,374,668	74,000,931
Bonds of foreign banks (Raiffeisen Bank International)	1,799,460	1,702,199
Bonds of the Republic of Srpska	3,927,741	2,884,532
Bonds of Montenegro	2,114,760	1,808,098
Total in foreign currencies	**74,216,629**	**80,395,760**
Total	**134,042,549**	**132,563,725**

Changes in the impairment allowance are as shown:

Impairment allowance of securities measured at fair value through other comprehensive income

	2019	*In thousand RSD* 2018
Individual impairment allowance		
Balance at January 1	1,594	3
Correction of the opening balance:		
IFRS 9 – correction through the equity	-	1,828
Corrected balance at January 1	**1,594**	**1,831**
Increase (note 13)	74	586
Exchange rate effects (note 13)	(7)	(5)
Released during the year (note 13)	(1,059)	(818)
Total individual impairment allowance	**602**	**1,594**

24. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

24.1 Placements to banks include

	December 31, 2019	December 31, 2018
		In thousands of RSD
RSD loans and receivables		
Per repo transactions	12,000,000	1,500,000
Loans for working capital	-	1,000,000
Overnight loans	200,000	1,260,000
Other placements	3,148	15,993
Placed deposits in local currency	16,390	16,376
Prepayments	6,805	14,744
Impairment allowance	(273)	(1,127)
	12,226,070	**3,805,986**
FX loans and receivables		
Per repo transaction	2,103,540	-
Foreign currency accounts held with foreign banks (Note 21)	5,121,610	9,825,488
Overnight loans	2,161,743	1,587,977
Other loans and receivables due from foreign banks	1,610,855	1,243,418
Foreign currency deposits	2,938,545	3,793,400
Prepayments	1,285	513
Other receivables	5,962	9,843
Secured foreign currency warranties	1,039,080	997,656
Impairment	(218,686)	(226,744)
	14,763,934	**17,231,551**
Total	**26,990,004**	**21,037,537**

As at 31 December 2019, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 12,000,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days, with the annual interest rate from 1.03% to 2.4%.

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 1.05% to 3.4% per annum.

Short-term time deposits with foreign currency banks were deposited for up to one year with an annual interest rate ranging from 0.02% to 0.20% for the EUR currency, from 1.35% to 2.4% for USD, 0.13% for CHF and from 1.25% to 1.30% per annum for other foreign currencies.

Long-term time deposits with banks in foreign currency were deposited at the annual interest rate in the range of 0.25% to 0.25%.

Interest rates on placements of short-term loans in foreign currency ranged from 3.00% to 6.50%, while interest rates on planned long-term loans in foreign currency ranged from 2.80% to 5.05%.

Interest rates on placements of long-term loans foreign dependet banks ranged from 2.335% to 4.52% which represents 6M EURIBOR plus fixed part 2.75%.

24. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

24.2 Changes in the impairment allowance account by placements to banks are presented in the following table:

In thousands RSD

	December 31, 2019	December 31, 2018
Impairment allowance		
Balance at January 1	227,871	202,579
Correction of the opening balance		
IFRS 9 – correction through the equity	-	18,982
Corrected balance at January 1	**227,871**	**221,561**
Impairment allowance in the current year		
Increase (note 13)	44,177	56,129
Exchange rate effects (note 13)	3,098	9,171
Realesd during the year (note 13)	(56,187)	(59,817)
Other	-	827
Balance as at December 31	**218,959**	**227,871**

25. LOANS AND RECEIVABLES DUE FROM CLIENTS

25.1 Loans and receivables from clients:

In thousand RSD

	2019			2018		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	671,894	(13,667)	658,227	908,929	(22,389)	886,540
Working capital loans	46,327,391	(4,025,568)	42,301,823	38,238,806	(4,484,678)	33,754,128
Investment loans	48,283,698	(1,235,565)	47,048,133	38,547,851	(1,655,814)	36,892,037
Loans for payments of imported goods and services	2,062,163	(19,802)	2,042,361	2,072,507	(18,613)	2,053,894
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	362,298	(328,945)	33,353	386,037	(289,188)	96,849
Other loans and receivables	32,744,977	(5,894,917)	26,850,060	43,407,400	(7,058,215)	36,349,185
Prepayments	105,712	(1,363)	104,349	120,248	(19,393)	100,855
Accruals	(206,131)	-	(206,131)	(200,317)	-	(200,317)
	130,352,002	**(11,519,827)**	**118,832,175**	**123,481,461**	**(13,548,290)**	**109,933,171**
Retail customers						
Transaction account overdrafts	3,252,612	(179,356)	3,073,256	3,629,088	(179,038)	3,450,050
Housing loans	47,152,120	(579,714)	46,572,406	44,282,275	(785,292)	43,496,983
Cash loans	37,847,753	(419,526)	37,428,227	32,855,277	(299,495)	32,555,782
Consumer loans	251,088	(1,566)	249,522	198,225	(2,765)	195,460
Other loans and receivables	2,435,172	(82,269)	2,352,903	2,270,794	(92,333)	2,178,461
Prepayments	281,616	(3,589)	278,027	260,985	(2,830)	258,155
Accruals	(552,358)	-	(552,358)	(619,420)	-	(619,420)
	90,668,003	**(1,266,020)**	**89,401,983**	**82,877,224**	**(1,361,753)**	**81,515,471**
Balance as of December 31	**221,020,005**	**(12,785,847)**	**208,234,158**	**206,358,685**	**(14,910,043)**	**191,448,642**

25. LOANS AND RECEIVABLES FROM CLIENTS (continued)

25.2 Movements on the account of impairment allowance of Loans and receivables from clients are presented in the table below:

In thousands RSD

	2019	2018
Individual impairment allowance		
Balance as at January 1,	**13,176,237**	**17,446,730**
Correction of the opening balance:		
IFRS 9 – correcton through the equity	-	110,779
Corrected balance as at January 1,	**13,176,237**	**17,557,509**
Increase (note 13)	2,397,295	1,711,065
Reclassified from group to individual impairment allowance	(838,782)	348,305
Exchange rate effects (note 13)	(14,138)	(7,051)
Realesed during the year (note 13)	(2,261,854)	(1,864,903)
Decrease Imapirment allowance-conversion CHF-EUR in accordance with the instructions of NBS	(165,317)	-
Writte-off	(960,161)	(4,570,641)
Conversion CHF-EUR	(816)	-
Other (note 13)	68,628	1,953
Total individual impairment allowance	**11,401,092**	**13,176,237**
Group impairment allowance		
Balance as at January 1st 2019.	**1,733,806**	**1,326,884**
Correction of the opening balance:		
IFRS 9 – correcton through the equity	-	748,874
Corrected balance as at January 1,	**1,733,806**	**2,075,758**
Increase (note 13)	3,476,504	4,279,831
Reclassified from group to individual impairment allowance	838,782	(348,305)
Exchange rate effects (note 13)	(12,569)	(6,616)
Realesed during the year (note 13)	(4,316,897)	(3,880,882)
Decrease Imapirment allowance-conversion CHF-EUR in accordance with the instructions of NBS	(113,250)	-
Writte-off	(334,830)	(584,541)
Conversion CHF-EUR	(917)	-
Other (note 13)	114,126	198,561
Total group impairment allowance	**1,384,755**	**1,733,806**
Balance as at December 31,	**12,785,847**	**14,910,043**

25. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from retail customers

During 2019, short-term and long-term loans to retails in RSD were approved for a period of 30 days to 120 months with nominal interest rates ranging from 1.8% to 13.95% per annum.

Short-term loans to retails in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.40% to 13% annually.

Long-term loans to retails in foreign currency are approved for a term of thirteen to three hundred and sixty-five months with nominal interest rates ranging from 1.5% to 12.50% annually.

Loans and receivables due from corporate client

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.70% to 6.95% annually. In foreign currency, short-term loans were approved for a period up to twelve months with an interest rate of 1.20% to 5.45% for EUR per annum whereas for other currencies from 1.20% to 11.99% per annum.

Long-term loans in RSD were approved for a period from thirteen months to 120 months with an interest rate from 2.73% to 5.80% on an annual basis. Long-term loans in foreign currency are approved for a period of up to one hundred forty-four months with an interest rate of EUR from 1.07% to 4.75% annually and for other foreign currencies with an nominal interest rate ranging 2.08% to 11.99% per annum, that is from 2.49% plus six months Euribor to 9.99% plus six months Euribor with the same maturity period.

Risks and uncertainties

The management of the Group members made a provision for potential loan losses using the concept of expected credit loss. Losses due to impairment of assets measured at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of future estimated cash flows discounted using the initial effective interest rate of the asset. Losses are recognized in the income statement and are stated at the expense position and the impairment of financial assets under Loans and receivables from clients. When events after the balance sheet date affect the impairment loss, such a decrease is recognized as an impairment loss through the income statement.

Loans and other receivables are presented in the amount reduced for group and individual impairment allowance. Individual and group provisions are deducted from the carrying amount of loans that are identified as impaired in order to reduce their value to their recoverable amount. In order to protect against the risk of non-performance of obligations in dealing with clients, the Group takes the following measures for regulating receivables: extension of the maturity date, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures. If the measures taken to regulate the placements, ie the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, the proposal for permanent write-off of the remaining receivables of the Group, or transfer from the balance sheet to the off-balance sheet is initiated.

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26. INTANGIBLE ASSETS

26.1 Intangible assets consist of:

In thousands of RSD

	December 31 2019.	December 31 2018.
Intangible assets	718,936	437,419
Intangible assets in progress	35,564	190,049
Total	**754,500**	**627,468**

26.2 Changes in intangible assets during 2019. and 2018. are shown in the following table

In thousands RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as at January 1, 2018	2,375,128	130,512	2,505,640
Additions	19,516	270,867	290,383
Transfers	211,304	(211,304)	-
Disposals	(5,475)	-	(5,475)
Exchange rate	(656)	(26)	(682)
Balance as at December 31, 2018	**2,599,817**	**190,049**	**2,789,866**
Balance as at January 1, 2019	**2,599,817**	**190,049**	**2,789,866**
Additions	15,106	351,623	366,729
Transfers	506,020	(506,020)	-
Disposals	(17,829)	-	(17,829)
Exchange rate	(1,661)	(88)	(1,749)
Balance as at December 31, 2019	**3,101,453**	**35,564**	**3,137,017**
Accumulated depreciation			
Balance as at January 1, 2018	2,007,253	-	2,007,253
Depreciation (note 17)	161,229	-	161,229
Disposals	(5,475)		(5,475)
Exchange rate	(609)	-	(609)
Balance as at December 31, 2018	**2,162,398**	**-**	**2,162,398**
Balance as at January 1, 2019	2,162,398	-	2,162,398
Depreciation (note 17)	234,678	-	234,678
Disposals	(13,101)	-	(13,101)
Exchange rate	(1,458)	-	(1,458)
Balance as at December 31, 2019	**2,382,517**	**-**	**2,382,517**
Net book value			
Balance as at December 31, 2018	**437,419**	**190,049**	**627,468**
Balance as at December 31, 2019	**718,936**	**35,564**	**754,500**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment consist of:

In thousands of RSD

	December 31 2019	December 31 2018
Property	5,159,067	5,146,980
Equipment	680,829	678,001
Investments in progress	49,281	222,403
Right of use assets	1,365,214	-
Total	**7,254,391**	**6,047,384**

27.2 Movements on property, plant and equipment during 2018 and 2019 were as follows:

In thousands RSD

Cost	Property	Equipment	Investment in progress	Business premises taken into leasing	Eqipment and other assets taken into leasing	Total
Balance as at January 1, 2018	**7,406,662**	**3,970,252**	**141,440**	**-**	**-**	**11,518,354**
Additions	-	55,982	390,573	-	-	446,555
Transfers from investment in progress	74,395	235,194	(309,589)	-	-	-
Transfers from investments property (note 28.1)	49,341	-	-	-	-	49,341
Transfers on assets held for sale	(99,152)	-	-	-	-	(99,152)
Disposals and retirements	(48,213)	(153,219)	-	-	-	(201,432)
sales	-	(40,140)	-	-	-	(40,140)
Shortages as per year count	-	(23,058)	-	-	-	(23,058)
Exchange rate	(1,246)	(1,165)	(21)	-	-	(2,432)
Balance as at December 31, 2018	**7,381,787**	**4,043,846**	**222,403**	**-**	**-**	**11,648,036**
Balance as at January 1, 2019	**7,381,787**	**4,043,846**	**222,403**	**-**	**-**	**11,648,036**
Correction of the opening balance - First application IFRS 16	-	-	-	1,788,885	60,114	1,848,999
Adjusted balance on January 1, 2019	**7,381,787**	**4,043,846**	**222,403**	**1,788,885**	**60,114**	**13,497,035**
Additions during the year and new leasing contracts	-	12,524	163,516	63,187	6,010	245,237
Transfers from investment in progress	77,108	259,414	(336,522)	-	-	-
Transfers to investment property (note 28.1)						
Transfers from assets acquired through collection of receivables	14,418	-				14,418
Disposals and retirements	(14,284)	(154,163)	-	(2,254)		(170,701)
Sales	-	(5,656)				(5,656)
Increase based on estimates	244,948	-	-	-	-	244,948
Decrease based on estimates	(142,218)	-	-	-	-	(142,218)
Shortages as per year count	-	(541)	-	-	-	(541)
Adjustments for the basis of the annex of the lease contract	-	-	-	(29,891)	-	(29,891)
Leasing other				(49,121)	-	(49,121)
Exchange rate	(2,195)	(2,787)	(116)	(2,333)	(211)	(7,642)
Balance as at December 31, 2019	**7,559,564**	**4,152,638**	**49,281**	**1,768,473**	**65,913**	**13,595,869**
Accumulated depreciation						
Balance as at January 1, 2018	**2,165,826**	**3,335,328**	**-**	**-**	**-**	**5,501,154**
Depreciation (note 17)	174,480	244,967	-	-	-	419,447
Transfers to assets held for sale	(66,684)	-	-	-	-	(66,684)
Disposals and retirements	(38,239)	(150,704)	-	-	-	(188,943)
Sales	-	(40,140)	-	-	-	(40,140)
Shortages as per year count	-	(22,572)	-	-	-	(22,572)
Exchange rate	(576)	(1,034)	-	-	-	(1,610)
Balance as at December 31, 2018	**2,234,807**	**3,365,845**	**-**	**-**	**-**	**5,600,652**
Balance as at January 1, 2019	**2,234,807**	**3,365,845**	**-**		**-**	**5,600,652**
Depreciation (note 17)	157,133	266,928	-	464,399	19,471	907,931
Disposals and retirements	(13,207)	(153,101)	-	-	-	(166,308)
Sales	-	(5,253)	-	-	-	(5,253)
Increase based on estimates	57,793	-	-	-	-	57,793
Decrease based on estimates	(35,069)	-	-	-	-	(35,069)
Shortages as per year count	-	(528)	-	-	-	(528)
Adjustments for the basis of the annex of the lease contract	-	-	-	(2,893)	-	(2,893)
Leasing other	-	-	-	(11,600)	-	(11,600)
Exchange rate	(960)	(2,082)	-	(182)	(23)	(3,247)
Balance as at December 31, 2019	**2,400,497**	**3,471,809**	**-**	**449,724**	**19,448**	**6,341,478**
Net book value						
Balance as at December 31, 2018	**5,146,980**	**678,001**	**222,403**	**-**	**-**	**6,047,384**
Balance as at December 31, 2019	**5,159,067**	**680,829**	**49,281**	**1,318,749**	**46,465**	**7,254,391**

27. PROPERTY, PLANT AND EQUIPMENT (continued)

Members of the Group do not have mortgaged buildings to secure repayment of the loan.

Due to incomplete cadastral books, as of December 31, 2019 the Parent Bank does not have evidence of ownership for 24 properties with the net book value of RSD 484,488 thousand (the number of facilities includes assets acquired through collection of receivables). The Parent bank's management takes all the necessary measures to obtain ownership papers. The conclusion of this process depends on the treatment of the competent authority.

The total write off of fixed assets at the present value of RSD 2,139 thousand was made during the year. Based on the Annual list of the Group members, the amount of RSD 1,062 thousand of the permanently useless fixed assets is disposed of and shortages in the amout of RSD 13 thousand were recorded.

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2019 and 2018 are presented below:

	In thousands RSD Total
Cost	
Balance as at January 1, 2018	**2,917,522**
Transfer to investment property	(49,341)
Transfer from assets held for sale	69,218
Sales	(78,176)
Appraisal - decrease	(7,700)
Exchange rate	(1,561)
Balance as at December 31, 2018	**2,849,962**
Balance as at January 1, 2019	**2,849,962**
Transfer from assets held for sale and correction	(5,371)
Exchange rate	(3,334)
Balance as at December 31, 2019	**2,841,257**
Accumulated depreciation	
Balance as at January 1, 2018	536,958
Depreciation (note 17)	49,078
Transfer from assets held for sale	12,868
Sales	(14,786)
Appraisal – decrease	6,679
Exchange rate	(650)
Balance as at December 31, 2018	**590,147**
Balance as at January 1, 2019	**590,147**
Depreciation (note 17)	50,871
Transfer from assets held for sale	(867)
Exchange rate	(1,510)
Balance as at December 31, 2019	**638,641**
Net book value	
Balance as at December 31, 2018	**2,259,815**
Balance as at December 31, 2019	**2,202,616**

28. INVESTMENT PROPERTY (continued)

Information on investment property per members of the Group is presented below:

28.2.1 The Parent bank

As of December 31, 2019 the Parent bank has listed investment property of the present value in the amount of RSD 1,857,927 thousand, which make the buildings lease.

As at December 31, 2019 the net result on the basis of investment property is negative and amounts to RSD 10,488 thousand.

Property	Area in m^2	Total cost	Income from rent	Net result
Beograd, Trg Republike 1	3,354	(22,910)	9,551	(13,359)
Nis, Vrtiste new D – building	1,816	(4,692)	-	(4,692)
Nis, TPC Kalca	85	(802)	4,198	3,396
Beograd, Omladinskih brigade 19	15,218	(22,474)	16,989	(5,485)
Sabac, Majur, Obilazni put bb	1,263	(1,784)	-	(1,784)
Lovcenac, Marsala Tita bb	46,971	(2,894)	7,071	4,177
Negotin, Save Dragovica 20-22	658	(823)	-	(823)
Nis, Bulevar 12. February bb	816	(649)	5,725	5,076
Beograd, Radnicka 22	7,190	(18,619)	17,198	(1,421)
Novi Sad, Vardarska 1/B	291	(1,715)	3,463	1,748
Novi Sad, Bulevar Oslobodjenja 88	44	(198)	496	298
Kotor, Old Town, Palata beskuca, business area, number 1	207	(2,250)	4,386	2,136
Beograd, Luke Vojvodica 77a	80	(623)	868	245
Total		**(80,433)**	**69,945**	**(10,488)**

28.2.2 Komercijalna banka ad Banja Luka

As at 31 December 2019, the Bank has classified investment properties in the amount of RSD 251,981 thousand, which make the buildings lease.

In 2019 the Land lease agreement in the Nova Topola expired, so the Bank made a transfer from investment property to the position of fixed assets intended for sale in the amount of RSD 11,289 thousand.

In 2019 there was no additional assessment of investment property by authorized external appraisal.

28. INVESTMENT PROPERTY (continued)

28.2.2 Komercijalna banka ad, Banja Luka

As at December 31, 2019 the net result of investment property is RSD 2,639 thousand:

In thousands of RSD

Property	Area in m²	Total cost	Realized rental income	Net result
Brcko, Bescarinska zona bb	1,259	(851)	1,217	366
Actros motel-pizzeria Nova Topola	5,437	(2,238)	4,008	1,770
Strbac Milovan and Miroslav		(997)	722	(275)
Sarajevo, Aurum arena	402	(288)	487	199
Brcko, Bescarinska zona bb – IMPRO	949	(508)	938	430
Nova Topola, land	5,767	(1)	150	149
Total		**(4,883)**	**7,522**	**2,639**

29.2.3 Komercijalna banka ad, Podgorica

As at December 31, 2019 the Bank has listed investment property in the amount of RSD 92,708 thousand, which are available for lease.

The bank has foreclosed asset in the amount of RSD 6,785 thousand from the loan to Bambi trade. The property was initially posted to assets held for sale, and when it has been rented, it has been reposted to the investment property.

As at December 31, 2019 the net result on the basis of investment property amounts to RSD 4,353 thousand:

In thousands RSD

Object name	Area in m²	Total cost	Realized rental income	Net result
Land and distribution center in Budva	7,114	-	2,121	2,121
Three business premisses	118	-	283	283
Business premise in Herceg Novi	52.48	-	1,949	1,949
		-	**4,353**	**4,353**

29. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	December 31 2019	December 31 2018
	In thousands of RSD	
Assets held for sale and discontinued operations	500,740	659,003
Total	**500,740**	**659,003**

a) Assets held for sale at the Parent bank:

Object name	**Area in m²**	**Book value in thousands of RSD**
Jasika, office space	75.87	511
Pozarevac, Mose Pijade 2, offfice space	826.82	26,530
Pozarevac, Mose Pijade 2, office space	880.86	21,952
Vrabac, M. Tita 49, office space	145.56	2,022
Kotor, bussines premises 1 and 2	690.00	87,002
Beograd, Palmira Toljatija 5	637.00	58,283
Total		**196,300**

During 2019, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 10,332 thousand.

During 2019 the Parent bank sold three buildings in the amount of RSD 11,747 thousand and based on the burden of income statement, the loss of sales in the amount of RSD 709 thousand was recognized. The difference between the sales value in the amount of RSD 11,747 thousand and the present value of RSD 20,998 thousand in the amount of RSD 9,251 thousand was the reduction of revaluational reserves in the balance sheet in the amount of RSD 9,040 thousand, recognized profit from previous years in the amount of RSD 498 thousand (in the name of revaluation of depreciation) and loss of sales in the amount of RSD 709 thousand.

The Parent bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

29. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

b) Assets held for sale at Komercijalna banka ad, Banja Luka

Object name	Area in m^2	Book value in thousands of RSD
Business space Posusje	1,289.00	19,754
Commercial building and land, Kocicevo, Gradiska	5,333.30	4,838
Production complex – farm in Brezovom polju, Brcko	66,649.00	48,653
Land in Kostajnici	31,052.00	1,155
Land in Nova Topola	6.514.00	11,127
Business space – Brcko District	29.00	1,625
Business space – Brcko District	52.00	4,061
Business space – Banja Luka	71.00	8,417
Equipment – machines		2,575
		102,206

During 2019, four objects were sold (property in Mrkonjic executor „TOP STORY“, production facility in Prijedor executor „RX“ Prijedor; property in Brcko, executor „NOVI BIMEX“, house in Prijedor, executor „RADENKO VUCKOVAC“) and on that basis, fixed assets intended for sale decreased by RSD 77,083 thousand. The total sale price of these facilities amounts to RSD 76,729 thousand.

During 2019, various equipment (merchandise, trailers, commercial vehicles, spare parts and consumables) were sold, and on that basis, fixed assets intended for the sale decreased in the amount of present value of RSD 977 thousand. The total selling price of these facilities is 842 thousand dinars. A sales loss amounting to RSD 2,135 thousand was realized.

In 2019 reclassification was performed on the property in Kocic, Town of Gradiška, executor "GYPSUM ACOUSTIC " into the fixed asset, the present value of RSD 14,418 thousand dinars.

During 2019, on the basis of the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale in the amount of RSD 1,351 thousand was made.

In compliance with the internal acts of the Bank, a decrease in the value of fixed assets intended for sale in the amount of RSD 143 thousand has been made.

Total impairment of fixed assets intended for sale during 2019 is RSD 1,494 thousand.

The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

29. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

c) Assets held for sale at Komercijalna banka ad, Podgorica:

Object Name	Area in m^2	Booking value in thousands of RSD
Pasture area on Cemovsko Polje in Podgorica	375	1,154
2 apartments and 2 garages in Perazica Dol in Budva	135	18,003
Land in Rezevici	547	6,468
Land and production hall for wood processing (3 auxiliary buildings and building in energy sector)	14,233	7,235
Unurbanized land in Kotor	31,534	29,551
Forest in Budva	709	13,899
Forest and meadow in Vranovici	3,131	2,683
Land in Kotor	3,362	5,347
Land and fish factory (buildings) in Rijeka Crnojevica (Cetinje)	50,455	76,518
Apartemnt in Niksic	65	2,285
Urbanized plot in Herceg Novi	300	1,349
Urbanized plot in Risan	425	4,000
Forest, fields and pastures in Bar	12,501	9,836
2 Business premises in Petrovac	173	23,907
Total		**202,235**

During the year 2019. there were sales of four properties held for sale.

In 2019, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 19,802 thousand.

The Bank's management continues to pursue the sale procedure for all assets that have not been sold in the past year.

30. OTHER ASSETS

Other assets consist of:

	In thousands of RSD December 31, 2019	December 31, 2018
In RSD		
Fee receivables per other assets	118,464	107,852
Inventories	134,820	148,886
Assets acquired in lieu of debt collection	3,170,410	3,379,717
Prepaid expenses	164,102	141,317
Equity investments	2,398,936	1,747,405
Other RSD receivables	3,783,861	3,220,716
	9,770,593	**8,745,893**
Impairment allowance of:		
Fee receivables per other assets	(78,391)	(68,497)
Assets acquired in lieu of debt collection	(1,474,657)	(1,599,828)
Equity investments	(446,661)	(446,661)
Other RSD receivables	(840,040)	(859,572)
	(2,839,749)	**(2,974,558)**
In foreign currencies		
Fee receivables per other assets	1,409	807
Other receivables from operations	438,612	984,859
Receivables in settlement	283,756	381,548
Other foreign currency receivables	328,719	226,552
	1,052,496	**1,593,766**
Impairment allowance of		
Other receivables from operations	(303,337)	(133,562)
Receivables in settlement	(77,392)	(77,875)
	(380,729)	**(211,437)**
Total	**7,602,611**	**7,153,664**

30. OTHER ASSETS (continued)

Changes in the allowance account for other assets and active time delimits during the year are shown in the following table:

Individual impairment allowance

In thousands of RSD

	December 31, 2019	December 31, 2018
Balance as at January 1,	926,787	892,037
Correction of the opening balance:		
IFRS 9 – correction thought the equity	-	13,573
Corrected balance as at January 1,	**926,787**	**905,610**
Impairment in the current year:		
Increase (note 13)	17,580	24,983
Effects of change in exchange rate (note 13)	(3,124)	(1,598)
Realese during the year	(11,811)	10,592
Perment write-off	-	(4,226)
Other	(159,434)	(8,574)
Total individual correction	**769,998**	**926,787**

Group impairment allowance

In thousands of RSD

	December 31, 2019	December 31, 2018
Balance as at January 1,	1,710,912	2,248,880
Correction of the opening balance:		
IFRS 9 – correction thought the equity	-	(439,405)
Corrected balance as at January 1,	**1,710,912**	**1,809,475**
Impairment in the current year:		
Increase (note 13)	357,157	217,543
Effects of change in exchange rate (note 13)	(779)	102
Realese during the year	(105,353)	(301,878)
Perment write-off	(11,234)	(6,559)
Other	(37,374)	(7,771)
Total group impairment allowance	**1,913,329**	**1,710,912**
Balance as at December 31 (without small inventory)	**2,683,327**	**2,637,699**
Impairment allowance on inventory (not subject to credit risk)	90,491	101,635
Balance as at December 31 (with small inventory)	**2,773,818**	**2,739,334**

30. OTHER ASSETS (continued)

a) Equity participation

Within the position of other assets, equity participation of legal entities is recognized according to the table:

	2019.	2018.
Participation in the capital of banks and financial organizations	80,270	80,270
Participation in the capital of enterprises and other legal entities	465,249	410,760
Participation in the capital of foreign persons abroad	1,853,064	1,256,375
	2,398,583	**1,747,405**
impairment allowance based on:		
Participation in the capital of banks and financial organizations	(80,270)	(80,270)
Equity participation of enterprises and other legal entities	(366,391)	(366,391)
	(446,661)	**(446,661)**

Participation in the capital of banks and financial organizations relates to: Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, Union Bank a.d. in the amount of RSD 1,874 thousand and Univerzal banka a.d. Belgrade (in bankruptcy) in the amount of RSD 9 thousand.

The company's equity shares mostly relate to: 14. Oktobar Krusevac in the amount of RSD 324,874 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand, the Company Dunav osiguranje a.d.o. Belgrade in the amount of RSD 86,902 thousand and Politika a.d. Belgrade RSD 2,244 thousand.

Participation in the capital of foreign entities abroad relates to the company VISA INC in the amount of RSD 1,475,253 thousand and MASTER Card International in the amount of RSD 377,811 thousand.

The impairment of the equity participation in the amount of RSD 446,661 thousand relates to the impairment of the purchase value for those shares that do not have market value, the largest amount of which is related to: October 14, Krusevac in the amount of RSD 324,874 thousand, Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, RTV Politika doo, Belgrade in the amount of RSD 37,633 thousands and PPD Dobricevo Cuprija in the amount of RSD 2,563 thousand.

b) Other receivables and receivables from operations

Other receivables in RSD mostly relate to receivables arising from the purchase of foreign currency on the foreign exchange market in the amount of 1,528,740 thousand (impairment allowance in the amount of RSD 801 thousand), operating receivables in the amount of RSD 250,607 thousand (impairment allowance in the amount of RSD 88,772 thusand), receivables based on material values received by collection of receivables in the amount of RSD 2,287,027 thousand (Impairment allowance in the amount of RSD 987,236 thousand), receivables arising from advances granted for working capital in the amount of RSD 84,543 thousand (impairment allowance in the amount of RSD 5,607 thousand), receivables on lease RSD 372,546 thousand (impairment allowance in the amount of RSD 283,807 thousand), receivables for default interest on the basis of stocks assets in the amount of RSD 203,067 thousand, (impairment allowance in the amount of RSD 156,189 thousand) receivables in the calculation according to the court judgment in the amount of RSD 209,085 thousand (allowance for the full amount of 100%). Within the position of Other receivables in foreign currency settlement of the total amount of RSD 283,756 thousand, the most significant amount of RSD 180,460 thousand refers to receivables based on spot transactions.

30. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets amount to RSD 3,170,410 thousand, less recorded impairment allowance of RSD 1,474,657 thousand, with the net carrying value of RSD 1,695,753 thousand relate to members of the Group:

Parent Bank

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

Description	Area in m²	Value	Date of acquisition
Novi Pazar, Kej skopskih zrtava 33, local	82.95	2,021	27.09.2006
Gnjilica, field VII class	2,638	55	15.04.2008
Cacak, hotel „President", Bulevar oslobodjenja bb	2,278.92	82,315	21.01.2009
Budva, Montenegro, forest, IV class	8,292	86	12.10.2010
Buce, forest, IV class	974	3,751	27.05.2011
Prijevor, forest IV class	1,995	4,339	27.05.2011
Beograd, Mihaijla Avramovica 14a, building	925.35	156,017	21.11.2011
Krusevac, Kosevi, production and office building I.C.P.	12,836	42,533	08.06.2012
Mladenovac, Sopot-Nemenikuce, filed III class	16,633	250	25.06.2012
Obrenovac, Mislodjin, field III class	10,017	983	11.07.2012
Novi Pazar, Ejupa Kurtagica 13, house	139.90	3,370	24.07.2012
Majur, Tabanovacka, field	14,452	1,524	10.08.2012
Mali Pozarevac, Veliko Polje, field III and IV class	21,915	299	27.09.2012
Cuprija, Alekse Santica 2/24, aparment	72.40	770	15.01.2013
Nis, Ivana Milutinovica 30, business office	438.39	4,677	23.04.2013
Nis, Triglavska 3/1 aparment	79.80	3,007	04.06.2013
Mladenovac, field-lug III class	1,142	392	18.07.2013
Nis, Bulevar 12. Februar, outhouse-storage	2,062	37,156	30.07.2013
Kula, Zeleznicka bb, business office, land	7,959	20,890	01.10.2013
Prijepolje, Karosevina, sawmill	450	797	08.11.2013
Total I		**365,232**	

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30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (contuned)

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

Description	Area in m²	Value	Date of acquisition
Vukovac, Milatovac, agricultural land	132,450	534	16.05.2014
Bor, Nikole PAsica 21, commercial building, warehouse	3,823	42,503	08.05.2014
Subotica, Magnetno polja 17, production hall and warehouse	2,492	42,381	18.07.2014
Mokra Gora, land, forest, field, house	58,400	3,479	31.01.2014
Kopaonik, hosue with land	337	3,739	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 6/3	29	2,821	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 7/3	44	4,280	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 8/3	35	3,405	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 9/3	34	3,308	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 10/3	39	3,794	31.01.2014
Novi Sad, Bulevar oslobodjenja 88, commercial office 23	253	18,490	31.01.2014
Novi Sad, Tihomira Ostojica 4, Office 7	134	5,254	31.01.2014
Novi Sad, Polgar Andrisa 40/a, Office 8	81	4,531	31.01.2014
Novi Sad, Polgar Andrisa 40/a, Office 9	79	4,418	31.01.2014
Novi Sad, Polgar Andrisa 40/a, Office 10	408	23,468	31.01.2014
Zrenjanin, Novosadski put 4, building, pump, and land	9,144	31,921	14.08.2014
Budva, Rezevici, Montenegro, rocks, forest	1,363.20	18,846	22.07.2014
Budva, Rezevici, Montenegro, forest V class	5,638.54	76,958	22.07.2014
Nis, Ivana Gorana Kovacica 31, residential building	434.58	4,142	17.04.2013
Mladenovac, Americ, field IV class	7,768	237	03.10.2014
Valjevo, Radjevo selo, warehouse	394	402	11.06.2014
Bela Crkva, Kajtasova, forest	4,187	66	03.10.2014
Mladenovac, fields, orchards	25,136	502	03.10.2014
Valjevo, Vojvode Misica 17, family building	106	1,569	25.09.2014
Nis, Cajnicka bb, residential buildings with additional buildings	825.74	9,851	14.03.2013
Nis Sjenicka 1, commercial buildings, warehouse, workshops	1,452.73	12,129	14.03.2013
Beograd, Zemun, Cara Dusana 130, factory complex	6,876	92,109	16.06.2014
Nis, Sumadijska 1, office space	504.60	1,658	04.12.2014
Valjevo, Radnicka 6, apartment	69	2,550	28.05.2014
Prokuplje, field III class	12,347	536	28.08.2015
Mionica, Prote Zarko Tomovica bb, house	107	1,594	10.09.2015
Prokuplje, Maloplanska 7, buildings with land	490	257	11.06.2012
Sokobanja, agricultural land, orchard, field IV class	417,908	5,142	31.07.2012
Sokobanja, production hall with land	5,042	21,684	31.07.2012
Sokobanja, concierge office with land	2,005	623	31.07.2012
Sokobanja, house with land	4,194	3,370	31.07.2012
Beograd, Baje Pivljanina 83, residential buildings	278.52	55,648	23.08.2012
Divcibare, meadows V class	8,012	3,982	02.12.2015
Lebane, Branka Radicevica 17, residential and commercial building	768.42	5,232	27.08.2015
Loznica, Lipnica, Karadjordjeva, residential and commercial building with land	146	1,897	15.10.2015
Vrhpolje, lodging hospitality	1,334	2,169	16.05.2013
Krusevac, St. selo, a concrete base with land	100,560	124,605	11.03.2016
Zrenjanin, Bagljas, pasture II class	230	46	22.12.2015
Svilajnac, Kodublje, office building, halls and land	10,462	28,184	26.02.2016
Alkesandrovo, Merosina, building with land	8,527	13,428	23.12.2015
Cacak, Suvo polje, building 1 and 2 with land	1,225	10,986	05.05.2016
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	216	31.03.2016
Valjevo, Bobove, filed VI and VII class	20,599	289	19.05.2016
Kotor, Montenegro, office space, building No. 1	106	19,591	22.12.2016
Kotor, Montenegro, office space, building No. 1	345	60,714	22.12.2016
Kotor, Montenegro, office space, building No. 1	345	56,594	22.12.2016
Nis, Trg Ucitelja Tase No. 10/1 local	79.40	5,808	13.03.2019
Curgur, Nikole Pasica bb, silos with auxiliary buildings	910	58,498	07.10.2019
Total II		**900,438**	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (continued)

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

		In RSD thousand
Description	**Value**	**Acquisition Date**
Krusevac, movables (machinery, furniture, equipment)	6,160	08.06.2012
Nis and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	5,527	31.07.2012
Paracin, coffee roasting line	2,276	31.12.2012
Vranic, equipment, production line	3,913	09.07.2013
Total III	**17,876**	

IV *Equipment acquired in periods after December 30, 2013 – which do not classify as balances and off-balances items in accordance with the relevant NBS decision*

		In RSD thousand
Description	**Value**	**Acquisition Date**
Movable property, agricultural machinery and tools	53	03.06.2015
Equipment, supply of secondary raw materials	1,380	18.07.2014
Movables, installation materials	609	13.05.2014
Other	239	
Total IV	**2,281**	

V *Assets acquired trough collection of receivables after December 30, 2013 – which do not classify as balances and off-balances items in accordance with the relevant NBS decision*

		In RSD thousand
Description	**Value**	**Acquisition Date**
Equipment	6,964	07.10.2019
Total V	**6,964**	

VI Securities acquired trough collection of receivables

		In RSD thousand
Description	**Value**	**Acquisition Date**
Securities acquired trough collection of receivables	1,940	12.09.2019
Impairment allowance of securities	(1,940)	
Total VI	**-**	
Total (Present value) I + II+ III+ IV+V+VI	**1,292,791**	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (continued)

The effect of the impairment of foreclosed assets in 2019 is shown in the table below:

	In 000 RSD
Effects of property impairment	77,716
Effects of equipment impairment	2,814
1. Total impairment of property and equipment	**80,530**
2. Effects of securities impairment acquired trough collection of receivables	1,940
3. (1+2) Total effect of foreclosed assets	**82,470**

The negative assessments effect is recognized as an expense in the period in the amount of RSD 82,470 thousand :

- For properties RSD 28,505 thousand based on lower appraisal market value and RSD 49,211 thousand according to internal act due to Bank’s inability to sell the property in the period longer than 12 months, even though the appraisal value is higher than book value
- For equipment RSD 2,814 thousand based on lower appraisal market value and according to internal act.
- Impairment of securities received in the amount of RSD 1,940 thousand was conducted on the basis of the final approved UPPR as executive documents mandatory for all creditors.

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

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (continued)

G1.1. Appraisal value of foreclosed properties

Property	Area in m2	Book value before the appraisal	Appraisal value In thousand EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, MIhaila Avramovica 14a, building	925.35	164,228	1,397	156,017	(8,211)
Krusevac, St. selo, a concrete base with land	100,560	131,163	1,115	124,605	(6,558)
Cacak, hotel „President“, Bulevar oslobodjenja bb	2,278.92	98,456	837	82,315	(16,141)
Belgrade, Zemun, Cara Dusana, 130 factory complex	6,876	96,957	825	92,109	(4,848)
Budva, Rezevici, Montenegro, forest V class	5,638.54	79,502	676	76,958	(2,544)
Curug, Nikole Pasica bb, silos with auxiliary buildings	910	61,577	524	58,498	(3,079)
Kotor, Montenegro, office spase, building No.1 PD 4	345	60,860	518	60,714	(146)
Kotor, Montenegro, office spase, building No.1 PD 6	345	60,860	518	56,594	(4,266)
Belgrade, Baje Pivljenina 83, office building	278.52	58,577	498	55,648	(2,929)
Bor, Nikole Pasica 21, commercial building, warehouse	3,823	46,813	398	42,503	(4,310)
Subotica, Magnetna polja 17, production hall and warehouse	2,492	44,612	379	42,381	(2,231)
Krusevac, Kosevi bb, production and office building, I.P.C.	12,836	45,433	386	42,533	(2,900)
Nis, Bulevar 12. Februara bb, auxiliary buildings-warehouse	2,062	39,112	333	37,156	(1,956)
Sokobanja, production hall port with land, orchard, house, filed IV class	429,149	32,340	275	30,819	(1,521)
Zrenjanin, Bagljis, Novosadski put 4, building, pump, land, pasture	9,374	33,649	286	31,967	(1,682)
Svilajnac, Kodublje, office building, hall and land	10,462	29,667	252	28,184	(1,483)
Novi Sad, Polgar Andrasa 40/a, office space 10	408	24,703	210	23,468	(1,235)
Kula, Zeleznicka bb, office space, land	7,959	21,990	187	20,890	(1,100)
Kotor, Montenegro, office space, building No.1 PD2	106	20,622	175	19,591	(1,031)
Novi Sad, Bulevar oslobodjenja 88, office space 23	253	19,463	165	18,490	(973)
Budva, Rezevici, rocks and forest	1,363.20	19,469	165	18,846	(623)
Aleksandrovo, Merosina, administrative building with land	8,527	14,135	120	13,428	(707)
Nis, Sjenicka 1, business building, warehouse, workshops	1,452.73	12,767	108	12,129	(638)
Cacak, Suvo polje, building 1 and 2 with land	1,225	11,564	98	10,986	(578)
Nis, Cajnicka bb, residential building	825.74	10,369	88	9,851	(518)
Nis, Trg Ucitelja Tase No.10/1 local	79.40	6,114	51	5,808	(306)
Novi Sad, Tihomira Ostojica 4, office space 7	134	5,530	47	5,254	(276)
Lebane, Branka RAdicevica 17, residential and business building	768.42	5,507	46	5,232	(275)
Nis, Ivana Milutinovica 30, office space 7	438.39	4,923	42	4,677	(246)
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,769	40	4,531	(238)
Novi Sad, Polgar Andrasa 40/a, office space 9	79	4,651	39	4,418	(233)
Novi Sad, Bulevar oslobodjenja 30a, office space (5 locals)	181	18,535	158	17,608	(927)
Prijevor, forest IV class	1,995	4,559	39	4,339	(220)
Nis, Ivana Gorana Kovacica 31, residential space	434.58	4,360	37	4,142	(218)
Divcibare, meadows V class	8,012	4,114	35	3,982	(132)
Mokra Gora, house and meadows	58,400	3,986	34	3,479	(507)
Kopaonik, house with land	337	3,936	33	3,739	(197)
Budva, forest IV class	974	3,875	33	3,751	(124)
Novi Pazar, Ejupa Kurtagica 13, house	139.90	3,547	30	3,370	(177)
Nis, Triglavska 3/1 apartment	79.8	3,165	27	3,007	(158)
Valjevo, Radnicka 6, apartment	69	2,684	22	2,550	(134)
Other (26 properties)	-	24,836	211	23,696	(1,140)
TOTAL		**1,347,979**		**1,270,263**	**(77,716)**

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (continued)

G1.2. Appraisals of foreclosed equipment **in thousand of RSD**

Description	Book value before the appraisal	Net carrying value	Difference in value
Movables	**29,935**	12,296	(1,276)
Equipment, inventory and secondary raw materials	9,532	8,636	(896)
Other	6,831	6,189	(642)
TOTAL		**27,121**	**(2,814)**

Based on the judgment of the Supreme Court in Montenegro at 2019, the Bank has booked assets acquired trough collection receivables in the amount of RSD 4,592 thousand (the property in Tivat).
For three movables object worth in total RSD 96 thousand Bank does not have ownership documents (objects recorded on off-balance). The Bank's management is taking all necessary measures in order to sell the acquired assets.

Komercijalna banka ad, Podgorica

Tangible assets acquired through collection of receivables in previous period:

Description	Area in m^2	Value in 000 RSD	Acquisition Date
Sutomore – hotel and land	1,590	87,926	31.01.2009
Budva – pasture and 3 family building	1,105	15,608	17.12.2009
Podgorica – factory and land	8,214	35,831	28.12.2009
Podgorica – business premises and land	5,209	37,245	28.12.2009
Cetinje – garage and land	439	1,417	25.05.2010
Podgorica– house and yard	883	22,395	31.07.2010
Podgorica – hotel	551	33,371	31.12.2011
Podgorica – land and hppuse	484	3,797	31.12.2011
Bar – land, house and two ancillary buildings	1,507	3,625	28.02.2013
Niksic – meadow and unclassified roads	977	976	28.02.2013
Budva – Perezica Do – land, business premises,three garages, four apartments	5,315	76,630	25.01.2014
Kotor – land, two family residential buildings and ancillary buildings	396	1,646	12.08.2014
Podgorica land and building under construction	412	4,580	22.12.2014
Bar – forest	3,569	56,471	29.12.2014
Bar – business premises	385	21,444	24.03.2015
Total KB Podgorica (present value)		**402,962**	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Komercijalna banka ad, Podgorica (continued)

For 20 facilities acquired through collection of receivables, the Bank has titles from land cadastres but has not entered into the property. The total net value of assets acquired through collection of receivables, for which the Bank has not entered into possession as at 31 December 2019, amount to RSD 402,962 thousand (EUR 3,247 thousand). The Bank's management is taking all necessary measures in order to sell the acquired assets.

The Bank has hired licensed external appraisers who conducted a reappraisal of assets acquired through collection of receivables, before the twelve months period. Negative effect of the assessment is recognized as an expense in the period in the amount of 13,376 thousand.

Estimated value of property acquired through collection of receivables:

Property	Area in m²	Book value before revaluation in RSD thousand	Estimated value In thousand EUR	Estimated value In thousand RSD	Value difference in RSD thousand
Land, business premises, 3 garage and 4 apartment	5,315	76,630	652	76,630	-
Yard and house in Podgorica	883	25,389	190	22,395	(2,994)
Land and hotel- Sutomoru	1,590	87,926	748	87,926	-
Grassland and 3 family residential buildings – Budva	1,105	15,853	133	15,608	(245)
Land and factory – Podgorica	8,214	35,857	305	35,831	(26)
Land and 2 business premises – Podgorica	5,209	37,245	317	37,245	-
Land and garage – Cetinje	439	1,429	12	1,417	(12)
Hotel – Podgorica	551	40,782	284	33,371	(7,411)
Land and house – Podgorica	484	5,596	32	3,797	(1,799)
Grassland and uncategorized roads in Niksic	977	976	8	976	-
Land, house and 2 ancillary buildings - Bar	1,507	3,728	31	3,625	(103)
Land, 2 family residential buildings and ancillary buildings - Kotor	396	1,666	14	1,646	(20)
Land and building under construction - Podgorica	412	4,709	39	4,580	(129)
Forest – Bar	3,569	56,471	480	56,471	-
Business premises – Bar	385	22,051	182	21,444	(607)
TOTAL		**416,308**	**3,427**	**402,962**	**(13,346)**

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

Liabilities to banks and financial organizations are consist of:

In RSD thousand

	December 31, 2019	December 31, 2018
Demand deposits	2,451,910	2,401,291
Term deposits	5,829,431	5,096,550
Borrowings	-	709,168
Expenses deferred at the effective interest rate (deductible item)	-	(2,990)
Other	37,265	24,265
Balance at December 31	**8,318,606**	**8,228,284**

During 2019 deposits in RSD were placed at interest rate of 1.05% to 1.87% whereas in deposits in foreign currency were placed by banks at interest rate from 1.4% to 2.7% for USD, and 0.01% - 0.05% for EUR and for other currencies from 0.00% to 2.40%.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

In RSD thousand

	December 31, 2019	December 31, 2018
EBRD	-	709,168
Balance at December 31	**-**	**709,168**

In the first quarter of 2019. Tha Bank returned the last installment of the EBRD credit line in the amount of EUR 6,000 thousand and paid liabilities completely.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS

Deposits and other financial liabilities to clients comprise:

In RSD thousand

	December 31, 2019	December 31, 2018
Corporate customers and agro		
Demand deposits	78,301,854	72,491,064
Callable deposits	42,688	30,820
Overnight and other deposits	14,483,027	18,589,984
Borrowings	4,060,334	4,205,963
Special purpose deposits	2,054,530	2,104,808
Deposits for loans approved	547,737	710,420
Interest payable, accrued interest liabilities and other financial liabilities	541,742	500,933
Retail customers – private individuals		
Demand deposits	43,450,446	36,114,872
Callable deposits	72,964	34,962
Savings deposits	218,449,382	207,149,245
Special purpose deposits	5,138,469	4,668,630
Deposits for loans approved	2,419,206	2,430,396
Interest payable, accrued interest liabilities and other financial liabilities	1,003,142	930,104
Other deposits	422,189	705,955
Balance at December 31	**370,987,710**	**350,668,156**

Corporate customer's deposit

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2019, these deposits are interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.
Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Banja Luka's interest rate ranges to 0.51% annually.
Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Podgorica's interest rate ranges from 0.00% to 0.01% annually.
Non-resident deposits in foreign currency in Parent Bank are non-interest bearing deposits, except for specific business arrangements.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Podgorica is non-exhaustive.
Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Banja Luka ranges from 0.0% to 0.51%.

During 2019, short-term deposits of enterprises in RSD were deposited at an interest rate ranging from: 0.0% on deposits from three to fourteen days to the reference interest rate annually minus 0.75 percentage points for a period of up to one year limit of minimum 300 thousand dinars. Short-term deposits of entrepreneurs were deposited at an interest rate ranging from 0.25% to 2.20% annually with a minimum of RSD 300 thousand.

Short-term deposits of companies and entrepreneurs in foreign currency are deposited at an interest rate ranging from 0.05% to 1.50% annually for EUR or from 0.40% to 1.00% for USD, and for other currencies ranging from 0.0% to 0.85%.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS

Corporate customer's deposit (continued)

Long-term corporate deposits in RSD were deposited with an interest rate determined by the reference interest rate of the National Bank of Serbia annually reduced by 0.50 percentage points to 0.20 percentage points, and in foreign currency from 0.50% to 2.00% annually for EUR and from 1.30% up to 1.40% annually for USD, from 0.00% to 3.70% annually for other foreign currencies.

Retail Customer Deposits

A vista retail savings deposits in local and foreign currencies in the Parent Bank during 2019 were non-interest bearing.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Banja Luka during 2019 were non-interest bearing.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Podgorica during 2018 were interest bearing ranging from 0.00% to 0.01% annually.

Short-term retail deposits in RSD were deposited with interest rates ranging from 1.50% to 3.50% annually, and in foreign currency from 0.05% to 0.80% for EUR, and for other currencies ranging from -0.35% to 1.50% per annum.

Long-term retail deposits in RSD were deposited with interest rates ranging from 3.75% to 4.00% annually, and in foreign currency from 0.65% to 1.60% for EUR, and for other currencies ranging from -1.00% to 5.00% per annum.

During the year, the Parent bank had special interest rates on action savings, with limited expiration periods which are not subject to disclosure.
In the framework of loan commitments, total liabilities are recognized for foreign-credit lines to foreign legal entities that are defined as clients for the needs of the balance sheet.

Breakdown of long-term and short-term borrowings of Parent bank included within the line item of liabilities due to customers is presented below:

		In RSD thousand
	December 31, 2019	December 31, 2018
Long-term loans		
Republic of Italy Government	36,139	103,104
European Investment Bank (EIB)	1,376,259	1,955,882
European Agency for Reconstruction (EAR)	14,463	52,836
Balance at December 31	**1,426,861**	**2,111,822**

The above presented borrowings mature in the period from 2020 to 2030.

The loan facility agreements agreed with the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by loan facility agreements differs from the method for calculating those same ratios in accordance with the regulations of the National Bank of Serbia in part relating to the calculation of capital and includes items eligible for determining open credit exposure.

During 2019, the Parent Bank made an early repayment of part line of the European Agency for Reconstuction (EAR) in the amount of EUR 52 thousand.

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

Breakdown of long-term borrowings of Komercijalna banka a.d. Podgorica included within the line item of liabilities due to customers is presented below:

		In RSD thousand
	December 31, 2019	**December 31, 2018**
European Investment Bank (EIB)	100,794	196,287
Government of Montenegro - Project 1000+	42,914	46,728
Development Fund of Montenegro	623,829	378,782
Balance at December 31	**767,537**	**621,797**

The above presented borrowings mature in the period from 2019 to 2031.

Komercijalna Banka a.d. Podgorica is not obligated to meet any financial ratios due to abovementioned loans.

Breakdown of long-term borrowings of Komercijalna banka a.d. Banja Luka included within the line item of liabilities due to customers is presented below:

		In RSD thousand
	December 31, 2019	**December 31, 2018**
Investment-Development Bank	1,865,936	1,472,344
Balance at December 31	**1,865,936**	**1,472,344**

The above presented long-term and short-term borrowings mature in the period from 2019 to 2045.

Based on the contract concluded with the Republic of Srpska Investment Development Bank, Komercijalna banka A.D. Banja Luka has no obligation to comply with certain financial indicators.

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

32.1 The structure and movement of liabilities on the basis of deposits and other financial liabilities to banks, other financial organisations, central bank and clients is shown in the following

In thousand RSD

	December 31, 2019	December 31, 2018
Balance as at January 1,		
Deposits and other financial liabilities to banks, other financial organisations and central bank (note 31)	8,228,284	6,137,776
Deposits and other financial liabilities to clients (note 32)	350,668,156	317,577,748
Total balance as at January 1,	**358,896,440**	**323,715,524**
Net inflows/outflows – deposits	21,209,646	38,891,029
Net inflows/outflows - loans	(709,085)	(3,934,864)
Net inflows/outflows – interest	(1,195,178)	(1,149,108)
Net inflows/outflows – fees	(6,615)	(10,972)
Exchange rate	(205,985)	212,108
Accrued interest and other non-cash transactions	1,317,093	1,172,722
Balance as at December 31,	**379,306,316**	**358,896,440**

In thousands RSD

	December 31, 2019	December 31, 2018
Deposits and other financial liabilities to banks, other financial organisations and central bank (note 31)	8,318,606	8,228,284
Deposits and other financial liabilities to clients (note 32)	370,987,710	350,668,156
Total banks and clients	**379,306,316**	**358,896,440**

33. PROVISIONS

Provisions relate to:

	December 31, 2019	In RSD thousand December 31, 2018
Provisions for off-balance sheet items (Note 13)	210,395	309,211
Provisions for litigations (Note 36.4)	1,715,964	988,557
Provisions for employee benefits in accordance with IAS 19	557,051	511,085
Balance at December 31	**2,483,410**	**1,808,853**

Movements on the accounts of provisions are provided below:

	2019.				2018.			
	Provisions for Off-Balance Sheet items (note 13)	Provisions for ligitations (Note 36.2)	Provisions for Employee Benefits(IAS 19)	Total	Provisions for Off-Balance Sheet items (note 13)	Provisions for ligitations (Note 36.2)	Provisions for Employee Benefits(IAS 19)	Total
Balance as at January 1,	309,211	988,557	511,085	1,808,853	171,582	876,374	503,927	1,551,883
Correction of opening balance – IFRS 9	-	-	-	-	85,303	-	-	85,303
Ajusted opening balance at January 1	**309,211**	**988,557**	**511,085**	**1,808,853**	**256,885**	**876,374**	**503,927**	**1,637,186**
Increase	282,248	1,255,895	34,056	1,572,199	383,333	276,540	81,701	741,574
Provisions against actuarial gains within equity	-	-	12,770	12,770	-	-	(53,596)	(53,596)
Utilization	-	(26,566)	(209)	(26,775)	-	(29,186)	(7,475)	(36,661)
Reversal provisions	(380,863)	(513,269)	(486)	(894,618)	(330,916)	(134,354)	-	(465,270)
Exchange rate	(201)	(431)	(165)	(797)	(91)	(187)	(107)	(385)
Other	-	11,778	-	111,778	-	(630)	(13,365)	(13,995)
Balance as at December 31,	**(210,395)**	**1,715,964**	**557,051**	**2,483,410**	**309,211**	**988,557**	**511,085**	**1,808,853**

a) Provisions for litigations of Parent Bank

A provision was done on the basis of estimates of future outflows in the amount of damage receivables including interest and costs. Total amount of provisions for 5,160 disputes as at December 31, 2019 amount to RSD 1,614,874 thousand.

Compared to 31 December, 2018 there was a change in the total level of provisions in the net amount of RSD 714,722 thousand. Of this, the change related to the net provisioning provision for legal liabilities amounts to RSD 740,127 thousand recognized in the income statement position, while the decrease in the provision in the amount of RSD 25,405 thousand relates to the use of provisions for payments and cancellation under the adopted court judgments.

Majority of disputes mainly relate to loan approval fee, receivables for damages and labour disputes.

b) Provisions for employee benefits

Provisions for retirement benefits were formed on the basis of an independent actuary report at the balance sheet date, and they are stated in the present value of expected future payments.

33. PROVISIONS (continued)

The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2019	December 31, 2018
Parent Bank		
Discount rate	4.00%	4.75%
Salary growth rate within the Bank	2.00%	2.00%
Employee turnover	4.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

Komercijalna Banka a.d., Podgorica

	December 31, 2019	December 31, 2018
Discount rate	3.00%	3.00%
Salary growth rate within the Bank	3.00%	5.00%
Employee turnover	9.00%	8.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Montenegro was used to determine the discount rate.

Komercijalna Banka a.d., Banja Luka

	December 31, 2019	December 31, 2018
Discount rate	3.00%	4.00%
Salary growth rate within the Bank	2.00%	2.00%
Employee turnover	5.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on ten-year bonds issued by the Government of the Republic of Srpska was used to determine the discount rate.

KomBank INVEST a.d., Beograd

	December 31, 2019	December 31, 2018
Discount rate	4.00%	4.75%
Salary growth rate within the Bank	6.00%	8.00%
Employee turnover	5.00%	5.00%

34. OTHER LIABILITIES

Other liabilities include:

		In thousand RSD
	December 31, 2019	**December 31, 2018**
Accounts payable	264,882	559,770
Liabilities to emplyees (salaries, payroll taxes and contribution)	76,854	77,450
Adanced received	177,879	129,635
Liabilities based on leasing	1,371,502	-
Accurued interest, fees and commissions	160,992	170,378
Accurued liabilities and other accruals	637,699	380,493
Liabilities in calcution	2,316,607	2,277,235
Liabilities from profit	9,236,270	5,442,133
Taxes and contributions payble	19,343	30,842
Other liabilities	297,542	265,958
Balance as at December 31, 2019	**14,559,570**	**9,333,894**

Liabilities in settlement totalling RSD 2,316,607 thousand mostly relate to the liabilities for sale and purchase of foreign currencies in the foreign exchange market in the amount of RSD 1,528,706 thousand, liabilities related to buying and selling foreign currencies in the amount of RSD 180,759 thousand, foreign currency liabilities for spot transactions in the amount of RSD 104,932 thousand and liabilities based on payment card receivables in the amount of RSD 65,270 thousand.

a) Liabilities from Parent's Bank profit in the amount of RSD 9,229,643 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 99,570 thousand,
- dividend payment liabilities on ordinary shares in the amount of RSD 7,701,758 thousand and
- liabilities from profit to employees in the amount of RSD 1,428,315 thousand.

With the Decision of the Bank 4586/3 of April 24, 2019, a part of prior year's retained earnings was distributed for dividends on ordinary share in the amount of RSD 3,245,000 thousand and preferred shares in the amount of RSD 13,073 thousand with a payout limit of fulfilment of the requirements stated in the Article 25 of the Law on Banks.

During 2019, the Bank did not carry out payments based on the distribution of profits for 2014, 2015, 2016, 2017 and 2018 because of the abovementioned limitation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

34. OTHER LIABILITIES

b) liabilities based on leasing

	In thousands RSD
Balance as at January 1,	
Effect first application of IFRS 16	**1,847,377**
Interest expenses	33,509
Interest income- termination of contracts	(500)
Expenses from negative currency clause of the leasing contract	3,530
Income from positive currency clause of the leasing contract	(8.970)
Tax expenses for legal and natural person	71,417
Other net income based on leasing	(60)
Exchange rate differences	(2,340)
Lease payments	(567,015)
Other	(5,446)
Balance as at December 31,	**1,371,502**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

35. EQUITY

35.1 Equity is comprised of:

	December 31 2019	In RSD '000 December 31 2018
Share capital	17,191,526	17,191,526
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	21,849,598	17,503,846
Revaluation reserves	8,875,798	6,187,537
Retained earnings	9,981,902	9,277,759
Loss	(1,370,332)	(1,481,701)
Balance as at December 31	**79,371,576**	**71,522,051**

Capital structure — In RSD '000

	December 31, 2019			December 31, 2018		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controllin g shares	Total
Share capital	17,191,466	60	17,191,526	17,191,466	60	17,191,526
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**60**	**40,034,610**	**40,034,550**	**60**	**40,034,610**
Retained earnings	**9,981,896**	**6**	**9,981,902**	**9,277,755**	**4**	**9,277,755**
Loss	**(1,370,332)**	**-**	**(1,370,332)**	**(1,481,701)**	**-**	**(1,481,701)**
Reserves from profit and other reserves	21,849,594	4	21,849,598	17,503,844	2	17,503,844
Revaluation reserves (credit balance)	7,256,593	-	7,256,593	4,539,643	-	4,539,643
Revaluation reserves (debit balance)	(248)	-	(248)	(257)	-	(257)
Translational reserves (Note 35.3)	1,619,453	-	1,619,453	1,648,151	-	1,648,151
Reserves	**30,725,392**	**4**	**30,725,396**	**23,691,381**	**2**	**23,691,383**
Capital	**79,371,506**	**70**	**79,371,576**	**71,521,985**	**66**	**71,522,051**

The Parent Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent Bank, as well as to participate in profit distribution. As of December 31, 2019 the Bank's share capital totalled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

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

Share Type	December 31 2019	Number of shares December 31 2018
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	**17,191,466**	**17,191,466**

The structure of the Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2019 was as follows:

Shareholder:	Number of shares	% share
Republic of Serbia	13,997,686	83.23
Jugobanka a.d., Belgarde in bankruptcy	321,600	1.91
OTP BANKA SRBIJA (custody account)	298,352	1.77
Kompanija dunav osiguranje d.o.o. Belgrade	290,214	1.73
BDD M&V INVESTMENTS AD BEOGRAD (summary account)	272,600	1.62
East capital (lux)-Balkan fund	189,756	1.13
GLOBAL MACRO ABSOLUTE RETURN A	133,148	0.79
GLOBAL MACRO CAPITAL OPPORTUNITIES	131,568	0.78
Stankom co. d.o.o., Belgarde	117,535	0.70
GLOBAL MACRO PORTFOLIO	84,003	0.50
FRONT MARK OPPORTUN.MASTER	68,404	0.41
ДЕКА ИНЖЕЊЕРИНГ	60,090	0.36
I.N. DRENIK NONWOVENS TRADING	58,950	0.35
ALLIANCEBERNS.NEXT 50E.M.(M)F.	53,837	0.32
Others (1,113 shareholders)	740,213	4.40
	16,817,956	**100.00**

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

Shareholder	Number of shares	% share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (632 shareholders)	270,280	72.37
	373,510	**100.00**

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

The Ministry of Finance of the Republic of Serbia 26 June 2019. Performed redemption of ordinary shares owned by DEG-DEUTSHE INVESTITIONS and SWEDFUND INTERNATIONAL in total percentage of 6.90%, and 26. November redemption of ordinary shares of EBRD, in a percentage of 24.43% and IFC CAPITALIZATION FUND LP in a percentage of 10.15%, which increased the percentage of the participation of the Republic of Serbia to 83.23%.

Revaluation reserves totalling RSD 8,875,798 thousand (2018: RSD 6,187,537 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,102,208 thousand, revaluation reserves based on valuation of equity securities in the amount of RSD 1,631,690 thousand, revaluation reserve based on the valuation of debt securities in the amount of RSD 4,398,241 thousand and actuarial gains in the amount of RSD 1,619,453 thousand. The stated values also include the tax effects of revaluation reserves.

35.2. Earnings per share

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

	2019	2018
Profit minus preferred dividends (in RSD thousand)	8,942,686	8,132,109
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	**532**	**484**

The basic earnings per share for 2019 is RSD 532 or 53.17% at the nominal value of ordinary shares; for 2018, earnings per share amounted to RSD 484 or 48.35% at the nominal value ordinary shares.

35.3. Cumulative foreign exchange losses and gains on foreign transactions

In RSD '000

	Cumulative FX on the basis of shares in subsidiaries	Cumulative FX on the basis of intercompany transaction	Cumulative FX on income adjustments to the FX rate as at December 31	Total
Balance as at January 1, previous year	**1,537,481**	**69,315**	**51,937**	**1,658,733**
Increase	(16,146)	5,743	(179)	(10,582)
Balance as at December 31, previous year	**1,521,335**	**75,058**	**51,758**	**1,648,151**
Increase	(34,940)	6,859	(617)	(28,698)
Balance as at December 31, current year	**1,486,395**	**81,917**	**51,141**	**1,619,453**

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In RSD '000

	December 31, 2019	December 31, 2018
Operations on behalf and for the account of third parties	4,201,557	4,278,176
Taken-over future liabilities	56,406,073	47,477,824
Derivatives intended for trading under the contract currency	-	1,772,919
Other off-balance sheet items	443,227,208	443,254,125
Total	**503,834,838**	**496,783,044**

From the assumed future liabilities, the internal relationship with Komercijalna banka ad, Banja Luka, based on undisbursed loans in the amount of RSD 1,999,078 thousand (EUR 17 million), with Komercijalna banka a.d. Podgorica based on undisbursed loans in the amount of RSD 1,111,252 thousand (EUR 9.45 million) was eliminated as well as an unused part of the approved limit for KomBank INVEST cards amounting to RSD 200 thousand.

From other off-balance sheet positions, internal relations were eliminated by Komercijalna banka a.d. Banja Luka, Komercijalna banka a.d. Podgorica and KomBank INVEST have with Komercijalna banka a.d. Beograd.

36.1 Guarantees and letters of credit

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

In RSD '000

	December 31, 2019	December 31, 2018
Payment guarantees	4,983,412	3,897,871
Performance guarantees	5,754,320	3,630,897
Letters of credit	281,963	214,361
Balance as at December 31,	**11,019,695**	**7,743,129**

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

36.2 Structure of commitments is provided below:

In RSD '000

	December 31, 2019	December 31, 2018
Unused portion of approved payment and credit card loan facilities and overdrafts	11,071,708	11,082,318
Irrevocable commitments for undrawn loans	33,033,872	26,336,746
Other irrevocable commitments	1,280,798	2,315,630
Balance as at December 31,	**45,386,378**	**39,734,694**

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

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

Operations on behalf and for the account of third parties in the total amount of RSD 4,201,557 thousand consist mostly of funds from the commission credits of the Republic of Serbia for the repayment of housing loans in the amount of RSD 3,448, 971 thousand, loans for the purchase of social apartments of budget institutions in the amount of RSD 305,001 thousand (loans taken from Beobanka in bankruptcy), while other funds mostly refer to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets in the amount of RSD 443,227,208 thousand, the Group discloses, among other things, the received financial assets for collateral and receivables in the amount of RSD 202,700,345 thousand, the nominal value of custody securities for clients of the Group in the amount of RSD 49,759,948 thousand, the nominal value of securities of the value in the Group's portfolio in the amount of RSD 128,417,584thousand, repo placements in government securities in the amount of RSD 12,000,000 thousand, the amount of the permanent write-off of balance sheet items - loans and placements by transfer into the off-balance sheet in the amount of RSD 28,787,673 thousand and the amount of the accounting write-off of credit receivables under the NBS Decision on accounting write-off balance assets in the amount of RSD 4,570,686 thousand.

The Parent bank, in accordance with the issued license for performing custodial transactions, also keeps the financial instruments of the clients on the securities accounts, for which the off-balance sheet is kept. Based on these activities, the Parent banka does not bear the credit risk.

Also, in the position of other off-balance sheet assets, in accordance with the legislation, the Parent bank also presents the value of received financial assets for securing placements: residential, business and other security facilities in the amount of RSD 166,846,879 thousand.

36.4 Litigations

Based on the expert assessment of the Legal Department and attorneys representing the Group's members, in all disputes against members of the Group, in 2019, the management made provisions for potential losses in litigations in the amount of RSD 1,715,964 thousand (Note 33).

As at December 31, 2019 contingent liabilities based on the claims amount against the members of the Group, were estimated at the amount of RSD 6,240,364 thousand (for 5,995 active cases).

In addition, members of the Group conduct disputes against third parties, the most significant part of which is RSD 45,858,901 thousand (for 13,486 items of the highest individual value). The Group's management expects positive outcomes in most of the disputes.

36.5 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina are in the process of continuous revision and modification. In different circumstances, tax authorities may have different approaches to certain issues and may determine additional tax liabilities together with subsequent default interest and penalties. The Group's management believes that tax liabilities recorded in the financial statements are correctly stated.

During 2019, in the Parent bank tax control of the calculation and payment of corporate income tax for 2017 was carried out as part of the reported tax deduction. Upon inspection, no irregularities were identified.

During 2019, Komercijalna banka a.d. Banja Luka, Komercijalna banka a.d. Podgorica and Kombank INVEST a.d. Beograd did not have tax controls.

37. RELATED PARTY DISCLOSURES

The biggest participation in shares of the Homebank has the Republic of Serbia, which owns 83.23% of ordinary shares of the bank. The parent bank has three subsidiaries companies: Komercijalna Banka a.d. Podgorica, Komercijalna banka a.d. Banja Luka and KomBank INVEST a.d. Beograd.

Legal entities and individuals are regarded as related parties if one person has control, joint control or significant influence on the adoption of financial and business decisions of another legal entity. Related parties are also those persons who are under joint control of the same parent legal entity.

Within the Group's regular business operations, a number of banking transactions with related parties are performed. These include loans, deposits, investments in equity securities and derivative instruments, payment transactions and other banking transactions.

Consolidated transactions with dependent entities are shown in Note 6.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

37. RELATED PARTY DISCLOSURES (continued)

37.1 Loans and receivables from related parties

In thousand RSD

	2019			2018		
Placement	**On-balance**	**Off-Balance**	**Total**	**On-balance**	**Off-balance**	**Total**
Bolero ZR	-	-	-	1	-	1
Beomox	23,483	1,220	24,703	-	-	-
PMC Injzeneringr	1	-	1	1	-	1
Privite individuals	189,581	18,017	207,598	173,920	15,859	189,779
Total	**213,065**	**19,237**	**232,302**	**173,922**	**15,859**	**189,781**
Liabilities	**Deposits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**Total**
PMC injzenering	89	-	89	207	-	207
Beomox	7,950	-	7,950			
Arhitektonski biro STUDIO 3	100	-	100	1	-	1
JP Jugopromet	4,964	-	4,964	29	-	29
Anfibija d.o.o Cacak	-	-	-	239	-	239
EBRD (note 31)	-	-	-	-	710,563	710,563
International Finance Corporation	-	-	-	9	-	9
Reprezent d.o.o	12	-	12	12	-	12
Bolero ZR	19	-	19	11	-	11
Euros osiguranje Banja Luka	51,528	-	51,528	-	-	-
Deposit Insurance Agency	42,996	-	42,996	-	-	-
The envious Association of Serbs of the Uskopljska Valley of Bugojno-Donji Vakuf	7	-	7	-	-	-
Privite individuals	252,632	-	252,632	179,554	-	179,554
Total	**360,297**	**-**	**360,297**	**180,062**	**710,563**	**890,625**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

37. RELATED PARTY DISCLOSURES (continued)

37.2 Income and expenses from related parties

	2019		
	Interests	Fees	Total
Income			
PMC Inzenjering	-	35	35
Arhitektonski biro studio 3	-	11	11
Beomox	482	318	800
JP Jugoimport	-	4,847	4,847
Bolero ZR	-	18	18
Euros osiguranje Banja Luka	-	7	7
Deposit insurance agency	-	13	13
The Native Association of Serbs of Uskopljanska Valley Bugojno-Donji Vakuf	-	6	6
Private individuals	8,227	1,043	9,270
Total Income	**8,709**	**6,298**	**15,007**
Expenses			
Beomox	(4)	(1)	(5)
JP Jugoimport	(4)	-	(4)
Euros osiguranje Banja Luka	(700)	-	(700)
Deposit insurance agency	(212)	-	(212)
Private individuals	(1,107)	(15)	(1,122)
Total Expenses	**(2,027)**	**(16)**	**(2,043)**
Net Income	**6,682**	**6,282**	**12,964**

	2018		
	Interests	Fees	Total
Income			
PMC Inzenjering	-	12	12
Anfibija d.o.o Cacak	-	7	7
Arhitektonski biro studio 3	-	12	12
Bolero ZR	-	18	18
Private individuals	8,452	1,134	9,586
Total Income	**8,452**	**1,183**	**9,635**
Expenses			
EBRD	(40,813)	-	(40,813)
Private individuals	(1,427)	(736)	(2,163)
Total Expenses	**(42,240)**	**(736)**	**(42,976)**
Net Income / Expenses	**(33,788)**	**447**	**(33,341)**

37. RELATED PARTY DISCLOSURES (continued)

37.3 Gross and net remunerations

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

In thousands RSD

	December 31, 2019	December 31, 2018
Gross remunerations		
Executive Board	129,270	125,437
Net remunerations		
Executive Board	94,490	91,459
Gross remunerations		
Board of Directors and Audit Committee	34,467	44,490
Net remunerations		
Board of Directors and Audit Committee	21,967	27,856

38. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Unreconciled Outstanding Item Statements

Based on the analysis of the regular Annual Count conducted on December 31, 2019, the Parent Bank has non-compliant statements of open items for 10 clients with the stated reason for the dispute.

Non-compliant statements for 3 clients relate to clients who challenge the amount of receivables for given advances, receivables based on issued invoices, receivables on the basis of a rent in the total amount of RSD 27 thousand (on which basis thirteen receivables were returned with unverified statements amounting to 6,431 thousand dinars).

For one client, unreconciled amounts relate to off-balance sheet items of irrevocable liabilities for guarantees with the elaboration that the guarantee expired. The subject of dispute is customs guarantee which expires in the period of 180 days. The guarantee is issued at 100,000 thousand dinars.
Four clients disputed the amounts: receivables from domestic and foreign payment fees, unreported amount from bankruptcy for clearing checks, fees for the activities of the issuing agent in RSD in the total amount of RSD 117 thousand.
In two cases, clients were partially in dispute over amounts that refer to overpayments from January in the amount of 1,154 thousand dinars.
The amount of impairment allowance for receivables that are disputed (and the amount of provisions for balance sheet items) is determined by the Parent Bank's credit risk policy.

The Parent Bank is in a continuous process of harmonization of the disputed items.

KomBank INVEST AD, Belgrade has no mismatch of open items.

Komercijalna banka ad Banja Luka has six non-compliant statements of open items in the amount of RSD 45 thousand.

Komercijalna banka ad Podgorica has one non-compliant statements of open items in the amount of RSD 5 thousand.

39. EVENTS AFTER THE REPORTING PERIOD

Based on the decision of the Bank's Board of Directors, a call was made to hold a regular session of the Parent Bank's Shareholder Assembly on March 9, 2020, with a proposal for a Decision on approval of the Parent Bank's strategy and business plan for the period 2020 - 2022.

On February 26, 2020 the Ministry of Finance of the Republic of Serbia announced that the representatives of Nova Ljubljanska banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia, have signed Share Purchase Agreement for 83.23% of ordinary shares of Komercijalna banka AD Beograd.

By signing this agreement, the Parent Bank has acquired a new strategic partner, who will take over the management of the members of the Group upon completion of the transaction.

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

40. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in dinars on December 31, 2019 and 2018 for certain major currencies are:

	NBS official exchange rate		NBS average exchange rate	
	2019	2018	2019	2018
USD	104.9186	103.3893	-	-
EUR	117.5928	118.1946	117.8593	118.2752
CHF	108.4004	104.9779	-	-
BAM	60.1242	60.4319	60.2605	60.4731

In Belgrade, March 16, 2020

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

Miroslav Perić, PhD
Member of the Executive Board

Vladimir Medan, PhD
Chief Executive Officer

KOMERCIJALNA BANKA AD BEOGRAD

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
AND INDEPENDENT AUDITORS' REPORT

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Komercijalna banka a.d. Beograd (the Group), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

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

Key audit matters

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

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

Building a better working world

Adequacy of the loan loss provisions

This is a key audit matter as significant judgement is involved to determine the loan loss provisions. The use of different modelling techniques and assumptions could produce significantly different estimates of impairment of loans to customers. The carrying amount of loans to customers amounts to RSD 208,234,158 thousand (or 44% of total assets) as at 31 December 2019.

Key areas of judgement include the interpretation of requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model, the identification of exposures with a significant increase in credit risk, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. National Bank of Serbia key policy rate, BELIBOR rate, inflation rate) as disclosed in Note 4.1 Risk management - Credit risk, and evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment.

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

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

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

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

We assessed the modelling techniques and methodology against the requirements of IFRS 9 Financial Instruments. Additionally, we assessed the appropriateness of significant assumptions used in models for calculating the loan loss provision.

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

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

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

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

Building a better working world

Responsibilities of management and Audit Committee for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Group. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual consolidated financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual consolidated financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the consolidated financial statements of the Group for the year ended 31 December 2019.

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

Belgrade, 16 March 2020

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

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

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2019
(Thousands of RSD)

	Note	2019	2018
Interest income	3c; 8	15,098,191	15,092,523
Interest expenses	3c; 3h; 8	(1,327,673)	(1,145,879)
Net interest gains		13,770,518	13,946,644
Income from fees and commissions	3d; 9	7,662,254	7,653,028
Expensés on fees and commissions	3d; 9	(1,935,130)	(2,112,581)
Net gains from fees and commissions		5,727,124	5,540,447
Net gains from changes in fair value of financial instruments	3e; 10	75,058	48,572
Net gains from derecognition of the financial instruments measured at fair value	3f; 11	353,502	247,084
Net exchange rate gains / (losses) and gains / (losses) from agreed currency clause	3b;12	44,240	(1,532)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	3j;13	1,587,676	51,681
Net gains / (losses) from derecognition of the financial instruments measured at amortised cost	14	(579,933)	526,547
Other operating income	3g; 15	166,546	174,795
TOTAL NET OPERATING INCOME		21,144,731	20,534,238
Salaries, salary compensations and other personal expenses	3p; 16	(5,537,942)	(5,043,937)
Depreciation costs	3l; 3h; 17	(1,193,480)	(629,754)
Other income	18	810,907	375,392
Other expenses	19	(7,497,888)	(6,854,773)
PROFIT BEFORE TAX		7,726,328	8,381,166
Profit tax	3i; 20	(14,088)	(18,376)
Gains from deferred taxes	3i; 20	1,488,290	702,775
Losses on deferred taxes	3i; 20	(800,665)	(685,231)
PROFIT AFTER TAX		8,399,865	8,380,334
RESULT FOR PERIOD - PROFIT		8,399,865	8,380,334
Profit belonging to a parent entity		8,399,863	8,380,332
Profit belonging to non-controlling owners		2	2
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	3u; 35.2	532	484
Diluted earnings per share (in dinars, without paras)	3u; 35.2	532	484

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

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.

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

Miroslav Perić, PhD
Member of the Executive Board

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Vladimir Medan, PhD
Chief Executive Officer

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2019
(Thousands of RSD)

	Note	2019	2018
PROFIT FOR THE PERIOD		8,399,865	8,380,334
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss:			
Increase in revaluation reserves based on intangible assets and fixed assets	20	111,214	-
Actuarial gains	33;35	9	53,844
Actuarial losses	33;35	(12,780)	(248)
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	20	651,534	230,026
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	35	2,460,710	17,976
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	35	-	(218,660)
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	35	(28,698)	(10,582)
Tax gains relating to other comprehensive income for the period	35	1,908	34,091
Tax losses relating to other comprehensive income for the period	35	(471,992)	(55,421)
Total positive other comprehensive income		2,711,905	51,026
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		11,111,770	8,431,360
Total positive comprehensive income for the period attributable to the parent entity		11,111,765	8,431,358
Total positive comprehensive income for the period attributable to non-controlling owners		5	2

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

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.

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

Miroslav Perić, PhD
Member of the Executive Board

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Vladimir Medan, PhD
Chief Executive Officer

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CONSOLIDATED BALANCE SHEET
As of December 31, 2019
(Thousands of RSD)

	Note	31.12.2019	31.12.2018
ASSETS			
Cash and assets held with the central bank	3к; 21	76,654,402	73,992,039
Receivables under derivatives	3j; 22	-	4,070
Securities	3j; 23	144,479,431	137,514,720
Loans and receivables from banks and other financial organisations	3j; 24	26,990,004	21,037,537
Loans and receivables from clients	3j; 25	208,234,158	191,448,642
Intangible investments	3lj; 26	754,500	627,468
Property, plant and equipment	3l; 27	7,254,391	6,047,384
Investment property	3m; 28	2,202,616	2,259,815
Current tax assets	20	6,786	1,650
Deferred tax assets	20	1,076,255	840,967
Non-current assets held for sale and discontinued operations	29	500,740	659,003
Other assets	3j; 30	7,602,611	7,153,664
TOTAL ASSETS		475,755,894	441,586,959
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	3o; 31	8,318,606	8,228,284
Deposits and other financial liabilities to clients	3o; 32	370,987,710	350,668,156
Provisions	3p; 33	2,483,410	1,808,853
Current tax liabilities	20	2,673	11,044
Deferred tax liabilities	20	32,349	14,677
Other liabilities	3h;34	14,559,570	9,333,894
TOTAL LIABILITIES		396,384,318	370,064,908
EQUITY			
Share capital	3t; 35	40,034,550	40,034,550
Profit	35.1	9,981,896	9,277,755
Loss	35.1	(1,370,332)	(1,481,701)
Reserves	3t;35.1	30,725,392	23,691,381
Non-controlling participation	3t;35	70	66
TOTAL EQUITY		79,371,576	71,522,051
TOTAL LIABILITIES AND EQUITY		475,755,894	441,586,959

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

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.

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

Miroslav Perić, PhD
Member of the Executive Board

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Vladimir Medan, PhD
Chief Executive Officer

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2019 to December 31, 2019
(Thousands of RSD)

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Revaluation reserves (debit balance)	Profit	Loss	Non-controlling interest	Total
Opening balance as at 1 January 2018	17,191,466	22,843,084	14,439,523	6,043,758	(109,194)	8,357,092	(1,665,678)	65	67,100,116
Effects of the first implementation of new IFRS - increase	-	-	-	222,611	-	-	(46,350)	-	176,261
Effects of the first implementation of new IFRS – decrease	-	-	(100,823)	(105,324)	108,862	(1,155,433)	-	-	(1,252,718)
The adjusted opening balance as at 1 January 2018	17,191,466	22,843,084	14,338,700	6,161,045	(332)	7,201,659	(1,712,028)	65	66,023,659
Total positive other comprehensive income for the period	-	-	-	26,749	75	-	-	-	26,824
Profit for the current year	-	-	-	-	-	8,380,332	-	2	8,380,334
Distribution of profit – increase	-	-	3,166,101	-	-	-	-	-	3,166,101
Distribution of profit and/or coverage of losses – decrease	-	-	-	-	-	(3,392,409)	226,308	-	(3,166,101)
Dividend payments	-	-	-	-	-	(2,535,916)	-		(2,535,916)
Other – increase	-	-	-	-	-	23,509	-		23,509
Other – decrease	-	-	(957)	-	-	(399,420)	4,019	(1)	(396,359)
Total transactions with owners	-	-	3,165,144	-	-	(6,304,236)	230,327	(1)	(2,908,766)
Balance as at 31 December 2018	17,191,466	22,843,084	17,503,844	6,187,794	(257)	9,277,755	(1,481,701)	66	71,522,051

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2019 to December 31, 2019

(Thousands of RSD)

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

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

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.

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

Miroslav Perić, PhD
Member of the Executive Board

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Vladimir Medan, PhD
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2019 to December 31, 2019
(Thousands of RSD)

	2019	2018
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	24,794,516	24,165,499
Interest	15,747,810	15,259,607
Fees	7,710,913	7,658,142
Other operating income	1,324,658	1,239,225
Dividends and profit sharing	11,135	8,525
Cash outflow from operating activities	(14,457,466)	(14,498,061)
Interest	(1,195,178)	(1,149,108)
Fees	(1,868,018)	(2,082,570)
Gross salaries, salary compensations and other personal expenses	(4,978,046)	(4,950,310)
Taxes, contributions and other duties charged to income	(1,007,715)	(950,252)
Other operating expenses	(5,408,509)	(5,365,821)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	10,337,050	9,667,438
Decrease in financial assets and increase in financial liabilities	21,850,450	38,820,086
Decrease in receivables under securities and other financial assets not intended for investment	-	918,426
Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	21,850,450	37,901,660
Increase in financial assets and decrease in financial liabilities	(31,609,298)	(12,279,151)
Increase in loans and receivables from banks, other financial organisations, central bank and clients	(26,312,607)	(12,279,151)
Increase in receivables under securities and other financial assets not intended for investment	(5,296,691)	-
Net cash inflow from operating activities before profit tax	578,202	36,208,373
Profit tax paid	(27,433)	(5,126)
Net cash inflow from operating activities	550,769	36,203,247

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2019 to December 31, 2019
(Thousands of RSD)

	2019	2018
B. CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	50,268,438	42,486,574
Investment in investment securities	50,266,390	42,419,693
Sale of intangible investments, property, plant and equipment	2,048	3,447
Sale of investment property	-	63,434
Cash outflow from investing activities	(49,745,542)	(59,249,571)
Investment into investment securities	(49,163,453)	(58,607,653)
Purchase of intangible investments, property, plant and equipment	(582,089)	(611,512)
Purchase of investment property	-	(27,098)
Other outflow from investing activities	-	(3,308)
Net cash inflow / (outflow) from investing activities	522,896	(16,762,997)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	97,161,351	87,230,198
Loans taken	97,161,351	87,230,198
Cash outflow from financing activities	(98,353,909)	(91,165,062)
Loans taken	(97,870,436)	(91,165,062)
Other outflow from financing activities	(483,473)	-
Net cash outflow from financing activities	(1,192,558)	(3,934,864)
TOTAL CASH INFLOW	194,074,755	192,702,357
TOTAL CASH OUTFLOW	(194,193,648)	(177,196,971)
NET INCREASE / (DECREASE) IN CASH	(118,893)	15,505,386
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	44,530,135	28,957,649
EXCHANGE RATE GAINS	1,386,966	777,270
EXCHANGE RATE LOSSES	(1,278,588)	(710,170)
CASH AND CASH EQUIVALENTS AT END-PERIOD	44,519,620	44,530,135

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

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.

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

Miroslav Perić, PhD
Member of the Executive Board

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Vladimir Medan, PhD
Chief Executive Officer

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

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

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

Republic of Serbia	83.23%

The Parent Bank has three dependent legal entities with ownership:

- 100% - Komercijalna banka ad, Podgorica, Montenegro
- 100% - Investment Management Company KomBank INVEST ad, Belgrade, Serbia
- 99.998% - Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina.

The minority owner in Komercijalna banka ad, Banja Luka, with 0.002% is the Agency for Export, Insurance and Financing of the Republic of Serbia.

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

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

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

Investment Management Company KomBank INVEST ad, Belgrade was established in December 2007 and registered on February 5, 2008. The Company's registration number is 20379758.

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

On December 31, 2019, the Group consists of: the head office and the headquarters of the Home Bank in Belgrade, at St. Sava Street no. 14; the headquarters of Komercijalna banka ad, Podgorica in Podgorica – Cetinjska 11, Business Centre Capital Plaza; headquarters of Komercijalna banka ad, Banja Luka in Banja Luka - Jevrejska street no. 69; the head office of the Investment Management Company KomBank INVEST AD, Belgrade, Belgrade, Kralja Petra br.19; 6 business centres, 3 sectors that work with small and medium enterprises 20 branches and 213 sub-branches in the territory of Serbia, Montenegro and Bosnia and Herzegovina (2018:6 business centres, 19 branches and 211 sub-branches).

As at December 31, 2019 the Group had 3,056 employees, and on December 31, 2018 had 3,076 employees.

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

2.1. Basis for preparation and presentation of consolidated financial statements

The Group's consolidated financial statements for 2019 were compiled in accordance with International Financial Reporting Standards (IFRS).

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

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

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

During 2019, the Group members kept their accounts and compiled individual financial statements in accordance with local legal regulations, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as regulations of competent central banks and regulatory body. The individual financial statements have been audited by external auditors, in accordance with local regulations.

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

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

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

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

2.2. Changes and additions to IFRSs whose implementation will be mandatory the following year

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2019:

- IFRS 16: Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Please refer to Note 3.h for the effects of the adoption of the Standard and detailed disclosures.

- IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

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

2.2. Changes and additions to IFRSs whose implementation will be mandatory the following year (continued)

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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

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

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

- Conceptual Framework in IFRS standards

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

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

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

- IFRS 3: Business Combinations (Amendments)

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

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

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

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

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

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

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

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

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

3. OVERVIEW OF BASIC ACCOUNTING POLICIES

In the preparation and presentation of the financial statements for the period January-December 2018, the implementation of IFRS 9 amended the NBS regulatory framework, according to which the banks were obliged to apply new forms of financial statements with validity starting from January 1, 2018.

(a) Consolidation

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

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

In order to prepare Consolidated Income Statement and the Consolidated Cash Flow Statement reclassified forms of subsidiaries' standalone Income Statement and Cash Flow Statement were recalculated using the average exchange rate in the Republic of Serbia for 2019 of 117.8593 for one EUR and 60.2605 for one BAM. For other financial statements (balance sheet, other comprehensive income and statement of changes in equity) recalculation was done using the closing exchange rate on the balance sheet date of 117.5928 for one EUR or 60.1242 for one BAM.

(b) Conversion of foreign exchange amounts

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

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

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

In RSD

	2019	2018
USD	104.9186	103.3893
EUR	117.5928	118.1946
CHF	108.4004	104.9779
BAM	60.1242	60.4319

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

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

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

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

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

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

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

(d) Fees and commissions

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

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

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

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

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(g) Dividends

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

(h) Leasing

Accounting policy applied after 1 January 2019

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

Group as leasee

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

(i) Right of use assets

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

Right of use assets is amortized on a pro rata basis over a period shorter than the lease term or the estimated useful life of the asset.

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

(ii) Leasing liabilities

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

(ii) Leasing liabilities (continued)

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

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

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

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

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

Group as a leasor

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

Accounting policy applied before 1 January 2019

Leasing is classified as financial when all the benefits and risks arising from the ownership of the leased asset are transferred to the Group. Leasing is classified as operating when the benefits and risks arising from the ownership of the leased asset are not transferred to the Group. The Group does not invest in financial or operating leasing, i.e. it appears solely as a beneficiary of a financial or operating lease.

(i) Leasing liabilities

All operating lease payments during the year are recorded as an expense in the income statement on a straight-line basis over the lease term. Approved leasing incentives are recognized within the total cost of the lease over the lease term.

Minimum lease rates for financial leases are apportioned between the finance charge and the reduction in the remaining amount of the finance lease liability. Financial expenses are deferred to all periods during the lease term, so that they give a uniform periodic interest rate on the remaining amount of the lease liability.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

(ii) Assets leased

The assets used by the Group on a lease basis for which all benefits and risks arising from the ownership of the leased asset are transferred to the Group are disclosed in the Group's balance sheet. Financial leasing assets are initially measured at a value equal to the fair value of the leased asset, or at the present value of the minimum lease payments, if this is lower. Subsequent measurement of financial leasing assets is carried out according to the accounting policy applicable to the specific asset.

Leases of space used for branches and branches are primarily recorded as operating leases. Total operating lease payments are recognized in the income statement on a straight-line basis over the life of the lease. Assets used by the Group under operating leases are classified as operating leases and are not recognized in the Group's balance sheet.

(i) Tax expense

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

(i) Current Profit tax

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

(ii) Deferred taxes

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

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

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

(iii) Other taxes and contributions

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

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

Financial assets

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

Financial liability

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

Principles of valuation of financial instruments

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

Financial assets

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

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

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

Financial assets can be classified into the following categories:

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

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

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Group does not intend to sell in the short term
- Securities that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- Securities, which include debt securities and equity securities (capital instruments):
    - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.
    - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
    - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and
- Financial derivatives that include forward and swap transactions.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Classification and measurement

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

According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). The Standard eliminates existing categories under IAS 39, "Recognition and Measurement", held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Equity instruments in subsidiaries that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

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

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

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

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

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

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Classification and measurement (continued)

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

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

The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other comprehensive income.

Taking into account the nature of the Group's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Group does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

Impairment of financial assets

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Impairment of financial assets (continued)

Stage 1

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

Stage 2

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

Stage 3

As in accordance with IAS 39, financial instruments are included in stage 3, where there is objective evidence of impairment. There is no change in the treatment of loans classified in that stage, apart from the fact that multiple collection scenarios were introduced. The impairment calculation on an individual basis will continue on the same principle.

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

(iii) Derecognition

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

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

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

(iiii) Netting

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with a maturity shorter than 3 months, low risk of change in value, used by the members of the Short-Term Liquidity Management Group.

Cash is measured at amortized cost in the balance sheet.

(l) Property and equipment

(I) Recognition and measurement

Initial measurement of property and equipment is done at cost or at purchase price.

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

After initial recognition, the equipment is measured at cost less accumulated amortization and total accumulated losses due to the decrease in value.

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

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

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

(ii) Subsequent measurement

The cost of replacing an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Group member and if the cost of the cost of that part can be reliably measured. The carrying amount of the replacement part is written off. The cost of regular servicing of property and equipment is recognized in the income statement when it arises.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) Property and equipment (continued)

(iii) Depreciation

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

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

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70%-50.00%
Investments in other fixed assets	1 – 23.5	4.25%-86.20%
Leased fixed assets	1.1-14.6	6.90-92.31%

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

Maintenance costs are recognized in the income statement for the period in which they are incurred.

(lj) Intangible assets

Intangible assets are valued at cost or purchase price less depreciation and impairment losses.

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

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

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

(m) Investment property

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

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

For the subsequent evaluation of investment property, the Group members use the cost model, ie investment property is measured at cost less accumulated amortization and impairment losses.

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(n) Impairment of non-financial assets

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

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

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

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

(o) Deposits, loans and subordinated liabilities

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

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

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

(p) Provisions

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

(r) Benefits to employees

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

In accordance with the Labour Law, members of the Group are obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at 31 December 2019, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in note 33.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(s) Financial guarantees

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

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

(t) Capital and reserves

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

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

(u) Earnings per share

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

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

(v) Segment reporting

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

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

When determining the operational segments, the following were used:

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

3.1. Changes of accounting policies for leases

IFRS 16 – Leasing is implemented and put into effect for the reporting periods on or after the January, 1 2019. IFRS 16 is superseding IAS 17 – Leasing, IFRIC 4 Determination of whether a contract contains a leasing element, SIC-15 Operational leasing – incentives and SIC-27 Assessment of substance of transactions which include a legal form of leasing. The Standard establishes principles for the recognition, measurement, presentation and disclosure of leasing and requirements of lessees so that the majority are recognized in the Income Statement.

The Group adopted IFRS 16 by applying a modified retrospective approach on the day of the initial application January 1, 2019, so that the cumulative effects of the application of the standard are recognized on the day of the initial application.

The Standard allows two exceptions when recognizing leases – leases of low-value assets and short-term leases (i.e. leases that have a term which is less than 12 months). The Group decided on using these two standard allowed exceptions.

From January 1, 2019, the Group recognizes rights of use as leasing assets and liabilities for leasing contracts which satisfy all of the standard’s terms and conditions, except for leases of low-value assets and short-term leases. Rights of use are recognized as the amount equal to the leasing liability adjusted for any advance or calculated lease payments that refer to those contracts that were recognized. Leasing liabilities are recognized by the level of the present value of the outstanding leasing payments, discounted for the incremental borrowing rate on the day of the initial application.

Comparative data on December 31, 2018 do not reflect these policy changes.

4. RISK MANAGEMENT

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

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment.

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

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

In view of the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Group was during the 2019 performed adequate changes in the internal acts regulating risk management.

Risk Management System

The risk management system is defined by the following acts:

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

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The risk management strategy defines:

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

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

The Banking Group has identified the basic principles of risk management in order to fulfil its long-term goals:

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

The principles of managing bad assets and 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;
• Transparent reporting.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

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

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

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

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

Jurisdictions

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

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

4. RISK MANAGEMENT (continued)

Jurisdiction (continued)

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

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

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

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

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

The Internal audit function is responsible for continuously conducting an independent evaluation of the risk management system at the Group level, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit on its findings and recommendations is reported by the Audit Committee and the Steering Committee.

The Compliance function is obliged to identify and assess at least annually the risks of compliance of the operations of the parent Bank, as well as the Group member, and propose risk management plans, on which it draws up a report that is submitted to the Executive Board and the Board for monitoring the operations of the parent Bank.

Risk management process

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

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

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

4. RISK MANAGEMENT (continued)

Risk management process (continued)

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

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

Types of risk

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

4.1. Credit risk

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

The basic principles of credit risk management are:

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

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

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

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

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

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

The basic techniques of credit risk mitigation are:

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

IFRS 9 Financial instruments

Starting from January 1, 2019, The Group applies IFRS 9 that replaced the IAS 39. In accordance with IFRS 9, the financial assets can be classified and measured as:

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

The Group's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Group has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured 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 Group calculates impairment for credit placements given to the countries and Central Banks of the Group's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

Identification of problematic and restructured receivables

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

In accordance with the application of IFRS 9, starting from January 1, 2019, The Group 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 fulfilment 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 unproblematic clients are classified as potentially risky clients, that is, to stage 2 of impairment, while restructured problematic are classified as problematic clients, and are categorized into stage 3 impairment.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Risk of asset quality change - asset delinquency

The quality of the Group's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 17 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of loans.

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual and Group Assessment at Stage 3

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

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

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

Individual assessment

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

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

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

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

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9, which is applicable from January 1, 2018. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment

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

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

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

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

- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Group calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

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

All financial instruments in which significant increase in credit risk has been 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 Group considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like).

In 2019. The Group has improved the Methodology of impairment assessment in the part of additional criteria for inclusion of clients in Level 2, where the quantitative criterion for the deterioration of credit risk from the moment of loan approval to the impairment date is included.

The Group 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

PD represents an estimation of the probability of default in a given period of time. Failure to fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Group is still exposed. Based on historical data, the group calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Group includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

In 2019 the Group has improved the way of inclusion of forward looking components in the calculation Angel of the PD (Beta factor that adjusts the expected movement of default rates envisioned in the developed econometric model taking into account the implemented PD rates at the bank level), by including the Beta factor in the value of all three scenarios of the movement of macroeconomic variables (optimistic, realistic and pessimistic), after which the annulment is performed with the probability of the anticipated realization of the above scenarios, in order to obtain the final Beta Factor that contains all three scenarios (optimistic, realistic, pessimistic).

To calculate impairment for Stage 1, the Group uses one-year PDs for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Group uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, i.e. the probability of default for the entire life of the financial instrument.

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 Group, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Group applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Group takes into account all internally available collaterals where there is an estimate of the probability of collectability.

The final step in calculating the impairment is the discount factor - DF for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Group. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).
For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Group uses a different method of calculating impairment. The Group does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure of financial instruments of the state, its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Determining the probable loss on off-balance sheet items

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

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

Means of protection against credit risk (collateral)

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

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

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

In thousands of RSD

	31.12.2019		31.12.2018	
	Gross	Net	Gross	Net
I. Assets	501,197,864	475,755,894	468,202,521	441,586,959
Cash and balances with the central bank	76,654,402	76,654,402	73,992,038	73,992,039
Loans and advances to banks and other financial institutions	27,209,396	26,990,004	21,265,408	21,037,537
Loans and receivables from customers	221,020,005	208,234,158	206,358,685	191,448,642
Financial assets (securities and derivatives)	144,480,034	144,479,432	137,520,384	137,518,790
Other assets	10,376,428	7,602,610	9,892,999	7,153,663
Assets	21,457,599	11,795,288	19,173,007	10,436,287
II. Off-balance sheet items	55,934,191	55,723,796	45,669,661	45,360,450
Payable guarantees	4,983,412	4,943,117	3,899,996	3,807,747
Performance guarantees	5,754,471	5,702,687	3,628,533	3,580,265
Irrevocable liabilities	44,634,858	44,540,969	37,774,785	37,632,128
Other	561,450	537,023	366,347	340,310
Total (I+II)	557,132,055	531,479,690	513,872,182	486,947,408

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by level of risk during 2019

	Stage 1	Stage 2	Stage 3	Total
31.12.2018	180,935,918	4,994,088	20,428,679	206,358,685
New receivables	40,092,219	1,102,129	89,142	41,283,490
Decrease/collection of receivables	(22,258,413)	(1,485,728)	(2,956,694)	(26,700,835)
Transfer to stage 1	399,634	(959,698)	(305,910)	(865,974)
Trasnfer to stage 2	(6,968,196)	390,709	(198,855)	(6,776,342)
Transfer to stage 3	(555,124)	(233,940)	136,734	(652,330)
Transfer from other stages	1,204,700	6,845,775	786,638	8,837,113
Other changes	2,932,113	(2,214,472)	(1,181,443)	(463,802)
31.12.2019	195,782,851	8,438,863	16,798,291	221,020,005

Changes in impairment allowance of loans and receivables to customers by level of risk during 2019

	Stage 1	Stage 2	Stage 3	Total
31.12.2018	1,245,099	305,423	13,359,522	14,910,044
New receivables	338,166	29,030	105,952	473,148
Decrease/collection of receivables	(277,787)	(65,597)	(1,679,445)	(2,022,829)
Transfer to stage 1	28,495	(23,328)	(137,088)	(131,921)
Transfer to stage 2	(92,657)	4,479	(67,482)	(155,660)
Transfer to stage 3	(4,501)	(5,939)	23,672	13,232
Transfer from other stages	160,299	155,545	20,846	336,690
Other changes	(315,865)	(254,154)	(66,838)	(636,857)
31.12.2019	1,081,249	145,459	11,559,139	12,785,847

During 2019, transitions of exposures by Stages are consequence of regular business transactions:

- transition to Stage 1 from Stage 2 and 3 is a consequence of the improvement of business parameters according to the financial statements for 2018, or due to the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1 is a consequence of the modification made to the segment of Methodology that refers to the criteria for transfers to Stage 2, as well as an increase in credit risk in a certain number of clients;
- Transition to Stage 3 from Stage 1 and 2 is a consequence of an increase in credit risk (account blockage longer than 60 days, and an increase in over 90 days in most cases). During the year, Stage 1 receivables were at Stage 2 before they went to Stage 3. Reduction of Stage 3 receivables is due to the regulation of risk claims (collection from collateral and regular business operations of clients).
- The decrease of impairment allowance in other changes is mostly due to the improvement of risk parameters that are used for the impairment of PL (good) placements and were placed in the Bank's portfolio on the December 31, 2018 and December 31, 2019.
- Other changes are mainly related to increase / decrease of exposure with clients who did not change stages on both dates. Additionally, other changes include the calculation of interest, exchange rate differences and more.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

31.12.2019	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	44,781,851	1,088,516	1,135,502	47,005,869	60,507	19,892	533,451	613,850	46,392,019
Cash Loans	37,099,788	519,553	309,188	37,928,529	185,900	23,444	234,389	443,733	37,484,796
Agricultural Loans	9,359,411	131,203	276,017	9,766,631	103,736	12,524	127,686	243,946	9,522,685
Other Loans	4,917,081	55,704	166,639	5,139,424	40,117	2,258	159,509	201,884	4,937,540
Micro Business	11,129,442	1,340,718	857,497	13,327,657	163,001	32,559	427,704	623,264	12,704,393
Total retail	107,287,573	3,135,694	2,744,843	113,168,110	553,261	90,677	1,482,739	2,126,677	111,041,433
Large corporate clients	33,820,703	4,177,912	6,273,603	44,272,218	135,538	43,053	3,714,018	3,892,609	40,379,609
Middle corporate clients	10,930,280	383,397	1,804,172	13,117,849	63,502	3,614	1,377,025	1,444,141	11,673,708
Small corporate clients	5,682,357	327,676	1,538,864	7,548,897	34,708	2,628	923,232	960,568	6,588,329
State owned clients	24,493,519	413,490	170,672	25,077,681	141,136	5,464	132,088	278,688	24,798,993
Other	13,568,419	694	4,266,137	17,835,250	153,106	21	3,930,037	4,083,164	13,752,086
Total corporate	88,495,278	5,303,169	14,053,448	107,851,895	527,990	54,780	10,076,400	10,659,170	97,192,725
Total	195,782,851	8,438,863	16,798,291	221,020,005	1,081,251	145,457	11,559,139	12,785,847	208,234,158
Due from banks	26,994,979	-	214,417	27,209,396	4,975	-	214,417	219,392	26,990,004

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage2	Impairment allowance Stage 3	Impairment allowance	Net
Housing loans	41,169,671	1,128,707	1,649,460	43,947,838	37,690	21,066	766,147	824,902	43,122,935
Cash loans	32,134,316	403,332	282,914	32,820,561	123,542	17,172	192,578	333,293	32,487,269
Agriculture Loans	8,403,020	102,421	265,238	8,770,680	61,768	4,247	140,095	206,111	8,564,569
Other Loans	5,467,471	128,473	195,775	5,791,720	36,706	2,655	175,980	215,341	5,576,379
Micro bussines	10,966,226	410,455	945,043	12,321,724	155,377	9,868	451,632	616,877	11,704,847
Total retail	98,140,704	2,173,388	3,338,430	103,652,523	415,084	55,008	1,726,433	2,196,524	101,455,999
Large corporate clients	36,875,197	2,076,200	11,595,741	50,547,139	331,352	237,377	7,901,653	8,470,382	42,076,757
Middle corporate clients	10,275,020	323,692	1,990,077	12,588,790	128,244	5,554	1,322,112	1,455,910	11,132,879
Small corporate clients	5,530,375	288,722	1,595,043	7,414,139	66,100	2,614	864,980	933,694	6,480,445
State owned clients	14,973,115	132,086	503,850	15,609,052	109,603	4,870	139,219	253,692	15,355,359
Other	15,141,506	-	1,405,537	16,547,043	194,716	-	1,405,126	1,599,842	14,947,202
Total clients	82,795,214	2,820,700	17,090,248	102,706,163	830,015	250,415	11,633,089	12,713,520	89,992,643
Total	180,935,918	4,994,088	20,428,679	206,358,685	1,245,099	305,423	13,359,522	14,910,044	191,448,642
Due from banks	21,054,117	-	211,292	21,265,409	16,579	-	211,292	227,871	21,037,538

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in impairment allowance of receivables in the Balance Sheet

	31.12.2018	Incerase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2019
Total retail	2,196,524	1,706,047	(1,297,726)	(478,167)	2,126,678
Total corporate	12,713,520	3,880,424	(5,002,693)	(932,082)	10,659,169
Total	14,910,044	5,586,472	(6,300,419)	(1,410,249)	12,785,847
Due from banks	229,193	41,773	(53,644)	2,071	219,393

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Problematic loans and receivables – stage 3

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

Non-problematic loans and receivables – stages 1 and 2

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

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

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

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

	Stage 1						Stage 2					
31.12.2019	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	44,539,639	242,212	-	-	-	44,781,851	839,158	55,654	104,072	89,632	-	1,088,516
Cash Loans	34,974,192	2,125,597	-	-	-	37,099,789	191,808	112,915	165,138	49,692	-	519,553
Agricultural Loans	9,225,650	133,760	-	-	-	9,359,410	45,377	4,084	72,882	8,860	-	131,203
Other Loans	4,599,445	317,636	-	-	-	4,917,081	14,333	12,094	22,066	7,211	-	55,704
Micro Business	10,263,109	866,332	-	-	-	11,129,441	696,156	429,738	169,338	45,486	-	1,340,718
Total retail	103,602,035	3,685,537	-	-	-	107,287,572	1,786,832	614,485	533,496	200,881	-	3,135,694
Large corporate clients	33,417,623	403,080	-	-	-	33,820,703	3,753,401	424,512	0	-	-	4,177,913
Middle corporate clients	10,485,985	444,295	-	-	-	10,930,280	184,645	183,964	14,788	-	-	383,397
Small corporate clients	5,378,501	303,856	-	-	-	5,682,357	233,326	87,729	6,621	-	-	327,676
State owned clients	23,573,444	920,074	-	-	-	24,493,518	394,081	19,409	-	-	-	413,490
Other	13,562,545	5,875	-	-	-	13,568,420	694	-	-	-	-	694
Corporate clients	86,418,098	2,077,180	-	-	-	88,495,278	4,566,147	715,614	21,409	-	-	5,303,170
Total	190,020,133	5,762,717	-	-	-	195,782,850	6,352,979	1,330,099	554,905	200,881	-	8,438,864
Out of which: restrucured	-	-	-	-	-	-	2,177,675	543,510	33,405	10,330	-	2,764,920
Due from banks	24,789,971	2,205,008	-	-	-	26,994,979	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivables by days past due

In RSD thousands

31.12.2018	Stage 1						Stage 2					
	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	40,790,027	379,643	-	-	-	41,169,671	786,365	94,658	134,976	112,708	-	1,128,707
Cash Loans	29,749,339	2,384,977	-	-	-	32,134,316	97,540	83,776	170,356	51,659	-	403,332
Agricultural Loans	8,249,595	153,425	-	-	-	8,403,020	33,764	4,604	47,628	16,426	-	102,421
Other Loans	5,123,965	343,506	-	-	-	5,467,471	69,361	18,165	28,755	12,193	-	128,473
Micro business	9,865,744	1,100,482	-	-	-	10,966,226	235,535	101,374	61,516	12,030	-	410,455
Total retail	93,778,670	4,362,034	-	-	-	98,140,704	1,222,564	302,577	443,230	205,017	-	2,173,388
Large corporate clients	36,462,226	412,971	-	-	-	36,875,197	1,558,103	196,700	321,397	-	-	2,076,200
Middle corporate clients	9,951,646	323,374	-	-	-	10,275,020	187,209	93,527	42,955	-	-	323,692
Small corporate clients	5,342,188	188,187	-	-	-	5,530,375	227,567	61,146	9	-	-	288,722
State owned clients	14,964,539	8,576	-	-	-	14,973,115	100,167	31,754	165	-	-	132,086
Other	15,061,289	80,217	-	-	-	15,141,506	-	-	-	-	-	-
Corporate clients	81,781,889	1,013,325	-	-	-	82,795,214	2,073,046	383,128	364,527	-	-	2,820,700
Total	175,560,559	5,375,359	-	-	-	180,935,918	3,295,610	685,705	807,756	205,017	-	4,994,088
Out of which: restrucured	1,142,686	214,745	-	-	-	1,357,431	632,639	34,643	17,921	19,881	-	705,085
Due from banks	21,054,117	-	-	-	-	21,054,117	-	-	-	-	-	-

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due – stage 3

In RSD thousands

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

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

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due

	Stage 3					
31.12.2018	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	316,657	69,763	48,503	60,150	1,154,388	1,649,460
Cash Loans	63,363	29,025	15,718	32,189	142,618	282,914
Agricultural Loans	18,824	6,326	3,129	824	236,136	265,238
Other Loans	12,458	2,193	843	1,487	178,794	195,775
Micro business	97,967	33,701	5,536	27,535	780,304	945,043
Total retail	509,268	141,008	73,729	122,185	2,492,241	3,338,430
Large corporate clients	1,850,211	7,008	258,670	372,861	9,106,992	11,595,741
Middle corporate clients	74,482	-	-	-	1,915,595	1,990,077
Small corporate clients	39,097	326,954	13,413	-	1,215,579	1,595,043
State owned clients	324,552	8,458	-	-	170,839	503,850
Other	1,404,715	-	-	-	822	1,405,537
Corporate clients	3,693,058	342,420	272,083	372,861	12,409,827	17,090,248
Total	4,202,326	483,428	345,812	495,046	14,902,068	20,428,679
Out of which: restrucured	2,148,552	26,553	40,609	26,846	11,387,669	13,630,228
Due from banks	211,292	-	-	-	-	211,292

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans

In RSD thousands

31.12.2019	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	113,168,107	2,126,677	2,744,842	673,160	1,482,739	2,43%	2,328,726
Housing Loans	47,005,868	613,850	1,135,501	262,548	533,451	2,42%	1,122,941
Cash Loans	37,928,529	443,733	309,281	41,006	234,389	0,82%	126,137
Agricultural Loans	9,766,631	243,946	276,017	44,886	127,686	2,83%	255,180
Other Loans	5,139,423	201,884	166,546	-	159,509	3,24%	779
Micro business	13,327,656	623,264	857,497	324,720	427,704	6,43%	823,689
Corporate clients	107,851,898	10,659,170	14,053,449	7,203,252	10,076,400	13,03%	12,563,919
Agriculture	4,295,672	65,120	60,217	-	56,463	1,40%	60,385
Electric Energy	14,295,642	1,234,575	2,973,633	2,890,382	1,176,505	20,80%	2,973,633
Construction	1,633,891	7,892	-	-	-	0,00%	-
Wholesale and Retail	10,172,505	633,151	813,973	150,578	615,670	8,00%	814,321
Service Activites	26,852,727	767,801	1,129,204	844,721	623,052	4,21%	1,122,879
Real Estate Activitis	15,612,463	1,358,306	1,579,328	1,571,626	1,220,425	10,12%	1,578,182
Other	5.210.840	490,298	1,031,805	687,601	482,859	19,80%	1,029,573
	29,778,158	6,102,026	6,465,289	1,058,344	5,901,426	21,71%	4,984,946
Total	221,020,005	12,785,847	16,798,291	7,876,412	11,559,139	7,60%	14,892,645
Due from banks	27,209,396	219,393	214,417	-	214,417	0,79%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Participation of problematic receivables, stage 3 in total loans

31.12.2018	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	103,652,523	2,196,524	3,338,430	994,393	1,726,433	3,22%	3,021,353
Housing Loans	43,947,838	824,902	1,649,460	484,505	766,147	3,75%	1,634,862
Cash Loans	32,820,561	333,293	282,914	41,846	192,578	0,86%	146,273
Agricultural Loans	8,770,680	206,111	265,238	16,409	140,095	3,02%	239,149
Other Loans	5,791,720	215,341	195,775	4,320	175,980	3,38%	10,936
Micro business	12,321,724	616,877	945,043	447,313	451,632	7,67%	990,134
Corporate clients	102,706,163	12,713,520	17,090,248	12,635,835	11,633,089	16,64%	15,423,523
Agriculture	5,504,088	115,265	222,617	13,411	85,212	4,04%	222,785
Electric Energy	15,786,292	2,449,957	4,180,027	3,830,527	2,333,590	26,48%	4,186,056
Construction	1,064,602	3,105	27,298	-	19	2,56%	27,298
Wholesale and Retail	9,037,935	1,336,673	1,738,493	978,193	1,119,397	19,24%	1,738,866
Service Activites	26,627,325	1,086,664	2,151,168	1,849,888	786,641	8,08%	2,163,875
Real Estate Activitis	9,673,368	1,296,356	1,494,901	1,477,865	1,187,702	15,45%	1,494,901
Other	4.770.586	729,500	1,323,324	983,040	704,066	27,74%	1,323,799
	30,241,966	5,695,999	5,952,421	3,502,911	5,416,462	19,68%	4,265,943
Total	206,358,685	14,910,044	20,428,679	13,630,228	13,359,522	9,90%	18,444,876
Due from banks	21,265,409	227,871	211,292	-	211,292	0,99%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables

	Gross 31.12.2018	New problematic receivables – stage 3	Decrease in problematic receivables – stage 3	Foreign exchange rate effect	Other changes	Gross 31.12.2019	Net 31.12.2019
Housing Loans	1,649,460	287,089	(755,110)	16,833	(62,769)	1,135,503	602,051
Cash Loans	282,914	219,918	(164,611)	(157)	(28,876)	309,188	74,799
Agricultural Loans	265,238	138,504	(101,398)	(1,045)	(25,282)	276,017	148,331
Other Loans	195,775	68,799	(97,231)	(89)	(615)	166,639	7,130
Micro business	945,043	183,143	(90,464)	(2,926)	(177,300)	857,496	429,792
Total retail	3,338,430	897,453	(1,208,814)	12,616	(294,842)	2,744,842	1,262,103
Large corporate clients	11,595,741	52,229	(2,369,380)	(38,523)	(2,966,464)	6,273,603	2,559,584
Middle corporate clients	1,990,077	13,744	(42,887)	(8,168)	(148,594)	1,804,172	427,147
Small corporate clients	1,595,043	35,761	(67,381)	(5,244)	(19,315)	1,538,864	615,633
State owned clients	503,850	118	(35,756)	(2,177)	(295,363)	170,672	38,584
Other	1,405,537	6,438	(412)	(5,634)	2,860,208	4,266,137	336,100
Corporate clients	17,090,248	108,290	(2,515,816)	(59,746)	(569,528)	14,053,448	3,977,048
Total	20,428,679	1,005,743	(3,724,630)	(47,130)	(864,370)	16,798,291	5,239,151
Due from banks	211,292	-	-	-	3,125	214,417	-

The decrease of problematic receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the Parent Bank.

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

	31.12.2019				31.12.2018			
	Low (IR 1, 2)	Medium and High (IR 3,4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 1, 2)	Total	Value of collaterals
Housing Loans	45,740,283	130,084	45,870,367	45,399,172	42,123,365	175,013	42,298,378	42,030,683
Cash Loans	37,432,081	187,260	37,619,341	11,566,724	32,204,582	333,066	32,537,648	7,006,684
Agricultural Loans	9,468,503	22,110	9,490,613	8,072,417	8,475,549	29,893	8,505,441	6,667,316
Other Loans	4,951,194	21,590	4,972,784	103,517	5,557,274	38,671	5,595,945	280,321
Micro business	11,646,346	823,813	12,470,159	11,600,384	10,798,757	577,924	11,376,681	11,081,615
Total retail	109,238,407	1,184,857	110,423,264	76,742,214	99,159,526	1,154,567	100,314,093	67,066,619
Large corporate clients	34,089,406	3,909,212	37,998,618	35,032,867	33,479,142	5,472,256	38,951,398	33,648,145
Middle corporate clients	11,255,132	58,545	11,313,677	9,375,458	10,491,602	107,110	10,598,712	9,402,845
Small corporate clients	5,967,441	42,592	6,010,033	5,176,952	5,744,738	74,359	5,819,096	5,300,314
State owned clients	17,502,936	7,404,073	24,907,009	24,334,367	12,910,092	2,195,210	15,105,302	10,906,404
Other	8,020,596	5,548,518	13,569,114	7,671,134	14,001,791	1,139,615	15,141,406	9,354,027
Corporate clients	76,835,511	16,962,940	93,798,451	81,590,778	76,627,365	8,988,550	85,615,914	68,611,735
Total	186,073,918	18,147,797	204,221,715	158,332,992	175,786,891	10,143,116	185,930,007	135,678,355
Due from banks	26,994,979	-	26,994,979	-	21,054,117	-	21,054,117	14,262

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

31.12.2019	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restrucutered receivables – stage 2	Impairmentof restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percantage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	113,168,107	2,126,679	1,987,885	310,165	1,314,725	31,745	673,160	278,420	1,76%	1,343,717
Housing Loans	47,005,868	613,851	755,459	117,505	492,911	13,840	262,548	103,664	1,61%	753,106
Cash Loans	37,928,529	443,733	659,229	35,098	618,223	7,827	41,006	27,271	1,74%	161,891
Agricultural Loans	9,766,631	243,946	51,963	8,103	7,077	326	44,886	7,778	0,53%	51,571
Other Loans	5,139,423	201,884	1,426	19	1,426	19	-	-	0,03%	-
Micro business	13,327,656	623,264	519,809	149,440	195,089	9,733	324,720	139,707	3,90%	377,149
Corporate clients	107,851,898	10,659,169	8,653,448	4,383,944	1,450,195	40,711	7,203,253	4,343,233	8,02%	8,121,660
Agriculture	4,295,671	65,120	8,786	-	8,786	-	-	-	0,20%	8,786
Manufacturing industry	14,295,642	1,234,575	2,890,382	1,148,459	-	-	2,890,382	1,148,459	20,22%	2,890,382
Electric Energy	1,633,891	7,892	-	-	-	-	-	-	0,00%	-
Construction	10,172,505	633,150	910,027	139,577	759,449	4,895	150,578	134,683	8,95%	909,822
Wholesale and Retail	26,852,727	767,801	1,202,523	473,206	357,802	7,332	844,721	465,874	4,48%	965,339
Service Activites	15,612,463	1,358,306	1,866,025	1,247,647	294,399	28,484	1,571,626	1,219,163	11,95%	1,571,626
Real Estate Activitis	5.210.840	490,298	695,244	452,272	7,643	0	687,601	452,272	13,34%	695,244
Other	29,778,158	6,102,026	1,080,459	922,782	22,115	0	1,058,344	922,782	3,63%	1,080,459
Total	221,020,005	12,785,847	10,641,333	4,694,109	2,764,920	72,456	7,876,413	4,621,653	4,81%	9,465,377
Due from banks	27,209,396	219,393	-	-	-	-	-	-	0,00%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

31.12.2018	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restrucutered receivables – stage 2	Impairmentof restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percantage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	103,652,523	2,196,524	2,062,902	410,451	287,479	10,716	994,393	390,900	1,99%	1,820,561
Housing Loans	43,947,838	824,902	1,028,436	206,236	244,146	7,577	484,505	198,529	2,34%	1,028,238
Cash Loans	32,820,561	333,293	437,955	24,854	18,782	731	41,846	20,354	1,33%	202,531
Agricultural Loans	8,770,680	206,111	17,857	5,531	1,448	-	16,409	5,531	0,20%	17,630
Other Loans	5,791,720	215,341	4,748	304	429	19	4,320	285	0,08%	4,034
Micro business	12,321,724	616,877	573,906	173,525	22,675	2,390	447,313	166,200	4,66%	568,129
Corporate clients	102,706,163	12,713,520	13,629,841	8,986,728	417,606	50,089	12,635,835	8,929,910	13,27%	13,602,036
Agriculture	5,504,088	115,265	80,289	-	-	-	13,411	-	1,46%	80,289
Manufacturing industry	15,786,292	2,449,957	3,830,527	2,311,289	-	-	3,830,527	2,311,289	24,26%	3,824,668
Electric Energy	1,064,602	3,105	-	-	-	-	-	-	0,00%	-
Construction	9,037,935	1,336,673	978,193	931,745	-	-	978,193	931,745	10,82%	978,193
Wholesale and Retail	26,627,325	1,086,664	2,254,045	670,629	104,299	15,253	1,849,888	648,648	8,47%	2,232,099
Service Activites	9,673,368	1,296,356	1,780,738	1,222,452	302,874	34,836	1,477,865	1,187,615	18,41%	1,780,738
Real Estate Activitis	4,770,586	729,500	993,473	683,104	10,433	-	983,040	683,104	20,82%	993.473
Other	30,241,966	5,695,999	3,712,575	3,167,509	-	-	3,502,911	3,167,509	12,28%	3,712,575
Total	206,358,685	14,910,044	15,692,744	9,397,178	705,085	60,806	13,630,228	9,320,810	7,60%	15,422,597
Due from banks	21,265,409	227,871	-	-	-	-	-	-	0,00%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	Gross 31.12.2018	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes	Gross 31.12.2019	Net 31.12.2019
Housing Loans	1,028,436	17,803	(71,533)	11,110	(230,356)	755,460	637,955
Cash Loans	437,955	228,345	(2,514)	(92)	(4,464)	659,230	624,131
Agricultural Loans	17,857	36,993	(173)	(91)	(2,623)	51,963	43,860
Other Loans	4,748	1,426	(4,440)	(24)	(284)	1,426	1,407
Micro business	573,906	86,473	(9,172)	(1,022)	(130,380)	519,805	370,369
Total retail	2,062,902	371,040	(87,832)	9,881	(368,107)	1,987,884	1,677,722
Large corporate clients	11,331,103	736,238	(5,416,046)	(35,592)	(49,095)	6,566,608	3,430,533
Middle corporate clients	1,257,285	36,535	0	(5,075)	(638)	1,288,107	535,520
Small corporate clients	831,789	32,480	(64,430)	(2,793)	(20,428)	776,618	281,335
State owned clients	-	-	-	-	-	-	-
Other	209,664	-	(187,549)	-	-	22,115	22,115
Corporate clients	13,629,841	805,253	(5,668,025)	(43,460)	(70,161)	8,653,448	4,269,503
Total	15,692,743	1,176,293	(5,755,857)	(33,579)	(438,268)	10,641,332	5,947,225
Due from banks	-	-	-	-	-	-	-

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Group implements in the restructuring of receivables

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration

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

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

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

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

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

31.12.2018	Stage 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Total retail	90,888,589	5,253,961	4,171,542	-	-	2,848,318	282,282	207,831	-	-
Housing Loans	38,051,990	2,397,779	1,848,609	-	-	1,521,937	105,355	22,168	-	-
Cash Loans	30,328,202	1,342,620	866,826	-	-	226,782	39,524	16,607	-	-
Agricultural Loans	8,449,046	5,661	50,734	-	-	263,341	252	1,645	-	-
Other Loans	5,249,338	28,314	318,293	-	-	179,373	2,761	13,642	-	-
Micro business	8,810,013	1,479,588	1,087,081	-	-	656,884	134,391	153,768	-	-
Corporate clients	59,521,054	7,052,300	19,042,560	-	-	16,648,632	245,749	195,867	-	-
Agriculture	5,146,080	111,151	24,241	-	-	222,617	-	-	-	-
Manufacturing industry	10,444,552	43,008	1,118,705	-	-	4,160,130	12,108	7,789	-	-
Electric Energy	72,008	-	965,296	-	-	27,298	-	-	-	-
Construction	6,188,277	202,276	908,889	-	-	1,592,833	145,661	-	-	-
Wholesale and Retail	21,801,978	1,484,572	1,189,607	-	-	1,875,109	87,981	188,078	-	-
Service Activites	5,785,984	1,092,256	1,300,226	-	-	1,494,901	-	-	-	-
Real Estate Activitis	3,376,422	69,562	1,279	-	-	1,323,324	-	-	-	-
Other	6,705,753	4,049,474	13,534,318	-	-	5,952,421	-	-	-	-
Total	150,409,643	12,306,261	23,214,103	-	-	19,496,950	528,032	403,697	-	-
Due from banks	6,475,642	3,792	912,089	11,075,238	2,587,355	-	-	-	-	211,292

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

	31.12.2019		31.12.2018	
	Gross	Net	Gross	Net
Financial assets:				
-at fair value trough profit and loss	10,289,019	10,289,019	4,956,659	4,956,659
-at fair value trough other comprehensive income	134,191,014	134,190,412	132,563,725	132,562,131
Total	144,480,033	144,479,431	137,520,384	137,518,790

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

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska, the Republic of Montenegro, municipality bonds and bonds of other banks. Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral)

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

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

Loans and receivables from customers covered by collateral

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

31.12.2018	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	37,805,655	29,309	-	3,064,373	40,899,337	1,099,674	13,157	-	18,516	1,131,346
Cash Loans	594,117	570,097	-	5,650,432	6,814,647	66,690	15,445	-	109,902	192,038
Agricultural Loans	3,140,795	127,429	21,059	3,285,027	6,574,310	59,772	27	3,363	29,844	93,006
Other Loans	123,135	4,576	-	92,355	220,066	59,388	647	-	220	60,255
Micro business	2,861,209	674,733	81,707	7,049,261	10,666,910	200,345	76,362	3,022	134,976	414,705
Total reatail	44,524,911	1,406,144	102,767	19,141,448	65,175,270	1,485,870	105,637	6,384	293,459	1,891,349
Large corporate clients	21,629,141	393,087	101,803	9,477,508	31,601,539	554,800	-	-	1,491,806	2,046,606
Middle corporate clients	3,323,924	280,297	-	5,474,932	9,079,153	180,036	-	21,718	121,939	323,692
Small corporate clients	2,028,365	210,265	21,377	2,732,970	4,992,976	200,390	54,796	-	52,151	307,338
State owned clients	614,943	1,182	2,426,895	7,731,818	10,774,837	-	-	-	131,567	131,567
Other	84,330	-	129,717	9,139,981	9,354,027	-	-	-	-	-
Corporate clients	27,680,702	884,832	2,679,792	34,557,208	65,802,533	935,226	54,796	21,718	1,797,463	2,809,202
Total	72,205,613	2,290,976	2,782,559	53,698,656	130,977,803	2,421,095	160,433	28,102	2,090,922	4,700,552
Of which: restructured	647,930	-	129,717	360,058	1,137,705	329,321	-	-	347,427	676,747
Due from banks	-	14,262	-	-	14,262	-	-	-	-	-

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

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

31.12.2018	Stage 3				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	1,559,454	-	-	75,408	1,634,862
Cash Loans	22,856	1,887	-	121,530	146,273
Agricultural Loans	173,236	-	192	65,721	239,149
Other Loans	8,119	-	-	2,817	10,936
Micro business	795,477	5,157	2,855	186,645	990,134
Total retail	2,559,141	7,044	3,047	452,121	3,021,353
Large corporate clients	9,904,778	-	-	1,686,932	11,591,710
Middle corporate clients	1,572,673	-	4,100	321,250	1,898,022
Small corporate clients	1,485,758	-	-	116,175	1,601,933
State owned clients	7,306	-	297,254	27,298	331,859
Other	-	-	-	-	-
Corporate clients	12,970,515	-	301,354	2,151,655	15,423,523
Total	15,529,656	7,044	304,401	2,603,776	18,444,876
Of which: restructured	12,026,732	-	-	1,581,413	13,608,145
Due from banks	-	-	-	-	-

4 RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan to Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	Decembar 31, 2019.	Decembar 31, 2018.
Less than 50%	29,944,251	29,756,845
50% - 70%	23,291,285	19,940,392
71% - 100%	25,410,056	26,117,784
101% - 150%	6,493,745	9,039,303
More than 150%	7,625,676	10,445,887
Total exposure	92,765,013	95,300,211
Average LTV	62.79%	68.61%

4.1.8. Foreclosed assets

Foreclosed assets by Group members are presented in the following review:

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Lannd and Forests	Securities	Total
31.12.2018	582,605	2,630,875	122,410	260,052	-	3,595,942
Acquisition	-	76,107	8,115	1,155	1,940	87,317
Sale	(6,613)	(306,971)	(3,262)	-	-	(316,846)
Transfer to investment property	-	60,474)	-	-	-	(60,474)
Transfer to assets held for sale	-	-	-	11,289	-	11,289
Transfer to fixed assets	-	(21,344)	-	-	-	(21,344)
Other	(8,060)	(2,605)	-	(495)	-	(11,160)
31.12.2019	567,932	2,315,588	127,263	272,001	1,940	3,284,726
Impairment allowance	223,431	1,023,183	97,568	140,644	1,940	1,486,766
Net	344,501	1,292,405	29,695	131,357	-	1,797,960

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Group's financial result and capital due to the Group's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Group respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on the one hand and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Group members, whose decisions may influence the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

• diversifies sources of funds, by currency and maturity;
• form and maintain sufficient level of liquidity reserves;
• manages funds;
• monitor future cash flows and liquidity on a daily basis;
• limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
• defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

Measurement, or liquidity risk assessment, is a quantitative and / or qualitative assessment of the identified liquidity risk, using the following methods:

• GAP analysis;
• Ratio analysis;
• Stress test.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Mitigation involves maintaining the liquidity risk at an acceptable level for the Group's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

Liquidity risk control and monitoring includes the process of monitoring compliance with internally determined limits, as well as monitoring the defined measures for mitigating the Group's liquidity risk exposure, which includes control at all levels of liquidity risk management, as well as an independent control system implemented by organizational units responsible for internal audit and compliance control business.

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month. Starting from June 30, 2017 the Group has aligned its operations with a liquidity coverage ratio in all currencies, which maintains at a level not lower than 100%.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	2019	2018	2019	2018	2019	2018
As at Decembar 31	3.95	3.86	3.70	3.56	402%	414%
Average for the period	4.02	4.05	3.76	3.82	430%	401%
Maximum for the period	4.08	4.23	3.82	4.07	457%	414%
Minimum for the period	3.95	3.86	3.70	3.56	402%	387%

During 2019, the liquidity indicator, the narrow liquidity indicator and the liquidity coverage ratio ranged above the defined limits.

The Group defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with internally defined liquidity limits on the last day:

	Limits	2019	2018
GAP up to 1 month / Total assets	Max (10%)	0.79%	1.99%
Cumulative GAP up to 3 months / Total assets	Max (20%)	0.57%	1.81%

In addition, the Group limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect of significant currencies.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2019

In thousand RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash founds held with the central bank	76,654,402	-	-	-	-	76,654,402
Loans and receivables due from other banks and other financial institutions	25,483,656	80,092	362,010	1,064,247	-	26,990,005
Loans and receivables due from customers	11,978,158	10,183,514	46,219,216	90,715,809	49,137,461	208,234,158
Financial assets (securities)	3,302,920	4,939,204	14,730,475	101,561,560	19,945,272	144,479,431
Other assets	1,462,971	543,680	1,629,428	-	1,481	3,637,560
Total	118,882,107	15,746,490	62,941,129	193,341,616	69,084,214	459,995,556
Deposits and other liabilities due to banks, other financial institutions and central bank	3,871,373	734,462	1,720,994	1,991,777	-	8,318,606
Deposits and other liabilities due to customors	279,544,142	9,497,427	37,584,292	42,214,243	2,147,606	370,987,710
Other liabilities	1,343,932	286,909	11,165,002	799,932	153,963	13,749,738
Total	284,759,447	10,518,798	50,470,288	45,005,952	2,301,569	393,056,054
Net liquidity gap As of Decembar 31, 2019	(165,877,340)	5,227,692	12,470,841	148,335,664	66,782,645	66,939,502

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4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at 31 December 2018

In thousands RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash founds held with the central bank	73,992,039	-	-	-	-	73,992,039
Loans and receivables due from other banks and other financial institutions	17,381,560	2,290,401	240,630	1,124,946	-	21,037,537
Loans and receivables due from customers	9,542,916	9,388,245	42,203,745	81,450,663	48,863,073	191,448,642
Financial assets (securities)	11,210,413	10,552,128	17,775,934	90,150,487	7,829,828	137,518,790
Other assets	1,877,006	563,471	1,399,901	-	-	3,840,378
Total	114,003,934	22,794,245	61,620,210	172,726,096	56,692,901	427,837,386
Deposits and other liabilities due to banks, other financial institutions and central bank	3,386,160	1,846,942	491,821	2,503,361	-	8,228,284
Deposits and other liabilities due to custormors	252,122,048	12,808,624	54,048,285	29,181,484	2,507,715	350,668,156
Other liabilities	2,414,912	175,398	6,173,267	19,445	-	8,783,022
Total	257,923,120	14,830,964	60,713,373	31,704,290	2,507,715	367,679,462
Net liquidity gap As of Decembar 31, 2018	(143,919,186)	7,963,281	906,837	141,021,806	54,185,186	60,157,924

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and avista deposits will be withdrawn within one month.

The Group collects deposits of corporate and retail sector, which usually have shorter maturities and can be withdrawn on demand. The short-term nature of these deposits increases the Group's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Group manages short-term liquidity risk by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves. The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis. The Group regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2019.

In thousands RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash founds held with the central bank	76,654,402	-	-	-	-	76,654,402
Loans and receivables due from other banks and other financial institutions	25,527,008	84,048	375,414	1,067,781	-	27,054,251
Loans and receivables due from customers	12,748,671	11,706,903	52,322,343	106,699,822	61,186,695	244,664,434
Financial assets (securities)	3,302,920	4,952,022	14,739,530	101,636,114	19,974,040	144,604,626
Other assets	1,487,502	543,680	1,629,428	-	1,481	3,662,091
Total	119,720,503	17,286,653	69,066,715	209,403,717	81,162,216	496,639,804
Deposits and other liabilities due to banks, other financial institutions and central bank	3,885,717	743,104	1,772,635	2,016,578	-	8,418,034
Deposits and other liabilities due to customors	279,717,476	9,625,405	38,110,196	43,743,888	2,578,893	373,775,858
Other liabilities	1,358,734	286,909	11,165,002	799,932	153,962	13,764,539
Total	284,961,927	10,655,418	51,047,833	46,560,398	2,732,855	395,958,431
Net liquidity gap As of Decembar 31, 2019	(165,241,424)	6,631,235	18,018,882	162,843,319	78,429,361	100,681,373

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2018.

In thousands RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash founds held with the central bank	73,992,038					73,992,038
Loans and receivables due from other banks and other financial institutions	17,388,011	2,302,500	254,799	1,137,335		21,082,645
Loans and receivables due from customers	10,362,533	10,890,948	48,069,453	98,486,884	63,385,690	231,195,508
Financial assets (securities)	11,210,413	10,564,322	17,804,171	90,307,063	7,829,828	137,715,797
Other assets	1,877,009	563,471	1,399,900	-	-	3,840,380
Total	114,830,004	24,321,241	67,528,323	189,931,282	71,215,518	467,826,368
Deposits and other liabilities due to banks, other financial institutions and central bank	3,396,667	1,870,016	523,577	2,552,011	-	8,342,271
Deposits and other liabilities due to customors	252,316,922	12,885,014	54,556,906	30,491,471	2,969,792	353,220,105
Other liabilities	2,447,731	175,398	6,173,268	19,445	-	8,815,842
Total	258,161,320	14,930,428	61,253,751	33,062,927	2,969,792	370,378,218
Net liquidity gap As of Decembar 31, 2018	(143,331,316)	9,390,813	6,274,572	156,868,355	68,245,726	97,448,150

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates. In the case of transaction and avista deposits that are in accordance with a conservative approach, allocated to a maturity of up to one month, undiscounted cash flows include only flows based on the debt principal.

Market risks

Market risk is the possibility of adverse effects on the Group's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Group is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Group members whose decisions may influence the Group's exposure to this risk.

4.3. Interest rate risk

Interest rate risk is the risk of adverse effects on the Group's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Group manages the following types of interest rate risk:

• Risk of time mismatch of repayment and repricing risk;
• Yield curve risk - to whom it is exposed due to change in yield curve shape;
• Base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
• Optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Group manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Group particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of capital;
- Stress test.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile and implies the process of defining the Group's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Group's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Group's members on interest rate risk management.

Internal limits are determined on the basis of the internal interest report GAP, which includes all balance sheet items.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	2019	2018
Relative GAP	Max 15%	0.82%	1.48%
Coefficient of Disparity	0.75 – 1.25	1.01	1.02

During 2019, interest rate risk indicators moved within internally defined limits.

Compliance with internally defined limits of economic value of capital:

	2019	2018
On December 31st	4.05%	4.48%
Average for period	4.36%	5.36%
Maximum for period	4.67%	6.24%
Minimum for period	4.05%	4.48%
Limit	20%	20%

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4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:
Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2019.

In thousands RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash founds held with the central bank	26,453,405	-	-	-	-	26,453,405	50,200,997	76,654,402
Loans and receivables due from other banks and other financial institutions	24,347,276	63,751	255,506	169,536	-	24,836,069	2,153,936	26,990,005
Loans and receivables due from customers	50,909,321	25,440,767	66,242,446	59,954,460	5,214,350	207,761,344	472,814	208,234,158
Financial assets (securities)	2,790,288	4,939,204	14,730,475	101,561,560	19,945,272	143,966,799	512,632	144,479,431
Other assets	33,120	-	-	-	-	33,120	3,604,440	3,637,560
Total	104,533,410	30,443,722	81,228,427	161,685,556	25,159,622	403,050,737	56,944,819	459,995,556
Deposits and other liabilities due to banks, other financial institutions and central bank								
Deposits and other liabilities due to customors	3,317,996	857,318	2,270,786	1,871,777	-	8,317,877	729	8,318,606
Other liabilities	274,556,488	12,441,701	50,839,691	29,883,050	1,990,101	369,711,031	1,276,679	370,987,710
Total	43,036	6,703	29,281	82,316	-	161,336	13,588,402	13,749,738
Interest rate GAP	277,917,520	13,305,722	53,139,758	31,837,143	1,990,101	378,190,244	14,865,810	393,056,054
At Decembar 31, 2019	(173,384,110)	17,138,000	28,088,669	129,848,413	23,169,521	24,860,493	42,079,009	66,939,502

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4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2018

In thousands RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Ineterst Bearing	Total
Cash and cash founds held with the central bank	28,710,086	-	-	-	-	28,710,086	45,281,953	73,992,039
Loans and receivables due from other banks and other financial institutions	16,369,533	2,278,351	32,357	247,637	-	18,927,878	2,109,659	21,037,537
Loans and receivables due from customers	51,821,705	17,835,405	53,083,130	60,706,216	7,516,746	190,963,202	485,440	191,448,642
Financial assets (securities)	11,208,649	10,552,011	17,313,063	90,148,094	7,829,710	137,051,527	467,263	137,518,790
Other assets	-	-	-	-	-	-	3,840,378	3,840,378
Total	108,109,973	30,665,767	70,428,550	151,101,947	15,346,456	375,652,693	52,184,693	427,837,386
Deposits and other liabilities due to banks, other financial institutions and central bank								
Deposits and other liabilities due to customors	3,388,392	1,845,725	693,519	2,300,743	-	8,228,379	(95)	8,228,284
Other liabilities	253,469,172	13,642,671	52,730,960	27,578,599	2,229,472	349,650,874	1,017,282	350,668,156
Total	-	-	-	-	-	-	8,783,022	8,783,022
Net liquidity gap	256,857,564	15,488,396	53,424,479	29,879,342	2,229,472	357,879,253	9,800,209	367,679,462
As of Decembar 31, 2018	(148,747,591)	15,177,371	17,004,071	121,222,605	13,116,984	17,773,440	42,384,484	60,157,924

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Group members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Group regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Group.

The Group assesses the impact that standardized interest rate shocks (parallel positive and negative interest rates on the reference yield curve of 200 basis points) could have for each significant currency individually and for all other currencies together.

In modelling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Group on the basis of historical developments and expert assessments, is specifically considered, the Group has carried out an estimate of the movement of transaction deposits, demand deposits and retail savings by applying relevant statistical models from domain analysis of time series.

Report on GAP Interest Rate Risk of the Monetary Sub-balance on December 31, 2019 (continued)

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Group's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2019		
As at December 31,	443,617	(443,617)
2018		
As at December 31,	442,304	(442,304)

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk

The Group is exposed to foreign exchange risk that manifests itself through the possibility of adverse effects on the financial result and equity due to the change in inter-currency relationships, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. All positions contained in the banking book and trading book in foreign currency and gold, as well as dinar (RSD) positions indexed by currency clause are exposed to foreign exchange risk.

In order to minimize exposure to foreign exchange risk, the Group performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking foreign exchange risk from the process of its management.

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Group comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

- GAP analysis and foreign exchange risk indicator;
- VaR;
- Stress test;
- Backtesting,

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at 31 December:

	2019	2018
Total risk foreign exchange position	6,835,647	6,997,500
Foreign exchange risk indicator	10.61%	12.25%
Regulatory limit	20%	20%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2019

In thousands RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash founds held with the central bank	35,176,192	215,451	6,240,389	6,811,297	48,443,329	-	-	-	28,211,073	76,654,402
Loans and receivables due from other banks and other financial institutions	7,534,947	3,228,890	867,795	3,131,909	14,763,541	-	-	-	12,226,464	26,990,005
Loans and receivables due from customers	23,952,264	-	-	16,651,360	40,603,624	117,831,474	-	60,074	49,738,986	208,234,158
Financial assets (securities)	63,201,598	13,217,165	1,799,460	901,863	79,120,086	173,617	-	-	65,185,728	144,479,431
Other assets	447,267	165,416	789	30,684	644,156	-	-	-	2,993,404	3,637,560
Total	130,312,268	16,826,922	8,908,433	27,527,113	183,574,736	118,005,091	-	60,074	158,355,655	459,995,556
Deposits and other liabilities due to banks, other financial institutions and central bank	943,333	77,890	43,341	4,118,082	5,182,646	30,331	-	-	3,105,629	8,318,606
Deposits and other liabilities due to customors	244,016,986	13,655,889	8,810,550	19,669,688	286,153,113	187,138	-	-	84,647,459	370,987,710
Other liabilities	1,979,742	96,272	99,406	488,834	2,664,254	882,332	-	-	10,203,152	13,749,738
Total	246,940,061	13,830,051	8,953,297	24,276,604	294,000,013	1,099,801	-	-	97,956,240	393,056,054
Net Currency Position December 31, 2019	(116,627,793)	2,996,871	(44,864)	3,250,509	(110,425,277)	116,905,290	-	60,074	60,399,415	66,939,502

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at 31 December 2018

In thousands RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash founds held with the central bank	36,151,062	273,785	710,028	7,127,817	44,262,692	-	-	-	29,729,347	73,992,039
Loans and receivables due from other banks and other financial institutions	9,084,054	2,381,279	3,071,605	2,691,227	17,228,165	-	-	-	3,809,372	21,037,537
Loans and receivables due from customers	36,995,011	-	-	2,205,124	39,200,135	101,017,998	-	3,651,403	47,579,106	191,448,642
Financial assets (securities)	70,581,056	11,273,911	1,702,199	-	83,557,166	249,591	-	-	53,712,033	137,518,790
Other assets	1,178,684	95,892	63,825	22,348	1,360,749	-	-	-	2,479,629	3,840,378
Total	153,989,867	14,024,867	5,547,657	12,046,516	185,608,907	101,267,589	-	3,651,403	137,309,487	427,837,386
Deposits and other liabilities due to banks, other financial institutions and central bank	1,563,400	379,330	246,907	3,945,523	6,135,160	19,073	-	-	2,074,051	8,228,284
Deposits and other liabilities due to customors	246,275,960	12,908,254	8,756,910	6,862,782	274,803,906	468,239	19,705	-	75,376,306	350,668,156
Other liabilities	812,752	122,798	108,507	183,930	1,227,987	-	-	-	7,555,035	8,783,022
Total	248,652,112	13,410,382	9,112,324	10,992,235	282,167,053	487,312	19,705	-	85,005,392	367,679,462
Net Currency Position, December 31, 2018	(94,662,245)	614,485	(3,564,667)	1,054,281	(96,558,146)	100,780,277	(19,705)	3,651,403	52,304,095	60,157,924

4. RISK MANAGEMENT (continued)

4.5. A review of the ten-day VaR

The Group also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and/or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Group's portfolio for a certain period and at a predetermined confidence interval. The Group calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Group calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2019 and 2018 is shown as follows:

In thousands of RSD

	As at December 31	Average	Maximum	Minimal
2019				
Foreign currency risk	9,542	9,052	28,214	800
2018				
Foreign currency risk	19,264	15,478	39,766	1,972

4.6. Operational risk

The Group members monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank Group member, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database. The organizational part of the Bank of the Group member in charge of risk management monitors and reports on operational risks.

The Group performs measurement and / or assessment of operational risk through a quantitative and /or qualitative assessment of the identified operational risk. The Group members conduct measurement of operational risk exposure through event logging, and self-evaluation. Self-assessment involves assessing risk exposure by organizational units in accordance with the map of identified operational risks by measuring the possible range, the importance to the business, and the frequency of events that can cause losses, by identifying the level of control that areas of business have against these risks and improvement measures.

The Group can't eliminate all operational risks, but by introducing an appropriate control framework, monitoring and mitigating potential risks, it establishes a process for managing operational risk, the Group takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, implementation of adequate and a reliable information system and orientation to the project approach, whose implementation improves business practice and optimizes business processes.

4. RISK MANAGEMENT (continued)

4.6. Operational risk (continued)

Through reliable reporting on the implementation of measures to mitigate operational risks, the Group has established a monitoring system for activities undertaken by the Group members in order to reduce operational risks and preventive responses to emerging operational events. The Group assesses the risk of relying on third parties for performing certain activities related to business, based on a contract concluded with those persons that clearly define the terms, rights, obligations and responsibilities of the contracted parties.

For the purpose of smooth and continuous operation of all significant Group's processes and processes, as well as limitation of losses in emergencies, the Banking Group members adopted the Business Continuity Plan, with the goal of restoring the recovery of the information technology system in case of termination of operations. The member banks of the Group have adopted the Disaster Recovery Plan.

4.7. Risks of investment

The risk of the Group's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Group's investment in a person who is not a person in the financial sector may be up to 10% of the Group's capital, whereby this investment implies an investment by which members of the Group acquire a holding or shares of a person other than a person in the financial sector. The Group's total investments in non-entities in the financial sector and in fixed assets and investment property of the Group may be up to 60% of the Group's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.8. Risk of exposure

The Group's large exposure to a single entity or a group of related parties, including entities related to the Group, is an exposure that exceeds 10% of the Group's capital.

In its business, the Group takes care of compliance with the regulatory defined exposure limits:

• Exposure to a single client or a group of related parties must not exceed 25% of the Group's capital;
• The sum of all large Group exposures must not exceed 400% of the Group's capital.

Defined limits of exposure to one client or a group of related parties also applies to clients related to the Group.

The Group's exposure to one entity or group of related parties, as well as the exposure to clients related to the Group, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.9. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Group is exposed, or the risk of the possibility of adverse effects on the Group's financial result and capital due to the inability of the Group members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

• Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;

• Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Group manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Group's capital, depending on the country's internal rating category. The Group performs measurement and control of the exposure of the country risk portfolio based on the grouping of receivables according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Group defines the exposure limits individually by country of origin of the debtor.

4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities

Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands of RSD

	31.12.2019					31.12.2018	
	Carrying value	Fair value	Stage 1	Stage 2	Stage 3	Carrying value	Fair value
Financial Assets							
Loans and receivables from clients	208,234,158	207,050,215	9,221,958	780,536	190,047,721	191,448,642	187,064,015
						-	-
Financial Liabilities							
Deposits and other financial liabilities to clients	370,987,710	370,854,153	-	-	370,854,153	350,668,156	350,658,898

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to clients, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.

For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Group would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Group.

4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value

In thousands of RSD

	31.12.2019				31.12.2018			
Financial assets	Stage 1	Stage 2	Stage 3	Total fair value	Stage 1	Stage 2	Stage 3	Total fair value
Financial assets at fair value through profit and loss in RSD	512,632	4,877,762	-	5,390,394	597,571	1,197,682	-	1,795,253
Financial assets at fair value through profit and loss in foreign currency	174,460	4,724,165	-	4,898,625	323,293	2,838,113	-	3,161,406
Financial assets at fair value through other comprehensive income in RSD	-	59,800,166	-	59,800,166	-	51,916,780	-	51,916,780
Financial assets at fair value through other comprehensive income in foreign currency	13,444,011	60,772,618	173,617	74,390,246	13,656,359	66,739,402	249,590	80,645,351
Total	14,131,103	130,174,711	173,617	144,479,431	14,577,223	122,691,977	249,590	137,518,790

Stage 1 comprises financial instruments with whom it can be traded on the stock exchange, while Stage 2 contains securities which fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (auctions).

The fair value of assets for which no direct trading information is available is assigned to Stage 3.

4. RISK MANAGEMENT (continued)

4.11. Capital management

The Group has established a risk management system in accordance with the scope and structure of its business activities, and the objective of capital management is the smooth realization of the Group's business objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main goals of managing the capital are:

- Preservation of the minimum regulatory requirement (EUR 10 million);
- Maintenance of individual capital buffers;
- Respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
- Maintaining confidence in security and business stability;
- Realization of business and financial plans;
- supporting the expected growth in placements;
- Enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The regulatory capital of the Group is the sum of the Tier 1 capital (consisting of the Common Equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratios represent the ratio of capital of the Group (total, Tier 1 or Common Equity Tier 1) and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement / delivery risk except on the basis of free delivery), market risks, operational risk, risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries of the banking Group shall be determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational risk is calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

Capital adequacy ratios

In thousands of RSD

	31.12.2019	31.12.2018
Tier 1 capital	67,653,138	60,605,577
Common Equity Tier 1 capital	67,279,628	60,232,067
Additional Tier 1 capital	373,510	373,510
Tier 2 capital	-	-
Deductible items of capital	(3,242,622)	(3,469,604)
Capital	64,410,516	57,135,973
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	198,636,182	190,017,311
Risk exposure amount for operational risk	35,269,629	33,733,114
Risk exposure amount for market isks	4,238,173	2,833,830
Capital adequacy ratio (min. 14.04%)	27.05%	25.22%
Tier 1 capital adequacy ratio (min. 12.04%)	27.05%	25.22%
Common Equity Tier 1 capital adequacy ratio (min. 10.54%)	26.89%	25.05%

4. RISK MANAGEMENT (continued)

4.11. Capital management (continued)

During 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 adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively) .

By the Capital Management Strategy and Plan, the Group ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2019, the Group calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

• Strategic goals and the period for their realization;
• A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
• Procedures for planning an adequate level of available internal capital;
• The way to reach and maintain an adequate level of available internal capital;
• Restrictions on available internal capital;
• Demonstrating and explaining the effects of stress testing on internal capital requirements;
• Allocation of capital;
• Business plan in case of occurrence of unforeseen events.

On a continuous basis, the Group conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

• is based on identification and risk measurement;
• provides a comprehensive assessment and monitoring of the risks to which the banking Group is exposed or may be exposed;
• Provides adequate available internal capital in accordance with the risk profile of the banking Group;
• is involved in the banking Group management system and decision making;
• Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process at the banking group level include:

• Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
• Calculation of the amount of internal capital requirements;
• Calculation of stressed internal capital requirement for individual risks;
• Determining the total internal capital requirement;
• Comparison of the following elements:
    1) capital and available internal capital;
    2) minimum capital requirements and internal capital requirements for individual risks;
    3) the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of the placement aims ensure a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Group assesses the impairment of receivables on a group and on an individual basis.

5. USE OF ASSESSMENT (continued)

Individual assessment

The Group assesses the impairment allowance for each individually significant placement with the default status (risky placement, sub-category risk 4D, 4DD and 5 according to the internal rating system), ie placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfilment of client's obligations towards the Group, a new assessment of the impairment of placements is made.

The materiality threshold is determined by the Group on the basis of an analysis of the value structure of the portfolio by types of customers and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfilment of other contractual provisions;
- when the members of the Group , due to the financial difficulties of the borrower, substantially change the terms of repayment of receivables in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information to which the Group has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

5. USE OF ASSESSMENT (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating groups by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Group also determines the probable loss for unused commitments, for which there is not unconditional and without prior notice, possible cancelation the contracted obligation. When calculating provisions based on unused commitments, the Group uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Group performs valuation of financial instruments by:

- Fair value through profit and loss
- Fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through profit and loss are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition. With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity.

The amounts shown in the other comprehensive income cannot be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensive income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.

Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.

The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.

If the Group settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

5. USE OF ASSESSMENT (continued)

The concept of fair value

When measuring fair values, the Group identifies methods/techniques that need to maximize the use of observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Group determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Group performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

In the event that the market for financial instruments is not active, fair value is determined using methodology assessment. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyses, and other alternative methods. The selected assessment methodology maximizes the use of market data, is based on the least possible extent on the Group-specific estimates, and includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Group considers that third parties can take them into account when determining the transaction price.
Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments, based on Politics and Strategy risk management.

6. SEGMENT REPORTING

6.1. Reporting by strategic segments - members of the Group

The Parent Bank monitors and discloses business segments through two model reports:

- Reporting by strategic segments - members of the Group (note 6.1.) and
- Reporting by operational segments - business lines (note 6.2.).

Information about the results of each reporting segment is shown below.

The Group has four members representing strategic organizational parts:

Komercijalna banka a.d Belgrade, Serbia, Parent bank	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Podgorica, Montenegro	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
KomBank INVEST Investment fund management company a.d Belgrade, Serbia	It includes investment fund management activities

The Parent Bank monitors and discloses operations in strategic segments - the Group's members within its consolidated financial statements. The Group carries out most of its business on the territory of the Republic of Serbia. Dependent legal entities are not material to the individual financial report of the Parent Bank.

The balance sheet sum of the Parent Bank amounts to 90.14% of the total balance sheet sum of the consolidated balance sheet (2018: 90.23%).

The balance sheet sum of Komercijalna banka ad Podgorica, amounts to 3.67% of total consolidated assets (2018: 3.48%), Komercijalna banka ad Banja Luka 6.15% (2018: 6.26%) and KomBank INVEST 0.04 % (2018: 0.03%).

The result of the strategic segment is used to measure business performance, since the management of the Parent Bank believes that this information is most relevant for evaluating the results of a particular strategic segment in comparison with other legal entities operating in the listed activities in the local market.

6. SEGMENT REPORTING (continued)

6.1.a. Reclassification of positions in the individual financial statements of the Group members before consolidation

For the purposes of consolidation, and before the consolidation procedure, the reclassification of positions in the standalone financial statements of the members of the Group is carried out, which leads to the correction of the balance sheet amounts and the results in the profit and loss account set out in the statutory statements.

Based on the observed clear indications of the positive effects on the business of subsidiary banks, and in order to determine fair value of stakes in the capital of subsidiary banks, the Parent bank has engaged the independent appraiser. Based on the results of the assessment, the reversal of the previously recognized impairment in the total amount of RSD 821,838 thousand in the standalone financial statements of the Parent Bank is recognized. In accordance with the prescribed elimination of all interrelationships and mutual revenues and expenditures of the Parent bank and the Group members for the purpose of consolidating, the elimination of stakes in equity in subsidiaries with accompanying impairement recognized in 2016, as well as reversal of imapirement in 2019, from the Parent Bank segment, on one hand, and equity of subsidisaries, on the other hand.

Reclassified financial statements represent initial balance sheet items that are subject to the consolidation.

As at December 31, 2019 the following reclassifications are made in the balance sheet and profit and loss accounts of the Group members, except for the member of KomBank INVEST, which did not have the effect of reclassification:

Balance sheet

	In thousand of RSD
Balance sheet sum of Parent Bank	432,380,443
Reclassification for impairment allowance related to equity instruments in the subsidiary	2,047,191
Reclassification for impairment allowance that relate to placements to subsidiary banks	1,036
Reclassified balance sheet sum of Parent Bank	434,428,670
Statutory balance sheet sum of KB Banja Luka	29,411,265
Dedutiction for the accrued income for receivables measured at amotised cost using EIR method	(53,049)
Reclassification for the impairment allowance that relates to the Parent Bank	353
Revalaution of securities	52,607
Netting of deferred tax assets and liabilities	(937)
Reclassified balance sheet sum in accordance with the Parent Bank's model	29,410,239
Statutory balance sheet KB Podgorica	18,316,310
Right of use assets	121,844
Reclassification for the impairment allowance that relates to the Parent Bank	2,181
Netting of deferred tax assets and liabilities	(17,719)
Reclassified balance sheet sum in accordance with the Parent Bank's model	18,422,616

6. SEGMENT REPORTING (continued)

6.1.a. Reclassification of positions in the individual financial statements of the Group members before consolidation (continued)

Income statement

	In thousand of RSD
Result of Parent Bank	8,955,759
Reclassification for the effect of net change in impairment allowance of placements that are related to subsidiary banks (negative effect)	(822,118)
Reclassification for the effect of net change in provisions for losses on off-balance sheet assets (positive effect)	10,828
Reclassified result of Parent Bank	8,144,469

Statutory result of KB Banja Luka	139,703
Reclassification for the effect of net change in impairment allowance of placements that are related to Parent bank (negative effect)	(90)
Exchange rate differences on tax on local tax and deferred taxes - effect recognized in equity (positive effect)	29
Reclassified result of KB Banja Luka	139,642

Statutory result of KB Podgorica	118,903
Reclassification for the effect of net change in impairment allowance of placements that are related to Parent bank (negative effect)	(1,238)
Exchange rate differences on tax on local tax and deferred taxes - effect recognized in equity (positive effect)	6
Reclassified result of KB Podgorica	117,671

During the consolidation, the elimination of all mutual relations from the balance sheet was carried out in the amount of RSD 6,675,149 thousand (2018: RSD 7,209,128 thousand). From income statement total income in the amount of RSD 29,500 thousand (2018: RSD 28,802 thousand) and expenditures in the amount of RSD 22,641 thousand (2018: RSD 23,059 thousand).

Standalone reclassified balance sheets as at December 31, 2019:

	In thousands of RSD
KB Beograd	434,428,670
KB Podgorica	18,422,616
KB Banja Luka	29,410,239
KomBank Invest	169,518
Summed reclassified unconsolidated balance sheets	482,431,043

6. SEGMENT REPORTING (continued)

6.1.a. Reclassification of positions in the individual financial statements of the Group members before consolidation (continued)

Standalone reclassified income statements (before tax) as at December 31st, 2019:

	In thousands of RSD
KB Beograd	7,457,395
KB Podgorica	120,360
KB Banja Luka	152,545
KomBank INVEST	2,887
Summed reclassified unconsolidated income statement (before tax)	7,733,187

6.1.b. Overview of intercompany transactions

Balance sheet 2019

In thousands of RSD

	Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
	482,431,043	6,675,149	475,755,894
Cash / Payables		8,378	
Placements / Liabilities		1,185,883	
Equity stakes / Capital		5,480,888	

Income Statement 2019

In thousands of RSD

	Collective unconsolidated profit in the Income statement (before tax)	Amount of consolidation of the income statement: Income	Amount of consolidation of the income statement: Expense	Consolidated profit (before tax)
	7,733,187	29,500	22,641	7,726,328
Interest		4,320	4,320	
Fees		10,514	10514	
Other income/expenses		519	519	
Exchange rate differences (reclassified to equity)		14,147	7,288	

Balance sheet 2018

In thousands of RSD

	Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
	448,796,087	7,209,128	441,586,959
Cash / Payables		8,848	
Placements / Liabilities		1,719,392	
Equity stakes / Capital		5,480,888	

Income Statement 2018

In thousands of RSD

	Collective unconsolidated profit in the Income statement (before tax)	Amount of consolidation of the income statement: Income	Amount of consolidation of the income statement: Expense	Consolidated profit (before tax)
	8,386,909	28,802	23,059	8,381,166
Interest		3,449	3,449	
Fees		8,671	8,671	
Other income/expenses		618	618	
Exchange rate differences(reclassified to equity)		16,064	10,321	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group

6.1.c. Owerview of the activities of Strategic Segments

Below is an overview of the activities of strategic segments from the consolidated balance sheet and the consolidated income statement:

A. BALANCE SHEET - CONSOLIDATED on December 31, 2019

In thousand RSD

	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	67,558,219	2,730,826	6,365,357	-	76,654,402
Securities	138,469,551	2,581,086	3,280,329	148,465	144,479,431
Loans and receivables from banks and other financial organisations	24,645,277	687,724	1,640,613	16,390	26,990,004
Loans and receivables from clients	180,852,563	10,287,219	17,094,376	-	208,234,158
Intangible assets	665,735	31,801	56,964	-	754,500
Property, plant and equipment	6,437,937	414,475	401,970	9	7,254,391
Investment property	1,857,927	92,708	251,981	-	2,202,616
Current tax assets	-	-	6,708	78	6,786
Deffered tax assets	1,074,197	-	-	2,058	1,076,255
Fixed assets held for sale and assets from discontinued operations	196,300	202,234	102,206	-	500,740
Other assets	7,100,024	444,432	55,662	2,493	7,602,611
Total assets	428,857,730	17,472,505	29,256,166	169,493	475,755,894

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Owerview of the activities of Strategic Segments (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2019 (continued)

In thousands RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komoercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Deposits and other liabilities due to bank, other financial institutions and the Central bank	3,917,547	280,246	4,120,813	-	8,318,606
Deposits and other financial liabilities to clients	335,317,154	15,189,836	20,480,720	-	370,987,710
Provisions	2,310,039	140,546	20,370	12,455	2,483,410
Currents tax liabilities	-	1,949	724	-	2,673
Deffered tax liabilities	-	10,945	21,404	-	32,349
Other liabilities	13,861,230	215,937	481,686	717	14,559,570
Total liabilities	355,405,970	15,839,459	25,125,717	13,172	396,384,318
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/loss	8,859,734	(614,040)	350,089	15,781	8,611,564
Reserves	29,866,059	616,591	242,429	313	30,725,392
Non-controlling participation	-	-	70	-	70
Total capital	78,760,343	2,551	592,588	16,094	79,371,576
Total liabilities and equity	433,166,313	15,842,010	25,718,305	29,266	475,755,894

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Owerview of the activities of Strategic Segments (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2018

In thousands RSD

	Komercijalna banka a.d Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
ASSETS					
Cash and cash funds held at the Central bank	63,595,710	2,466,997	7,929,332	-	73,992,039
Liabilities under derivatives	4,070	-	-	-	4,070
Securities	133,177,598	1,967,042	2,227,301	142,779	137,514,720
Loans and receivables from banks and other financial organisations	18,371,519	1,143,293	1,506,349	16,376	21,037,537
Loans and receivables from clients	167,545,674	8,597,573	15,305,395	-	191,448,642
Intangible assets	557,051	25,194	45,223	-	627,468
Property, plant and equipment	5,619,078	306,695	121,592	19	6,047,384
Investment property	1,896,347	94,956	268,512	-	2,259,815
Current tax assets	-	-	1,650	-	1,650
Deffered tax assets	840,967	-	-	-	840,967
Fixed assets held for sale and assets from discontinued operations	227,630	255,595	175,778	-	659,003
Other assets	6,612,032	496,610	43,046	1,976	7,153,664
Total assets	398,447,676	15,353,955	27,624,178	161,150	441,586,959

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Owerview of the activities of Strategic Segments (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2018 (continued)

In thousands RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Deposits and other liabilities due to bank, other financial institutions and the Central bank	4,042,274	237,889	3,948,121	-	8,228,284
Deposits and other financial liabilities to clients	317,229,084	13,840,132	19,598,940	-	350,668,156
Provisions	1,646,400	130,585	22,732	9,136	1,808,853
Currents tax liabilities	-	119	10,782	143	11,044
Deffered tax liabilities	-	9,841	4,836	-	14,677
Other liabilities	9,059,972	95,359	177,810	753	9,333,894
Total liabilities	331,977,730	14,313,925	23,763,221	10,032	370,064,908
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/loss	8,300,982	(734,409)	218,749	10,732	7,796,054
Reserves	22,979,387	618,124	93,638	232	23,691,381
Non-controlling participation	-	-	66	-	66
Total capital	71,314,919	(116,285)	312,453	10,964	71,522,051
Total liabilities and equity	403,292,649	14,197,640	24,075,674	20,996	441,586,959

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overwiew of the activities of Strategic Segments (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2019

In thousands RSD

	Komercijalna banka a.d.Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	Komabnk INVEST a.d. Beograd	Total
Interest income	13,628,713	649,616	819,284	578	15,098,191
Interest expenses	(1,022,932)	(104,216)	(200,525)	-	(1,327,673)
Net interest gains	12,605,781	545,400	618,759	578	13,770,518
Income from fees and commissions	7,114,715	239,441	282,082	26,016	7.662,254
Expenses from fees and commissions	(1,795,434)	(54,360)	(85,067)	(269)	(1,935,130)
Net gains from fees and commissions	5,319,281	185,081	197,015	25,747	5,727,124
Net gains from changes in fair value of financial instruments	71,614	-	-	3,444	75,058
Net gains from derecognition of the financial instruments measured at fair value	353,490	-	-	12	353,502
Net income/(expense) from exchange rate differences and effects of contractual currency clause	45,516	4,292	(5,568)	-	44,240
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1,614,640	(69,092)	42,128	-	1,587,676
Net losses from derecognition of the financial instruments measured at amortised cost	(579,933)	-	-	-	(579,933)
Other operating income	150,802	5,292	10,452	-	166,546
Total operating income	19,581,191	670,973	862,786	29,781	21,144,731
Selaries, salary compesations and other personal expenses	(4,917,532)	(274,340)	(330,904)	(15,166)	(5,537,942)
Depreciation costs	(1,005,837)	(82,264)	(105,369)	(10)	(1,193,480)
Other income	720,795	82,413	7,680	19	810,907
Other expenses	(6,923,772))	(282,939)	(281,436)	(9,741)	(7,497,888)
Profit/Loss before taxes	7,454,845	113,843	152,757	4,883	7,726,328
Profit tax	-	(1,949)	(12,137)	(2)	(14,088)
Profit/Loss on deffered taxes	687,074	(740)	(767)	2,058	687,625
Profit/Loss for the year	8,141,919	11,154	139,853	6,939	8,399,865

Within the stated consolidated profit, the gain that accrues to owners without the control right is RSD 2 thousand.

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2018

In thousands RSD

	Komercijalna banka a.d. Beogard	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Interest income	13,741,459	558,654	791,833	577	15,092,523
Interest expenses	(910,270)	(83,003)	(152,606)	-	(1,145,879)
Net interest gains	12,831,189	475,651	639,227	577	13,946,644
Income from fees and commissions	7,200,038	188,349	241,604	23,037	7,653,028
Expenses from fees and commissions	(1,996,886)	(45,230)	(70,170)	(295)	(2,112,581)
Net gains from fees and commissions	5,203,152	143,119	171,434	22,742	5,540,447
Net gains from changes in fair value of financial instruments	44,076	-	-	4,496	48,572
Net gains from derecognition of the financial instruments measured at fair value	230,194	-	16,872	18	247,084
Net income/(expense) from exchange rate differences and effects of contractual currency clause	2,863	(3,274)	(1,122)	1	(1,532)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	11,818	29,335	10,528	-	51,681
Net gains from derecognition of the financial instruments measured at amortised cost	526,547	-	-	-	526,547
Other operating income	155,351	7,636	11,808	-	174,795
Total operating income	19,005,190	652,467	848,747	27,834	20,534,238
Selaries, salary compesations and other personal expenses	(4,442,799)	(265,618)	(320,675)	(14,845)	(5,043,937)
Depreciation costs	(551,988)	(34,940)	(42,816)	(10)	(629,754)
Other income	280,229	58,264	36,886	13	375,392
Other expenses	(6,167,977)	(296,849)	(379,966)	(9,981)	(6,854,773)
Profit/Loss before taxes	8,122,655	113,324	142,176	3,011	8,381,166
Profit tax	-	(119)	(18,076)	(181)	(18,376)
Profit/Loss on deffered taxes	24,109	(7,381)	816	-	17,544
Profit/Loss for the year	8,146,764	105,824	124,916	2,830	8,380,334

Within the stated consolidated profit, the gain that accrues to owners without the control right is RSD 2 thousands.

6. SEGMENT REPORTING (continued)

6.2. Operational segments report - business lines

The Parent bank has three operating segments:

- Transactions with legal entities Parent Bank - Includes loans, deposits and other transactions with clients to legal entities other than banks,
- Retail banking of the parent bank - Includes loans, deposits and other transactions with clients to individuals, micro clients, entrepreneurs and farmers, and
- Investment banking and interbank banking of the Parent Bank - Includes transactions with securities and other financial instruments, as well as transactions with banks.

Since the dependent members of the Group operate as independent entities in their local markets and that the results thus obtained are used to measure their business performance, that the business of individual members of the Group as strategic segments is shown under note 6.1, and that the Parent Bank is more of 90% of the consolidated balance sheet, for reporting purposes by operational segments at the Group level, dependent members of the Group are shown under a single segment (Subsidiaries).

When considering the profitability / results of each segment of the Parent Bank, in addition to the income and expenses generated from dealing with clients, they also include a portion of the net income / expenses that the Parent Bank reported from the transactions with subsidiaries.

Significant impact on the result in 2019 had net income from indirect write-offs amounting to RSD 1,587,676 thousand (of which the collected written off receivables amounted to RSD 1,086,560 thousand). In addition to the net income of indirect write-offs, Net gains from derecognition of the financial instruments measured at amortised cost in the amount of RSD 579,933 thousand under the Low on conversion of hoam loans indexes in CHF.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is indebted to direct operational costs that relate to that segment as well as part of the indirect operating costs (the allocation of these costs to the segments is made using the appropriate keys used to allocate the cost of cost centers to profit centers).

Direct operating expenses at the Group level amount to RSD 8,705,940 thousand and account for 70% of the total operating costs. Direct operating costs mostly comprise costs that are directly related to segment segments (salaries, rental costs, depreciation costs, marketing and other costs), and to a lesser extent they are also costs that are allocated to segments based on a management decision.

The segment of deals with the population of the Parent bank refers to the amount of RSD 5,818,576 thousand of direct costs (67% of the total direct costs of the Group), which is a consequence of the large business network and the number of employees in the work with the population.

In accordance with the above said, the Group achieved profit before tax in the business year 2019 in the amount of RSD 7,726,328 thousand.

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2019 is shown below:

In thousand RSD

31.12.2019	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other Parent bank	Subsidiaries	Adjustments and consolidation	Total of the Group (consolidated)
Revenues and expenses							
Interest incomes	6,980,294	2,189,786	4,458,633	-	1,469,478	-	15,098,191
Interest expenses	(705,481)	(211,120)	(86,797)	(19,534)	(304,741)	-	(1,327,673)
Net interest gains	6,274,813	1,978,666	4,371,836	(19,534)	1,164,737	-	13,770,518
Net income/expenses from related party transactions	-	-	(397)	-	397	-	-
Net fees	3,912,956	812,561	593,764	-	407,843	-	5,727,124
Net fees from related party transactions	-	-	9,715	-	(9,715)	-	-
Profit before impairment alloowance	10,187,769	2,791,227	4,974,918	(19,534)	1,563,262	-	19,497,642
Net gains/losses from impairment allowance	(479,074)	2,029,565	64,150	-	(25,637)	(1,328)	1,587,676
Impairmet allowance from related party transactions	-	-	811,290	-	-	(811,290)	-
Profit before operating expensses	9,708,695	4,820,792	5,850,358	(19,534)	1,537,625	(812,618)	21,085,318
Direct operating expenses	(5,818,576)	(1,734,099)	(206,586)	-	(946,679)	-	(8,705,940)
Net exchange rate gain/loss	-	-	45,516	-	(1,276)	-	44,240
Net exchange difference from related party transactions	-	-	(7,288)	-	14,147	(6,859)	-
Net other income/expenses	(1,101,763)	(136,598)	172,597	-	77,096	-	(988,668)
Net other income/expenses from related party transactions	173	173	173	-	(519)	-	-
Profit before indirect operating expenses	2,788,529	2,950,268	5,854,770	(19,534)	680,394	(819,477)	11,434,950
Indirect operating expenses	(1,868,570)	(1,158,962)	(277,817)	-	(403,273)	-	(3,708,622)
Profit before taxes	919,959	1,791,306	5,576,953	(19,534)	277,121	(819,477)	7,726,328
Assets per segment							
Cash and cash equivalents	-	-	67,558,219	-	9,096,165	18	76,654,402
Cash from related party transactions	-	-	-	-	8,378	(8,378)	-
Due from banks	-	-	24,644,242	-	2,342,212	3,550	26,990,004
Due from banks from related party transactions	-	-	89,716	-	1,095,830	(1,185,546)	-
Due from customers	98,957,179	81,895,385	-	-	27,381,594	-	208,234,158
Investment securities	-	-	138,469,551	-	5,957,273	52,607	144,479,431
Investment in subsidiaries	-	-	3,433,697	-	-	(3,433,697)	-
Other	-	-	-	17,332,119	2,065,778	2	19,397,899
Other from related parties transactions	-	-	-	337	-	(337)	-
	98,957,179	81,895,385	234,195,425	17,332,456	47,947,230	(4,571,781)	475,755,894
Liabilities per segment							
Liabilities to banks	-	-	3,917,547	-	4,401,059	-	8,318,606
Liabilities to banks from related parties transactions	-	-	1,104,209	-	89,716	(1,193,925)	-
Liabilities to customers	281,378,192	47,948,280	5,990,682	-	35,670,556	-	370,987,710
Subordinated liabilities							
Other	-	-	-	16,189,360	906,733	(18,091)	17,078,002
Other from related parties transaction	-	-	-	-	337	(337)	-
	281,378,192	47,948,280	11,012,438	16,189,360	41,068,401	(1,212,353)	396,384,318

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2018 is shown below:

In thousand RSD

31.12.2018	Operations with retail sector	Operations with corporate sector	Investment and interbank operations	Other Parent bank	Subsidiaries	Adjustment and consolidation	Total for the Group (consolidation)
Revenues and expenses							
Interest incomes	6,680,346	2,461,416	4,599,696	-	1,351,065	-	15,092,523
Interest expenses	(630,059)	(178,255)	(101,956)	-	(235,609)	-	(1,145,879)
Net interest gains	6,050,287	2,283,161	4,497,740	-	1,115,456	-	13,946,644
Net income/expenses from related party transactions	-	-	3,449	-	(3,449)	-	-
Net fees	3,835,447	757,668	610,037	-	337,295	-	5,540,447
Net fees from related party transactions	-	-	6,997	-	(6,997)	-	-
Profit before impairment alloowance	9,885,734	3,040,829	5,118,223	-	1,442,305	-	19,487,091
Net gains/losses from impairment allowance	(25,518)	22,453	12,558	-	36,548	5,640	51,681
Impairmet allowance from related party transactions	-	-	-	-	-	-	-
Profit before operating expensses	9,860,216	3,063,282	5,130,781	-	1,478,853	-	19,538,772
Direct operating expenses	(5,764,006)	(1,410,121)	(179,085)	-	(911,560)	-	(8,264,772)
Net exchange rate gain/loss	-	-	2,863	-	(4,395)	-	(1,532)
Net exchange difference from related party transactions	-	-	(10,321)	-	16,064	(5,743)	-
Net other income/expenses	(174,657)	488,433	233,641	-	68,701	-	616,118
Net other income/expenses from related party transactions	206	206	206	-	(618)	-	-
Profit before indirect operating expenses	3,921,759	2,141,800	5,178,085	-	647,045	-	11,888,586
Indirect operating expenses	(1,590,127)	(1,193,677)	(336,767)	-	(386,849)	-	(3,507,420)
Profit before taxes	2,331,632	948,123	4,841,318	-	260,196	(103)	8,381,166
Assets per segment							
Cash and cash equivalents	-	-	63,595,710	-	10,396,316	13	73,992,039
Cash from related party transactions	-	-	-	-	8,848	(8,848)	-
Due from banks	-	-	18,370,198	-	2,662,152	5,187	21,037,537
Due from banks from related party transactions	-	-	107,531	-	1,611,625	(1,719,156)	-
Due from customers	91,855,167	75,690,507	-	-	23,902,968	-	191,448,642
Investment securities	-	-	133,177,598	-	4,337,122	-	137,514,720
Investment in subsidiaries	-	-	2,611,859	-	-	(2,611,859)	-
Other	-	-	-	15,757,175	1,836,845	1	17,594,021
Other from related parties transactions	-	-	-	236	-	(236)	-
	91,855,167	75,690,507	217,862,896	15,757,411	44,755,876	(4,334,898)	441,586,959
Liabilities per segment							
Liabilities to banks	-	-	4,042,274	-	4,186,010	-	8,228,284
Liabilities to banks from related parties transactions	-	-	1,620,474	-	107,531	(1,728,005)	-
Liabilities to customers	261,120,783	49,937,553	6,170,748	-	33,439,072	-	350,668,156
Subordinated liabilities	-	-	-	-	-	-	-
Other	-	-	-	10,713,635	462,096	(7,263)	11,168,468
Other from related parties transaction	-	-	-	-	236	(236)	-
	261,120,783	49,937,553	11,833,496	10,713,635	38,194,945	(1,735,504)	370,064,908

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUE

The methodology and assumptions used to calculate fair (fair) values for those financial assets and liabilities that are not recorded at fair value in the financial statements are as follows:

(i) The assets and liabilities in which the present value in books is approximately equal to the fair value

With financial assets and liabilities that are highly liquid and with a short-term maturity (up to one year), it is assumed that the present book value is approximately equal to fair value. This assumption is also used in demand deposits, savings deposits with no specified maturity and all financial instruments with a variable interest rate.

(ii) Instruments with a fixed interest rate

The fair value of financial assets and liabilities with fixed interest rates, carried at amortized cost, is estimated by comparing market interest rates at the moment of initial recognition with current market interest rates for financial instruments of similar characteristics. The estimated fair value of assets and liabilities with a fixed interest rate is to a large extent corresponds to the carrying amount, given that the agreed interest rates do not deviate from the market rates. Members of the Group do not have materially significant deviations on this basis.

8. NET INTEREST INCOME / (EXPENSES)

Net interest income / (expenses) consist of:

	In thousand RSD For the year that ends December 31, 2019	2018
Income from:		
Banks and REPO placements	171,122	249,625
Clients	10,444,419	10,314,604
Central Bank (liquid assets and required reserves deposits)	265,487	283,703
Securities	4,216,664	4,244,591
Based on the leasing contract – derecognition	499	-
Interest income	15,098,191	15,092,523
Expenses from:		
Deposits and other liabilities to banks and other financial oragnisation	(121,463)	(121,653)
Deposits to customers	(1,124,024)	(916,472)
Received loans	(48,678)	(107,754)
Based on the leasing contract	(33,508)	-
Interest expenses	(1,327,673)	(1,145,879)
Net interest gains	13,770,518	13,946,644

Total interest income and expense accounted for using the effective interest method presented in the previous table relates to financial assets and liabilities not carried at fair value through profit and loss.

9. NET INCOME / (EXPENSES) FROM THE FEES AND COMMISSIONS

Net gains from fees and commissions / (expenses) consist of:

	In thousand RSD For the year that ends December 31, 2019	2018
Income in RSD		
Fees from payment services	3,421,717	3,577,857
Fees for granted loans and guarantees	108,163	114,521
Fees for purchase of foreing currency	587,035	410,146
Fees for brokerage and custody services	34,531	29,906
Card payment fees	1,974,583	2,188,081
Fees based on inquiries in the Credit Bureau	79,848	69,291
Fees and commissions on other banking services	597,868	499,570
	6,803,745	6,889,372
Revenues in foreign currency		
Fees for payment services	388,144	354,737
Fees for granted loans and guarantees	63,093	35,991
Fees for brokerage and custody services	21,713	20,844
Card payment fees	296,192	273,557
Fees and commissions on other banking services	89,367	78,527
	858,509	763,656
	7,662,254	7,653,028
Expenses in RSD		
Fees for payment services	(150,202)	(135,377)
Foreign currency sale and purchase fees	(18,431)	(32,831)
Card payment fees	(557,488)	(931,306)
Credit Bureau fees	(72,110)	(64,462)
Fees and commissions on other banking services	(158,218)	(131,657)
	(956,449)	(1,295,633)
Expenses in foreign currency		
Fees for payment services	(148,667)	(103,010)
Card payment fees	(720,886)	(623,138)
Fees and commissions on other banking services	(109,128)	(90,800)
	(978,681)	(816,948)
	(1,935,130)	(2,112,581)
Net fee and commission income	5,727,124	5,540,447

10. NET GAINS FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains from changes in fair value of financial instruments:

	In thousands of RSD For the year that ended December 31 2019	2018
Revenue from the change in fair value of derivatives intended for trading – SWAP	-	11,915
Gains on the fair value adjustment of securities – investment units	12,090	14,114
Revenue from the change in the fair value of securities – treasury bills and bonds of the Republic of Serbia and other financial instruments	84,157	22,647
Total revenues	96,247	48,676
Expenses from the change in the fair value of derivatives held for trading - SWAP	(4,070)	-
Losses on the fair value adjustment of securities – investment units	(14)	(32)
Losses on the changes in value of securities - bonds	(17,105)	(72)
Total expenses	(21,189)	(104)
Net trading gain	75,058	48,572

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gains from derecognition of the financial instruments measured at fair value:

	In thousands RSD For the year that ends December 31, 2019	2018
Gains arising from the derecognition of financial instruments valued at fair value trough other comprehensive income	238,373	103,863
Gains arising from the derecognition of financial instruments valued at fair value trough income statement	117,575	162,443
Gains on derecognition of derivatives valued at fair value trough income statement - FORWARD	3,789	-
Losses arising from the derecognition of financial instruments valued at fair value trough other comprehensive income	(69)	(688)
Losses arising from the derecognition of financial instruments valued at fair value trough income statement	(6,166)	(18,534)
Net gain	353,502	247,084

Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income in the amount of RSD 238,373 thousand relate to the bonds of the Republic of Serbia and bonds of the Republic of Srpska, in the amount of RSD 52,679 thousand in the local and RSD 185,694 thousand in the foreign currency.

Gains arising from the derecognition of securities at fair value through income statement in the amount of RSD 117,575 thousand relate to bonds of the Republic of Serbia in the amount of RSD 70,314 thousand, and bonds of the Republic of Srpska in foreign currency in the amount of RSD 43,963 thousand and investment units in RSD in the amount of 3,298 thousand.
Gains on derecognition of derivatives valued at fair value trough income statement in the amount of RSD 3,789 thousands relate to income from sale of freign currency to commercial banks.

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

Losses arising from the derecognition of financial instruments valued at fair value trough other comprehensive income in the amount of RSD 69 thousands relate, entirely to bonds of the Republic of Serbia.

Losses arising from the derecognition of financial instruments valued at fair value through income statement in the amount of RSD 6,166 thousand relate to: bonds of the Republic of Serbia in the amount of RSD 3,789 thousand and bonds of the Republic of Srpska in foreign currency, in the amount of RSD 2,377 thousand.

12. NET EXCHANGE RATE GAINS / (LOSSES) AND EFFECTS OF AGREED CURRENCY CLAUSE

	In thousands RSD For the year that ends December 31,	
	2019.	2018.
Positive currency clause effect - corporate clients	562,986	1,345,260
Positive currency clause effect - value adjustment of securities	808	2,627
Foreign exchange gains - value adjustement of liabilities	2,587	5,503
Positive currency clause effect - leasing contract	8,970	-
Positive currency clause effect	3,363,836	2,586,267
Total gains	3,939,187	3,939,657
Negative currency clause effect - corporate clients	(1,086,510)	(1,452,551)
Negative currency clause effect - value adjustment of securities	(2,035)	(3,357)
Foreign exchange losses – value adjustment of liabilities	(1,580)	(4,636)
Negative currency clause effect - leasing contract	(3,528)	-
Negative currency clause effect	(2,801,294)	(2,480,645)
Total losses	(3,894,947)	(3,941,189)
Net gains/losses	44,240	(1,532)

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net impairment charges relate to:

	In thousands RSD For the year that ends December 31, 2019	2018
Impairment allowance of financial assets measured at amortised cost	(6,292,787)	(6,290,137)
Provisions for off-balance sheet items	(282,248)	(383,333)
Impairment allowance of direct write-off of placements	(814)	(3,638)
Impairment allowance for debt securities measured through other comprehensive income	(104,869)	(114,688)
Losses airising from the modification of financial instruments	(14,631)	-
Reversal of impairment allowance of financial assets valued at amortised cost	6,753,161	6,097,706
Reversal of provisions for off-balance sheet items	380,863	330,916
Reversal of allowance for debt securities measured through other comprehensive income	62,434	85,404
Income from collection of receivables previously written-off	1,086,567	329,451
Total	1,587,676	51,681

Within the position of indirect write-offs of placements of balance sheet items, the Group recorded the impairment of material values acquired through collection of receivables in the amount of RSD 95,846 thousand, based on estimation of the value of real estate and equipment by authorized appraisers and in accordance with internal acts of the Group.

In the course of 2019 collected written-off receivables amount to RSD 1,086,567 thousand. Out of the total amount of collected written-off receivables, the largest individual amount refers to a collection from Febuary 2019, which the Parent Bank achived through the realization of a contract between two clients, in compliance with the legal provisions of Reorganization Plan (UPPR), on the basis of the purchase of storage space over which the Bank is entitled to the mortgage. The total collection amount of RSD 442,089 thousand was recognized in the income statement on the basis of the collection of writen-off receivables.
The other remaining part of the full amount is mostly related to debt collection from off-balance records for which their was a previously executed write-off carried out by a transfer from on-balance to off-balance, out of which collection from retail clients amounts to RSD 148,765 thousand and the remained of RSD 495,706 thousand relates to the collection of loans from legal entities.

By the end of January 2020 the Group did not make materially significant collections from imapaired placements that would affect the reversal of impairment.
Effects arising from the credit risks of debt securities in the amount of net loss of RSD 42,435 thousand the Group recognised in Equity, in the position losses of the debt instruments (Expenses of debt securities at fair value through Other Comprehensive Income in the amount of RSD 104,869 thousand and income on the same basis in amount of RSD 62,434 thousand). These positions are exempt from the structure of the table of changes in the impairment and provisions for off-balance sheet items.

13. NET INCOME FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENTS ON IMPAIRMENT ALLOWANCE ACCOUNTS AND PROVISION FOR OFF-BALANCE SHEET ITEMS

	Loans and receivables due from banks (note 24.2)	Loans and receivables from clients (note 25.2)	Securities (note 23)	Other assets (Note 30)	Off-balance sheet liabilities (note 33)	Total
Balance as at January 1 , 2019	227,871	14,910,043	1,594	2,637,699	309,212	18,086,419
New impairment allowance	44,177	5,873,799	74	374,737	282,248	6,575,035
Decrease in impairment allowance	(56,187)	(6,578,751)	(1,059)	(117,164)	(380,863)	(7,134,024)
Postive effect form reversal of impairment in acc. with Law on conversion of CHF loans	-	(278,567)*	-	-	-	(278,567)
Foreign exchange differences	3,098	(26,707)	(7)	(3,903)	(202)	(27,721)
Permanent write-offs		(1,294,991)	-	(11,234)	-	(1,306,225)
Write off - reversal of impairment in acc. with Law on conversion of CHF loans	-	(1,733)*	-		-	(1,733)
Other changes	-	182,754**	-	(196,808)	-	(14,054)
Balance as of December 31, 2019	218,959	12,785,847	602	2,683,327	210,395	15,899,130

*effect of the implementation of the Law of conversion of loans indexed in CHF – the part that refers to the reversal of impairments in CHF before the conversion of loans to EUR ,in accordance with the instructions of the NBS
** effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments

In 2019, the Group made an increase in the net expense of impairment and provisioning in the total amount of RSD 558,989 thousand.

Of the other changes in the accounts of impairment allowance and provisions, the amount of RSD 1,306,225 thousand refers to the decrease on the basis of permanent write-off by transfer to off-balance with the Parent Bank, KB Podgorica and KB Banja Luka, based on the application of uniform accounting policies.

14. NET GAINS / (LOSSES) FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

		In thousands of RSD For the year ended 31 December
	2019	2018
Gain / (loss) on the derecognition of financial instruments that are valued at amortised cost	(579,933)	526,547
Total	(579,933)	526,547

The loss realized in 2019 relates entirely to the net effects of the implementation of the Law of conversion of mortgage loans indexed in Swiss francs in April 2019, by which banks were obliged to recognize the expense of conversion and the impairment of the outstanding debt in the income statement of the current period.

According to the Law, the amount obtained by the conversion of outstanding debt from Swiss francs to debt indexed to EUR using a conversion exchange rate for all clients that signed a contract with the Parent Bank, is impaired by 38% where 23% of that impairment is borne by the Parent Bank's income statement of the current period, and for the 15% of impairment there is a formed claim from The Republic of Serbia. The negative net effect shown in the income statement of the Parent Bank is related to the recalculation of 23% impairment of net receivables on the basis of derecognition of loans in Swiss francs.

The new, decresed amount of loan receivables in EUR, with the new repayment plans, are recorded by the Parent Bank under the position Loans and receivables due from customers.

15. OTHER OPERATING INCOME

		In thousands of RSD For the year ended December 31
	2019	2018
Other income from operations	152,535	164,059
Income from dividends and equity participations	14,011	10,736
Total	166,546	174,795

Within other income from operations of RSD 152,535 thousand, the most significant amounts relate to: income from rental of real estate, including received advances for lease in the amount of RSD 64,216 thousand, reimbursement of court costs and utilities in the amount of 48,456 thousand dinars and revenues from the charged expenses of official mobile phones under the authorization of employees and the use of official vehicles for private purposes in the amount of RSD 14,033 thousand.

During 2019, the Parent Bank received dividends on the basis of shares and stocks intended for trading in the amount of RSD 14,011 thousand (2018: RSD 10,736 thousand) and form part of the position of other income, dividends from the participation in the ownership of VISA Inc. in the amount of RSD 7,893 thousand, Dunav Osiguranje ADO in the amount of RSD 4,422 thousand and MasterCard in the amount of RSD 1,696 thousand.

16 SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

The costs of salaries, wages and other personal expenses consist of:

	In thousands of RSD For the year ended December 31 2019	2018
Net salaries	2,923,235	2,956,795
Net benefits	538,362	509,985
Payroll taxes	429,226	429,588
Payroll contributions	997,564	993,431
Considerations paid to seasonal and temporary staff	4,774	8,192
Provisions for retirement benefits – net (Note 33)	33,570	81,701
Other personal expenses	611,211	64,245
Total	5,537,942	5,043,937

In 2019, majority of other personal expenses relates to annual benefits to employees.

17. DEPRECIATION COSTS

	In thousands RSD For the year that ends December 31, 2019	2018
Depreciation cost - intangible assets (Note 26.2)	234,678	161,229
Depreciation cost - property and equipment (Note 27.2)	424,061	419,447
Depreciation cost - investment property (Note 28.1)	50,871	49,078
Depreciation cost - leasing assets (Note 27.2)	483,870	-
Total	1,193,480	629,754

18. OTHER INCOME

	In thousands RSD For the year that ends December 31, 2019	2018
Income from reversal of unused provisions for litigations and other liabilities (Note 33)	513,269	147,719
Gains from sale of equipment / real estate	148	3,718
Income from decerase liabilities	9,582	41,080
Other income	287,908	182,875
	810,907	375,392

18. OTHER INCOME (continued)

Within the position of other income of the Parent Bank in 2019, the most significant items are income:

- Based on court disputes adjudicated in favour of the Bank or disputes in termination until the end of the previously connected procedure in the amount of RSD 512,334 thousand
- Based on the decrease in liabilities in the amount of RSD 5,391 thousand.
- Based on the changes in the value of fixed assets in the amount of RSD 19,018 thousand,
- Based on interest from previous years – private individuals in the amount of RSD 30,863 thousand and from entrepreneurs in the amount of RSD 291 thousand
- Based on interest from previous years – corporate clients in the amount of RSD 129,961 thousand

19. OTHER EXPENSES

Other expenses relate to:

	In thousands RSD For the year that ends December 31, 2019	2018
Cost of materials	336,527	373,201
Cost of production services	1,520,502	2,130,158
Non – material costs (without taxes and contributions)	2,895,635	2,704,964
Tax expenses	188,168	164,807
Contribution expenses	749,554	780,027
Other operating cost	25,805	26,427
Other expenses	436,028	342,617
Losses from sale of fixed assets and intangible assets	709	-
Expenditure and writte -off losses of fixed assets and intangible assets	6,693	12,405
Losses arising as a result of changes in value in investment properties and assets held for sale	82,372	43,627
Provisions for litigations and other liabilities (note 33)	1,255,895	276,540
Total	7,497,888	6,854,773

a) Other expenses

Within the position of other expenses of the Parent Bank in the amount of RSD 422,499 thousand among others were recorded expenses based on paid invoices to the insurance company for the life insurance policies of clients, in the amount of RSD 219,695 thousand, and whose payment has been done by the Parent Bank. These policies are used as a collateral for approved loans to individuals. Also, in this position, expenses by policy for users of sets of current accounts and travel insurance of international payment cards in the amount of RSD 67,243 thousand are shown in this position.

b) Expenses arising from provisions for litigation

Expenses arising from provisions for litigation in the Parent Bank in the total amount of RSD 1,252,461 thousand (Note 33) refer to increase of expenses for 3,435 new case during 2019 and net increase in provisions for active cases from previous years.

20. PROFIT TAX – current and deferred taxes

The Parent bank does not have the possibility to perform tax consolidation on the basis of valid regulations in the Republic of Serbia. The final amounts of tax liabilities for the Group members are determined by applying the tax rate to the tax base established by local tax regulations and disclosed in individual notes with their annual statutory financial statements.

Tax rates for 2019 are:	
Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

The Group's profit tax components as of December 31 are as follows:

	In thousands of RSD For the year ended December 31	
	2019	2018
Current Profit tax	(14,088)	(18,376)
Gains from deferred taxes	1,488,290	702,775
Losses on deferred taxes	(800,665)	(685,231)
Total	673,537	(832)

Given the impossibility of tax consolidation, tax components are separately disclosed as follows:

20.1. The Parent Bank

20.1.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year ended December 31	
	2019	2018
Gains from deferred taxes	1,482,667	700,754
Losses on deferred taxes	(795,593)	(676,645)
Total	687,074	24,109

In 2019 and 2018, the Bank did not disclose current profit tax on the basis of current tax regulations.

20. PROFIT TAX (continued)

20.1. The Parent Bank (continued)

20.1.2. The adjustment of the effective tax rate is shown in the following table:

In thousand RSD

	2019.	2019.	2018.	2018.
Profit / Loss for the year before taxes		8,268,685		8,121,073
Tax calculated using the local Profit tax rate	15%	1,240,303	15%	1,218,161
Expenses not recognized for tax purposes	2.61%	216,264	1.05%	85,015
Tax effects of the net capital profit / losses	-0.01%	(386)	-0.01%	(621)
Tax effects on income reconciliation	-0.91%	(75,645)	-0.24%	(19,773)
Tax effects by IFRS 9	-0.42%	(34,851)	-0.43%	(34,851)
Tax credit received and used in the current year	-9.02%	(746,013)	-7.80%	(632,773)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-6.77%	(599,672)	-7.57%	(615,158)
Deffered tax effect adjustments	-8.31%	(687,074)	-0.30%	(24,109)
Tax effects stated within the income statement		687,074		24,109

20.1.3. Deferred tax liabilities at 31 December are shown as follows:

In thousands of RSD
For the year that ends December 31

	2019	2018
Balance at 1 January	840,967	857,096
Creation and elimination of temporary differences	233,230	(16,129)
Balance at December 31	1,074,197	840,967

In the course of 2019, the Bank has not paid taxes on the profit, given that when it calculated tax on income for 2018 it did not state it's liability to pay tax, due to the usage of tax losses carried forward and withholding tax paid in another country.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019

20. PROFIT TAX (continued)

20.1. The Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities

20.1.4.1 Deferred tax assets and liabilities relate to:

In thousands RSD

	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purpose	39,299	-	39,299	69,359	-	69,359
Tax losses carried forward	1,259,350	-	1,259,350	878,000	-	878,000
Effects of increase in deferred tax liabilities for securities available for sale and equity investments	570	(1,008,254)	(1,007,684)	4,885	(570,187)	(565,302)
Long-term provisions for retirement benefits	53,838	-	53,838	49,098	-	49,098
Impairment of assets	324,857	-	324,847	295,225	-	295,225
Employee benefits under Article 9 paragraph 2. CIT Law calculated but not paid in accounting period	1,213	-	1,213	1,183	-	1,183
Calculated but not paid public liabilities	163	-	163	13	-	13
First application of IFRS 9	104,552	-	104,552	-	-	-
Tax loan based on loan conversion in CHF	76,119	-	76,119	-	-	-
Provisions for litigation	242,231	-	242,231	135,023	-	135,023
Actuarial gains on provisions for severance payments	-	(19,741)	(19,741)	-	(21,632)	(21,632)
	2,102,192	(1,027,995)	1,074,197	1,432,786	(591,819)	840,967

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed, but can be used to cover taxes on profits in the coming periods amount to RSD 595,917 thousand which relate to a part of the tax loss realized in 2016.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 12,508 thousand, while tax credit for intercompany dividends of RSD 13,154 thousand is entirely utilized in 2019.

20. PROFIT TAX (continued)

20.1. The Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities (continued)

20.1.4.2 Overview of tax credits on which no deferred tax assets are formed:

In thousand RSD

Type of tax credit	Year	Amount as at 31.12.2019	Amount as at 31.12.2018	Expiration date of use
	2014			2019
	2015			2020
Transferred tax losses	2016	595,917	7,979,816	2021
Total tax losses		595,917	7,979,816	
Impact of tax credit on future Profit tax(15%)		89,338	1,196,972	2019 -2021
Tax credit on the basis of investment in fixed assets	2013	12,508	15,692	2023
Tax credit on the basis on intercompany dividends	2014	-	13,154	2019
Total tax credit for future Profit tax liabilities		101,896	1,225,818	

20.1.4.3. Movements under temporary differences in 2019 and 2018 are presented as follows:

In thousand RSD

2019	As of 1 January	Through P&L	Through OCI	As of 31 December
Property, plant and equipment	69,359	(16,707)	(13,353)	39,299
Tax losses carried forward	878,000	381,350	-	1,259,350
Securities	(565,302)	-	(442,382)	(1,007,684)
Long term provisions for employee benefits	49,098	4,740	-	53,838
Actuarial gains	(21,632)	-	1,891	(19,741)
Impairment of assets	295,225	29,632	-	324,857
Employee benefits under Ar.9, paragraph 2, CIT	1,183	30	-	1,213
Accrued and unpaid public duties	13	150	-	163
Tax credit based on first implementation of IFRS 9	-	104,552	-	104,552
Tax credit based on conversion of CHF loans	-	76,119	-	76,119
Provisions for legal disputes	135,023	107,208	-	242,231
Total	840,967	687,074	(453,844)	1,074,197

20. PROFIT TAX (continued)

20.1. The Parent bank (continued)

20.1.4. Deferred tax assets and liabilities (continued)

20.1.4.3. Movements under temporary differences in 2019 and 2018 are presented as follows:

In thousand RSD

2018	As at 1 January	Through income statement	Through other results	As at 31 December
Property, plant and equipment	112,277	(46,444)	3,526	69,359
Transferred tax losses	867,146	10,854	-	878,000
Securities	(529,547)	-	(35,755)	(565,302)
Long-term provisions for employee benefits	35,322	13,776	-	49,098
Acturial gains	(13,623)	-	(8,009)	(21,632)
Impairment of assets	265,532	29,693	-	295,225
Employee benefits under Article 9 paragraph 2 CIT Law	1,192	(9)	-	1,183
Calculuted but not paid public liabilities	-	13	-	13
Provisions for litigation	118,797	16,226	-	135,023
Total	857,096	24,109	(40,238)	840,967

20.1.5. Tax effects related to the Other comprehensive income

In thousands RSD

	2019			2018		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities (increase on debt and equity securities)	2,920,446	(438,067)	2,482,379	54,832	(8,224)	46,608
Net decrease due to actuarial losses	(12,609)	1,891	(10,718)	53,387	(8,008)	45,379
Valuation of property	111,214	(13,353)	97,861	-	3,526	3,526
Decrease due to fair value adjustments of equity investments and securities	28,767	(4,315)	24,452	(28,403)	4,260	(24,143)
Total	3,047,818	(453,844)	2,953,974	79,816	(8,446)	71,370

20. PROFIT TAX (continued)

20.2. Komercijalna banka ad, Podgorica

20.2.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st 2019	2018
Tax expense of the period	(1,949)	(119)
Gains from deferred taxes	3,565	1,205
Deferred Profit tax expense	(4,305)	(8,586)
	(2,689)	(7,500)

20.2.2. The adjustment of the effective tax rate is shown in the following table:

	2019	2019	2018	2018
Profit / (Loss) before tax		121,323		118,517
Tax calculated at the local rate of 9%	9.00%	10,919	9.00%	10,667
Taxable income - related parties and capital gains	-1.61%	(1,949)	-0.10%	(119)
Tax deductible expenses	0.99%	1,199	-4.80%	(5,687)
Tax credits - received and used in the current year	-8.38%	(10,169)	-4.10%	(4,860)
Effective Profit tax	1.61%	1,949	0.10%	119
Correction of tax effects on the basis of tax deduction	0.61%	740		7,381
Tax effects of items reported in the income statement		(2,689)		(7,500)

20.3. Komercijalna banka ad, Banja Luka

20.3.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD For the year that ends December 31st 2019	2018
Tax expense of the period	(12,137)	(18,076)
Gains / (losses) from deferred taxes	(766)	815
	(12,903)	(17,261)

20. PROFIT TAX (continued)

20.3. Komercijalna banka ad, Banja Luka (continued)

20.3.2. The adjustment of the effective tax rate is shown in the following table:

In thousands RSD

	2019.	2019.	2018.	2018.
Profit / (Loss) before tax		152,290		139,879
Tax calculated at the local rate of 10%	10.00%	15,229	10.00%	13,988
Tax loss tranferred from previous years	0.00	-	0.00	-
Tax deductible expenses	3.81%	5,801	8.09%	11,302
Effects of delayed income tax	0.00%	-	0.00%	-
Revenues freed from tax	-5.84%	(8,893)	-5.16%	(7,214)
Effective Profit tax	7.97%	12,137	12.93%	18,076
Correction of tax effects on the basis of tax deduction	0.50%	766	-0.58%	(815)
Tax effects of items reported in the income statement		(12,903)		(17,261)

20.3.3. Deferred tax liabilities at 31 December are shown as follows:

In thousands of RSD
For the year that ends December 31st

	2019	2018
Balance at 1 January	4,836	1,647
Creation and elimination of temporary differences	16,568	3,189
Balance at 31 December	21,404	4,836

20.4. KomBank INVEST Investment fund management company ad, Belgrade

20.4.1. The components of the corporate Profit tax as at December 31 are as follows:

In thousands of RSD
For the year that ends December 31st

	2019.	2018.
Tax expense of the period	(2)	(181)
Gains from deferred taxes	2,058	-
	2,056	(181)

20. PROFIT TAX (continued)

20.4. KomBank INVEST Investment fund management company ad, Belgrade (continued)

20.4.2. The adjustment of the effective tax rate is shown in the following table:

	In thousands of RSD For the year that ends December 31, 2019	 2018
Profit before tax	2,887	1,624
Profit tax at the statutory tax rate of 15%	433	244
The tax effects of net capital gains	2	181
Tax effects of differences of depreciation for tax purposes and accounting depreciation	36	40
Correction of tax effects (effect of used and new)	(471)	(465)
Other	2	181
Tax effects of items reported in the income statement	(2)	(181)
Effective tax rate	0.07%	11.15%

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and balances with the central bank include:

	December 31, 2019	In thousands RSD December 31, 2018
In RSD		
Cash on hand	4,339,383	4,247,196
Giro account	23,873,701	25,485,437
Other RSD cash funds	99	99
	28,213,183	29,732,732
In foreign currencies		
Casn on hand	10,118,526	3,956,036
Foreign currency obligatory reserves	37,256,392	39,287,392
Other cash funds	1,066,301	1,015,879
	48,441,219	44,259,307
Total	76,654,402	73,992,039
Adjustment to cash for the purpose of preparing cash flow statement		
Foreign currency accounts held with foreign banks (note 24.1)	5,121,610	9,825,488
Foreign currency obligatory reserves	(37,256,392)	(39,287,392)
	(32,134,782)	(29,461,904)
Cash and cash equivalents reported in statement of cash flows	44,519,620	44,530,135

The Group in the Cash Flow Statement records cash on giro accounts with the central bank, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK (continued)

The Parent Bank

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0.0% to 5.00%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days.

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 1.25% annually up until 18.08.2019, 1% from 18.08 to 17.11 and 0,75% from 18.11.2019.

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated 11.12.2015 (Official Gazzete 102/2015), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied
- for foreign currency deposits placed for over 730 days the rate of 13% was applied
- for RSD deposits indexed with currency clause the rate of 100% was applied regardless of maturity

In accordance with Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of its foreign currency reserve to its gyro account. The Bank does not realize interest on the obligatory reserve in the currency of the foreign country.

Other foreign currency cash in the amount of RSD 1,463 thousand (2018: RSD 110 thousand) relate to an accruals account at the Central Registry of securities for security trading.

Komercijalna banka ad Podgorica

The mandatory reserve of the Bank as of December 31, 2019 represents the minimum amount of deposited deposits in accordance with the regulations of the Central Bank of Montenegro, to which the "Decision on Required Reserves of Banks with the Central Bank of Montenegro" ("Official Gazette of Montenegro" No. 73 / 15, 78/15 and 3/16). In accordance with the above, the Bank calculates the required reserve on demand deposits and time deposits.

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK (continued)

Komercijalna banka ad Podgorica (continued)

Deposit accounts with depository institutions in Montenegro refer to the obligatory reserve, which is allocated at the rate of 7.5% on the part of the base that consists of demand deposits and deposits with maturity up to one year, ie up to 365 days, and 6.5% per share of the base deposits are contracted with maturity over one year, or over 365 days. Deposits with a maturity of over one year that have a clause on the possibility of the disposal of these deposits within less than 365 days shall be applied at a rate of 7.5%.

The amount up to 50% is included in available-for-sale assets as an amount that is allowed to dispose of in order to maintain the daily liquidity of the Bank.

The Bank may allocate up to 25% of the required reserve in the form of government bonds issued by Montenegro.

At 50% of the allocated funds, the Central Bank pays the Bank a monthly fee of 1% per annum.

The Bank did not use the reserve requirement funds during 2019.

Komercijalna banka ad Banja Luka

Cash and cash equivalents include deposited surpluses of liquid assets with the Central Bank of Bosnia and Herzegovina in accordance with the regulations of the Central Bank of Bosnia and Herzegovina.

The obligatory reserve with the Central Bank of Bosnia and Herzegovina represents the minimum reserve of funds in domestic currency calculated in accordance with the Decision on Required Reserves with the Central Bank of Bosnia and Herzegovina.

From July 1, 2016, the Central Bank of Bosnia and Herzegovina calculates remuneration to banks in the following manner:

a) on the amount of the required remuneration means - does not charge compensation,
b) for the amount of funds above the required reserve - charges shall be calculated at a rate equal to the rate applied by the European Central Bank to Deposit Facility Rate - (Official Gazette of the Republic of Srpska 28/19 from April 4, 2019.

If during the maintenance period there is a change in the value of the Deposit Facility Rate, the rate applicable on the first day of the maintenance period during which the Change Deposit Facility Rate.

22. RECEIVABLES UNDER DERIVATIVES

	In thousands of RSD For the year that ends December 31, 2019	2018
Receivables on the basis of derivative value changes in local currency - SWAP	-	4,070
Total	-	4,070

23. SECURITIES

23.1. Securities comprise:

In thousands RSD

	December 31, 2019.	December 31, 2018.
Securities measured at fair value through income statement (in RSD)	5,538,859	1,795,977
Securities measured at fair value through income statement (in foreign currency)	4,898,625	3,156,612
Total	10,437,484	4,952,589
Securities measured at fair value through other comprehensive income (in RSD)	59,825,920	52,167,965
Securities measured at fair value through other comprehensive income (in foreign currency)	74,216,629	80,395,760
Total	134,042,549	132,563,725
Impairment allowance	(602)	(1,594)
Total	144,479,431	137,514,720

23.2. The structure of securities measured at fair value through income statement is shown in the following table:

In thousands of RSD
For the year that ends

	2019	2018
Bonds of the Republic of Serbia (in RSD)	4,877,762	1,193,611
Investment units of OIF monetary fund (in foreign currency)	4,832	4,794
Investment units of OIF monetary fund (in RSD)	656,625	597,572
Bonds of the Republic of Serbia (in foreign currency)	4,898,625	3,156,612
Total	10,437,484	4,952,589

Investment units as at December 31, 2019 in the amount of RSD 661,097 RSD comprise investment units Kombank Monetary fund Beograd and OIF in foreign currency fund.

23. SECURITIES (continued)

23.3 The structure of securities measured at fair value through other comprehensive income statement is shown in the following table:

In thousands RSD

	December 31, 2019	December 31, 2018
In RSD		
Bonds of the Republic of Serbia	59,651,702	51,916,780
Municipality bonds (city of Sabac and municipality of Stara Pazova)	174,218	251,185
Total in RSD	59,825,920	52,167,965
In foreign currency		
Bonds of the Republic of Serbia	66,374,668	74,000,931
Bonds of foreign banks (Raiffeisen Bank International)	1,799,460	1,702,199
Bonds of the Republic of Srpska	3,927,741	2,884,532
Bonds of Montenegro	2,114,760	1,808,098
Total in foreign currencies	74,216,629	80,395,760
Total	134,042,549	132,563,725

Changes in the impairment allowance are as shown:

Impairment allowance of securities measured at fair value through other comprehensive income

In thousand RSD

	2019	2018
Individual impairment allowance		
Balance at January 1	1,594	3
Correction of the opening balance:		
IFRS 9 – correction through the equity	-	1,828
Corrected balance at January 1	1,594	1,831
Increase (note 13)	74	586
Exchange rate effects (note 13)	(7)	(5)
Released during the year (note 13)	(1,059)	(818)
Total individual impairment allowance	602	1,594

24. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

24.1 Placements to banks include

In thousands of RSD

	December 31, 2019	December 31, 2018
RSD loans and receivables		
Per repo transactions	12,000,000	1,500,000
Loans for working capital	-	1,000,000
Overnight loans	200,000	1,260,000
Other placements	3,148	15,993
Placed deposits in local currency	16,390	16,376
Prepayments	6,805	14,744
Impairment allowance	(273)	(1,127)
	12,226,070	3,805,986
FX loans and receivables		
Per repo transaction	2,103,540	-
Foreign currency accounts held with foreign banks (Note 21)	5,121,610	9,825,488
Overnight loans	2,161,743	1,587,977
Other loans and receivables due from foreign banks	1,610,855	1,243,418
Foreign currency deposits	2,938,545	3,793,400
Prepayments	1,285	513
Other receivables	5,962	9,843
Secured foreign currency warranties	1,039,080	997,656
Impairment	(218,686)	(226,744)
	14,763,934	17,231,551
Total	26,990,004	21,037,537

As at 31 December 2019, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 12,000,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days, with the annual interest rate from 1.03% to 2.4%.

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 1.05% to 3.4% per annum.

Short-term time deposits with foreign currency banks were deposited for up to one year with an annual interest rate ranging from 0.02% to 0.20% for the EUR currency, from 1.35% to 2.4% for USD, 0.13% for CHF and from 1.25% to 1.30% per annum for other foreign currencies.

Long-term time deposits with banks in foreign currency were deposited at the annual interest rate in the range of 0.25% to 0.25%.

Interest rates on placements of short-term loans in foreign currency ranged from 3.00% to 6.50%, while interest rates on planned long-term loans in foreign currency ranged from 2.80% to 5.05%.

Interest rates on placements of long-term loans foreign dependet banks ranged from 2.335% to 4.52% which represents 6M EURIBOR plus fixed part 2.75%.

24. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

24.2 Changes in the impairment allowance account by placements to banks are presented in the following table:

In thousands RSD

	December 31, 2019	December 31, 2018
Impairment allowance		
Balance at January 1	227,871	202,579
Correction of the opening balance		
IFRS 9 – correction through the equity	-	18,982
Corrected balance at January 1	227,871	221,561
Impairment allowance in the current year		
Increase (note 13)	44,177	56,129
Exchange rate effects (note 13)	3,098	9,171
Realesd during the year (note 13)	(56,187)	(59,817)
Other	-	827
Balance as at December 31	218,959	227,871

25. LOANS AND RECEIVABLES DUE FROM CLIENTS

25.1 Loans and receivables from clients:

In thousand RSD

	2019			2018		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	671,894	(13,667)	658,227	908,929	(22,389)	886,540
Working capital loans	46,327,391	(4,025,568)	42,301,823	38,238,806	(4,484,678)	33,754,128
Investment loans	48,283,698	(1,235,565)	47,048,133	38,547,851	(1,655,814)	36,892,037
Loans for payments of imported goods and services	2,062,163	(19,802)	2,042,361	2,072,507	(18,613)	2,053,894
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	362,298	(328,945)	33,353	386,037	(289,188)	96,849
Other loans and receivables	32,744,977	(5,894,917)	26,850,060	43,407,400	(7,058,215)	36,349,185
Prepayments	105,712	(1,363)	104,349	120,248	(19,393)	100,855
Accruals	(206,131)	-	(206,131)	(200,317)	-	(200,317)
	130,352,002	(11,519,827)	118,832,175	123,481,461	(13,548,290)	109,933,171
Retail customers						
Transaction account overdrafts	3,252,612	(179,356)	3,073,256	3,629,088	(179,038)	3,450,050
Housing loans	47,152,120	(579,714)	46,572,406	44,282,275	(785,292)	43,496,983
Cash loans	37,847,753	(419,526)	37,428,227	32,855,277	(299,495)	32,555,782
Consumer loans	251,088	(1,566)	249,522	198,225	(2,765)	195,460
Other loans and receivables	2,435,172	(82,269)	2,352,903	2,270,794	(92,333)	2,178,461
Prepayments	281,616	(3,589)	278,027	260,985	(2,830)	258,155
Accruals	(552,358)	-	(552,358)	(619,420)	-	(619,420)
	90,668,003	(1,266,020)	89,401,983	82,877,224	(1,361,753)	81,515,471
Balance as of December 31	221,020,005	(12,785,847)	208,234,158	206,358,685	(14,910,043)	191,448,642

25. LOANS AND RECEIVABLES FROM CLIENTS (continued)

25.2 Movements on the account of impairment allowance of Loans and receivables from clients are presented in the table below:

In thousands RSD

	2019	2018
Individual impairment allowance		
Balance as at January 1,	13,176,237	17,446,730
Correction of the opening balance:		
IFRS 9 – correcton through the equity	-	110,779
Corrected balance as at January 1,	13,176,237	17,557,509
Increase (note 13)	2,397,295	1,711,065
Reclassified from group to individual impairment allowance	(838,782)	348,305
Exchange rate effects (note 13)	(14,138)	(7,051)
Realesed during the year (note 13)	(2,261,854)	(1,864,903)
Decrease Imapirment allowance-conversion CHF-EUR in accordance with the instructions of NBS	(165,317)	-
Writte-off	(960,161)	(4,570,641)
Conversion CHF-EUR	(816)	-
Other (note 13)	68,628	1,953
Total individual impairment allowance	11,401,092	13,176,237
Group impairment allowance		
Balance as at January 1st 2019.	1,733,806	1,326,884
Correction of the opening balance:		
IFRS 9 – correcton through the equity	-	748,874
Corrected balance as at January 1,	1,733,806	2,075,758
Increase (note 13)	3,476,504	4,279,831
Reclassified from group to individual impairment allowance	838,782	(348,305)
Exchange rate effects (note 13)	(12,569)	(6,616)
Realesed during the year (note 13)	(4,316,897)	(3,880,882)
Decrease Imapirment allowance-conversion CHF-EUR in accordance with the instructions of NBS	(113,250)	-
Writte-off	(334,830)	(584,541)
Conversion CHF-EUR	(917)	-
Other (note 13)	114,126	198,561
Total group impairment allowance	1,384,755	1,733,806
Balance as at December 31,	12,785,847	14,910,043

25. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from retail customers

During 2019, short-term and long-term loans to retails in RSD were approved for a period of 30 days to 120 months with nominal interest rates ranging from 1.8% to 13.95% per annum.

Short-term loans to retails in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.40% to 13% annually.

Long-term loans to retails in foreign currency are approved for a term of thirteen to three hundred and sixty-five months with nominal interest rates ranging from 1.5% to 12.50% annually.

Loans and receivables due from corporate client

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.70% to 6.95% annually. In foreign currency, short-term loans were approved for a period up to twelve months with an interest rate of 1.20% to 5.45% for EUR per annum whereas for other currencies from 1.20% to 11.99% per annum.

Long-term loans in RSD were approved for a period from thirteen months to 120 months with an interest rate from 2.73% to 5.80% on an annual basis. Long-term loans in foreign currency are approved for a period of up to one hundred forty-four months with an interest rate of EUR from 1.07% to 4.75% annually and for other foreign currencies with an nominal interest rate ranging 2.08% to 11.99% per annum, that is from 2.49% plus six months Euribor to 9.99% plus six months Euribor with the same maturity period.

Risks and uncertainties

The management of the Group members made a provision for potential loan losses using the concept of expected credit loss. Losses due to impairment of assets measured at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of future estimated cash flows discounted using the initial effective interest rate of the asset. Losses are recognized in the income statement and are stated at the expense position and the impairment of financial assets under Loans and receivables from clients. When events after the balance sheet date affect the impairment loss, such a decrease is recognized as an impairment loss through the income statement.

Loans and other receivables are presented in the amount reduced for group and individual impairment allowance. Individual and group provisions are deducted from the carrying amount of loans that are identified as impaired in order to reduce their value to their recoverable amount. In order to protect against the risk of non-performance of obligations in dealing with clients, the Group takes the following measures for regulating receivables: extension of the maturity date, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures. If the measures taken to regulate the placements, ie the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, the proposal for permanent write-off of the remaining receivables of the Group, or transfer from the balance sheet to the off-balance sheet is initiated.

26. INTANGIBLE ASSETS

26.1 Intangible assets consist of:

In thousands of RSD

	December 31 2019.	December 31 2018.
Intangible assets	718,936	437,419
Intangible assets in progress	35,564	190,049
Total	754,500	627,468

26.2 Changes in intangible assets during 2019. and 2018. are shown in the following table

In thousands RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as at January 1, 2018	2,375,128	130,512	2,505,640
Additions	19,516	270,867	290,383
Transfers	211,304	(211,304)	-
Disposals	(5,475)	-	(5,475)
Exchange rate	(656)	(26)	(682)
Balance as at December 31, 2018	2,599,817	190,049	2,789,866
Balance as at January 1, 2019	2,599,817	190,049	2,789,866
Additions	15,106	351,623	366,729
Transfers	506,020	(506,020)	-
Disposals	(17,829)	-	(17,829)
Exchange rate	(1,661)	(88)	(1,749)
Balance as at December 31, 2019	3,101,453	35,564	3,137,017
Accumulated depreciation			
Balance as at January 1, 2018	2,007,253	-	2,007,253
Depreciation (note 17)	161,229	-	161,229
Disposals	(5,475)		(5,475)
Exchange rate	(609)	-	(609)
Balance as at December 31, 2018	2,162,398	-	2,162,398
Balance as at January 1, 2019	2,162,398	-	2,162,398
Depreciation (note 17)	234,678	-	234,678
Disposals	(13,101)	-	(13,101)
Exchange rate	(1,458)	-	(1,458)
Balance as at December 31, 2019	2,382,517	-	2,382,517
Net book value			
Balance as at December 31, 2018	437,419	190,049	627,468
Balance as at December 31, 2019	718,936	35,564	754,500

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment consist of:

In thousands of RSD

	December 31 2019	December 31 2018
Property	5,159,067	5,146,980
Equipment	680,829	678,001
Investments in progress	49,281	222,403
Right of use assets	1,365,214	-
Total	7,254,391	6,047,384

27. PROPERTY, PLANT AND EQUIPMENT (continued)

27.2 Movements on property, plant and equipment during 2018 and 2019 were as follows:

In thousands RSD

Cost	Property	Equipment	Investment in progress	Business premises taken into leasing	Eqipment and other assets taken into leasing	Total
Balance as at January 1, 2018	7,406,662	3,970,252	141,440	-	-	11,518,354
Additions	-	55,982	390,573	-	-	446,555
Transfers from investment in progress	74,395	235,194	(309,589)	-	-	-
Transfers from investments property (note 28.1)	49,341	-	-	-	-	49,341
Transfers on assets held for sale	(99,152)	-	-	-	-	(99,152)
Disposals and retirements	(48,213)	(153,219)	-	-	-	(201,432)
sales	-	(40,140)	-	-	-	(40,140)
Shortages as per year count	-	(23,058)	-	-	-	(23,058)
Exchange rate	(1,246)	(1,165)	(21)	-	-	(2,432)
Balance as at December 31, 2018	7,381,787	4,043,846	222,403	-	-	11,648,036
Balance as at January 1, 2019	7,381,787	4,043,846	222,403	-	-	11,648,036
Correction of the opening balance - First application IFRS 16	-	-	-	1,788,885	60,114	1,848,999
Adjusted balance on January 1, 2019	7,381,787	4,043,846	222,403	1,788,885	60,114	13,497,035
Additions during the year and new leasing contracts	-	12,524	163,516	63,187	6,010	245,237
Transfers from investment in progress	77,108	259,414	(336,522)	-	-	-
Transfers to investment property (note 28.1)						
Transfers from assets acquired through collection of receivables	14,418	-				14,418
Disposals and retirements	(14,284)	(154,163)	-	(2,254)		(170,701)
Sales	-	(5,656)				(5,656)
Increase based on estimates	244,948	-	-	-	-	244,948
Decrease based on estimates	(142,218)	-	-	-	-	(142,218)
Shortages as per year count	-	(541)	-	-	-	(541)
Adjustments for the basis of the annex of the lease contract	-	-	-	(29,891)	-	(29,891)
Leasing other				(49,121)	-	(49,121)
Exchange rate	(2,195)	(2,787)	(116)	(2,333)	(211)	(7,642)
Balance as at December 31, 2019	7,559,564	4,152,638	49,281	1,768,473	65,913	13,595,869
Accumulated depreciation						
Balance as at January 1, 2018	2,165,826	3,335,328	-	-	-	5,501,154
Depreciation (note 17)	174,480	244,967	-	-	-	419,447
Transfers to assets held for sale	(66,684)	-	-	-	-	(66,684)
Disposals and retirements	(38,239)	(150,704)	-	-	-	(188,943)
Sales	-	(40,140)	-	-	-	(40,140)
Shortages as per year count	-	(22,572)	-	-	-	(22,572)
Exchange rate	(576)	(1,034)	-	-	-	(1,610)
Balance as at December 31, 2018	2,234,807	3,365,845	-	-	-	5,600,652
Balance as at January 1, 2019	2,234,807	3,365,845	-		-	5,600,652
Depreciation (note 17)	157,133	266,928	-	464,399	19,471	907,931
Disposals and retirements	(13,207)	(153,101)	-	-	-	(166,308)
Sales	-	(5,253)	-	-	-	(5,253)
Increase based on estimates	57,793	-	-	-	-	57,793
Decrease based on estimates	(35,069)	-	-	-	-	(35,069)
Shortages as per year count	-	(528)	-	-	-	(528)
Adjustments for the basis of the annex of the lease contract	-	-	-	(2,893)	-	(2,893)
Leasing other	-	-	-	(11,600)	-	(11,600)
Exchange rate	(960)	(2,082)	-	(182)	(23)	(3,247)
Balance as at December 31, 2019	2,400,497	3,471,809	-	449,724	19,448	6,341,478
Net book value						
Balance as at December 31, 2018	5,146,980	678,001	222,403	-	-	6,047,384
Balance as at December 31, 2019	5,159,067	680,829	49,281	1,318,749	46,465	7,254,391

27. PROPERTY, PLANT AND EQUIPMENT (continued)

Members of the Group do not have mortgaged buildings to secure repayment of the loan.

Due to incomplete cadastral books, as of December 31, 2019 the Parent Bank does not have evidence of ownership for 24 properties with the net book value of RSD 484,488 thousand (the number of facilities includes assets acquired through collection of receivables). The Parent bank's management takes all the necessary measures to obtain ownership papers. The conclusion of this process depends on the treatment of the competent authority.

The total write off of fixed assets at the present value of RSD 2,139 thousand was made during the year. Based on the Annual list of the Group members, the amount of RSD 1,062 thousand of the permanently useless fixed assets is disposed of and shortages in the amout of RSD 13 thousand were recorded.

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2019 and 2018 are presented below:

	In thousands RSD Total
Cost	
Balance as at January 1, 2018	2,917,522
Transfer to investment property	(49,341)
Transfer from assets held for sale	69,218
Sales	(78,176)
Appraisal - decrease	(7,700)
Exchange rate	(1,561)
Balance as at December 31, 2018	2,849,962
Balance as at January 1, 2019	2,849,962
Transfer from assets held for sale	(5,371)
Exchange rate	(3,334)
Balance as at December 31, 2019	2,841,257
Accumulated depreciation	
Balance as at January 1, 2018	536,958
Depreciation (note 17)	49,078
Transfer from assets held for sale	12,868
Sales	(14,786)
Appraisal – decrease	6,679
Exchange rate	(650)
Balance as at December 31, 2018	590,147
Balance as at January 1, 2019	590,147
Depreciation (note 17)	50,871
Transfer from assets held for sale	(867)
Exchange rate	(1,510)
Balance as at December 31, 2019	638,641
Net book value	
Balance as at December 31, 2018	2,259,815
Balance as at December 31, 2019	2,202,616

28. INVESTMENT PROPERTY (continued)

Information on investment property per members of the Group is presented below:

28.2.1 The Parent bank

As of December 31, 2019 the Parent bank has listed investment property of the present value in the amount of RSD 1,857,927 thousand, which make the buildings lease.

As at December 31, 2019 the net result on the basis of investment property is negative and amounts to RSD 10,488 thousand.

Property	Area in m^2	Total cost	Income from rent	Net result
Beograd, Trg Republike 1	3,354	(22,910)	9,551	(13,359)
Nis, Vrtiste new D – building	1,816	(4,692)	-	(4,692)
Nis, TPC Kalca	85	(802)	4,198	3,396
Beograd, Omladinskih brigade 19	15,218	(22,474)	16,989	(5,485)
Sabac, Majur, Obilazni put bb	1,263	(1,784)	-	(1,784)
Lovcenac, Marsala Tita bb	46,971	(2,894)	7,071	4,177
Negotin, Save Dragovica 20-22	658	(823)	-	(823)
Nis, Bulevar 12. February bb	816	(649)	5,725	5,076
Beograd, Radnicka 22	7,190	(18,619)	17,198	(1,421)
Novi Sad, Vardarska 1/B	291	(1,715)	3,463	1,748
Novi Sad, Bulevar Oslobodjenja 88	44	(198)	496	298
Kotor, Old Town, Palata beskuca, business area, number 1	207	(2,250)	4,386	2,136
Beograd, Luke Vojvodica 77a	80	(623)	868	245
Total		(80,433)	69,945	(10,488)

28.2.2 Komercijalna banka ad Banja Luka

As at 31 December 2019, the Bank has classified investment properties in the amount of RSD 251,981 thousand, which make the buildings lease.

In 2019 the Land lease agreement in the Nova Topola expired, so the Bank made a transfer from investment property to the position of fixed assets intended for sale in the amount of RSD 11,289 thousand.

In 2019 there was no additional assessment of investment property by authorized external appraisal.

28. INVESTMENT PROPERTY (continued)

28.2.2 Komercijalna banka ad, Banja Luka

As at December 31, 2019 the net result of investment property is RSD 2,639 thousand:

In thousands of RSD

Property	Area in m²	Total cost	Realized rental income	Net result
Brcko, Bescarinska zona bb	1,259	(851)	1,217	366
Actros motel-pizzeria Nova Topola	5,437	(2,238)	4,008	1,770
Strbac Milovan and Miroslav		(997)	722	(275)
Sarajevo, Aurum arena	402	(288)	487	199
Brcko, Bescarinska zona bb – IMPRO	949	(508)	938	430
Nova Topola, land	5,767	(1)	150	149
Total		(4,883)	7,522	2,639

29.2.3 Komercijalna banka ad, Podgorica

As at December 31, 2019 the Bank has listed investment property in the amount of RSD 92,708 thousand, which are available for lease.

The bank has foreclosed asset in the amount of RSD 6,785 thousand from the loan to Bambi trade. The property was initially posted to assets held for sale, and when it has been rented, it has been reposted to the investment property.

As at December 31, 2019 the net result on the basis of investment property amounts to RSD 4,353 thousand:

In thousands RSD

Object name	Area in m²	Total cost	Realized rental income	Net result
Land and distribution center in Budva	7,114	-	2,121	2,121
Three business premisses	118	-	283	283
Business premise in Herceg Novi	52.48	-	1,949	1,949
		-	4,353	4,353

29. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In thousands of RSD

	December 31 2019	December 31 2018
Assets held for sale and discontinued operations	500,740	659,003
Total	500,740	659,003

a) Assets held for sale at the Parent bank:

Object name	Area in m^2	Book value in thousands of RSD
Jasika, office space	75.87	511
Pozarevac, Mose Pijade 2, offfice space	826.82	26,530
Pozarevac, Mose Pijade 2, office space	880.86	21,952
Vrabac, M. Tita 49, office space	145.56	2,022
Kotor, bussines premises 1 and 2	690.00	87,002
Beograd, Palmira Toljatija 5	637.00	58,283
Total		196,300

During 2019, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 10,332 thousand.

During 2019 the Parent bank sold three buildings in the amount of RSD 11,747 thousand and based on the burden of income statement, the loss of sales in the amount of RSD 709 thousand was recognized. The difference between the sales value in the amount of RSD 11,747 thousand and the present value of RSD 20,998 thousand in the amount of RSD 9,251 thousand was the reduction of revaluational reserves in the balance sheet in the amount of RSD 9,040 thousand, recognized profit from previous years in the amount of RSD 498 thousand (in the name of revaluation of depreciation) and loss of sales in the amount of RSD 709 thousand.

The Parent bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

29. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

b) Assets held for sale at Komercijalna banka ad, Banja Luka

Object name	Area in m^2	Book value in thousands of RSD
Business space Posusje	1,289.00	19,754
Commercial building and land, Kocicevo, Gradiska	5,333.30	4,838
Production complex – farm in Brezovom polju, Brcko	66,649.00	48,653
Land in Kostajnici	31,052.00	1,155
Land in Nova Topola	6.514.00	11,127
Business space – Brcko District	29.00	1,625
Business space – Brcko District	52.00	4,061
Business space – Banja Luka	71.00	8,417
Equipment – machines		2,575
		102,206

During 2019, four objects were sold (property in Mrkonjic executor „TOP STORY", production facility in Prijedor executor „RX" Prijedor; property in Brcko, executor „NOVI BIMEX", house in Prijedor, executor „RADENKO VUCKOVAC") and on that basis, fixed assets intended for sale decreased by RSD 77,083 thousand. The total sale price of these facilities amounts to RSD 76,729 thousand.

During 2019, various equipment (merchandise, trailers, commercial vehicles, spare parts and consumables) were sold, and on that basis, fixed assets intended for the sale decreased in the amount of present value of RSD 977 thousand. The total selling price of these facilities is 842 thousand dinars. A sales loss amounting to RSD 2,135 thousand was realized.

In 2019 reclassification was performed on the property in Kocic, Town of Gradiška, executor "GYPSUM ACOUSTIC " into the fixed asset, the present value of RSD 14,418 thousand dinars.

During 2019, on the basis of the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale in the amount of RSD 1,351 thousand was made.

In compliance with the internal acts of the Bank, a decrease in the value of fixed assets intended for sale in the amount of RSD 143 thousand has been made.

Total impairment of fixed assets intended for sale during 2019 is RSD 1,494 thousand.

The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

29. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

c) Assets held for sale at Komercijalna banka ad, Podgorica:

Object Name	Area in m^2	Booking value in thousands of RSD
Pasture area on Cemovsko Polje in Podgorica	375	1,154
2 apartments and 2 garages in Perazica Dol in Budva	135	18,003
Land in Rezevici	547	6,468
Land and production hall for wood processing (3 auxiliary buildings and building in energy sector)	14,233	7,235
Unurbanized land in Kotor	31,534	29,551
Forest in Budva	709	13,899
Forest and meadow in Vranovici	3,131	2,683
Land in Kotor	3,362	5,347
Land and fish factory (buildings) in Rijeka Crnojevica (Cetinje)	50,455	76,518
Apartemnt in Niksic	65	2,285
Urbanized plot in Herceg Novi	300	1,349
Urbanized plot in Risan	425	4,000
Forest, fields and pastures in Bar	12,501	9,836
2 Business premises in Petrovac	173	23,907
Total		202,235

During the year 2019. there were sales of four properties held for sale.

In 2019, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 19,802 thousand.

The Bank's management continues to pursue the sale procedure for all assets that have not been sold in the past year.

30. OTHER ASSETS

Other assets consist of:

	In thousands of RSD	
	December 31, 2019	December 31, 2018
In RSD		
Fee receivables per other assets	118,464	107,852
Inventories	134,820	148,886
Assets acquired in lieu of debt collection	3,170,410	3,379,717
Prepaid expenses	164,102	141,317
Equity investments	2,398,936	1,747,405
Other RSD receivables	3,783,861	3,220,716
	9,770,593	8,745,893
Impairment allowance of:		
Fee receivables per other assets	(78,391)	(68,497)
Assets acquired in lieu of debt collection	(1,474,657)	(1,599,828)
Equity investments	(446,661)	(446,661)
Other RSD receivables	(840,040)	(859,572)
	(2,839,749)	(2,974,558)
In foreign currencies		
Fee receivables per other assets	1,409	807
Other receivables from operations	438,612	984,859
Receivables in settlement	283,756	381,548
Other foreign currency receivables	328,719	226,552
	1,052,496	1,593,766
Impairment allowance of		
Other receivables from operations	(303,337)	(133,562)
Receivables in settlement	(77,392)	(77,875)
	(380,729)	(211,437)
Total	7,602,611	7,153,664

30. OTHER ASSETS (continued)

Changes in the allowance account for other assets and active time delimits during the year are shown in the following table:

Individual impairment allowance

	In thousands of RSD	
	December 31, 2019	December 31, 2018
Balance as at January 1,	926,787	892,037
Correction of the opening balance:		
IFRS 9 – correction thought the equity	-	13,573
Corrected balance as at January 1,	926,787	905,610
Impairment in the current year:		
Increase (note 13)	17,580	24,983
Effects of change in exchange rate (note 13)	(3,124)	(1,598)
Realese during the year	(11,811)	10,592
Perment write-off	-	(4,226)
Other	(159,434)	(8,574)
Total individual correction	769,998	926,787

Group impairment allowance

	In thousands of RSD	
	December 31, 2019	December 31, 2018
Balance as at January 1,	1,710,912	2,248,880
Correction of the opening balance:		
IFRS 9 – correction thought the equity	-	(439,405)
Corrected balance as at January 1,	1,710,912	1,809,475
Impairment in the current year:		
Increase (note 13)	357,157	217,543
Effects of change in exchange rate (note 13)	(779)	102
Realese during the year	(105,353)	(301,878)
Perment write-off	(11,234)	(6,559)
Other	(37,374)	(7,771)
Total group impairment allowance	1,913,329	1,710,912
Balance as at December 31 (without small inventory)	2,683,327	2,637,699
Impairment allowance on inventory (not subject to credit risk)	90,491	101,635
Balance as at December 31 (with small inventory)	2,773,818	2,739,334

30. OTHER ASSETS (continued)

a) Equity participation

Within the position of other assets, equity participation of legal entities is recognized according to the table:

	2019.	2018.
Participation in the capital of banks and financial organizations	80,270	80,270
Participation in the capital of enterprises and other legal entities	465,249	410,760
Participation in the capital of foreign persons abroad	1,853,064	1,256,375
	2,398,583	1,747,405
impairment allowance based on:		
Participation in the capital of banks and financial organizations	(80,270)	(80,270)
Equity participation of enterprises and other legal entities	(366,391)	(366,391)
	(446,661)	(446,661)

Participation in the capital of banks and financial organizations relates to: Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, Union Bank a.d. in the amount of RSD 1,874 thousand and Univerzal banka a.d. Belgrade (in bankruptcy) in the amount of RSD 9 thousand.

The company's equity shares mostly relate to: 14. Oktobar Krusevac in the amount of RSD 324,874 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand, the Company Dunav osiguranje a.d.o. Belgrade in the amount of RSD 86,902 thousand and Politika a.d. Belgrade RSD 2,244 thousand.

Participation in the capital of foreign entities abroad relates to the company VISA INC in the amount of RSD 1,475,253 thousand and MASTER Card International in the amount of RSD 377,811 thousand.

The impairment of the equity participation in the amount of RSD 446,661 thousand relates to the impairment of the purchase value for those shares that do not have market value, the largest amount of which is related to: October 14, Krusevac in the amount of RSD 324,874 thousand, Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, RTV Politika doo, Belgrade in the amount of RSD 37,633 thousands and PPD Dobricevo Cuprija in the amount of RSD 2,563 thousand.

b) Other receivables and receivables from operations

Other receivables in RSD mostly relate to receivables arising from the purchase of foreign currency on the foreign exchange market in the amount of 1,528,740 thousand (impairment allowance in the amount of RSD 801 thousand), operating receivables in the amount of RSD 250,607 thousand (impairment allowance in the amount of RSD 88,772 thusand), receivables based on material values received by collection of receivables in the amount of RSD 2,287,027 thousand (Impairment allowance in the amount of RSD 987,236 thousand), receivables arising from advances granted for working capital in the amount of RSD 84,543 thousand (impairment allowance in the amount of RSD 5,607 thousand), receivables on lease RSD 372,546 thousand (impairment allowance in the amount of RSD 283,807 thousand), receivables for default interest on the basis of stocks assets in the amount of RSD 203,067 thousand, (impairment allowance in the amount of RSD 156,189 thousand) receivables in the calculation according to the court judgment in the amount of RSD 209,085 thousand (allowance for the full amount of 100%). Within the position of Other receivables in foreign currency settlement of the total amount of RSD 283,756 thousand, the most significant amount of RSD 180,460 thousand refers to receivables based on spot transactions.

30. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets amount to RSD 3,170,410 thousand, less recorded impairment allowance of RSD 1,474,657 thousand, with the net carrying value of RSD 1,695,753 thousand relate to members of the Group:

Parent Bank

I Foreclosed properties classified in accordance with the classification decision that applied before December 30, 2013 years

Description	Area in m^2	Value	Date of acquisition
Novi Pazar, Kej skopskih zrtava 33, local	82.95	2,021	27.09.2006
Gnjilica, field VII class	2,638	55	15.04.2008
Cacak, hotel „President", Bulevar oslobodjenja bb	2,278.92	82,315	21.01.2009
Budva, Montenegro, forest, IV class	8,292	86	12.10.2010
Buce, forest, IV class	974	3,751	27.05.2011
Prijevor, forest IV class	1,995	4,339	27.05.2011
Beograd, Mihaijla Avramovica 14a, building	925.35	156,017	21.11.2011
Krusevac, Kosevi, production and office building I.C.P.	12,836	42,533	08.06.2012
Mladenovac, Sopot-Nemenikuce, filed III class	16,633	250	25.06.2012
Obrenovac, Mislodjin, field III class	10,017	983	11.07.2012
Novi Pazar, Ejupa Kurtagica 13, house	139.90	3,370	24.07.2012
Majur, Tabanovacka, field	14,452	1,524	10.08.2012
Mali Pozarevac, Veliko Polje, field III and IV class	21,915	299	27.09.2012
Cuprija, Alekse Santica 2/24, aparment	72.40	770	15.01.2013
Nis, Ivana Milutinovica 30, business office	438.39	4,677	23.04.2013
Nis, Triglavska 3/1 aparment	79.80	3,007	04.06.2013
Mladenovac, field-lug III class	1,142	392	18.07.2013
Nis, Bulevar 12. Februar, outhouse-storage	2,062	37,156	30.07.2013
Kula, Zeleznicka bb, business office, land	7,959	20,890	01.10.2013
Prijepolje, Karosevina, sawmill	450	797	08.11.2013
Total I		365,232	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (contuned)

\\ Foreclosed properties classified in accordance with the classification decision that is applied after December 30, 2013

Description	Area in m^2	Value	Date of acquisition
Vukovac, Milatovac, agricultural land	132,450	534	16.05.2014
Bor, Nikole PAsica 21, commercial building, warehouse	3,823	42,503	08.05.2014
Subotica, Magnetno polja 17, production hall and warehouse	2,492	42,381	18.07.2014
Mokra Gora, land, forest, field, house	58,400	3,479	31.01.2014
Kopaonik, hosue with land	337	3,739	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 6/3	29	2,821	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 7/3	44	4,280	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 8/3	35	3,405	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 9/3	34	3,308	31.01.2014
Novi Sad, Bulevar oslobodjenja 30a, commercial office 10/3	39	3,794	31.01.2014
Novi Sad, Bulevar oslobodjenja 88, commercial office 23	253	18,490	31.01.2014
Novi Sad, Tihomira Ostojica 4, Office 7	134	5,254	31.01.2014
Novi Sad, Polgar Andrisa 40/a, Office 8	81	4,531	31.01.2014
Novi Sad, Polgar Andrisa 40/a, Office 9	79	4,418	31.01.2014
Novi Sad, Polgar Andrisa 40/a, Office 10	408	23,468	31.01.2014
Zrenjanin, Novosadski put 4, building, pump, and land	9,144	31,921	14.08.2014
Budva, Rezevici, Montenegro, rocks, forest	1,363.20	18,846	22.07.2014
Budva, Rezevici, Montenegro, forest V class	5,638.54	76,958	22.07.2014
Nis, Ivana Gorana Kovacica 31, residential building	434.58	4,142	17.04.2013
Mladenovac, Americ, field IV class	7,768	237	03.10.2014
Valjevo, Radjevo selo, warehouse	394	402	11.06.2014
Bela Crkva, Kajtasova, forest	4,187	66	03.10.2014
Mladenovac, fields, orchards	25,136	502	03.10.2014
Valjevo, Vojvode Misica 17, family building	106	1,569	25.09.2014
Nis, Cajnicka bb, residential buildings with additional buildings	825.74	9,851	14.03.2013
Nis Sjenicka 1, commercial buildings, warehouse, workshops	1,452.73	12,129	14.03.2013
Beograd, Zemun, Cara Dusana 130, factory complex	6,876	92,109	16.06.2014
Nis, Sumadijska 1, office space	504.60	1,658	04.12.2014
Valjevo, Radnicka 6, apartment	69	2,550	28.05.2014
Prokuplje, field III class	12,347	536	28.08.2015
Mionica, Prote Zarko Tomovica bb, house	107	1,594	10.09.2015
Prokuplje, Maloplanska 7, buildings with land	490	257	11.06.2012
Sokobanja, agricultural land, orchard, field IV class	417,908	5,142	31.07.2012
Sokobanja, production hall with land	5,042	21,684	31.07.2012
Sokobanja, concierge office with land	2,005	623	31.07.2012
Sokobanja, house with land	4,194	3,370	31.07.2012
Beograd, Baje Pivljanina 83, residential buildings	278.52	55,648	23.08.2012
Divcibare, meadows V class	8,012	3,982	02.12.2015
Lebane, Branka Radicevica 17, residential and commercial building	768.42	5,232	27.08.2015
Loznica, Lipnica, Karadjordjeva, residential and commercial building with land	146	1,897	15.10.2015
Vrhpolje, lodging hospitality	1,334	2,169	16.05.2013
Krusevac, St. selo, a concrete base with land	100,560	124,605	11.03.2016
Zrenjanin, Bagljas, pasture II class	230	46	22.12.2015
Svilajnac, Kodublje, office building, halls and land	10,462	28,184	26.02.2016
Alkesandrovo, Merosina, building with land	8,527	13,428	23.12.2015
Cacak, Suvo polje, building 1 and 2 with land	1,225	10,986	05.05.2016
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	216	31.03.2016
Valjevo, Bobove, filed VI and VII class	20,599	289	19.05.2016
Kotor, Montenegro, office space, building No. 1	106	19,591	22.12.2016
Kotor, Montenegro, office space, building No. 1	345	60,714	22.12.2016
Kotor, Montenegro, office space, building No. 1	345	56,594	22.12.2016
Nis, Trg Ucitelja Tase No. 10/1 local	79.40	5,808	13.03.2019
Curgur, Nikole Pasica bb, silos with auxiliary buildings	910	58,498	07.10.2019
Total II		900,438	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balance and of-balance sheet items

In RSD thousand

Description	Value	Acquisition Date
Krusevac, movables (machinery, furniture, equipment)	6,160	08.06.2012
Nis and Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	5,527	31.07.2012
Paracin, coffee roasting line	2,276	31.12.2012
Vranic, equipment, production line	3,913	09.07.2013
Total III	17,876	

IV Equipment acquired in periods after December 30, 2013 – which do not classify as balances and off-balances items in accordance with the relevant NBS decision

In RSD thousand

Description	Value	Acquisition Date
Movable property, agricultural machinery and tools	53	03.06.2015
Equipment, supply of secondary raw materials	1,380	18.07.2014
Movables, installation materials	609	13.05.2014
Other	239	
Total IV	2,281	

V Assets acquired trough collection of receivables after December 30, 2013 – which do not classify as balances and off-balances items in accordance with the relevant NBS decision

In RSD thousand

Description	Value	Acquisition Date
Equipment	6,964	07.10.2019
Total V	6,964	

VI Securities acquired trough collection of receivables

In RSD thousand

Description	Value	Acquisition Date
Securities acquired trough collection of receivables	1,940	12.09.2019
Impairment allowance of securities	(1,940)	
Total VI	-	
Total (Present value) I + II+ III+ IV+V+VI	1,292,791	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (continued)

The effect of the impairment of foreclosed assets in 2019 is shown in the table below:

	In 000 RSD
Effects of property impairment	77,716
Effects of equipment impairment	2,814
1. Total impairment of property and equipment	80,530
2. Effects of securities impairment acquired trough collection of receivables	1,940
3. (1+2) Total effect of foreclosed assets	82,470

The negative assessments effect is recognized as an expense in the period in the amount of RSD 82,470 thousand :

- For properties RSD 28,505 thousand based on lower appraisal market value and RSD 49,211 thousand according to internal act due to Bank's inability to sell the property in the period longer than 12 months, even though the appraisal value is higher than book value
- For equipment RSD 2,814 thousand based on lower appraisal market value and according to internal act.
- Impairment of securities received in the amount of RSD 1,940 thousand was conducted on the basis of the final approved UPPR as executive documents mandatory for all creditors.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (continued)

G1.1. Appraisal value of foreclosed properties

Property	Area in m^2	Book value before the appraisal	Appraisal value In thousand EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, MIhaila Avramovica 14a, building	925.35	164,228	1,397	156,017	(8,211)
Krusevac, St. selo, a concrete base with land	100,560	131,163	1,115	124,605	(6,558)
Cacak, hotel „President", Bulevar oslobodjenja bb	2,278.92	98,456	837	82,315	(16,141)
Belgrade, Zemun, Cara Dusana, 130 factory complex	6,876	96,957	825	92,109	(4,848)
Budva, Rezevici, Montenegro, forest V class	5,638.54	79,502	676	76,958	(2,544)
Curug, Nikole Pasica bb, silos with auxiliary buildings	910	61,577	524	58,498	(3,079)
Kotor, Montenegro, office spase, building No.1 PD 4	345	60,860	518	60,714	(146)
Kotor, Montenegro, office spase, building No.1 PD 6	345	60,860	518	56,594	(4,266)
Belgrade, Baje Pivljenina 83, office building	278.52	58,577	498	55,648	(2,929)
Bor, Nikole Pasica 21, commercial building, warehouse	3,823	46,813	398	42,503	(4,310)
Subotica, Magnetna polja 17, production hall and warehouse	2,492	44,612	379	42,381	(2,231)
Krusevac, Kosevi bb, production and office building, I.P.C.	12,836	45,433	386	42,533	(2,900)
Nis, Bulevar 12. Februara bb, auxiliary buildings-warehouse	2,062	39,112	333	37,156	(1,956)
Sokobanja, production hall port with land, orchard, house, filed IV class	429,149	32,340	275	30,819	(1,521)
Zrenjanin, Bagljis, Novosadski put 4, building, pump, land, pasture	9,374	33,649	286	31,967	(1,682)
Svilajnac, Kodublje, office building, hall and land	10,462	29,667	252	28,184	(1,483)
Novi Sad, Polgar Andrasa 40/a, office space 10	408	24,703	210	23,468	(1,235)
Kula, Zeleznicka bb, office space, land	7,959	21,990	187	20,890	(1,100)
Kotor, Montenegro, office space, building No.1 PD2	106	20,622	175	19,591	(1,031)
Novi Sad, Bulevar oslobodjenja 88, office space 23	253	19,463	165	18,490	(973)
Budva, Rezevici, rocks and forest	1,363.20	19,469	165	18,846	(623)
Aleksandrovo, Merosina, administrative building with land	8,527	14,135	120	13,428	(707)
Nis, Sjenicka 1, business building, warehouse, workshops	1,452.73	12,767	108	12,129	(638)
Cacak, Suvo polje, building 1 and 2 with land	1,225	11,564	98	10,986	(578)
Nis, Cajnicka bb, residential building	825.74	10,369	88	9,851	(518)
Nis, Trg Ucitelja Tase No.10/1 local	79.40	6,114	51	5,808	(306)
Novi Sad, Tihomira Ostojica 4, office space 7	134	5,530	47	5,254	(276)
Lebane, Branka RAdicevica 17, residential and business building	768.42	5,507	46	5,232	(275)
Nis, Ivana Milutinovica 30, office space 7	438.39	4,923	42	4,677	(246)
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,769	40	4,531	(238)
Novi Sad, Polgar Andrasa 40/a, office space 9	79	4,651	39	4,418	(233)
Novi Sad, Bulevar oslobodjenja 30a, office space (5 locals)	181	18,535	158	17,608	(927)
Prijevor, forest IV class	1,995	4,559	39	4,339	(220)
Nis, Ivana Gorana Kovacica 31, residential space	434.58	4,360	37	4,142	(218)
Divcibare, meadows V class	8,012	4,114	35	3,982	(132)
Mokra Gora, house and meadows	58,400	3,986	34	3,479	(507)
Kopaonik, house with land	337	3,936	33	3,739	(197)
Budva, forest IV class	974	3,875	33	3,751	(124)
Novi Pazar, Ejupa Kurtagica 13, house	139.90	3,547	30	3,370	(177)
Nis, Triglavska 3/1 apartment	79.8	3,165	27	3,007	(158)
Valjevo, Radnicka 6, apartment	69	2,684	22	2,550	(134)
Other (26 properties)	-	24,836	211	23,696	(1,140)
TOTAL		1,347,979		1,270,263	(77,716)

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent Bank (continued)

G1.2. Appraisals of foreclosed equipment

Description	Book value before the appraisal	Net carrying value in RSD	Difference in value
Movables	29,935	12,296	(1,276)
Equipment, inventory and secondary raw materials	9,532	8,636	(896)
Other	6,831	6,189	(642)
TOTAL		27,121	(2,814)

Based on the judgment of the Supreme Court in Montenegro at 2019, the Bank has booked assets acquired trough collection receivables in the amount of RSD 4,592 thousand (the property in Tivat).
For three movables object worth in total RSD 96 thousand Bank does not have ownership documents (objects recorded on off-balance). The Bank's management is taking all necessary measures in order to sell the acquired assets.

Komercijalna banka ad, Podgorica

Tangible assets acquired through collection of receivables in previous period:

Description	Area in m^2	Value in 000 RSD	Acquisition Date
Sutomore – hotel and land	1,590	87,926	31.01.2009
Budva – pasture and 3 family building	1,105	15,608	17.12.2009
Podgorica – factory and land	8,214	35,831	28.12.2009
Podgorica – business premises and land	5,209	37,245	28.12.2009
Cetinje – garage and land	439	1,417	25.05.2010
Podgorica– house and yard	883	22,395	31.07.2010
Podgorica – hotel	551	33,371	31.12.2011
Podgorica – land and hppuse	484	3,797	31.12.2011
Bar – land, house and two ancillary buildings	1,507	3,625	28.02.2013
Niksic – meadow and unclassified roads	977	976	28.02.2013
Budva – Perezica Do – land, business premises,three garages, four apartments	5,315	76,630	25.01.2014
Kotor – land, two family residential buildings and ancillary buildings	396	1,646	12.08.2014
Podgorica land and building under construction	412	4,580	22.12.2014
Bar – forest	3,569	56,471	29.12.2014
Bar – business premises	385	21,444	24.03.2015
Total KB Podgorica (present value)		402,962	

For 20 facilities acquired through collection of receivables, the Bank has titles from land cadastres but has not entered into the property. The total net value of assets acquired through collection of receivables, for which the Bank has not entered into possession as at 31 December 2019, amount to RSD 402,962 thousand (EUR 3,247 thousand). The Bank's management is taking all necessary measures in order to sell the acquired assets.

The Bank has hired licensed external appraisers who conducted a reappraisal of assets acquired through collection of receivables, before the twelve months period. Negative effect of the assessment is recognized as an expense in the period in the amount of 13,376 thousand.

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Komercijalna banka ad, Podgorica (continued)

Estimated value of property acquired through collection of receivables:

Property	Area in m^2	Book value before revaluation in RSD thousand	Estimated value In thousand EUR	Estimated value In thousand RSD	Value difference in RSD thousand
Land, business premises, 3 garage and 4 apartment	5,315	76,630	652	76,630	-
Yard and house in Podgorica	883	25,389	190	22,395	(2,994)
Land and hotel- Sutomoru	1,590	87,926	748	87,926	-
Grassland and 3 family residential buildings – Budva	1,105	15,853	133	15,608	(245)
Land and factory – Podgorica	8,214	35,857	305	35,831	(26)
Land and 2 business premises – Podgorica	5,209	37,245	317	37,245	-
Land and garage – Cetinje	439	1,429	12	1,417	(12)
Hotel – Podgorica	551	40,782	284	33,371	(7,411)
Land and house – Podgorica	484	5,596	32	3,797	(1,799)
Grassland and uncategorized roads in Niksic	977	976	8	976	-
Land, house and 2 ancillary buildings - Bar	1,507	3,728	31	3,625	(103)
Land, 2 family residential buildings and ancillary buildings - Kotor	396	1,666	14	1,646	(20)
Land and building under construction - Podgorica	412	4,709	39	4,580	(129)
Forest – Bar	3,569	56,471	480	56,471	-
Business premises – Bar	385	22,051	182	21,444	(607)
TOTAL		416,308	3,427	402,962	(13,346)

31. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

Liabilities to banks and financial organizations are consist of:

In RSD thousand

	December 31, 2019	December 31, 2018
Demand deposits	2,451,910	2,401,291
Term deposits	5,829,431	5,096,550
Borrowings	-	709,168
Expenses deferred at the effective interest rate (deductible item)	-	(2,990)
Other	37,265	24,265
Balance at December 31	8,318,606	8,228,284

During 2019 deposits in RSD were placed at interest rate of 1.05% to 1.87% whereas in deposits in foreign currency were placed by banks at interest rate from 1.4% to 2.7% for USD, and 0.01% - 0.05% for EUR and for other currencies from 0.00% to 2.40%.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

In RSD thousand

	December 31, 2019	December 31, 2018
EBRD	-	709,168
Balance at December 31	-	709,168

In the first quarter of 2019. Tha Bank returned the last installment of the EBRD credit line in the amount of EUR 6,000 thousand and paid liabilities completely.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS

Deposits and other financial liabilities to clients comprise:

In RSD thousand

	December 31, 2019	December 31, 2018
Corporate customers and agro		
Demand deposits	78,301,854	72,491,064
Callable deposits	42,688	30,820
Overnight and other deposits	14,483,027	18,589,984
Borrowings	4,060,334	4,205,963
Special purpose deposits	2,054,530	2,104,808
Deposits for loans approved	547,737	710,420
Interest payable, accrued interest liabilities and other financial liabilities	541,742	500,933
Retail customers – private individuals		
Demand deposits	43,450,446	36,114,872
Callable deposits	72,964	34,962
Savings deposits	218,449,382	207,149,245
Special purpose deposits	5,138,469	4,668,630
Deposits for loans approved	2,419,206	2,430,396
Interest payable, accrued interest liabilities and other financial liabilities	1,003,142	930,104
Other deposits	422,189	705,955
Balance at December 31	370,987,710	350,668,156

Corporate customer's deposit

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2019, these deposits are interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.

Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Banja Luka's interest rate ranges to 0.51% annually.

Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Podgorica's interest rate ranges from 0.00% to 0.01% annually.

Non-resident deposits in foreign currency in Parent Bank are non-interest bearing deposits, except for specific business arrangements.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Podgorica is non-exhaustive.

Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Banja Luka ranges from 0.0% to 0.51%.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS

Corporate customer's deposit (continued)

During 2019, short-term deposits of enterprises in RSD were deposited at an interest rate ranging from: 0.0% on deposits from three to fourteen days to the reference interest rate annually minus 0.75 percentage points for a period of up to one year limit of minimum 300 thousand dinars. Short-term deposits of entrepreneurs were deposited at an interest rate ranging from 0.25% to 2.20% annually with a minimum of RSD 300 thousand.

Short-term deposits of companies and entrepreneurs in foreign currency are deposited at an interest rate ranging from 0.05% to 1.50% annually for EUR or from 0.40% to 1.00% for USD, and for other currencies ranging from 0.0% to 0.85%.

Long-term corporate deposits in RSD were deposited with an interest rate determined by the reference interest rate of the National Bank of Serbia annually reduced by 0.50 percentage points to 0.20 percentage points, and in foreign currency from 0.50% to 2.00% annually for EUR and from 1.30% up to 1.40% annually for USD, from 0.00% to 3.70% annually for other foreign currencies.

Retail Customer Deposits

A vista retail savings deposits in local and foreign currencies in the Parent Bank during 2019 were non-interest bearing.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Banja Luka during 2019 were non-interest bearing.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Podgorica during 2018 were interest bearing ranging from 0.00% to 0.01% annually.

Short-term retail deposits in RSD were deposited with interest rates ranging from 1.50% to 3.50% annually, and in foreign currency from 0.05% to 0.80% for EUR, and for other currencies ranging from -0.35% to 1.50% per annum.

Long-term retail deposits in RSD were deposited with interest rates ranging from 3.75% to 4.00% annually, and in foreign currency from 0.65% to 1.60% for EUR, and for other currencies ranging from -1.00% to 5.00% per annum.

During the year, the Parent bank had special interest rates on action savings, with limited expiration periods which are not subject to disclosure.

In the framework of loan commitments, total liabilities are recognized for foreign-credit lines to foreign legal entities that are defined as clients for the needs of the balance sheet.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Breakdown of long-term and short-term borrowings of Parent bank included within the line item of liabilities due to customers is presented below:

	December 31, 2019	December 31, 2018
		In RSD thousand
Long-term loans		
Republic of Italy Government	36,139	103,104
European Investment Bank (EIB)	1,376,259	1,955,882
European Agency for Reconstruction (EAR)	14,463	52,836
Balance at December 31	1,426,861	2,111,822

The above presented borrowings mature in the period from 2020 to 2030.

The loan facility agreements agreed with the creditors stipulate certain financial covenants. The methodology for calculating the financial ratios defined by loan facility agreements differs from the method for calculating those same ratios in accordance with the regulations of the National Bank of Serbia in part relating to the calculation of capital and includes items eligible for determining open credit exposure.

During 2019, the Parent Bank made an early repayment of part line of the European Agency for Reconstuction (EAR) in the amount of EUR 52 thousand.

Breakdown of long-term borrowings of Komercijalna banka a.d. Podgorica included within the line item of liabilities due to customers is presented below:

	December 31, 2019	December 31, 2018
		In RSD thousand
European Investment Bank (EIB)	100,794	196,287
Government of Montenegro - Project 1000+	42,914	46,728
Development Fund of Montenegro	623,829	378,782
Balance at December 31	767,537	621,797

The above presented borrowings mature in the period from 2019 to 2031.

Komercijalna Banka a.d. Podgorica is not obligated to meet any financial ratios due to abovementioned loans.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Breakdown of long-term borrowings of Komercijalna banka a.d. Banja Luka included within the line item of liabilities due to customers is presented below:

In RSD thousand

	December 31, 2019	December 31, 2018
Investment-Development Bank	1,865,936	1,472,344
Balance at December 31	1,865,936	1,472,344

The above presented long-term and short-term borrowings mature in the period from 2019 to 2045.

Based on the contract concluded with the Republic of Srpska Investment Development Bank, Komercijalna banka A.D. Banja Luka has no obligation to comply with certain financial indicators.

32.1 The structure and movement of liabilities on the basis of deposits and other financial liabilities to banks, other financial organisations, central bank and clients is shown in the following

In thousand RSD

	December 31, 2019	December 31, 2018
Balance as at January 1,		
Deposits and other financial liabilities to banks, other financial organisations and central bank (note 31)	8,228,284	6,137,776
Deposits and other financial liabilities to clients (note 32)	350,668,156	317,577,748
Total balance as at January 1,	358,896,440	323,715,524
Net inflows/outflows – deposits	21,209,646	38,891,029
Net inflows/outflows - loans	(709,085)	(3,934,864)
Net inflows/outflows – interest	(1,195,178)	(1,149,108)
Net inflows/outflows – fees	(6,615)	(10,972)
Exchange rate	(205,985)	212,108
Accrued interest and other non-cash transactions	1,317,093	1,172,722
Balance as at December 31,	379,306,316	358,896,440

In thousands RSD

	December 31, 2019	December 31, 2018
Deposits and other financial liabilities to banks, other financial organisations and central bank (note 31)	8,318,606	8,228,284
Deposits and other financial liabilities to clients (note 32)	370,987,710	350,668,156
Total banks and clients	379,306,316	358,896,440

33. PROVISIONS

Provisions relate to:

	December 31, 2019	December 31, 2018
		In RSD thousand
Provisions for off-balance sheet items (Note 13)	210,395	309,211
Provisions for litigations (Note 36.4)	1,715,964	988,557
Provisions for employee benefits in accordance with IAS 19	557,051	511,085
Balance at December 31	2,483,410	1,808,853

Movements on the accounts of provisions are provided below:

	2019.				2018.			
	Provisions for Off-Balance Sheet items (note 13)	Provisions for ligitations (Note 36.2)	Provisions for Employee Benefits(IAS 19)	Total	Provisions for Off-Balance Sheet items (note 13)	Provisions for ligitations (Note 36.2)	Provisions for Employee Benefits(IAS 19)	Total
Balance as at January 1,	309,211	988,557	511,085	1,808,853	171,582	876,374	503,927	1,551,883
Correction of opening balance – IFRS 9	-	-	-	-	85,303	-	-	85,303
Ajusted opening balance at January 1	309,211	988,557	511,085	1,808,853	256,885	876,374	503,927	1,637,186
Increase	282,248	1,255,895	34,056	1,572,199	383,333	276,540	81,701	741,574
Provisions against actuarial gains within equity	-	-	12,770	12,770	-	-	(53,596)	(53,596)
Utilization	-	(26,566)	(209)	(26,775)	-	(29,186)	(7,475)	(36,661)
Reversal provisions	(380,863)	(513,269)	(486)	(894,618)	(330,916)	(134,354)	-	(465,270)
Exchange rate	(201)	(431)	(165)	(797)	(91)	(187)	(107)	(385)
Other	-	11,778	-	111,778	-	(630)	(13,365)	(13,995)
Balance as at December 31,	(210,395)	1,715,964	557,051	2,483,410	309,211	988,557	511,085	1,808,853

a) Provisions for litigations of Parent Bank

A provision was done on the basis of estimates of future outflows in the amount of damage receivables including interest and costs. Total amount of provisions for 5,160 disputes as at December 31, 2019 amount to RSD 1,614,874 thousand.

Compared to 31 December, 2018 there was a change in the total level of provisions in the net amount of RSD 714,722 thousand. Of this, the change related to the net provisioning provision for legal liabilities amounts to RSD 740,127 thousand recognized in the income statement position, while the decrease in the provision in the amount of RSD 25,405 thousand relates to the use of provisions for payments and cancellation under the adopted court judgments.

Majority of disputes mainly relate to loan approval fee, receivables for damages and labour disputes.

33. PROVISIONS (continued)

b) Provisions for employee benefits

Provisions for retirement benefits were formed on the basis of an independent actuary report at the balance sheet date, and they are stated in the present value of expected future payments.

The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2019	December 31, 2018
Parent Bank		
Discount rate	4.00%	4.75%
Salary growth rate within the Bank	2.00%	2.00%
Employee turnover	4.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

Komercijalna Banka a.d., Podgorica

	December 31, 2019	December 31, 2018
Discount rate	3.00%	3.00%
Salary growth rate within the Bank	3.00%	5.00%
Employee turnover	9.00%	8.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Montenegro was used to determine the discount rate.

Komercijalna Banka a.d., Banja Luka

	December 31, 2019	December 31, 2018
Discount rate	3.00%	4.00%
Salary growth rate within the Bank	2.00%	2.00%
Employee turnover	5.00%	5.00%

33. PROVISIONS (continued)

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on ten-year bonds issued by the Government of the Republic of Srpska was used to determine the discount rate.

KomBank INVEST a.d., Beograd

	December 31, 2019	December 31, 2018
Discount rate	4.00%	4.75%
Salary growth rate within the Bank	6.00%	8.00%
Employee turnover	5.00%	5.00%

34. OTHER LIABILITIES

Other liabilities include:

In thousand RSD

	December 31, 2019	December 31, 2018
Accounts payable	264,882	559,770
Liabilities to emplyees (salaries, payroll taxes and contribution)	76,854	77,450
Adanced received	177,879	129,635
Liabilities based on leasing	1,371,502	-
Accurued interest, fees and commissions	160,992	170,378
Accurued liabilities and other accruals	637,699	380,493
Liabilities in calcution	2,316,607	2,277,235
Liabilities from profit	9,236,270	5,442,133
Taxes and contributions payble	19,343	30,842
Other liabilities	297,542	265,958
Balance as at December 31, 2019	14,559,570	9,333,894

Liabilities in settlement totalling RSD 2,316,607 thousand mostly relate to the liabilities for sale and purchase of foreign currencies in the foreign exchange market in the amount of RSD 1,528,706 thousand, liabilities related to buying and selling foreign currencies in the amount of RSD 180,759 thousand, foreign currency liabilities for spot transactions in the amount of RSD 104,932 thousand and liabilities based on payment card receivables in the amount of RSD 65,270 thousand.

a) Liabilities from Parent's Bank profit in the amount of RSD 9,229,643 thousand consist of:

- dividend payment liabilities arising from dividends on preferred shares in the amount of RSD 99,570 thousand,
- dividend payment liabilities on ordinary shares in the amount of RSD 7,701,758 thousand and
- liabilities from profit to employees in the amount of RSD 1,428,315 thousand.

34. OTHER LIABILITIES

With the Decision of the Bank 4586/3 of April 24, 2019, a part of prior year's retained earnings was distributed for dividends on ordinary share in the amount of RSD 3,245,000 thousand and preferred shares in the amount of RSD 13,073 thousand with a payout limit of fulfilment of the requirements stated in the Article 25 of the Law on Banks.

During 2019, the Bank did not carry out payments based on the distribution of profits for 2014, 2015, 2016, 2017 and 2018 because of the abovementioned limitation.

b) liabilities based on leasing

	In thousands RSD
Balance as at January 1,	
Effect first application of IFRS 16	1,847,377
Interest expenses	33,509
Interest income- termination of contracts	(500)
Expenses from negative currency clause of the leasing contract	3,530
Income from positive currency clause of the leasing contract	(8.970)
Tax expenses for legal and natural person	71,417
Other net income based on leasing	(60)
Exchange rate differences	(2,340)
Lease payments	(567,015)
Other	(5,446)
Balance as at December 31,	1,371,502

35. EQUITY

35.1 Equity is comprised of:

In RSD '000

	December 31 2019	December 31 2018
Share capital	17,191,526	17,191,526
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	21,849,598	17,503,846
Revaluation reserves	8,875,798	6,187,537
Retained earnings	9,981,902	9,277,759
Loss	(1,370,332)	(1,481,701)
Balance as at December 31	79,371,576	71,522,051

Capital structure

In RSD '000

	December 31, 2019			December 31, 2018		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controlling shares	Total
Share capital	17,191,466	60	17,191,526	17,191,466	60	17,191,526
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	40,034,550	60	40,034,610	40,034,550	60	40,034,610
Retained earnings	9,981,896	6	9,981,902	9,277,755	4	9,277,755
Loss	(1,370,332)	-	(1,370,332)	(1,481,701)	-	(1,481,701)
Reserves from profit and other reserves	21,849,594	4	21,849,598	17,503,844	2	17,503,844
Revaluation reserves (credit balance)	7,256,593	-	7,256,593	4,539,643	-	4,539,643
Revaluation reserves (debit balance)	(248)	-	(248)	(257)	-	(257)
Translational reserves (Note 35.3)	1,619,453	-	1,619,453	1,648,151	-	1,648,151
Reserves	30,725,392	4	30,725,396	23,691,381	2	23,691,383
Capital	79,371,506	70	79,371,576	71,521,985	66	71,522,051

The Parent Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent Bank, as well as to participate in profit distribution. As of December 31, 2019 the Bank's share capital totalled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

Structure of the Parent Bank's shares is provided in the table below:

Share Type	Number of shares December 31 2019	December 31 2018
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	17,191,466	17,191,466

The structure of the Parent Bank's shareholders with ordinary (common stock) shares at December 31, 2019 was as follows:

Shareholder:	Number of shares	% share
Republic of Serbia	13,997,686	83.23
Jugobanka a.d., Belgarde in bankruptcy	321,600	1.91
OTP BANKA SRBIJA (custody account)	298,352	1.77
Kompanija dunav osiguranje d.o.o. Belgrade	290,214	1.73
BDD M&V INVESTMENTS AD BEOGRAD (summary account)	272,600	1.62
East capital (lux)-Balkan fund	189,756	1.13
GLOBAL MACRO ABSOLUTE RETURN A	133,148	0.79
GLOBAL MACRO CAPITAL OPPORTUNITIES	131,568	0.78
Stankom co. d.o.o., Belgarde	117,535	0.70
GLOBAL MACRO PORTFOLIO	84,003	0.50
FRONT MARK OPPORTUN.MASTER	68,404	0.41
ДЕКА ИНЖЕЊЕРИНГ	60,090	0.36
I.N. DRENIK NONWOVENS TRADING	58,950	0.35
ALLIANCEBERNS.NEXT 50E.M.(M)F.	53,837	0.32
Others (1,113 shareholders)	740,213	4.40
	16,817,956	100.00

The structure of the Parent Bank's shareholders with preferred shares at December 31, 2019 was as follows:

Shareholder	Number of shares	% share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (632 shareholders)	270,280	72.37
	373,510	100.00

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

The Ministry of Finance of the Republic of Serbia 26 June 2019. Performed redemption of ordinary shares owned by DEG-DEUTSHE INVESTITIONS and SWEDFUND INTERNATIONAL in total percentage of 6.90%, and 26. November redemption of ordinary shares of EBRD, in a percentage of 24.43% and IFC CAPITALIZATION FUND LP in a percentage of 10.15%, which increased the percentage of the participation of the Republic of Serbia to 83.23%.

Revaluation reserves totalling RSD 8,875,798 thousand (2018: RSD 6,187,537 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,102,208 thousand, revaluation reserves based on valuation of equity securities in the amount of RSD 1,631,690 thousand, revaluation reserve based on the valuation of debt securities in the amount of RSD 4,398,241 thousand and actuarial gains in the amount of RSD 1,619,453 thousand. The stated values also include the tax effects of revaluation reserves.

35.2. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period:

	2019	2018
Profit minus preferred dividends (in RSD thousand)	8,942,686	8,132,109
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	532	484

The basic earnings per share for 2019 is RSD 532 or 53.17% at the nominal value of ordinary shares; for 2018, earnings per share amounted to RSD 484 or 48.35% at the nominal value ordinary shares.

35.3. Cumulative foreign exchange losses and gains on foreign transactions

In RSD '000

	Cumulative FX on the basis of shares in subsidiaries	Cumulative FX on the basis of intercompany transaction	Cumulative FX on income adjustments to the FX rate as at December 31	Total
Balance as at January 1, previous year	1,537,481	69,315	51,937	1,658,733
Increase	(16,146)	5,743	(179)	(10,582)
Balance as at December 31, previous year	1,521,335	75,058	51,758	1,648,151
Increase	(34,940)	6,859	(617)	(28,698)
Balance as at December 31, current year	1,486,395	81,917	51,141	1,619,453

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In RSD '000

	December 31, 2019	December 31, 2018
Operations on behalf and for the account of third parties	4,201,557	4,278,176
Taken-over future liabilities	56,406,073	47,477,824
Derivatives intended for trading under the contract currency	-	1,772,919
Other off-balance sheet items	443,227,208	443,254,125
Total	503,834,838	496,783,044

From the assumed future liabilities, the internal relationship with Komercijalna banka ad, Banja Luka, based on undisbursed loans in the amount of RSD 1,999,078 thousand (EUR 17 million), with Komercijalna banka a.d. Podgorica based on undisbursed loans in the amount of RSD 1,111,252 thousand (EUR 9.45 million) was eliminated as well as an unused part of the approved limit for KomBank INVEST cards amounting to RSD 200 thousand.

From other off-balance sheet positions, internal relations were eliminated by Komercijalna banka a.d. Banja Luka, Komercijalna banka a.d. Podgorica and KomBank INVEST have with Komercijalna banka a.d. Beograd.

36.1 Guarantees and letters of credit

Banks, members of the Group, issue guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

In RSD '000

	December 31, 2019	December 31, 2018
Payment guarantees	4,983,412	3,897,871
Performance guarantees	5,754,320	3,630,897
Letters of credit	281,963	214,361
Balance as at December 31,	11,019,695	7,743,129

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

36.2 Structure of commitments is provided below:

In RSD '000

	December 31, 2019	December 31, 2018
Unused portion of approved payment and credit card loan facilities and overdrafts	11,071,708	11,082,318
Irrevocable commitments for undrawn loans	33,033,872	26,336,746
Other irrevocable commitments	1,280,798	2,315,630
Balance as at December 31,	45,386,378	39,734,694

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

36.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Operations on behalf and for the account of third parties in the total amount of RSD 4,201,557 thousand consist mostly of funds from the commission credits of the Republic of Serbia for the repayment of housing loans in the amount of RSD 3,448, 971 thousand, loans for the purchase of social apartments of budget institutions in the amount of RSD 305,001 thousand (loans taken from Beobanka in bankruptcy), while other funds mostly refer to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets in the amount of RSD 443,227,208 thousand, the Group discloses, among other things, the received financial assets for collateral and receivables in the amount of RSD 202,700,345 thousand, the nominal value of custody securities for clients of the Group in the amount of RSD 49,759,948 thousand, the nominal value of securities of the value in the Group's portfolio in the amount of RSD 128,417,584thousand, repo placements in government securities in the amount of RSD 12,000,000 thousand, the amount of the permanent write-off of balance sheet items - loans and placements by transfer into the off-balance sheet in the amount of RSD 28,787,673 thousand and the amount of the accounting write-off of credit receivables under the NBS Decision on accounting write-off balance assets in the amount of RSD 4,570,686 thousand.

The Parent bank, in accordance with the issued license for performing custodial transactions, also keeps the financial instruments of the clients on the securities accounts, for which the off-balance sheet is kept. Based on these activities, the Parent banka does not bear the credit risk.

Also, in the position of other off-balance sheet assets, in accordance with the legislation, the Parent bank also presents the value of received financial assets for securing placements: residential, business and other security facilities in the amount of RSD 166,846,879 thousand.

36.4 Litigations

Based on the expert assessment of the Legal Department and attorneys representing the Group's members, in all disputes against members of the Group, in 2019, the management made provisions for potential losses in litigations in the amount of RSD 1,715,964 thousand (Note 33).

As at December 31, 2019 contingent liabilities based on the claims amount against the members of the Group, were estimated at the amount of RSD 6,240,364 thousand (for 5,995 active cases).

In addition, members of the Group conduct disputes against third parties, the most significant part of which is RSD 45,858,901 thousand (for 13,486 items of the highest individual value). The Group's management expects positive outcomes in most of the disputes.

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

36.5 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina are in the process of continuous revision and modification. In different circumstances, tax authorities may have different approaches to certain issues and may determine additional tax liabilities together with subsequent default interest and penalties. The Group's management believes that tax liabilities recorded in the financial statements are correctly stated.

During 2019, in the Parent bank tax control of the calculation and payment of corporate income tax for 2017 was carried out as part of the reported tax deduction. Upon inspection, no irregularities were identified.

During 2019, Komercijalna banka a.d. Banja Luka, Komercijalna banka a.d. Podgorica and Kombank INVEST a.d. Beograd did not have tax controls.

37. RELATED PARTY DISCLOSURES

The biggest participation in shares of the Homebank has the Republic of Serbia, which owns 83.23% of ordinary shares of the bank. The parent bank has three subsidiaries companies: Komercijalna Banka a.d. Podgorica, Komercijalna banka a.d. Banja Luka and KomBank INVEST a.d. Beograd.

Legal entities and individuals are regarded as related parties if one person has control, joint control or significant influence on the adoption of financial and business decisions of another legal entity. Related parties are also those persons who are under joint control of the same parent legal entity.

Within the Group's regular business operations, a number of banking transactions with related parties are performed. These include loans, deposits, investments in equity securities and derivative instruments, payment transactions and other banking transactions.

Consolidated transactions with dependent entities are shown in Note 6.1.

37. RELATED PARTY DISCLOSURES (continued)

37.1 Loans and receivables from related parties

In thousand RSD

	2019			2018		
Placement	On-balance	Off-Balance	Total	On-balance	Off-balance	Total
Bolero ZR	-	-	-	1	-	1
Beomox	23,483	1,220	24,703	-	-	-
PMC Injzeneringr	1	-	1	1	-	1
Privite individuals	189,581	18,017	207,598	173,920	15,859	189,779
Total	213,065	19,237	232,302	173,922	15,859	189,781

Liabilities	Deposits	Borrowings	Total	Deposits	Borrowings	Total
PMC injzenering	89	-	89	207	-	207
Beomox	7,950	-	7,950			
Arhitektonski biro STUDIO 3	100	-	100	1	-	1
JP Jugopromet	4,964	-	4,964	29	-	29
Anfibija d.o.o Cacak	-	-	-	239	-	239
EBRD (note 31)	-	-	-	-	710,563	710,563
International Finance Corporation	-	-	-	9	-	9
Reprezent d.o.o	12	-	12	12	-	12
Bolero ZR	19	-	19	11	-	11
Euros osiguranje Banja Luka	51,528	-	51,528	-	-	-
Deposit Insurance Agency	42,996	-	42,996	-	-	-
The envious Association of Serbs of the Uskopljska Valley of Bugojno-Donji Vakuf	7	-	7	-	-	-
Privite individuals	252,632	-	252,632	179,554	-	179,554
Total	360,297	-	360,297	180,062	710,563	890,625

37. RELATED PARTY DISCLOSURES (continued)

37.2 Income and expenses from related parties

	2019		
	Interests	Fees	Total
Income			
PMC Inzenjering	-	35	35
Arhitektonski biro studio 3	-	11	11
Beomox	482	318	800
JP Jugoimport	-	4,847	4,847
Bolero ZR	-	18	18
Euros osiguranje Banja Luka	-	7	7
Deposit insurance agency	-	13	13
The Native Association of Serbs of Uskopljanska Valley Bugojno-Donji Vakuf	-	6	6
Private individuals	8,227	1,043	9,270
Total Income	8,709	6,298	15,007
Expenses			
Beomox	(4)	(1)	(5)
JP Jugoimport	(4)	-	(4)
Euros osiguranje Banja Luka	(700)	-	(700)
Deposit insurance agency	(212)	-	(212)
Private individuals	(1,107)	(15)	(1,122)
Total Expenses	(2,027)	(16)	(2,043)
Net Income	6,682	6,282	12,964

	2018		
	Interests	Fees	Total
Income			
PMC Inzenjering	-	12	12
Anfibija d.o.o Cacak	-	7	7
Arhitektonski biro studio 3	-	12	12
Bolero ZR	-	18	18
Private individuals	8,452	1,134	9,586
Total Income	8,452	1,183	9,635
Expenses			
EBRD	(40,813)	-	(40,813)
Private individuals	(1,427)	(736)	(2,163)
Total Expenses	(42,240)	(736)	(42,976)
Net Income / Expenses	(33,788)	447	(33,341)

37. RELATED PARTY DISCLOSURES (continued)

37.3 Gross and net remunerations

Gross and net remunerations paid to the members of the Group members' Executive Board, Board of Directors and Audit Committee were as follows:

In thousands RSD

	December 31, 2019	December 31, 2018
Gross remunerations		
Executive Board	129,270	125,437
Net remunerations		
Executive Board	94,490	91,459
Gross remunerations		
Board of Directors and Audit Committee	34,467	44,490
Net remunerations		
Board of Directors and Audit Committee	21,967	27,856

38. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Unreconciled Outstanding Item Statements

Based on the analysis of the regular Annual Count conducted on December 31, 2019, the Parent Bank has non-compliant statements of open items for 10 clients with the stated reason for the dispute.

Non-compliant statements for 3 clients relate to clients who challenge the amount of receivables for given advances, receivables based on issued invoices, receivables on the basis of a rent in the total amount of RSD 27 thousand (on which basis thirteen receivables were returned with unverified statements amounting to 6,431 thousand dinars).

For one client, unreconciled amounts relate to off-balance sheet items of irrevocable liabilities for guarantees with the elaboration that the guarantee expired. The subject of dispute is customs guarantee which expires in the period of 180 days. The guarantee is issued at 100,000 thousand dinars.
Four clients disputed the amounts: receivables from domestic and foreign payment fees, unreported amount from bankruptcy for clearing checks, fees for the activities of the issuing agent in RSD in the total amount of RSD 117 thousand.
In two cases, clients were partially in dispute over amounts that refer to overpayments from January in the amount of 1,154 thousand dinars.
The amount of impairment allowance for receivables that are disputed (and the amount of provisions for balance sheet items) is determined by the Parent Bank's credit risk policy.

The Parent Bank is in a continuous process of harmonization of the disputed items.

KomBank INVEST AD, Belgrade has no mismatch of open items.

Komercijalna banka ad Banja Luka has six non-compliant statements of open items in the amount of RSD 45 thousand.

Komercijalna banka ad Podgorica has one non-compliant statements of open items in the amount of RSD 5 thousand.

39. EVENTS AFTER THE REPORTING PERIOD

Based on the decision of the Bank's Board of Directors, a call was made to hold a regular session of the Parent Bank's Shareholder Assembly on March 9, 2020, with a proposal for a Decision on approval of the Parent Bank's strategy and business plan for the period 2020 - 2022.

On February 26, 2020 the Ministry of Finance of the Republic of Serbia announced that the representatives of Nova Ljubljanska banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia, have signed Share Purchase Agreement for 83.23% of ordinary shares of Komercijalna banka AD Beograd.

By signing this agreement, the Parent Bank has acquired a new strategic partner, who will take over the management of the members of the Group upon completion of the transaction.

Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would have to be disclosed in the financial statements.

40. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in dinars on December 31, 2019 and 2018 for certain major currencies are:

	NBS official exchange rate		NBS average exchange rate	
	2019	2018	2019	2018
USD	104.9186	103.3893	-	-
EUR	117.5928	118.1946	117.8593	118.2752
CHF	108.4004	104.9779	-	-
BAM	60.1242	60.4319	60.2605	60.4731

In Belgrade, March 16, 2020

Signed on behalf of Komercijalna banka a.d. Beograd:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Vladimir Medan, PhD
Chief Executive Officer

ANNUAL REPORT ON OPERATIONS OF KOMERCIJALNA BANKA AD BEOGRAD GROUP FOR 2019

March 2020

CONTENT

Consolidated financial statements of the Banking Group are presented in thousands of dinars. Dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

Functional currencies EUR, used in the financial statements of Komercijalna banka AD Podgorica, and BAM, used in the financial statements of Komercijalna banka AD Banja Luka, have been converted to the dinar (RSD) as the Parent Bank's reporting currency based on the officially published exchange rates in the Republic of Serbia.

The Consolidated Profit & Loss Account and the Consolidated Cash Flow Statement for the period have been reclassified by applying the average official exchange rate in the Republic of Serbia for 2019 of RSD 117,8593 for one EUR and RSD 60,2605 for one BAM, respectively while other Consolidated Financial Statements (Balance Sheet, Statement of Changes in Equity and Statement of Comprehensive Income) by applying the closing exchange rate as of balance sheet date of RSD 117,5928 for one EUR, or RSD 60,1242 for one BAM.

Business changes, and/or any transactions performed in foreign currency have been translated into dinars at the middle exchange rate valid in the interbank foreign exchange market and applicable as at the date of the relevant transaction.

The assets and liabilities presented in foreign currency as at the date of the Consolidated Balance Sheet have been translated into dinars at the middle exchange rate valid in the interbank foreign exchange market as at that date.

1. Key Performance Indicators of the Group

POSITION	2019	2018	INDICES 2019/2018	2017	2016	2015
PROFIT & LOSS ACCOUNT *(in RSD thousand)*						
Profit / loss before tax	7.726.328	8.381.166	92,2	7.316.383	(6.533.686)	(6.893.558)
Profit / loss after tax	8.399.865	8.380.334	100,2	8.267.996	(6.241.130)	(6.801.058)
Net interest income	13.770.518	13.946.644	98,7	13.517.238	14.456.333	14.839.373
Net fee income	5.727.124	5.540.447	103,4	5.413.601	5.093.523	5.190.282
BALANCE SHEET *(in RSD thousand)*						
Consolidated balance sheet assets	475.755.894	441.586.959	107,7	400.108.316	428.827.608	416.461.558
Off-balance sheet transactions	503.834.838	496.783.044	101,4	507.341.556	551.970.548	621.827.674
Loans and receivables from banks and other financial organisations	26.990.004	21.037.537	128,3	30.233.555	43.216.681	17.848.897
Loans and receivables from customers	208.234.158	191.448.642	108,8	174.242.139	166.401.008	179.422.656
Deposits and other liabilities to banks, o.f.o. and the central bank	8.318.606	8.228.284	101,1	6.137.776	9.822.519	18.768.726
Deposits and other liabilities to other customers	370.987.710	350.668.156	105,8	317.577.748	345.135.959	319.334.622
Capital	79.371.576	71.522.051	111,0	67.100.116	59.292.420	64.694.402
Capital adequacy	27,1%	25,2%	-	24,6%	26,2%	23,1%
Number of employees	3.056	3.076	99,3	3.106	3.152	3.148
PROFITABILITY RATIOS						
ROA	1,7%	2,0%	-	1,8%	(1,5%)	(1,6%)
ROE (on total capital)	10,2%	12,1%	-	11,6%	(10,5%)	(10,1%)
Net interest margin on total assets	3,0%	3,3%	-	3,3%	3,4%	3,5%
Cost / income ratio	63,67%	60,41%	-	64,0%	63,2%	60,4%
Operating expenses	12.414.562	11.772.192	105,5	12.119.512	12.363.223	12.092.310
Net income/expense from loan impairment	1.587.676	51.681	-	36.342	(13.079.497)	(13.807.580)
Assets per employee *(in RSD thousand)*	155.679	143.559	108,4	128.818	136.049	132.294
Assets per employee *(in EUR thousand)*	1.324	1.212	109,2	1.087	1.102	1.088

2. Business Operations and Organisational Structure of the Group

The Banking Group consists of three banks (the Parent Bank and two Subsidiary Banks) and one Investment Fund Management Company.
The Parent Bank, Komercijalna banka AD Beograd, performs the following operations within the framework of its registered business activities:

- Deposit operations (receiving and making deposits),
- Loan operations (lending and borrowing),
- Foreign currency, foreign currency exchange transactions and exchange operations;
- Payment transactions;
- Payment card issuing;
- Securities operations (issuing of securities, custody bank operations etc.);
- Broker/dealer operations;
- Issuance of guarantees, guarantees of a bill and other forms of sureties (guarantee operations);
- Debt purchase, sale and collection (factoring, forfeiting etc.);
- Insurance agency operations, with prior approval of the National Bank of Serbia;
- Other operations it is authorised to conduct under the law.

The Parent Bank has been authorised for international payments since 2003, for broker/dealer operations since 2005, for custody bank operations since 2006 and for insurance agency operations since 2011.

Komercijalna banka AD Banja Luka is registered in Bosnia and Herzegovina for payment operations and credit and deposit operations in the country and abroad, in accordance with the regulations of the Republic of Srpska.

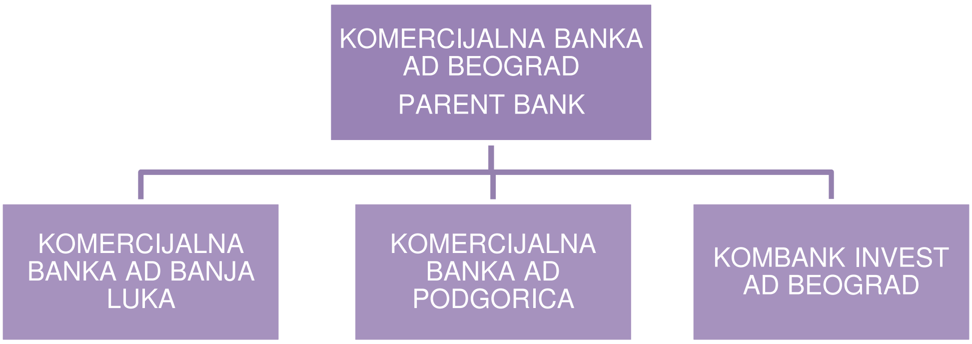
Komercijalna banka AD Podgorica performs the following operations:

- Deposit operations (receiving and making deposits),
- Loan operations (lending and borrowing),
- Issuing of guarantees and undertaking other commitments,
- Debt purchase and collection,
- Issuing, processing and recording of payment instruments,
- International payments,
- Financial leasing,
- Trading in foreign payment instruments on its own behalf and for its own account or on behalf and for the account of its clients,
- Data collection, performing analysis and informing and advising on creditworthiness of companies and entrepreneurs,
- Depository operations,
- Safekeeping of assets and securities,
- Other ancillary operations within the Bank's scope of operations.

IFMC Kombank INVEST AD Beograd is registered for the following operations:

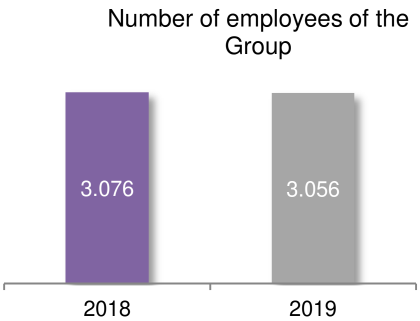
- Organising and managing open-end investment funds,
- Forming and managing closed-end investment funds,
- Managing private investment funds,
- Other operations in accordance with the law governing the capital market, or the operations of portfolio manager and investment adviser.

Organisational Chart of the Group



Human Resources of the Group

As at 31 December 2019 the Group had in total 3.056 employees, which makes for 20 less than in the previous year 2018. Reduction occurred in the Parent Bank (22), while KB Podgorica increased the number of employees (2). KB Banja Luka and KB Invest maintained the same number of employees.



Key Information about the Group Members

	KOMERCIJALNA BANKA AD BANJA LUKA	KOMERCIJALNA BANKA AD PODGORICA	IFMC KomBank INVEST AD BEOGRAD
ADDRESS	Jevrejska 69	Cetinjska no.11 VI floor Kula PC 1	Kralja Petra 19
COUNTRY	BiH, Republic of Srpska	Montenegro	Serbia
TELEPHONE	00387-51-244-700	00382-20-426-300	011-330-8160

KOMERCIJALNA BANKA AD BANJA LUKA	KOMERCIJALNA BANKA AD PODGORICA
99,998% owned by KB Beograd	100,0% owned by KB Beograd

Komercijalna banka AD Banja Luka was incorporated in September 2006 and on 15 September 2006 it was registered with the relevant court register pursuant to the Decision of the Basic Court in Banja Luka. At the end of 2019 the Bank had 159 employees and the business network comprising 10 branches and 9 agencies.

Komercijalna banka AD Podgorica was incorporated in November 2002 as an affiliation of Komercijalna banka AD Beograd and was registered with the central register of the Commercial Court of Podgorica on 6 March 2003. At the end of 2019 the Bank had 148 employees and the business network comprising 9 branches and 1 sub-branch.

KOMBANK INVEST AD BEOGRAD
100,0% owned by KB Beograd

Investment Fund Management Company (IFMC) **KomBank INVEST AD Beograd** is a company registered with the Company Register maintained by the Business Registers Agency on 5 February 2008. The company was incorporated as a closed joint stock company operating in accordance with the Law on Investment Funds, Regulations on Investment Funds and Rulebook on Conditions for Conducting Investment Fund Management Activities.

At the end of 2019 the Company managed three investment funds, including:

1. KomBank IN FOND, open-end growth investment fund (equity fund),
2. KomBank NOVČANI FOND, open-end value investment fund (money market fund),
3. KomBank DEVIZNI FOND, open-end value investment fund (money market fund).

At the end of 2019 the Company had five employees.

Key Information about the Parent Bank

Address /Head Office / Divisions	14, Svetog Save Street	42-44, Svetogorska Street	29, Makedonska Street
TELEPHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
FAX	381-11-344-23-72	381-11-32-35-121	381-11-33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

KOMERCIJALNA BANKA AD BEOGRAD*
Republic of Serbia – 83,23%

* Shareholders above 5% of capital

KOMERCIJALNA BANKA
Meni najbliža

Komercijalna banka AD Beograd, Parent Bank, was incorporated on 1 December 1970, and transformed into a joint stock company on 6 May 1992. The Bank is registered with the Commercial Court in Belgrade on 10 July 1991, and it was legally re-registered in the Business Registers Agency on 14 April 2006. The Bank was granted a banking license by the National Bank of Yugoslavia on 3 July 1991. As at 31.12.2019 the Parent Bank has 2.744 employees and the business network comprising 6 business centres, one branch (KM) and 203 sub-branches, 3 corporate divisions for SMEs (Belgrade, Central Serbia, Vojvodina), corporate division for large clients.

Business Network of the Parent Bank

	BUSINESS CENTRE	SEAT
1.	BC Beograd 1	1, Trg Politike, Beograd
2.	BC Beograd2	1, Trg Politike, Beograd
3.	BC Kragujevac	2, Moše Pijade, Požarevac
4.	BC Niš	32, Episkopska, Niš
5.	BC Novi Sad	88, Bulevar oslobođenja, Novi Sad
6.	BC Užice	4, Petra Ćelovića, Užice
	BRANCH	**SEAT**
1.	Kosovska Mitrovica	11, Čika Jovina Street, Kosovska Mitrovica

	DIVISIONS	SEAT
1.	Corporate Division – Large Clients	42-44, Svetogorska Street, Belgrade
2.	Corporate Division ' SMEs –Vojvodina	88, Bulevar oslobođenja, Novi Sad
3.	Corporate Division ' SMEs –Beograd	42-44, Svetogorska Street, Belgrade
4.	Corporate Division ' SMEs-Central Serbia	42-44, Svetogorska Street, Belgrade

Following 2017 and the first large implemented reorganisation of the business network, after the analysis of the effects of the applied changes in business operations, the Bank, at the start of 2018, implemented additional changes within the business network.

In March 2018 a new change of organization was conducted within the Corporate business function when, formally, instead of the Business Corporate Centres, the Corporate Divisions for SMEs were formed: Belgrade, Central Serbia and Vojvodina. Essentially, the change involved the functional merging of sales and credit analysis within the same organisational form (Corporate Division for SMEs Belgrade, Central Serbia and Vojvodina).

In 2019 there were no changes in the organization within the Corporate business function.

Business operations in the retail segment, during 2019, were performed by the Parent Bank through the network of 203 sub-branches grouped into six Business Centres and the Branch Kosovska Mitrovica. Operations with legal entities were carried out through three Corporate Divisions for SMEs (Vojvodina, Belgrade and Central Serbia) and the Corporate Division – Large Clients.

3. Financial Position and the Results of the Group's Operations

3.1. Macroeconomic Business Conditions

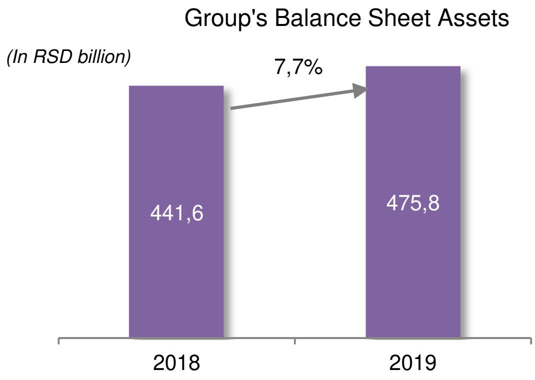
Macroeconomic Indicators	SERBIA	MONTENEGRO[1]	REPUBLIC OF SRPSKA
Gross domestic product	EUR 33,4 billion[2]	EUR 4,8 billion[3]	EUR 5,7 billion (KM 11,0 billion)
GDP trends	+4,0%[4]	+3,1%	+3,4%[5]
Consumer price index (XII 2019 / XII 2018)	+1,9%	+1,0%	+1,1%
Banking sector assets	+5,5%[6]	+6,6%	+5,0%[7]
Banking sector assets as a share of GDP	101,0%	97,5%	73,4%
Industrial production (I-X 2019 / I-X 2018)	+0,5%[8]	-8,0%	-8,1%[9]
NPL of banking sector, or non-performing assets	4,6%[10]	4,6%	8,0%[11]
Unemployment rate	9,5%[12]	15,4%	16,4%

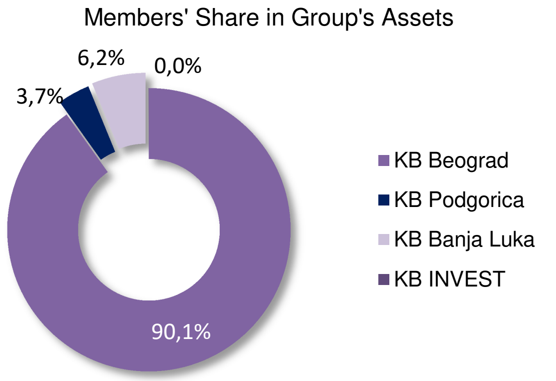
Note: Macroeconomic business conditions of the Group members according to the available data of the competent institutions

3.2. Group's Operations

POSITION	2019	2018	2017	2016	2015
(in RSD thousand)					
GROUP'S BALANCE SHEET ASSETS	475.755.894	441.586.959	400.108.316	428.827.608	416.461.558
Komercijalna banka a.d. Beograd	428.857.730	398.447.676	366.074.702	397.222.810	387.378.734
Komercijalna banka a.d. Banja Luka	29.256.166	27.624.178	20.075.186	18.385.992	16.469.869
Komercijalna banka a.d. Podgorica	17.472.505	15.353.955	13.801.705	13.212.323	12.497.800
KomBank INVEST a.d. Beograd	169.493	161.150	156.723	6.483	115.155

1 Data for Montenegro apply to November 2019 (the latest available data)
2 NBS, basic macroeconomic indicators, January 2020, balance for the first three quarters of 2019
3 Gross domestic product and GDP trends is the projection of the Ministry of Finance of Montenegro
4 Estimate, SORS, NBS, Macroeconomic trends in Serbia, January 2020
5 Assessment of the Statistical Office of the Republic of Serbia (SORS)
6 Growth of Serbian banking sector assets 30.09.2019/2018
7 Information refers to 30.09.2019 in relation to 31.12.2018
8 Ministry of Finance, Public Finance Bulletin, October 2019, January – October 2019, y-o-y.
9 Information refers to period November 2019 in relation to the same period 2018
10 NBS, Macroeconomic trends in Serbia, January 2020, information refers to November 2019 (NPL / total loans),
11 Information refers to September 2019
12 Statistical Office, Labor Force Survey, End of 3Q 2019

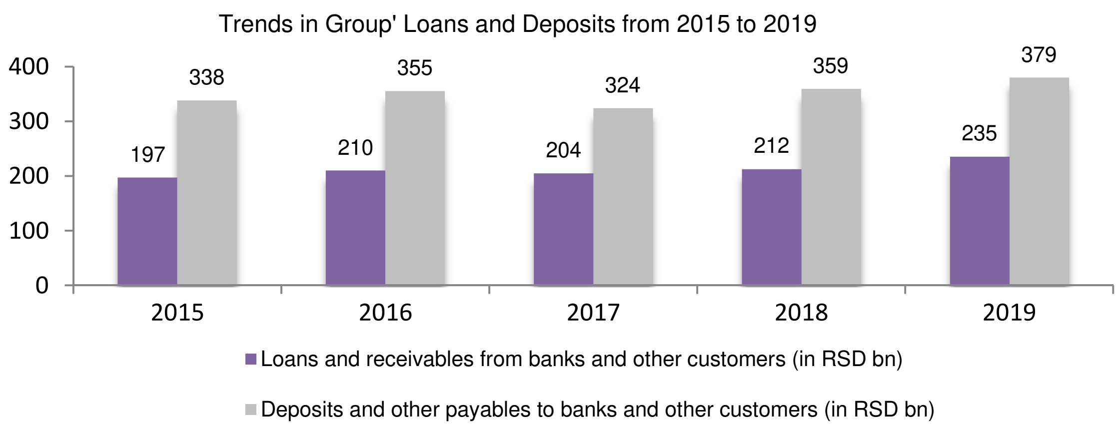




Group's balance sheet assets at the end of 2019 have been increased in relation to the end of 2018 by RSD 34.168,9 million (7,7%). The share of the Parent Bank in consolidated assets is still dominant (Group members account for 9,9% of total consolidated assets).

Loans and Liabilities of Banks and Customers as at 31.12.2019 by Group members

POSITION	2019	2018	2017	2016	2015
(in RSD thousand)					
LOANS AND RECEIVABLES FROM BANKS AND CUSTOMERS	235.224.162	212.486.179	204.475.694	209.617.689	197.271.553
Growth rate	10,7%	3,9%	(2,5%)	6,3%	(17,7%)
Komercijalna banka a.d. Beograd	205.497.840	185.917.193	182.944.400	190.830.293	179.006.392
Komercijalna banka a.d. Banja Luka	18.734.989	16.811.744	13.647.511	12.435.930	10.994.026
Komercijalna banka a.d. Podgorica	10.974.943	9.740.866	7.883.783	6.351.466	7.271.135
KomBank INVEST a.d. Beograd	16.390	16.376	-	-	-
DEPOSITS AND PAYABLES TO BANKS AND CUSTOMERS	379.306.316	358.896.440	323.715.524	354.958.478	338.103.348
Growth rate	5,7%	10,9%	(8,8%)	5,0%	(2,7%)
Komercijalna banka a.d. Beograd	339.234.701	321.271.358	295.755.134	329.732.740	316.177.501
Komercijalna banka a.d. Banja Luka	24.601.533	23.547.061	15.803.267	14.242.849	12.006.979
Komercijalna banka a.d. Podgorica	15.470.082	14.078.021	12.157.123	10.982.889	9.918.868
KomBank INVEST a.d. Beograd	-	-	-	-	-



The Parent Bank's share in loans and receivables from banks and other customers of the entire Group, amounted at the end of 2019 to 87,4%, KB Podgorica 4,7%, and KB Banja Luka 8,0%. The Parent Bank also had a dominant share in deposits and other payables to banks and the Group's other customers of 89,4% (KB Podgorica – 4,1%, KB Banja Luka – 6,5%).

3.3. Consolidated Balance Sheet

Group's Consolidated Assets as at 31 December 2019

No.	POSITION	31.12.2019	31.12.2018	INDICES	SHARE 2019
1	2	3	4	5=(3:4)*100	6
	ASSETS *(in RSD thousand)*				
1.	Cash and assets held with the central bank	76.654.402	73.992.039	103,6	16,1%
2.	Pledged financial assets	-	-	-	-
3.	Receivables under derivatives	-	4.070	-	-
4.	Securities	144.479.431	137.514.720	105,1	30,4%
5.	Loans and receivables from banks and other financial organisations	26.990.004	21.037.537	128,3	5,7%
6.	Loans and receivables from customers	208.234.158	191.448.642	108,8	43,8%
7.	Change in fair value of hedged items	-	-	-	-
8.	Receivables under hedging derivatives	-	-	-	-
9.	Investments in associated companies and joint ventures	-	-	-	-
10.	Investments in subsidiaries	-	-	-	-
11.	Intangible assets	754.500	627.468	120,2	0,2%
12.	Property, plant and equipment	7.254.391	6.047.384	120,0	1,5%
13.	Investment property	2.202.616	2.259.815	97,5	0,5%
14.	Current tax assets	6.786	1.650	411,3	-
15.	Deferred tax assets	1.076.255	840.967	128,0	0,2%
16.	Available-for-sale non-current assets and assets from discontinued operations	500.740	659.003	76,0	0,1%
17.	Other assets	7.602.611	7.153.664	106,3	1,6%
	TOTAL ASSETS (from 1 to 17)	**475.755.894**	**441.586.959**	107,7	100,0%

Of all individual balance sheet positions, the highest share in the Group's balance sheet assets was that of loans and receivables from customers (43,8%) and they are showing an upward trend in 2019 (they are increased by 8,8% in relation to the end of 2018). Securities make for an important consolidated assets position, with share of 30,4%, and they achieved a growth in 2019 (they are increased by 5,1% compared to the end of 2018). Cash and assets held with the central bank participated in total consolidated assets with 16,1% and are slightly increased in comparison to preceding reporting period (an increase of 3,6%). The balance sheet position loans and receivables from banks and other financial organisations account for 5,7% of consolidated balance sheet assets and have recorded a growth of 28,3% in relation to the end of the year 2018.

Group's Consolidated Liabilities as at 31 December 2019

NO.	POSITION	31.12.2019	31.12.2018	INDICES	SHARE 2019
1	2	3	4	5=(3:4)*100	6
	LIABILITIES *(in thousand RSD)*				
1.	Liabilities under derivatives	-	-	-	-
2.	Deposits and other liabilities to banks, other financial organisations and CB	8.318.606	8.228.284	101,1	1,7%
3.	Deposits and other liabilities to other customers	370.987.710	350.668.156	105,8	78,0%
4.	Liabilities under hedging derivatives	-	-	-	
5.	Change in fair value of hedged items	-	-	-	
6.	Liabilities under securities	-	-	-	
7.	Subordinated liabilities	-	-	-	
8.	Provisions	2.483.410	1.808.853	137,3	0,5%
9.	Liabilities under available-for-sale assets and assets from discontinued operations	-	-	-	
10.	Current tax liabilities	2.673	11.044	24,2	-
11.	Deferred tax liabilities	32.349	14.677	220,4	-
12.	Other liabilities	14.559.570	9.333.894	156,0	3,1%
	TOTAL LIABILITIES (from 1 to 12)	**396.384.318**	**370.064.908**	107,1	83,3%
	CAPITAL				
13.	Share capital	40.034.550	40.034.550	100,0	8,4%
14.	Profit	9.981.896	9.277.755	107,6	2,1%
15.	Loss	1.370.332	1.481.701	92,5	0,3%
16.	Reserves	30.725.392	23.691.381	129,7	6,5%
17.	Non-controlling interest	70	66	106,1	-
	TOTAL CAPITAL (from 13. to 17.)	**79.371.576**	**71.522.051**	111,0	16,7%
	TOTAL LIABILITIES	**475.755.894**	**441.586.959**	107,7	100,0%

On the consolidated liabilities side, dominant were deposits and other liabilities to other customers with share of 78,0%. The position deposits and other liabilities to other customers is increased in relation to 2018 by 5,8%.

In consolidated liabilities, total capital accounted for 16,7% (approximate share was also in 2018, 16,2%). Compared to 2018 the Group's capital has been increased (an increase of 11,0%) primarily due to profit growth in the Parent Bank and subsidiaries. The reserves have also been increased by 29,7%.

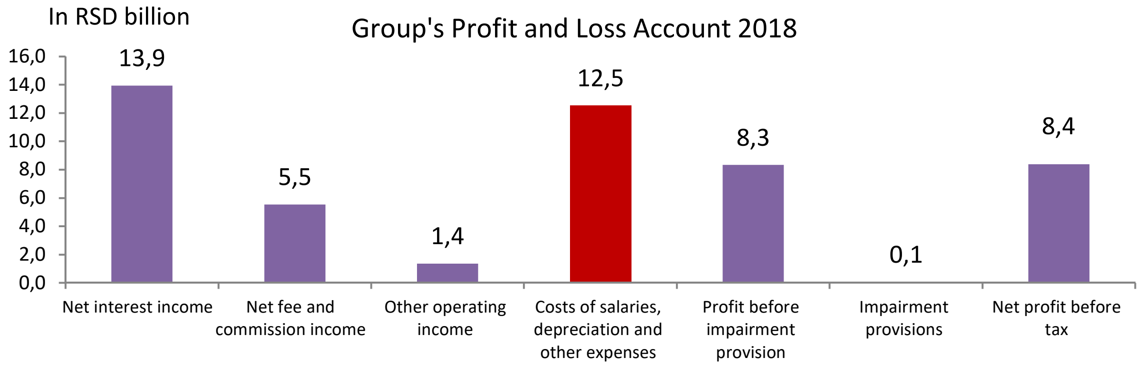
Consolidated Balance Sheet as at 31.12.2019 – Banking Group members

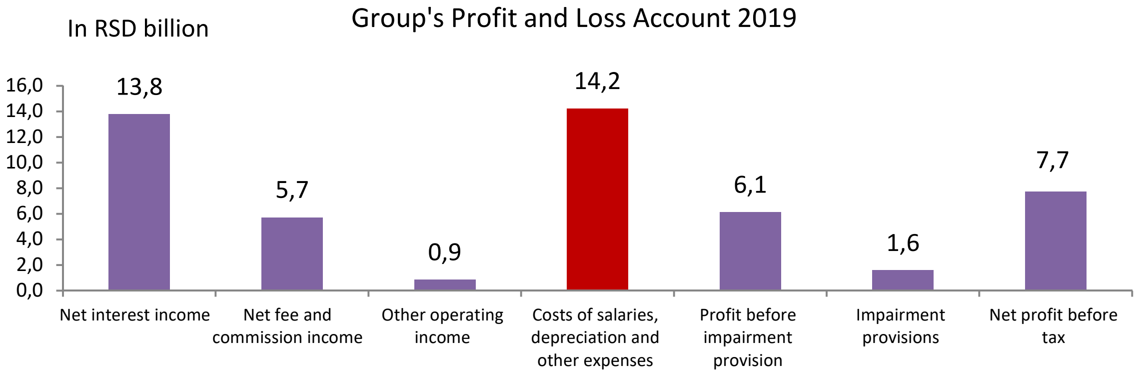
	POSITION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	ASSETS/position *(in 000 RSD)*					
	Cash and assets held with CB	67.558.219	6.365.357	2.730.826	-	76.654.402
	Securities	138.469.551	3.280.329	2.581.086	148.465	144.479.431
	Loans and receivables from banks and other fin. org.	24.645.277	1.640.613	687.724	16.390	26.990.004
	Loans and receivables from customers	180.852.563	17.094.376	10.287.219	-	208.234.158
	Intangible assets	665.735	56.964	31.801	-	754.500
	Property, plant and equipment	6.437.937	401.970	414.475	9	7.254.391
	Investment property	1.857.927	251.981	92.708	-	2.202.616
	Current tax assets	-	6.708	-	78	6.786
	Deferred tax assets	1.074.197	-	-	2.058	1.076.255
	Available-for-sale non-current assets and assets from discontinued operations	196.300	102.206	202.234	-	500.740
	Other assets	7.100.024	55.662	444.432	2.493	7.602.611
	TOTAL ASSETS	**428.857.730**	**29.256.166**	**17.472.505**	**169.493**	**475.755.894**
	LIABILITIES /position					
	Deposits and other liabilities to banks and other financial organisations	3.917.547	4.120.813	280.246	-	8.318.606
	Deposits and other liabilities to other customers	335.317.154	20.480.720	15.189.836	-	370.987.710
	Provisions	2.310.039	20.370	140.546	12.455	2.483.410
	Current tax liabilities	-	724	1.949	-	2.673
	Deferred tax liabilities	-	21.404	10.945	-	32.349
	Other liabilities	13.861.230	481.686	215.937	717	14.559.570
	TOTAL LIABILITIES	**355.405.970**	**25.125.717**	**15.839.459**	**13.172**	**396.384.318**
	Total capital	**78.760.343**	**592.588**	**2.551**	**16.094**	**79.371.576**
	TOTAL LIABILITIES	**434.166.313**	**25.718.305**	**15.842.010**	**29.266**	**475.755.894**

3.4. Consolidated Profit & Loss Account

Consolidated Profit & Loss Account for the period from 1 January – 31 December 2019

No.	POSITION	31.12.2019	31.12.2018	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSE *(in thousand RSD)*			
1.1.	Interest income	15.098.191	15.092.523	100,0
1.2.	Interest expenses	-1.327.673	-1.145.879	115,9
1.	**Net interest income**	**13.770.518**	**13.946.644**	98,7
2.1.	Fee and commission income	7.662.254	7.653.028	100,1
2.2.	Fee and commission expenses	-1.935.130	-2.112.581	91,6
2.	**Net fee and commission income**	**5.727.124**	**5.540.447**	103,4
3.	Net gain / loss from change in fair value of financial instruments	75.058	48.572	154,5
4.	Net gain / loss from reclassification of financial instruments	-	-	-
5.	Net gain / loss from derecognition of financial instruments that are measured at fair value	353.502	247.084	143,1
6.	Net gain/loss on hedging	-	-	-
7.	Net income / expense from exchange differences and effects of agreed currency clause	44.240	-1.532	-
8.	Net income/expense from decreased impairment of financial assets that are not measured at fair value through P&L	1.587.676	51.681	-
9.	Net gain/loss from derecognition of financial instruments that are measured at amortised cost	-579.933	526.547	-
10.	Net gain/loss from derecognition of investments in associates and joint ventures	-	-	-
11.	Other operating income	166.546	174.795	95,3
	TOTAL NET OPERATING INCOME	**21.144.731**	**20.534.238**	103,0
12.	Costs of salaries, fringe benefits and other personal expenses	-5.537.942	-5.043.937	109,8
13.	Depreciation costs	-1.193.480	-629.754	189,5
14.	Other income	810.907	375.392	216,0
15.	Other expenses	-7.497.888	-6.854.773	109,4
	PROFIT/LOSS (-) BEFORE TAX	**7.726.328**	**8.381.166**	92,2
16.	Corporate income tax	14.088	18.376	76,7
17.	Deferred tax gain	1.488.290	702.775	211,8
18.	Deferred tax loss	-800.665	-685.231	116,8
19.	**PROFIT/LOSS(-) AFTER TAX**	**8.399.865**	**8.380.334**	100,2
	Profit attributable to parent entity	8.399.863	8.380.332	100,2
	Profit attributable to non-controlling interest owners	2	2	-
	Basic earnings per share	532	484	-
	Reduced (diluted) earnings per share	532	484	-





In 2019, at the KB Group level a profit before tax was recorded in the amount of RSD 7.726,3 million. Consolidated profit before tax of KB Group in 2019 is reduced by 7,8%, or reduced by RSD 654,8 million compared to the year 2018. Group's interest income, in 2019, is slightly increased in relation to 2018, whereas the interest expenses have been increased (an increase by 15,9%). The above mentioned resulted in decrease of Group's net interest income in amount of RSD 176,1 million, or 1,3%.

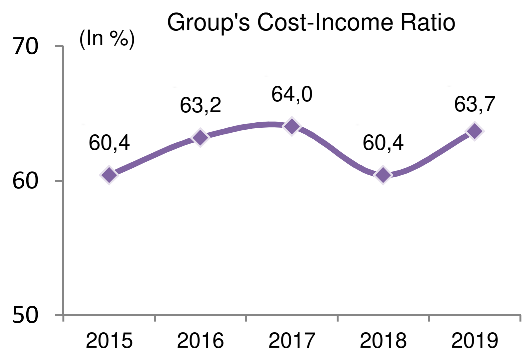
Consolidated fee and commission income, throughout 2019, has been increased slightly in comparison to the same period of 2018, that is it has been increased by 0,1%. Fee and commission expenses have been reduced by 8,4%, while the Group's net fee and commission income is higher by 3,4% in relation to the year 2018.

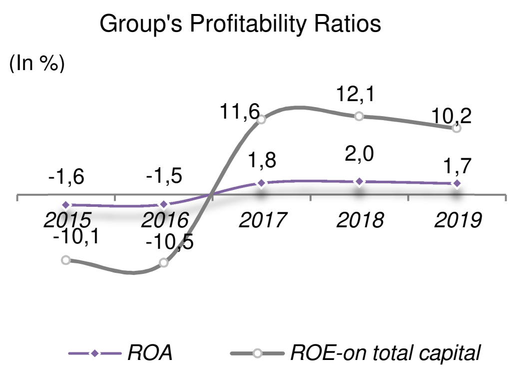
During 2019 net income was realised from impairment of financial assets that are not measured at fair value, in the amount of RSD 1.587,7 million unlike 2018 when the same position amounted to RSD 51,7 million (an increase of RSD 1.536,0 million).

It was also recorded a net loss from derecognition of financial instruments that are measured at amortised cost, in the amount of RSD 579,9 million, while in 2018 a profit was recorded amounting to RSD 526,5 million. The said changes impacted also the final result of the business operations of the entire Group.

Costs of salaries, fringe benefits, depreciation costs and other expenses have been increased in relation to the year 2018 by 13,6%, or they are higher by RSD 1.700,8 million.

The position - Group's other income recorded an increase of RSD 435,5 million, and/or an increase of 116,0% in 2019 in comparison to the year 2018.





Consolidated Profit & Loss Account by Group Members for the period from 1 January to 31 December 2019

	POSITION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in thousand RSD)					
1.1.	Interest income	13.628.713	819.284	649.616	578	15.098.191
1.2.	Interest expenses	-1.022.932	-200.525	-104.216	-	-1.327.673
1.	**Net interest income**	**12.605.781**	**618.759**	**545.400**	**578**	**13.770.518**
2.1.	Fee income	7.114.715	282.082	239.441	26.016	7.662.254
2.2.	Fee expenses	-1.795.434	-85.067	-54.360	-269	-1.935.130
2.	**Net fee income**	**5.319.281**	**197.015**	**185.081**	**25.747**	**5.727.124**
3.	Net gain / loss from change in fair value of financial instruments	71.614	-	-	3.444	75.058
4.	Net gain / loss from derecognition of financial instruments that are measured at fair value	353.490	-	-	12	353.502
5.	Net income / expense from exchange differences and effects of agreed currency clause	45.516	-5.568	4.292	-	44.240
6.	Net income/expense from decreased impairment of financial assets that are not measured at fair value through P&L	1.614.640	42.128	-69.092	-	1.587.676
7.	Net gain/loss from derecognition of financial instruments that are measured at amortised cost	-579.933	-	-	-	-579.933
8.	Other operating income	150.802	10.452	5.292	-	166.546
I	**TOTAL NET OPERATING INCOME**	**19.581.191**	**862.786**	**670.973**	**29.781**	**21.144.731**
9.	Costs of salaries, fringe benefits and other personal expenses	-4.917.532	-330.904	-274.340	-15.166	-5.537.942
10.	Depreciation costs	-1.005.837	-105.369	-82.264	-10	-1.193.480
11.	Other income	720.795	7.680	82.413	19	810.907
12.	Other expenses	-6.923.772	-281.436	-282.939	-9.741	-7.497.888
II	**PROFIT BEFORE TAX**	**7.454.845**	**152.757**	**113.843**	**4.883**	**7.726.328**

4. Environmental Investment

By adopting the Environmental and Social Risks Management Policy and Procedure at the Banking Group level, the Group set out standards for identifying and managing the environmental and social risks in the process of loan approval and monitoring. This document is adequately applied at the Group Members' level through incorporation of bylaws at the level of each member while adhering to the local legislation and the internal bylaws of the Group members reconciled with the Bank's bylaws. Likewise, the Group develops activities in the area of protection of the environment and protection of the human and labour rights, by applying the best practice of sustainable financing. The internal bylaws also define the procedure for solving and providing answers to complaints based on direct or indirect impact of business activities on environment and social issues.

Through the categorisation of loans, depending on environmental and social risk level, the Group assesses in which per cent the activities that may adversely affect the environment are financed. Also, the Group continually monitors its clients for any extraordinary events that could adversely impact the environment, health or safety or the community in general and regularly reports its findings to the Bank's management bodies.

To protect the environment and minimise the likelihood of events that could adversely impact the environment, health or safety or the community in general, the Group applies the list of actions/ activities that are excluded from financing and operates in accordance with the defined limits of engagement with regard to specific activities, thereby meeting the standards of good international practice in this field.

The members of the Banking Group report on a monthly level to the Risk Management function of the Parent Bank and other relevant business and operational functions on risk levels from the aspect of environmental and social impact. In case of exceeding the internal limits, the members of the Banking Group deliver the explanation with the proposal of measures and the activity plan and the Risk Management function reports to the Bank's Executive Board. Risk Management function reports at six-month level to the Executive Board and to the Board of Directors on environmental and social risk management on consolidated basis, and the Republic of Serbia annually.

5. Significant Events After the Financial Year End

From 31 December 2019 until the end of February 2020 one General Meeting of Shareholders of the Parent Bank was scheduled.
The regular General Meeting of Shareholders of Komercijalna banka ad Beograd - the Parent Bank is scheduled for 9 March 2020. The following agenda is anticipated for the meeting:

-Decision on Adoption of the Strategy and Business Plan of Komercijalna banka ad Beograd for the period 2020-2022.

Other significant events after the end of the Financial Year in KB Group, or in Group Members, are disclosed in the Notes to the Consolidated Financial Statements – Events after the Balance Sheet Date.

6. Plan for the Future Development of the Group

Operating strategies and plans for the future period are defined and adopted at the level of individual Group members[13].

Operations of the Subsidiaries, the Group members, as well as the Parent Bank, in the coming period will generally be focused primarily on maintaining, but also on growth of the market share, with acceptable level of business risk, and above all the credit risk. With regards to the retail sector financing, as more profitable segment of clients, in the forthcoming period the banks-Group members will be focused on expanding and enhancing the client base. Also, the focus will be on local self-governments authorities, small and medium-sized enterprises as well as micro-client financing.
In the coming period, a prudential, conservative lending policy will be applied to corporate clients, where the focus will primarily be on the quality of loan portfolio, with enhanced monitoring of clients' business operations, financed projects and obtained collaterals. The aim is to timely identify all the warning signals that may indicate the inability of the clients to settle their obligations, or, which will underline the difficulties in collection of receivables. The management of the entire Group will also be oriented to speeding up the very process of approving loans, and/or, automating the processing of loan applications as well as further digitizing the business. The volume of non-performing loans (NPLs) is not expected to increase in the future.

The basic pillars of the development strategy of **Komercijalna banka Beograd**, the Parent Bank, in the following three-year period are[14]:

- growth of loans to customers (as a key aspect of the future profitability in the situation of decline of interest rates on securities),
- preserving the quality of credit portfolio with the aim of keeping the NPL at low level, as well as the costs of credit risk,
- enhancement – change of client structure – targeting the clients based on demographics and standards (taking into account the development of innovative products, primarily digitalisation); in addition to large enterprises, the Bank's focus will be on the segment of operations with local self-governments, public enterprises, while retaining existing clients;
- growth of share of fee and commission income in relation to interest income (the Bank shall have stronger focus on fee and commission income given the trend of falling interest rates and the application of digitization with a view of attracting new clients among younger population),
- control of amount of the operating expenses and further enhancement of efficiency in operations (through stricter financial discipline) with the aim of reducing the operating expenses ratios against the income throughout the entire planning period (CIR),
- preservation of an adequate capital position, with the payment of cumulative dividends from previous years and dividends on the basis of planned profit in the next three-year period (CAR ≈28,4% average during the next planning period).

As strategic goals for the future period of **Komercijalna banka Banja Luka** the following are defined[15]**:**

- growth of loans to clients as a key aspect of profitability (proactive initiative of cross-selling of other products aimed at generating a sustainable growth of high quality products, accompanied with a growth in loans to clients with an emphasis on stability and quality of credit growth);
- early identification and risk control, which should lead to low level of net expenses arising from impairment provisioning (continuation in applying the conservative lending policy where the emphasis will be on stability and quality of credit portfolio);

[13] Within this item of the report, parts are presented that are taken over from individual Strategies and Business Plans of operations of the Group members
14 Strategy and Business Plan of Komercijalna banka ad Beograd for the period 2020-2022
15 Strategy and Business Plan 2020-2022 of Komercijalna banka ad Banja Luka

- enhancement of the client structure (in addition to large enterprises, orientation also to local self-government units, small and medium-sized enterprises and micro clients);
- stable share of fee and commission income (stronger focus on growth of fee and commission income in order to meet the challenges of the environment, low and declining interest rates);
- better control of operating expenses (better financial discipline and control of operating expenses, reduction of CIR ratio throughout the entire period of business plan);
- preserving good capital position (the aim is an increase of total capital by the end of planning period, and thereby the regulatory capital; growth of capital also through the growth of profit in the period 2020-2022).

The main strategic goals of business operations of **Komercijalna banka Podgorica** for the future planning period are as follows[16]:

- expanding the cooperation with the clients through their association with as large number of products/services that the Bank offers;
- enlargement of client base and its rationalization while minimizing credit risk in relation to the offered /agreed terms;
- strengthening of depositors base, taking into account the risk dispersion of deposits concentration as the most favourable source of funding;
- enhanced activity in segment of cross selling, in the Bank, with the aim of strengthening relationships, increase of products and income per client;
- expanding and completing the activities related to digitization of business and implementation of new banking technologies in order to complete the offer to customers and facilitate the use of services and reduce the costs;
- further development of human resources through education and training of personnel;
- in case of retail loans, the main attention will be directed to cash loans versus housing loans due to more favourable pricing conditions;
- maintain the continuity of credit portfolio growth and term deposits of citizens;
- revitalization of the branch network and expansion of the network with the aim of opening additional sales channels in local markets where the Bank is not present.
- increase of credit portfolio level while preserving the existing client base;
- increase in number of clients in segment of micro, small and medium enterprises;
- transformation of portfolio towards long-term loans through higher share of loans for permanent working capital and investment loans;
- higher level of guarantee operations.

The business goals of the Company **KomBank INVEST Beograd** remain a growth of business operations, accompanied by a growth of the assets of investment funds managed by it and operating revenues of the Company. In the following three year period the Company expects a growth of balance sheet assets of RSD 34,4 million, and/or it is planned to have a cumulative growth of 20,6%, and to achieve the average annual growth rate of 6,4%[17]. The majority of Company's assets are invested in investment units of Novčani fond. In the future planning period the procurement of non-current assets is not planned. It is expected that the liabilities of the Company shall remain at the unchanged level. The expected and realized profit from the future operations will be allocated to the Company's capital (pursuant to the decision of the General Meeting of Shareholders).

In the future three year period a growth is expected of income from the Company's funds management. Stable financial income of the Company is expected. Business expenses in the upcoming period will be maintained at the expected level. In the forthcoming three year period a significant increase of annual net profit is expected.
As a result of growth of net profit in the next year, high rates of return on employed assets and equity (ROA, ROE) are planned. The increase in management income is expected to lead to growth of return on equity in the coming year. Due to the expectations that conditions for investment will be more difficult, a slightly lower return on financial investments is expected.

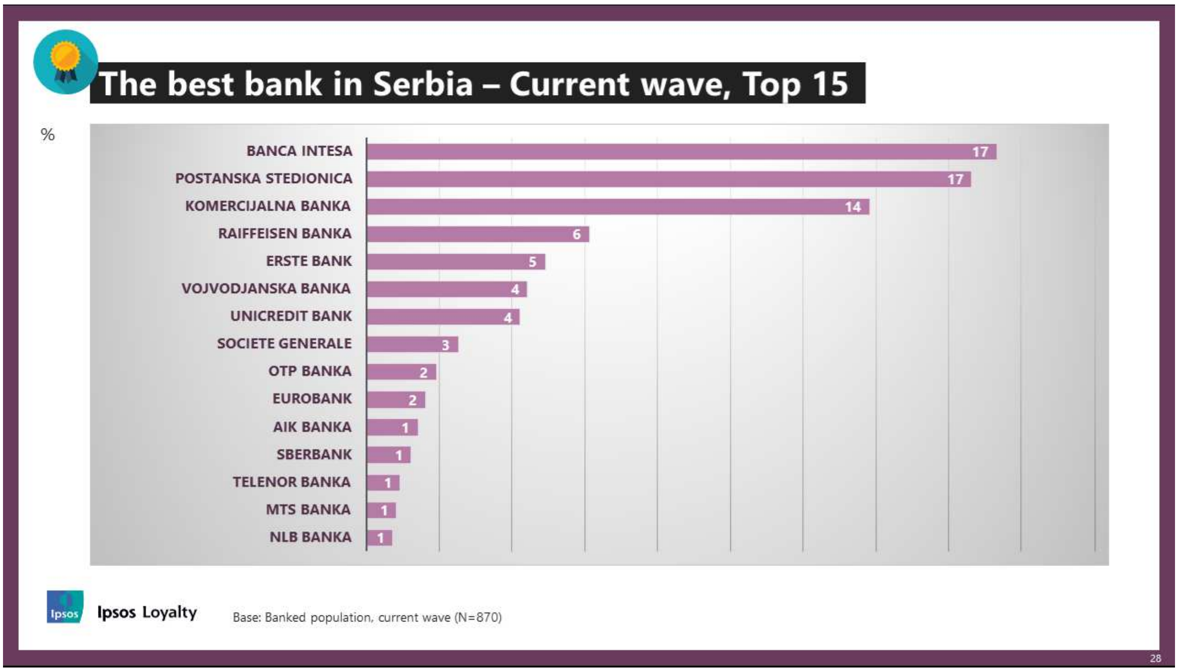
16 Business Plan of Komercijalna banka ad Podgorica for period 2020-2022
17 Annual plan of the Management Company for the year 2020

7. Research and Development

During 2019 Komercijalna banka has followed the developments in the financial market in a detailed and up-to-date manner and successfully adapted to the conditions and changes in the financial market in order to maintain its leading position, as shown by the conducted researches.

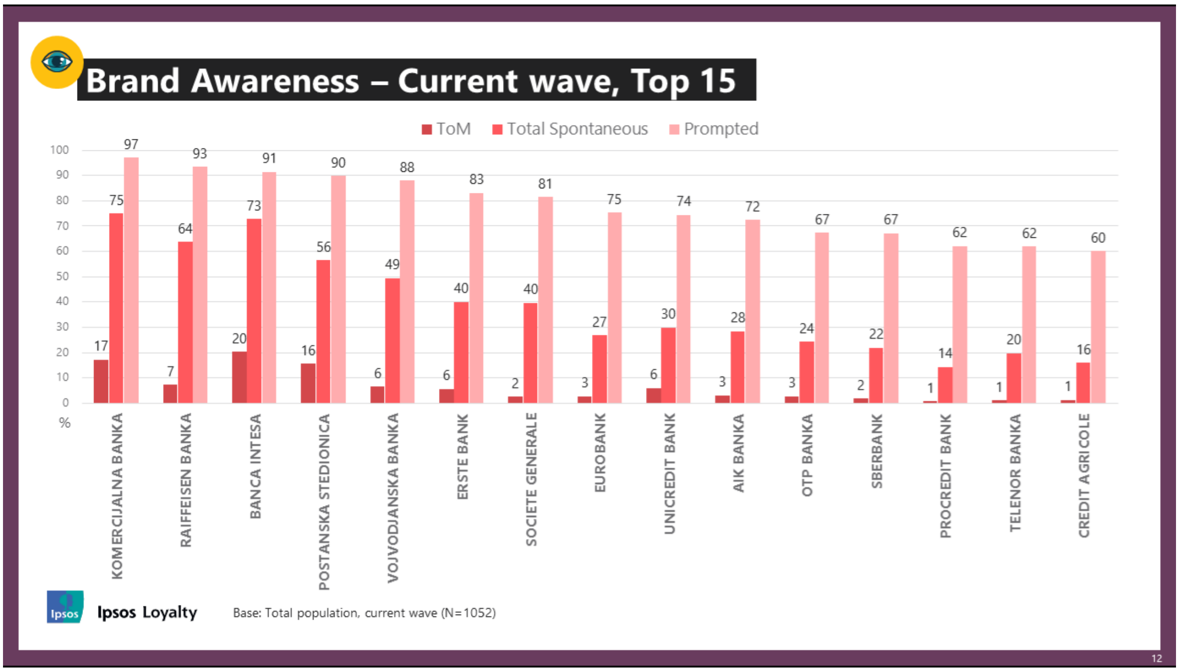
The market positioning of the Bank as a brand, its products and services, were also verified during 2019 through the banking Omnibus, conducted by the „IPSOS" research agency, specialised in this type of research. Research shows that the Bank holds one of the leading positions in the public eye for a long period of time, as measured by the criteria of brand recognition, quality and satisfaction with the products and services that customers use. All research results are posted on the Bank's internal portal and the target groups are also introduced to them, for further strengthening of Komercijalna banka brand.

The best banks in Serbia (banking Omnibus, November 2019):



The report of the latest banking Omnibus (from November 2019) shows that Komercijalna banka, in the opinion of the respondents, was ranked first among the leading 15 banks in Serbia by the criterion of brand recognition.

Brand recognisability of banks in Serbia (banking Omnibus, November 2019):



The research results help in the process of making business decisions, particularly important in the segment of development of new and the improvement and modification of the existing products and services.

In the ongoing process of monitoring the market signals and the needs of users and potential customers, the Group's business divisions have, in the previous period, offered the customers new and/or upgraded existing products and services of the Bank.

8. *Purchase of Own Shares and Stakes*

Group members have not purchased/acquired own shares in the past financial year and do not intend to purchase/acquire own shares in the upcoming period.

9. *Performance of Subsidiaries Before the Consolidation*

Subsidiary banks: Komercijalna banka AD Podgorica and Komercijalna banka AD Banja Luka keep their books of account and compile their financial statements in accordance with the accounting regulations of the Republic of Montenegro and Bosnia and Herzegovina (Republic of Srpska), respectively. KomBank INVEST AD Beograd compiles its financial statements in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of compiling consolidated financial statements, individual audited financial statements of subsidiary banks and the Company KomBank INVEST have been adapted to the presentation of financial statements under:

- the accounting regulations of the Republic of Serbia,
- internal bylaws of the Parent Bank - Komercijalna banka AD Beograd and
- relevant IAS and IFRS.

Reclassified Individual Balance Sheets of the Group Members before the Consolidation as at 31 December 2019

POSITION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST
(in thousand RSD)				
Cash and assets held with central bank	67.558.219	6.373.319	2.731.218	25
Pledged financial assets	-	-	-	-
Receivables under derivatives	-	-	-	-
Securities	138.469.551	3.280.329	2.581.086	148.465
Loans and receivables from banks and o.f.o.	24.734.992	1.786.725	1.637.442	16.390
Loans and receivables from customers	180.852.563	17.094.376	10.287.219	-
Investments in subsidiaries	5.480.888	-	-	-
Intangible assets	665.735	56.964	31.800	-
Property, plant and equipment	6.437.937	401.969	414.475	9
Investment property	1.857.927	251.981	92.708	-
Current tax assets	-	6.708	-	78
Deferred tax assets	1.074.197	-	-	2.058
Available-for-sale non-current assets and assets from discontinued operations	196.300	102.206	202.234	-
Other assets	7.100.361	55.661	444.432	2.493
TOTAL ASSETS	**434.428.670**	**29.410.239**	**18.422.616**	**169.518**
Liabilities under derivatives	-	-	-	-
Deposits and other liabilities to banks, o.f.o. and central bank	5.021.756	4.205.330	285.445	-
Deposits and other liabilities to other customers	335.317.154	20.480.720	15.189.836	-
Provisions	2.310.039	20.370	140.546	12.455
Current tax liabilities	-	724	1.949	-
Deferred tax liabilities	-	21.404	10.945	-
Other liabilities	13.861.230	481.711	215.997	969
TOTAL LIABILITIES	**356.510.179**	**25.210.259**	**15.844.717**	**13.424**
Total capital	77.918.491	4.199.980	2.577.899	156.094
TOTAL LIABILITIES	**434.428.670**	**29.410.239**	**18.422.616**	**169.518**

NOTE: For the purpose of consolidation, a reclassification is carried out of the positions in the individual (statutory) financial statements of the Group members that impact the correction of balance sheet total and the result in P&L stated in the statutory statements. Restated (reclassified) financial statements represent the initial balance sheet statements and the positions that are further on subject to consolidation.

Reclassified Individual P&Ls of the Group members before the Consolidation for the Period from 1 January to 31 December 2019

POSITION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST
(in thousand RSD)				
Interest income	13.630.674	819.284	651.974	579
Interest expenses	-1.025.290	-202.486	-104.216	-
Net interest income	**12.605.384**	**616.798**	**547.757**	**579**
Fee and commission income	7.124.829	282.382	239.541	26.016
Fee and commission expenses	-1.795.833	-88.698	-58.848	-2.265
Net fee and commission income	**5.328.996**	**193.684**	**180.693**	**23.751**
Net gain / loss from change in fair value of financial instruments	71.614	-	-	3.444
Net gain / loss from derecognition of financial instruments that are measured at fair value	353.490	-	-	12
Net income / expense from exchange differences and effects of agreed currency clause	38.228	-487	13.358	-
Net income/expense from decreased impairment of financial assets that are not measured at fair value through P&L	1.614.641	42.128	-69.092	-
Net gain/loss from derecognition of financial instruments that are measured at amortised cost	-579.933	-	-	-
Other operating income	151.321	10.452	5.292	-
TOTAL NET OPERATING INCOME	**19.583.741**	**862.575**	**678.009**	**27.785**
Costs of salaries, fringe benefits and other personal expenses	-4.917.532	-330.904	-274.340	-15.166
Depreciation costs	-1.005.837	-105.369	-82.264	- 10
Other income	720.795	7.680	82.413	19
Other expenses	-6.923.772	-281.436	-283.458	- 9.741
PROFIT/LOSS (-) BEFORE TAX	**7.457.395**	**152.545**	**120.360**	**2.887**

10. Financial Instruments Relevant for Assessment of Group's Financial Position

For adequate assessment of the Group's financial position, at the end of fiscal 2019, the following financial instruments, or balance sheet positions are essential: loans and receivables from customers, securities, cash and assets held with central bank, deposits and liabilities to other customers and capital.

Position loans and receivables from customers accounted for 43,8% of total consolidated assets and they are increased by RSD 16.785,5 million in relation to the end of 2018. A detailed structure of loans to customers is presented in the Notes to Consolidated Financial Statements.

Position securities accounted for 30,4% of total consolidated assets of the Group and is increased by RSD 6.964,7 million compared to 2018; it mostly consists of investments of the Parent Bank in securities of the Republic of Serbia (RSD 138.469,6 million, 95,8%) (detailed structure is indicated in the Notes to Consolidated Financial Statements).

Cash and assets held with central bank at the end of 2019 accounted for 16,1% of consolidated assets and are increased by RSD 2.662,4 million in relation to the end of 2018 (detailed structure is indicated in the Notes to Consolidated Financial Statements).

On the other hand, deposits and other liabilities to other customers accounted for 78,0% of consolidated liabilities and are increased by RSD 20.319,6 million. Deposits were the main source of financing during 2019, as well, of both the subsidiary banks and also the Parent Bank (detailed structure is indicated in the Notes to Consolidated Financial Statements).

Position total capital of the Group accounted for 16,7% of consolidated liabilities and is increased by RSD 7.849,5 million, mainly due to profit generated by the Parent Bank, but also other Group members.

Group members are well capitalized, and the capital adequacy ratio of the Group equals 27,1% and is significantly above the prescribed limit (8,0%+combined capital buffer).

11. Risk Management

Risk management is a key element of managing business operations, since exposure to risks is inherent to all business operations, as inseparable part of banking operations, which is managed through risk identification, measurement, assessment, monitoring, control and mitigation, i.e. by establishing risk limitation, as well as through reporting in accordance with the applicable strategies and policies.

The Group has put in place a comprehensive and reliable risk management system, which includes: risk management strategies, policies and procedures, specific risk management methodologies; an appropriate organisational structure; an effective and efficient process for managing all risks to which the Group is or may be exposed in its operations; an adequate internal control system; an appropriate information system; and a sufficient internal capital adequacy assessment process. Also the Group's Recovery Plan has been integrated into the risk management system, as a mechanism for early identification of the situation of a severe financial disturbance in which the Group can undertake the measures or apply the defined recovery options to prevent entering into the early intervention phase in which the regulator has an active participation or improvements in the already deteriorated financial situation.

The Group's Risk Management Strategy and Capital Management Strategy and Plan set out the following objectives within the risk management system: minimising adverse effects on financial result and capital, subject to the defined framework of acceptable risk levels, maintaining the required level of capital adequacy, development of the Group's activities in accordance with the business strategies of individual members and possibilities and market development to achieve competitive advantages, diversification of risks to which the Group is exposed, maintaining the

NPL share in total loans up to the acceptable level for the Group, maintaining liquidity coverage ratio above the level prescribed by the regulations and the internal limits.

The Group continually monitors all the announcements and changes to the regulatory framework, analyses the impact on risk level and undertakes measures for timely compliance of its operations with the new regulations. Through clearly defined process of introduction of new and considerably altered products, services and activities relating to processes and systems, the Group analyses their impact on future exposure to risks with the aim to optimize its income and expenses for the assessed risk, as well as to minimize all potentially possible adverse effects on the financial result of the Group.

Detailed view of Group's risk management objectives and policies is provided in the Notes to the Consolidated Financial Statements.

Credit Risk Exposure Protection Policy

To safeguard against credit risk exposure, the Group applies the credit risk mitigation techniques by obtaining acceptable security instruments (collaterals) as secondary sources of loan recovery (collection of loans). The Group strives to deal with creditworthy clients, assessing their creditworthiness at the time of submitting the loan application and by regular monitoring of debtors, loans and collateral in order to be able to timely undertake relevant debt collection activities. The types of collateral accepted depend on the assessed credit risk level of the debtor and are determined on the case-by-case basis and the collateral is obtained after the signing of an agreement, but before loan disbursement.

The types of collateral accepted depend on the assessed credit risk level of the debtor and are determined on the case-by-case basis and the collateral is obtained after the signing of an agreement, but before loan disbursement.

The collateral valuation, and/or credit protection instruments valuation and the management of the same are governed by the Group's internal bylaws.

The Group pays special attention to the marketability and adequate valuation of collateral in relation to which, when assessing the value of collateral, the Group engages authorized appraisers to minimize the potential risk of unrealistic valuation, while real estate, goods, equipment and other movable items that are subject to pledge must be insured with an insurance company acceptable to the Group, with insurance policies endorsed in its favour.

To safeguard against changes in the market value of collateral, the appraised value is adjusted for defined impairment percentages depending on the type of collateral and location of the property, which are subject to regular review and revision.

The Group pays special attention to monitoring of collaterals and undertakes activities for obtaining new valuations, as well as for obtaining the additional collateral, primarily for clients with identified operating problems, as well as for any clients whose collateral coverage ratio has been reduced due to a decline in the value of the obtained collateral.

For the purpose of adequate risk management, the Group performs analyses of credit risk at the time of loan approval and by establishing the system for monitoring, preventing and managing the risky loans, including the adequate identification of potentially risky clients (Watch List), it performs the credit risk mitigation with clients of the above status, and also by undertaking the measures and actions in order to protect the interest of the Group and to prevent the adverse effects on its financial result and capital.

During 2019 the Group continued improving the risk management system. It revised the Risk Management Strategy (it reduced the highest acceptable NPL level), it supplemented the procedures for the purpose of complying with the changes in local and international regulations and improved business practice. In accordance with altered legal requirements the credit risk management has been improved. The Group continuously improves the risk management system which relies on postulates of the independence of the risk management function from the centres for risk taking, timeliness of information flows that support the decision-making process, as well as transparency and correctness of the information provided.

In 2019 the Group was focused on enhancement of the quality of credit portfolio by reducing the occurrence of new non-performing loans and solving the problem of clients who have already been recognized as non-performing, and it also conducted activities on reducing uncollectible loans (significantly improved collection, a write-off by transfer of fully impaired receivables to off-balance sheet records)). Pursuant to the Decision of the National Bank of Serbia on Accounting Write-Off of Bank Balance Sheet Assets (applied as of 30.09.2017), and also in line with the regulations of the Central Bank of Montenegro, the Parent Bank, during 2019, continued to transfer 100% impaired loans from balance sheet to off-balance sheet records, which, besides the collection of risky loans, resulted in reduction of NPL ratio. During 2019, in Komercijalna banka Podgorica and Banja Luka there was no transfer of 100% provisioned loans to off-balance sheet records.

The Group implements IFRS 9 standard and in accordance with the indicated standard carries out the calculation of impairment of balance sheet assets and probable loss on off-balance sheet items. The concept of „expected losses“ is applied through inclusion of the impact of the expected trends in macroeconomic factors on future trends of probability of occurrence of the default status on the basis of statistically proven interdependencies, with the Group further improving its methodology in 2019. Portfolio is differentiated at three levels that are in line with the client's status (level 1 – PL clients without identified deterioration of credit risk, level 2 – PL clients with identified deterioration of credit risk- measured by the set of defined criteria, level 3 – NPL clients). Likewise, pursuant to IFRS 9 standard, the Group calculates also the impairment for exposures to the states and central banks of the Banking Group members, and permanent stakes (except for permanent stakes in subsidiaries) are measured at fair value.

In 2019, with all Group members there is a real decrease of impairment provisions (profit and loss account) which was caused by collection of risky loans and by improvement of risk parameters that are used for calculation of impairment provisions with PL loans. Decrease in impairment provisions in the Group's balance sheet, except for the real decrease in all Group members, was mostly impacted by the transfer of 100% impaired loans from balance sheet to off-balance sheet records with the Parent Bank.

In its operations the Group is particularly exposed to the following types of risks:

- Credit risk and related risks.
- Liquidity risk.
- Market risk.
- Interest rate risk in the banking book.
- Operational risk.
- Investment risk.
- Exposure risk.
- Country risk and all other risks that may arise in Group's regular operations.

Exposure to Credit Risk

Credit risk is the possibility of occurrence of negative effects on the financial result and capital of the Group caused by a debtor's failure to settle its liabilities towards the Group's members. Credit risk is determined by the debtor's creditworthiness, his timeliness in settling his liabilities to the Group's members and the quality of the collateral.

The acceptable level of exposure to credit risk for the Group is in line with the defined Risk Management Strategy and depends on the structure of the Group's portfolio, based on which it is enabled to limit the adverse effects on the financial result and capital of the Group, with minimizing the capital requirements for credit risk, settlement/delivery risk on free deliveries, counterparty risk, dilution risk, with the aim to maintain the capital adequacy at acceptable level. The Banks, the Group members, manage the credit risk at client level, group of related entities and the entire loan portfolio. They also approve the loans to clients (legal entities and private individuals) for whom they assess to be creditworthy, by conducting the analysis, or the quantitative and/or qualitative measurement and assessment of credit risk and the financial position of the debtor. The process of measuring the credit risk is based on measurement of the risk level of an individual loan on the basis of the internal rating system, and also by application of regulations. By monitoring and controlling the portfolio as a whole and by individual segments, the Group carries out comparison to previous periods, identifies trends and causes of changes in the level of credit risk. Also, it monitors the asset quality indicators (NPL trends, NPL coverage ratio by impairment provisions and alike), as well as the exposure according to the regulatory and internally defined limits. The process of loan quality monitoring allows the Group's members to assess potential losses as a result of the risks to which they are exposed and to undertake the appropriate corrective measures.

Exposure to Liquidity Risk

Liquidity risk is the possibility of occurrence of negative effects on the Group's financial result and capital due to inability of the Group's members to settle their due liabilities on account of withdrawal of the existing funding sources, and also due to inability to obtain new sources of funding – funding liquidity risk, as well as impeded conversion of assets into liquid assets due to market disruptions - market liquidity risk. The liquidity risk manifests itself as difficulty of the Group in settling the matured liabilities in case of insufficient liquidity reserves and inability of covering the unexpected outflows of other liabilities.

In their operations, the Parent Bank and Group members adhere to the core principles of liquidity by generating a sufficient level of liquid assets to cover their liabilities in the short term, i.e. they adhere to the principle of solvency by forming an optimum structure of own and borrowed sources of finance and forming sufficient level of liquidity reserves without jeopardising the planned return on equity.

Liquidity risk also manifests itself as inability of the Group to convert certain parts of its assets into liquid assets in a short period of time. The Group conducts analyses of the funding liquidity risk and market liquidity risk. The liquidity problem from the funding aspect refers to the structure of liabilities and manifests itself as a potentially significant share of unstable sources, short-term sources or their concentration. The funding liquidity risk indeed represents a risk that the Group will not be able to settle the liabilities due to withdrawal of unstable sources of funds, or inability of obtaining new funding sources. On the other hand, the liquidity risk also manifests itself through deficit of liquidity reserves and difficult or impossible access to liquid assets at acceptable market prices. In the course of 2019 the Group complied with the regulatory and internally defined limits.

The Parent Bank, as well as Group members, actively undertakes the preventive measures in order to minimise the exposure to liquidity risk.

Exposure to Market Risks

Market risk represents the possibility of occurrence of adverse effects on the financial result and capital of the Group due to changes in market variables and includes foreign exchange risk relating to all of its operations and the price risk relating to the trading book positions.

The Group is exposed to foreign exchange risk which manifests itself through the possibility of occurrence of negative effects on financial result and capital due to volatility of exchange rates, and/or changes in the value of the domestic currency against foreign currencies, or changes in the value of gold and other precious metals. In order to minimize foreign exchange risk exposure, the Group diversifies currency structure of portfolio and currency structure of liabilities and it is adjusting open positions by individual currencies by adhering to principles of maturity transformation of assets. During 2019, the Group complied with the foreign exchange risk regulatory ratio, which is expressed as 20% of regulatory capital.

Exposure to Interest Rate Risk

Interest rate risk represents the risk of occurrence of adverse effects on financial result and capital of the Group based on positions from the banking book due to adverse changes in interest rates. The Parent Bank, as well as Group members, comprehensively and timely identify the causes of any current exposure to interest rate risk and assess the factors of the future exposure to this risk. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities.

The aim of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of its impact on financial result and economic value of equity by applying an appropriate policy of maturity match in the re-pricing period and by matching sources of finance with loans by level of interest rates and maturity.

Exposure to Operational Risks

The operational risk is a risk of possible occurrence of negative effects on financial result and capital of the Group due to omissions in work by its employees, inadequate internal procedures and processes, inadequate management of information and other systems at the Group's member banks or due to occurrence of unforeseeable external events. Operational risk also includes legal risk, which is a risk of occurrence of negative effects on the Group's financial result and capital due to lawsuits or out-of-court proceedings. The Group's members banks carry out a measurement of exposure to operational risks through the event recording, monitoring the key risk indicators, self-assessment and stress testing of operational risk. Group undertakes measures to mitigate operational risks and proactively responds to potential operational risk events through continual monitoring of all activities, through implementing an appropriate and reliable information system, by whose application the business practice is improved and the business processes are optimised. To minimise legal risk and its effects on financial result, the Group continues improving its business practice in part of timely provisioning for lawsuits against the Group's member banks, and in compliance with the assessment of anticipated future loss on this basis.

Investment Risk

The Group's investment risk represents a risk of investment in other legal entities and in fixed assets and investment property. The level of permanent investment is monitored in accordance with the regulations and the Group's Bodies and Committees are notified accordingly. This ensures that investments by Group members in a single entity outside of the financial sector do not exceed 10% of the Group's capital and that investments by Group members in entities outside of the financial sector and in fixed assets and investment property do not exceed 60% of the Group's capital.

Large Exposure

Large exposure of the Group to a single entity or a group of related entities, including the Group's related entities, is defined as any exposure the value of which is at least 10% of the Group's equity. During 2019, the Parent Bank and the banks-Group members complied with the regulatory and internally defined exposure limits.

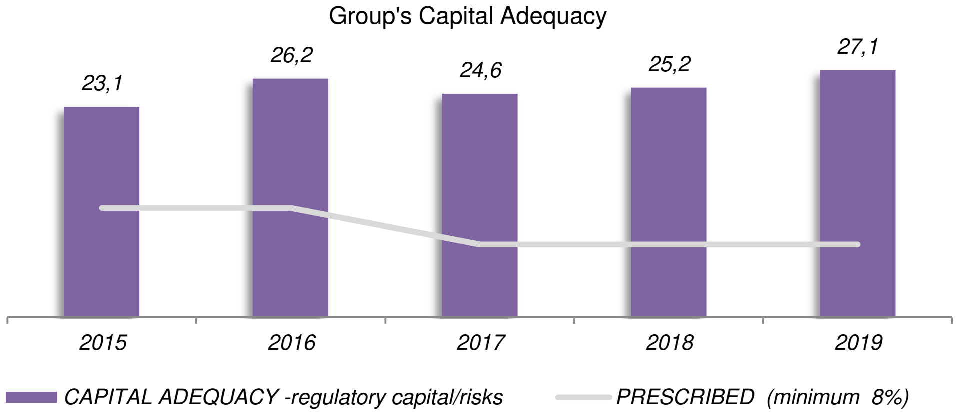
Exposure to Country Risk

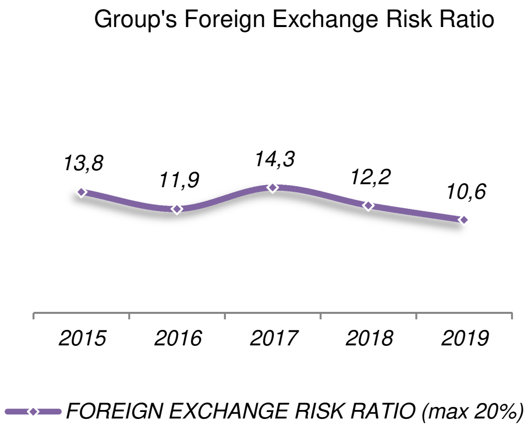
Country risk is the risk relating to the country of origin of an entity to whom the Group members are exposed, i.e. the risk of possible occurrence of negative effects on the Group's financial result and capital due to the inability by the Group members to collect its receivables from debtors for reasons resulted from political, economic or social circumstances in the debtor's country of origin. The Group's exposure to country risk is at an acceptable level.

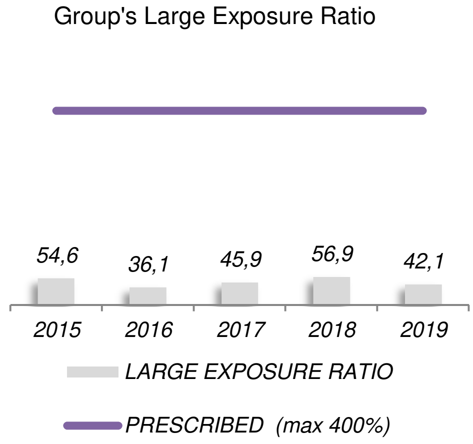
Regulatory Requirements for KB Group

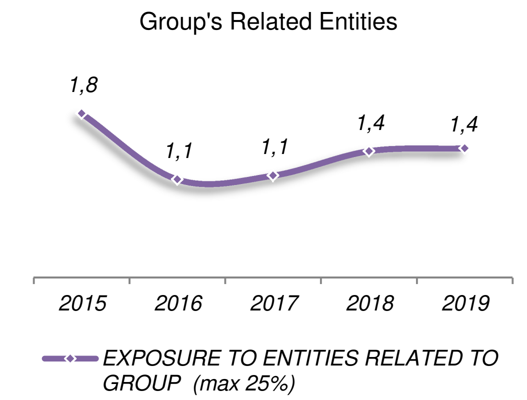
Under the Law on Banks: "The following shall be determined on a consolidated basis for a banking group:

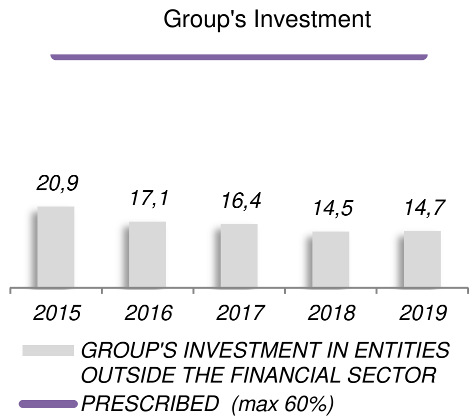
- capital adequacy ratio,
- large exposure,
- investment in other legal entities and in fixed assets and investment property,
- net open foreign exchange position,
- liquidity Coverage Ratio (LCR).











12. *Corporate Social Responsibility of the Group*

KOMERCIJALNA BANKA A.D. BEOGRAD

A special contribution to maintaining and enhancing the value of corporate image were provided by activities pertaining to corporate social responsibility, which the Parent Bank has carefully selected and supported and in which it actively cooperated with its partners.

In 2019 the Parent Bank continued its campaign of donating babies born on World Savings Day, 31 October, in the amount of EUR 50 in dinar equivalent. Also, the Parent Bank continued with the "Together for Babies" campaign and in 2019 the funds were donated and the equipment was delivered for maternity wards in Ćuprija and Pančevo and in addition the equipment was paid and ordered also for the maternity wards in Vršac, Vranje and East Sarajevo. Last year, the humanitarian action " Handicap Plug " continued when 10 boxes of plastic plugs were handed over and a number of cultural events and manifestations were supported.

The Rules of Conduct and Professional Ethics of Komercijalna Banka AD Beograd contain a Code of Conduct in order to improve and more precisely regulate the existing principles of business ethics and rules of conduct. Within this Code, a separate section is dedicated to protecting the environment and raising awareness of the importance of protecting the environment. Accordingly, the Bank has had centralized double-sided printing for years, saving both paper and electricity. The toners in these printers are recycled, and also boxes for recycling paper and plastic have been placed throughout the Bank.

KOMERCIJALNA BANKA A.D. BANJA LUKA

Particular attention in 2019 in regard to Corporate Social Responsibility activities was given to the youngest population, as well as to pupils and students, in support of the best ones and providing employment and professional upgrading opportunities.

Through birth support, Komercijalna banka a.d. Banja Luka, in January and October, handed over savings deposits to the first-born babies, as well as a donation to the Foundation "May our children be born". The Bank also supported the "2019 Baby Conference" event organized by the Ministry of Family, Youth and Sports of the Republic of Srpska.

On the occasion of the National Day of the Republic of Serbia, Komercijalna banka a.d. Banja Luka, awarded the best students as a part of a traditional competition for the selection of the best literary works by high school students in the Republic of Srpska. International Savings Day was marked by a visit to Banja Luka Gymnasium and the Primary School, where the best students were rewarded.

In addition, in 2019, the Bank assisted in organizing a donor dinner, "With Love to Brave Hearts," where it contributed to the construction of day care centres for children with disabilities in Banja Luka and Trebinje, and was one of the sponsors within the 65th Selection of the top ten athletes of the Republic of Srpska.

The past year was marked by the continuation of cooperation with the University of Banja Luka, which enabled the professional development and employment of the most successful students in different areas. Also, cooperation was established with the faculties of economics in Banja Luka and East Sarajevo, all with the aim of supporting professional development. Through a wide range of socially responsible activities, Komercijalna banka a.d. Banja Luka continues to operate in accordance with its slogan "Nearest to me" with a support to the birth rate and development of the society as a whole.

KOMERCIJALNA BANKA A.D. PODGORICA

Corporate social responsibility and the desire to assist and support all the projects that contribute to the wider community is an indispensable part of the activities of Komercijalna banka Podgorica. In 2019, the Bank donated funds to the Clinical Centre of Montenegro to assist in the purchase of a portable ultrasound machine for the needs of the Diagnostic Unit. It is with great pleasure that the Bank has accepted the invitation to support the initiative of the School for Secondary and Higher Vocational Education "Sergije Stanić" from Podgorica and the Association "Parents", and to provide a certain number of school snacks for children coming from socially disadvantaged families. Komercijalna banka Podgorica will support this humane project every month until the end of the academic year. As a part of many years of cooperation with the Faculty of Economics in Podgorica, the bank sponsored the technical preparation and printing of the book "Strategic Marketing", authored by Prof. dr. Boban Melović from the Faculty of Economics in Podgorica, and colleagues from the Faculty of Economics, University of Zagreb, Prof. dr. Jurica Pavičić, Vladimir Gnjidić, PhD and Nikola Drašković, PhD.

In 2019, the Bank also supported the project related to 75 years since the establishment of the daily newspaper Pobjeda, within which it has implemented a series of humanitarian events and major publishing ventures.

At the end of the year, the Bank, in cooperation with the NGO "Club 30", implemented the afforestation of Ljubović Hill in Podgorica, and donated 100 seedlings planted by the Bank employees who joined the action. In the spirit of raising environmental awareness, the Bank also supported the NGO "Parish at Heart" within the implementation of the project "Yes, I Choose Clean".

In 2019, as in previous years, Komercijalna banka Podgorica took part in the action of gifting babies born in the savings week, from October 31 to November 6, which has been organised for years by the Central Bank of Montenegro in cooperation with commercial banks. All babies born during a savings week whose parents open a savings account with our bank are given savings of EUR 400, half of which is donated by the Central Bank of Montenegro and half by the Bank.

In addition, in 2019, the Bank continued with other socially responsible activities, which it has continuously carried out for many years, providing support to a number of sports clubs, as well as individuals who achieve notable results in the fields of sports, science and arts, as well as to a certain number of citizens who have requested financial assistance for medical treatment purposes.

Corporate Governance Rules

Corporate governance rules are based on the relevant legislation (Law on Banks and Company Law). The Corporate Governance Code sets out the principles of corporate practice, which must be adhered to by the proponents of corporate governance in their work and conduct. The aim of the Corporate Governance Code is to introduce good business practices and establish high corporate governance standards, which should enable the balance of the impact of the proponents of company’s corporate governance, the consistency of the control system, the reinforcement of the trust of shareholders, investors and other stakeholders, all with a view of securing long-term and sustainable development of the Bank.

Komercijalna banka ad Beograd, Parent Bank, in its operations, and in accordance with the Decision of the Executive Board of the Bank no. 8373 of 09.04.2013 applies the Code of Corporate Governance of the Serbian Chamber of Commerce (“Official Gazette of the RS”, No. 99/2012), adopted by the Assembly of the Serbian Chamber of Commerce. The Corporate Governance Code establishes the principles of corporate practice by which the Bank's proponents of corporate governance determine their conduct and which they observe in business operations. The objective of the Code is to introduce good business practices in the field of corporate governance, equal influence of all stakeholders, existing and potential shareholders, employees, clients, bodies of the Bank, the state, etc. The ultimate goal is to ensure the Bank's long-term and sustainable development. The text of the Corporate Governance Code has been published on the website of the Serbian Chamber of Commerce (www.pks.rs/PoslovnoOkruzenje.aspx?id=1412&p=3), as well as on the Parent Bank's website (http://newdev.kombank.com/corporate-governance).

Komercijalna banka AD Banja Luka applies in its operations the Corporate Governance Standards adopted by the Securities Commission of the Republic of Srpska pursuant to Article 309 of the Law on Companies (Official Gazette of the Republic of Srpska nos. 127/08, 58/09, 100/11, 67/13 and 100/17) and Article 260 of the Law on Securities Market (Official Gazette of the Republic of Srpska nos. 92/06, 34/09, 30/12, 59/13, 108/13 and 4/17).

Pursuant to the Company Law ("Official Gazette of Montenegro" nos. 17/2007, 80/2008, 36/2011), Komercijalna banka ad Podgorica acquired the status of a legal entity on the day of its registration as a joint stock company. As a joint stock company, Komercijalna banka ad Podgorica regulates the mutual relations of all interested entities in accordance with its Memorandum of Association and the Articles of Association. The bodies of the company are the General Meeting of Bank's Shareholders, Managing Board, the Audit Committee and the Executive Directors. The roles of the Bank's bodies are defined by the Articles of Association and other internal bylaws of the Bank. In terms of governance, the Bank applies the best international corporate governance practices.
Corporate governance is established as follows:

- In all segments of corporate governance the legal framework of Montenegro is to be observed and adhered to, along with good business practice;
- Within such framework principles must be set, which are flexible and give room to the Managing Board to manage and govern the Bank in the best way and to achieve the set goals;
- All mutual relations of the stakeholders in functioning the bank must be clearly differentiated, as to avoid any overlaps or gaps in responsibilities and competences, and to have the balance established with all the stakeholders regarding the accountabilities and liabilities, and/or rights and competences;
- Relations among all interested parties should be established in such a manner so that the common interest, or the interest of the bank prevails with all, in relation to their individual interests;
- To fully, efficiently and effectively perform all the functions of managing and governing the bank, that is, to manage the bank in a way that leads to the achievement of the set goals and tasks.

In the application of corporate governance rules, the aforementioned bylaws, as well as other internal bylaws of the Bank have been implemented and there are no deviations in the application of the same.

KomBank INVEST AD Beograd was organized in the form of a one-member joint-stock company that is not public with a two-tier management system. In order to ensure impartiality, transparency and accountability in corporate conduct, the Company applies the Operating Rules approved by the Securities Commission in accordance with the Article 17 of the Law on Investment Funds (RS Official Gazette, nos. 46/2006, 51/2009, 31/2011 and 115/2014), the Code of Conduct and Professional Ethics that are reconciled with the Parent Company, the Conflict of Interest and Personal Transactions Management Policy and other.

The competences and powers of all the bodies of the Group members are based on the relevant legal regulations and defined by internal bylaws. Corporate governance rules have been implemented through internal bylaws and there are no deviations in their application.

Signed on behalf of Komercijalna banka a.d. Beograd

Member of the Executive Board	President of the Executive Board
Miroslav Perić, PhD	Vladimir Medan, PhD

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 4

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KOMERCIJALNA BANKA AD BEOGRAD
Svetog Save 14
11000 Beograd

29.04.2020.

Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011, 112/2015, 108/2016 and 9/2020) Komercijalna banka AD Beograd issues the following

STATEMENT

I hereby state that, according to my best knowledge and based on the opinion of an external auditor, the annual consolidated financial statements have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company, including its companies included in the consolidated reports, based on the adopted audited separate financial statements of the Group members for the year 2019.

KOMERCIJALNA BANKA AD BEOGRAD

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Miroslav Perić, PhD
Member of the Executive Board

Vladimir Medan, PhD
President of the Executive Board

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KOMERCIJALNA BAKA AD BEOGRAD
THE MEETING OF THE BANK
Number: 4690/2
Belgrade, 28.04.2020

Pursuant to Article 14 of the Articles of Association of Komercijalna banka AD Beograd, the Meeting of Komercijalna banka AD Beograd passes at its regular session held on 28.04.2020 the following

DECISION
ADOPTING THE ANNUAL BUSINESS REPORT OF THE GROUP AND CONSOLIDATED FINANCIAL STATEMENTS OF KOMERCIJALNA BANKA AD BEOGRAD GROUP FOR 2019 WITH THE OPINION OF THE EXTERNAL AUDITOR

Article 1

Adopted is hereby the 2019 Annual Business Report of the Komercijalna banka AD Beograd Group, along with the opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd), in the text which is an integral part of this Decision.

Article 2

Adopted are hereby the consolidated financial statements of the Komercijalna banka AD Beograd for 2019, along with the opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd):

1. The Balance Sheet – consolidated as at 31.12.2019;
2. The Income Statement – consolidated in the period between 01.01 and 31.12.2019;
3. Statement of Financial Performance other names – consolidated in the period between 01.01 and 31.12.2019;
4. Statement of Changes in Capital – consolidated in the period between 01.01 and 31.12.2019;
5. Cash Flows Statement – consolidated in the period between 01.01 and 31.12.2019;
6. Notes to consolidated financial statements for 2019,

in the text which is an integral part of this Decision.

Article 3

This Decision enters into force as of the date of its passing.

CHAIRPERSON OF
THE BANK MEETING

____
Marijana Markovic