QUARTERLY REPORT OF KOMERCIJALNA BANKA AD BEOGRAD FOR Q1 2020

Belgrade, May 2020

CONTENTS

REPORT ON OPERATIONS OF THE BANK IN Q12020

Belgrade, May 2020

CONTENTS

1. OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD BETWEEN 1 JANUARY AND 31 MARCH 2020

DESCRIPTION	31/03/2020	29/02/2020	31/01/2020	2019	2018
INCOME STATEMENT (RSD 000)					
Profit/loss before tax	2,268,139	1,186,050	639,232	8,268,685	8,121,073
Net interest income	3,040,103	2,006,023	1,015,108	12,605,384	12,834,638
Net fee income	1,199,215	778,607	370,652	5,328,996	5,210,149
Operating expenses	2,548,033	1,702,786	821,036	11,064,609	10,473,783
Net income/expenses of impairment of financial assets not carried at fair value through the Income Statement	5,962	3,401	35,662	2,425,931	9,493

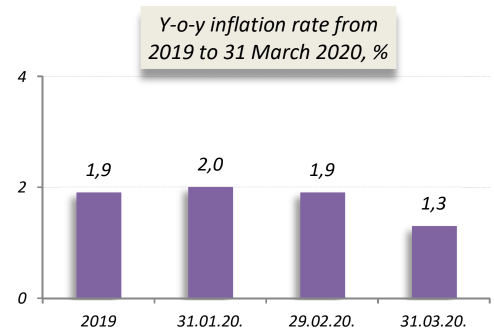
DESCRIPTION	31/03/2020	29/02/2020	31/01/2020	2019	2018
BALANCE SHEET (RSD 000)					
Balance sheet assets	442,107,977	441,788,796	433,207,351	432,380,443	401,165,980
Off-balance sheet operations	475,765,325	482,877,843	468,397,551	460,440,031	457,820,051
RETAIL					
Loans[1]	99,472,706	99,253,866	99,058,483	99,057,214	92,033,605
Deposits[2]	280,489,943	284,118,741	281,970,533	280,484,488	260,296,411
CORPORATE					
Loans	82,068,479	80,686,328	80,198,492	81,504,403	75,264,373
Deposits	47,928,197	47,597,915	46,811,127	47,879,400	49,879,580

RATIOS	31/03/2020	29/02/2020	31/01/2020	2019	2018
LOANS/DEPOSITS RATIO					
Gross loans/deposits	57.4%	56.5%	57.5%	57.7%	58.4%
Net loans/deposits	54.9%	53.8%	54.8%	54.9%	54.8%
CAPITAL (RSD 000)	76,926,680	77,006,542	76,504,627	75,852,173	67,560,513
Capital adequacy	29.80%	30.28%	30.60%	30.83%	29.18%
Number of employees	2,725	2,731	2,739	2,744	2,766
PROFITABILITY RATIOS					
ROA	2.1%	1.6%	1.8%	2.0%	2.1%
ROE – total capital	11.8%	9.3%	10.1%	11.7%	12.6%
Net interest margin on total assets	2.8%	2.8%	2.8%	3.0%	3.4%
Cost / income ratio	60.1%	61.1%	59.2%	61.7%	58.0%
Operating cash flow	4,400,613	3,000,492	2,057,049	9,859,741	9,379,217
Assets per employee (EUR 000)	1,381	1,376	1,345	1,340	1,227
Assets per employee (RSD 000)	162,241	161,768	158,163	157,573	145,035

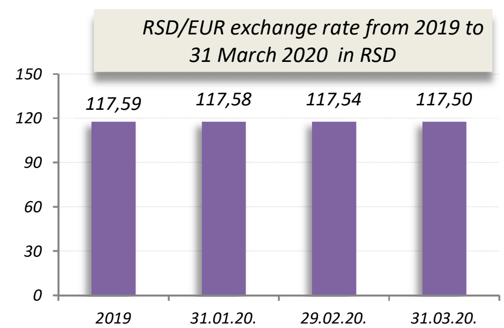
1 The position Loans (retail and corporate) does not include other loans and receivables
2 The position *Deposits* does not include other liabilities and assets received from credit lines
* As of 1 January 2018, microclient deposits have been transferred from the Corporate business function to the Retail business function
**See above

2. MACROECONOMIC BUSINESS CONDITIONS IN THE PERIOD BETWEEN 1 JANUARY AND 31 MARCH 2020[3]

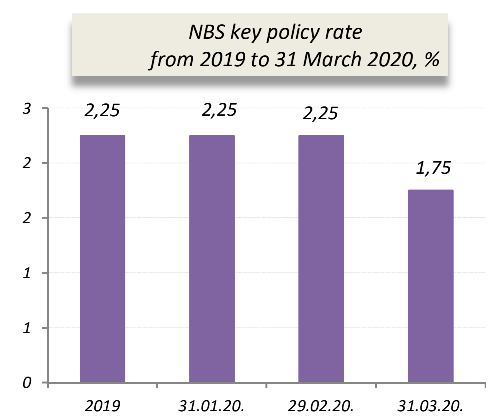
At the end of Q1 2020, year-on-year (y-o-y) inflation rate was 1.3%, with consumer prices dropping by 0.1% relative to the previous month. The monthly inflation rate was determined by plummeting oil product prices and declining prices of vegetables.
According to the March projections of the National Bank of Serbia, inflation should remain around the bottom threshold of deviation until the end of the first semester (3±1.5%), while beyond that it would gradually come closer to the central figure.



In Q1 of the current year, the exchange rate of the dinar against the euro did not fluctuate much. The exchange rate remained at approximately 117.5 dinars for one euro. The National Bank of Serbia has intervened on the interbank foreign exchange market (IBFEM) with a net sale of EUR 185.0 million since the beginning of the year.



On 11 March 2020, the National Bank of Serbia passed a decision to lower the key policy rate by 50 base points, reducing the key policy rate to 1.75%.
This decision was made to ensure a timely and proper response to increased uncertainties in the international environment caused by the coronavirus (COVID-19) outbreak. Apart from the fact that such decision is in line with the activities undertaken by other central banks worldwide, it also reflects favourable developments at the national level. Lowering the key policy rate in circumstances of low inflationary pressures provides an additional boost to lending and economic growth.

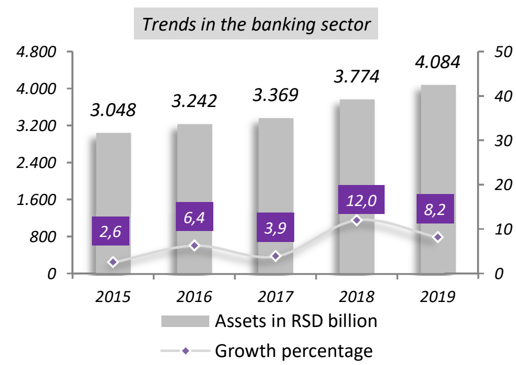


[3] National Bank of Serbia - Macroeconomic Trends in Serbia, April 2020

3. BANKING SECTOR[4] AND BANK'S FINANCIAL POSITION

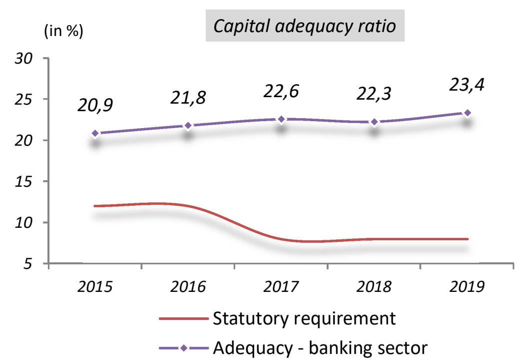
At the end of December 2019, banking sector in the Republic of Serbia comprised 26 banks in total, one fewer than at the beginning of the year. At 2019 year-end, the banking sector had 23,087 employees.

Total assets reached 4,084.1 billion dinars and, compared to 2019 year-end, grew by 310 billion dinars or 8.2%. As of 2019 year-end, the Bank accounted for 10.6% of the sector's assets. Total banking sector capital as at the end of December 2019 was 705.8 billion dinars, which was 4.3% higher than at the beginning of the year.



The average capital adequacy ratio of the banking sector as at 31 December 2019 was 23.4%. Compared to the new statutory minimum ratio of 8.0%, the achieved figure of 23.4% is indicative of adequate banking sector capitalisation.

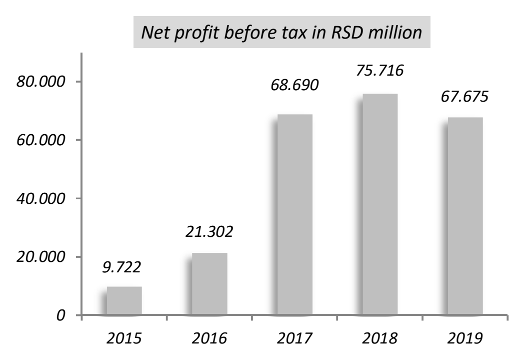
In addition to adequate capitalisation, the banking sector was marked by a further decline in the share of NPLs in toral loans, so that, as at 31 December 2019, gross NPLs accounted for 4.1% of total loans (as at 31 December 2018, their share was 5.7%).



In the course of 2019, the banking sector saw a decline in profitability relative to 2018.

In 2019, it generated profit before tax of 67.7 billion dinars, while profit generated in the previous year reached 75.7 billion dinars.

Return on equity (ROE) in 2019 was 9.8%, while return on assets (POA) at banking sector level was 1.7%.



[4] National Bank of Serbia, Macroeconomic Trends in Serbia, April 2020

4. ORGANISATIONAL STRUCTURE AND BODIES OF THE BANK

The Board of Directors of the Bank was formed in accordance with the Law on Banks and the Bank's Articles of Association and consists of minimum 5 (five) members, including the Chairperson, and minimum one third of those members must be persons independent from the Bank. Members of the Board of Directors are appointed by the General Meeting of Shareholders for a four-year term. A draft decision on the appointment of the Chairperson and members of the Board of Directors is endorsed by the Board of Directors, acting on proposal of the shareholders.
The powers of the Board of Directors of the Bank are set out in Article 73 of the Law on Bank and Article 27 of the Articles of Association of the Bank.
Members of the Board of Directors of the Bank as at 31 March 2020 are the following:

NAME AND SURNAME	SHAREHOLDERS / MEMBER INDEPENDENT FROM THE BANK	POSITION
Marija Sokić	Republic of Serbia	Chairperson
Daniel Pantić, PhD	Republic of Serbia	Member
Dejan Hadžić	Republic of Serbia	Member
Katarina Šušić	Member independent from the Bank	Member
Goran Knežević	Member independent from the Bank	Member
Prof. Zoran Jović, PhD	Member independent from the Bank	Member

The Bank's Board of Directors has a quorum required for functioning and decision-making if a meeting is attended by a majority of the total number of BoD members. The Chairperson and members have one vote each.

The Executive Board consists of the President of the Executive Board, the Deputy President of the Executive Board and minimum three members. The term in office of members of the Executive Board, including the President and the Deputy President, is four years of the date of appointment.
The powers of the Executive Board are set out in Article 76 of the Law on Banks and Article 31 of the Articles of Association of the Bank.
Members of the Executive Board of the Bank as at 31 March 2020 are the following:

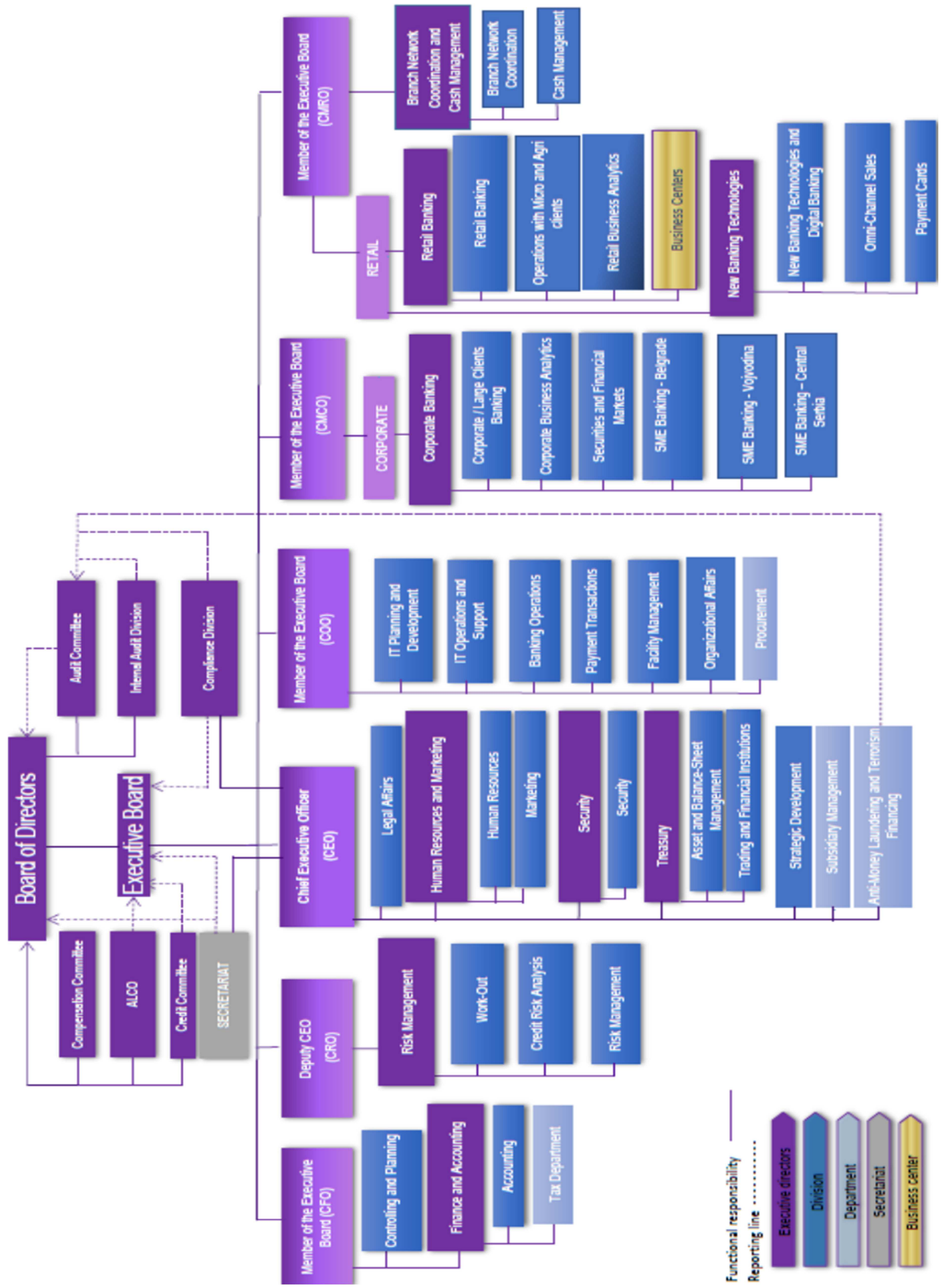
NAME AND SURNAME	POSITION
Vladimir Medan, PhD	President
Una Sikimić, PhD	Deputy President
Dragiša Stanojević	Member
Miroslav Perić, PhD	Member
Pavao Marjanović	Member

The Executive Board has a quorum required for functioning and decision-making if a meeting is attended by a majority of the total number of Executive Board members. The Executive Board passes decisions by a majority of votes of the total number of members.

The Audit Committee of the Bank consists of three members, two of whom are members of the Board of Directors of the Bank with relevant experience in the field of finance. One member of the Audit Committee is a person independent from the Bank. Members of the Audit Committee are appointed for a four-year term.
The duties of the Audit Committee are set out in Article 80 of the Law on Banks and Article 34 of the Articles of Association of the Bank. Members of the Audit Committee as at 31 March 2020 are the following:

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

The Audit Committee has a quorum required for functioning and decision-making if a meeting is attended by a majority of the total number of Audit Committee members.



Note: Organisational chart of the Bank as at 31 March 2020

5. FINANCIAL POSITION AND PERFORMANCE OF THE BANK IN THE PERIOD BETWEEN 1 JANUARY AND 31 MARCH 2020

DESCRIPTION	31/03/2020	29/02/2020	31/01/2020	2019	2018
BALANCE SHEET (RSD 000)					
Balance sheet assets	442,107,977	441,788,796	433,207,351	432,380,443	401,165,980
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Deposits	47,928,197	47,597,915	46,811,127	47,879,400	49,879,580

As at 31 March 2020, balance sheet assets of the Bank amounted to 442,107.9 million dinars and were 9,727.5 million dinars higher compared to 2019 year-end.

Off-balance sheet assets were increased by 3.3% in Q1 2020 and reached 475,765.3 million dinars at the end of March this year.

Corporate and retail deposits at the end of March 2020 reached 328,418.1 million and were 54.3 million dinars higher compared to the beginning of the year. On the other hand, the total amount of corporate and retail loans at the end of March 2020 was 181,541.2 million dinars, which was 979.6 million dinars or 0.5% higher than at the beginning of the year.

These changes also include the effect of appreciation of the dinar against the euro (0.1%) and depreciation against the Swiss franc (2.4%) and the US dollar (1.7%) from the beginning of the year to the end of Q1 2020.

DESCRIPTION	31/03/2020	29/02/2020	31/01/2020	2019	2018
INCOME STATEMENT (RSD 000)					
Profit/loss before tax	2,268,139	1,186,050	639,232	8,268,685	8,121,073
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Net income/expenses of impairment of financial assets not carried at fair value through the Income Statement	5,962	3,401	35,662	2,425,931	9,493
PROFITABILITY RATIOS					
ROA	2.1%	1.6%	1.8%	2.0%	2.1%
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Net interest margin on total assets	2.8%	2.8%	2.8%	3.0%	3.4%
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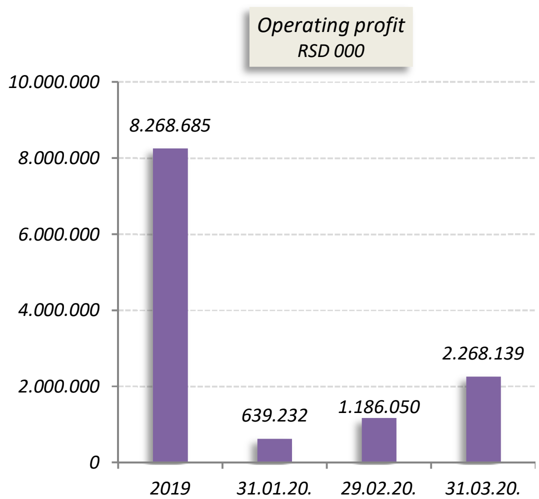
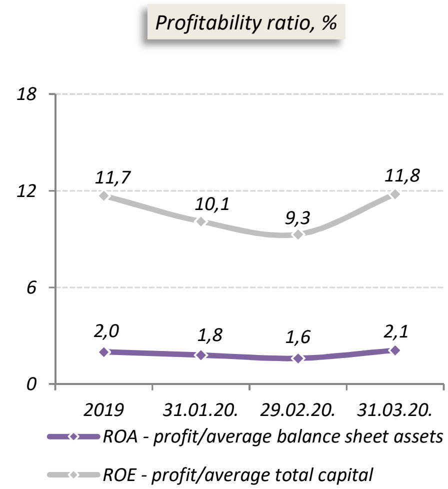




In the first three months of 2020, the Bank posted a higher amount of profit than in the same period last year. Between 1 January and 31 March 2020, the Bank generated profits of 2,268.1 million dinars, which was 599.6 million dinars (+35.9%) higher than in the same period last year. This amount of profit brought the Bank a return on total equity of 11.8% and a return on balance sheet assets of 2.1% in the first three months of 2020.

Net interest income at the end of March stood at 3,040.1 million dinars, which was 2.9% lower than in the same period last year. Net fee income was 1,199.2 million dinars and was 16.9 million lower than in the same period last year.
In the first three months of 2020, as a result of its cautious loan approval policy, the Bank generate net income from indirect write-off of loans and provisions in the amount of 6.0 million dinars. In Q1 this year, it incurred operative expenses of 2,548.0 million dinars, which was 15.3 million dinars or 0.6% lower than in the same period last year. The trends in profits in Q1 2020 relative to the same period last year was due to an increase in other income in Q1 this year, which reached 843.4 million dinars, as opposed to 417.8 million in the same period last year, coupled with a simultaneous decrease in other expenses, from 980.8 million dinars in Q1 last year to 255.3 million dinars in Q1 2020.

As a result of the increased volume of operations, coupled with an insignificant change in the number of employees in the first three months of 2020, assets per employee at the Bank were increased from 157.6 million dinars (31 December 2019) to 162.2 million dinars at the end of Q1 2020.

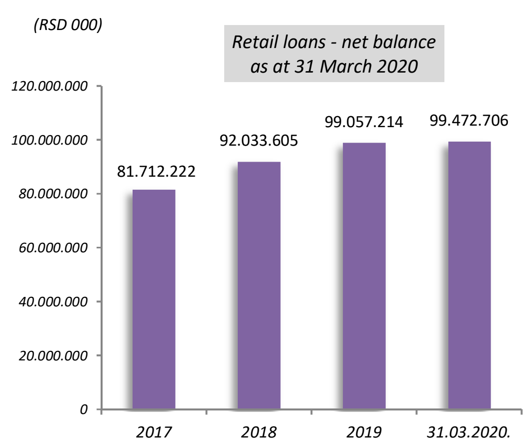
At the end of Q1 of the current year, the cost-to-income ratio (CIR) was 60.1%, while at 2019 year-end it was 61.7%.

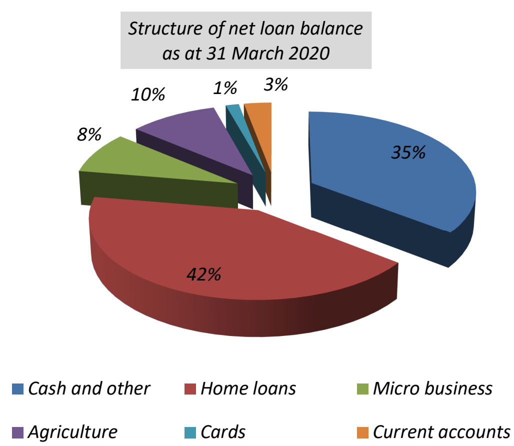
5.1. Retail Business

Operations of the Retail Function in Q1 suffered from adverse effects of the state of emergency in the Republic of Serbia and the COVID 19 pandemic (the state of emergency was declared on 16 March 2020).

In January and February, performance saw a positive trend, due to a significant increase in disbursement of key products compared to the same period last year (disbursement of cash loans was 12% higher, while home loans increased by 19%). In March, the focus was on shielding the customer base and portfolio from negative effects of the pandemic by putting in place a loan moratorium, in accordance with the NBS Decision on Temporary Measures for Preserving Financial System Stability. We have also successfully implemented pension disbursement at home address, as pensioners account for a large share of the Bank's customer base. We have put in place measures to protect customers' and employees' health, while ensuring continuity of operations with a reduced business capacity. Our outlets worked shorter hours, with fewer staff, while 40 outlets were temporarily closed. Even with all these restrictions, the Bank succeeded in properly serving all customers who needed our services. In the remainder of this financial year, the Bank will provide appropriate credit support to customers across all segments, to overcome the effects of the pandemic as soon as possible.

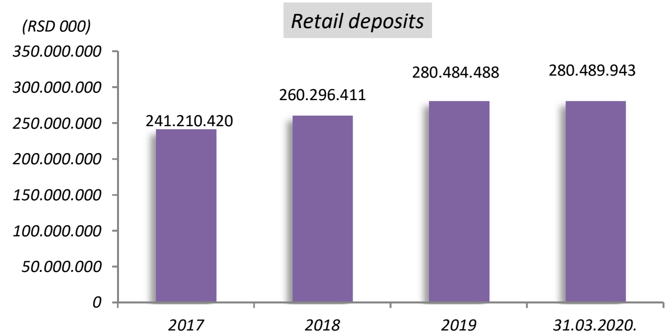
Notwithstanding all these challenges, net balance of retail loans was 415 million dinars higher than on 31 December 2019. In the structure of this net balance, home loans accounted for 42%, while other products accounted for 58%.





Deposits[5] – Bank's performance

Notwithstanding all challenges, the balance of deposits as at 31 March 2020 was 5.5 million dinars higher than at 2019 year-end.



Other products

Our Bank's greatest treasure are our clients, and in the Retail segment we have 1.2 million of them in total. Of that number, 836 thousand are active clients. Despite the pandemic, we have not seen a decline in the number of clients. In our key segment – private individuals with regular income through a current account – we have 409,000 clients. These clients are at the core of our retail operations and the cornerstone for credit activity growth, especially for authorised current account overdrafts, as these are the most profitable product and are used by one in three clients. More than 295,000 clients (up 8,000 from 2019) use a Set Account, as a higher-quality product than the basic current account; of that number, approx. 35,000 are Start Sets, geared towards our youngest clients (aged 18-27), which lays the foundation for securing our future business. The number of debit and credit cards has seen a mild increase and current stands at 959,000, of which 50% are used on a regular basis.

In the micro business segment, we have 16,400 Set Accounts (up 6,000 from 2018). In total, 80,000 private individuals regularly use e-banking and mobile banking for payments (a 6% increase from 2019), while the number of micro clients who regularly use electronic services is 13,500 (the same as in 2019).

Business network

We operate in the retail segment through 203 outlets, which makes us the market leader in terms of coverage and accessibility to customers. Customers have at their disposal 285 ATMs and approximately 13,500 POS terminals, which also makes us one of the market leaders. Taking into account the needs of its customers, the Bank has continued its efforts to improve customer experience by redesigning its outlets, relocating to new offices, adapting/optimising its working hours etc.

Profitability

As a result of all activities that have been undertaken, in Q1 the retail segment generated net interest and fee income of 2,420 million dinars, which was roughly the same as in Q1 2019.

[5] The position Deposits does not include other liabilities and assets received from credit lines

5.2. Corporate Business

Market – Main Trends

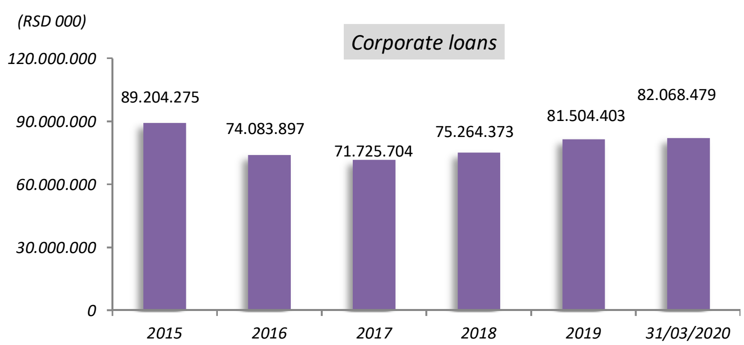
In 2020, the downward trend of dinar interest rates continued, while interest rates on FX-denominated loans were stabilised.

The standards applied by banks to newly-approved loans to corporate customers, which had been relaxed in 2019, remained unchanged in 2020, especially in relation to SMEs and, to a lesser extent, large companies. In terms of maturity and currency, standards have been relaxed for short-term and long-term dinar-denominated corporate loans, as well as short-term FX-indexed corporate loans. Banks are also increasingly willing to accept risk when borrowing to corporate customers (especially with regard to loan collateralisation).

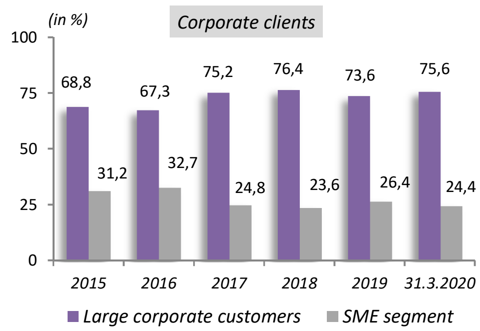
At banking sector level, net gross loans were higher compared to 2019 year-end (total ending to companies, public enterprises and local authorities increased by 1.0%, or 12.8 billion dinars)[6].

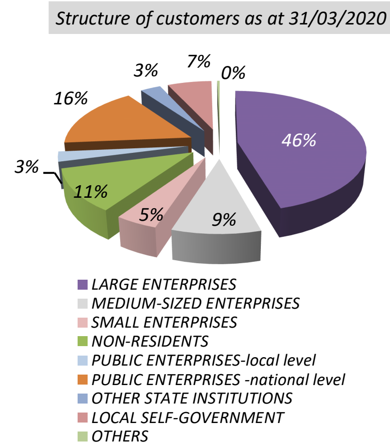
Loans[7] - Bank's performance

Disbursement of newly-approved loans in 2020 was 2.7 billion dinars higher than in the same period of 2019 (26% disbursement growth); of that, disbursement in the large corporate segment grew by 3.3 billion dinars, while the SME segment saw a decline of 0.6 billion dinars. The balance sheet portfolio grew by 0.7% compared to the beginning of the year, while the portfolio's structure saw an increase in the share of large corporate customers from 73.6% (at 2019 year-end) to 75.6%.



[6] National Bank of Serbia, Consoolidated Banking Sector Balance, February 2020
[7] The position Loans does not include other loans and advances





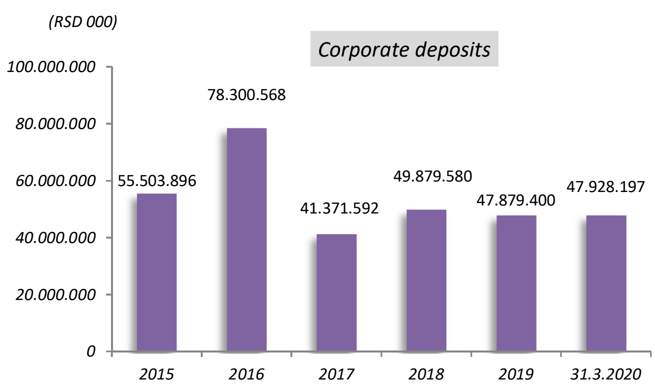
Average weighted interest rates on loans disbursed in 2020 were slightly higher than those on loans disbursed in 2019.

The interest rate on EUR-indexed loans is still lower than that on dinar-denominated loans, which, given the stable exchange rate, pushed the market towards greater demand for FX-indexed loans relative to dinar loans. Out of the total amount of loans disbursed in 2020, 13% was disbursed in dinars, while 87% was disbursed through EUR-denominated loans. Accordingly, the share of dinar-denominated loans in the portfolio as at 31 March 2020 was down to a mere 5.1%.

As regards competition, the most active banks in Q1 2020 were Banca Intesa a.d. Beograd, UniCredit banka Srbija a.d. Beograd, Raiffeisen banka a.d. Beograd, OTP banka a.d. Beograd. It is evident that all competitors have applied a more flexible approach (interest rates, maturities, required collateral) when approving loans.

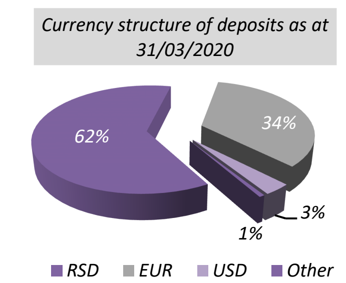
Deposits[8]

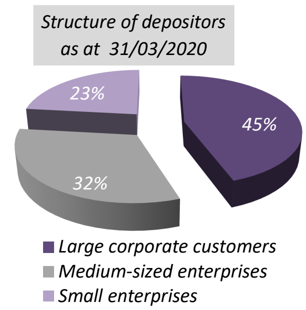
The high share of transaction deposits, which account for 72% of total corporate deposits, has resulted in lower interest expenses and has had positive effects on the Bank's bottom line.



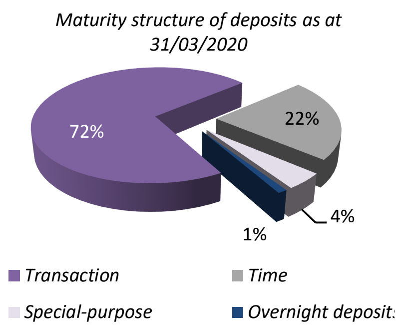
Note: At the end of 2017, RSD 11.2 billion in deposits by micro clients was transferred from Corporate to Retail, which accounts for the difference compared to the previous annual report; the amount of corporate deposits at 2016 year-end was influenced by one single deposit.

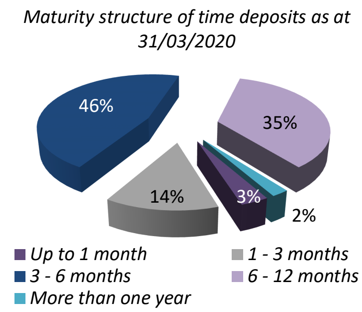
[8] The position Deposits does not include other liabilities and funds received through credit lines





Note: The structure of depositors is presented according to the internal segmentation of customers.



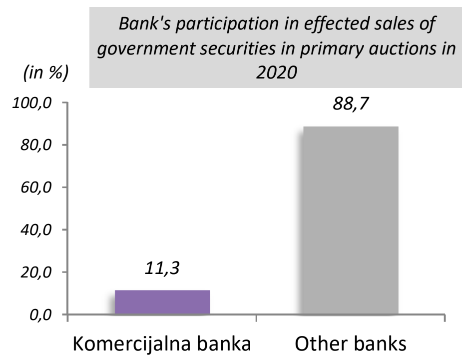


5.3. Asset Management

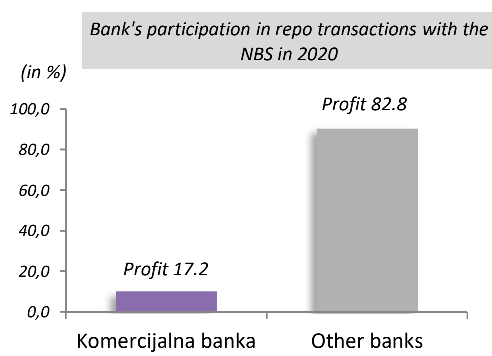
Based on the Bank's strategic orientation, the activities of the Treasury business function are focused on active management of assets and liquidity, while at the same time also ensuring normal functioning of the Bank and its customers.

The environment in which the Treasury function operated in Q1 2020 was marked by a lowering of the key policy rate (KPR) in Q1 2020 from 2.25% to 1.75%, stabilisation of interest rates at a relatively low level and negative interest rates on EUR and CHF in foreign markets. Given the available assets, this constituted a major challenge in terms of liquidity management.

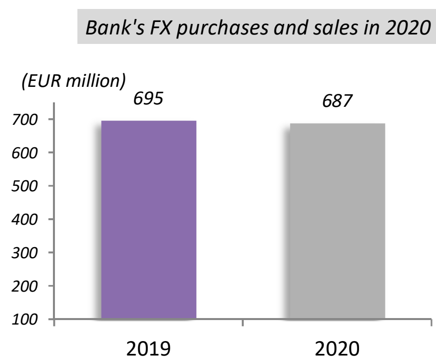
In 2020, the Bank's liquidity position was stable, and liquid assets were invested mainly in government securities of the Republic of Serbia.

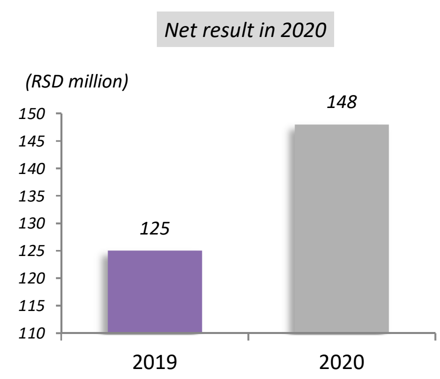


The Bank's high participation in primary auctions of government securities of the Republic of Serbia was accompanied by a very active participation in the secondary market. Taking into account the maturity structure of funding, most of short-term liquidity was invested in short-term loans in the interbank market, weekly reverse repo operations with the National Bank of Serbia and overnight deposits with the National Bank of Serbia.



The Treasury function also had intensive activity in the foreign exchange market. Total operations with customers, authorised money changers offices and other banks in the interbank FX market generated sale and purchase transactions of EUR 687 million (-1.28% down compared to the previous year), with a total net income of RSD 148 million (up 17.93% compared to the previous year).





The strategy of the Treasury function in the coming period will be focused on cautious investment of liquid assets in zero-risk and low-risk financial instruments, coupled with mitigation of the effects of declining yields by investing in instruments with longer maturities.

6. BALANCE SHEET AS AT 31 March 2020

6.1. Assets of the Bank as at 31 March 2020

(RSD 000)

NO.	DESCRIPTION OF BALANCE SHEET POSITION	31/03/2020	31/12/2019	INDEX
1	2	3	4	5=3/4
1	Cash and assets with the central bank	82,733,336	67,558,219	122.5
2	Pledged financial assets	-	-	
3	Receivables arising from derivatives	-	-	
4	Securities	142,312,002	138,469,551	102.8
5	Loans to and receivables from banks and other financial organisations	12,114,259	24,733,958	49.0
6	Loans to and receivables from customers	182,021,195	180,852,563	100.6
7	Changes in fair value of hedged items	-	-	
8	Receivables arising from derivatives intended for hedging	-	-	
9	Investment in affiliates and joint ventures	-	-	
10	Investment in subsidiaries	3,433,697	3,433,697	100.0
11	Intangible assets	610,726	665,735	91.7
12	Property, plant and equipment	6,341,834	6,437,937	98.5
13	Investment property	1,848,322	1,857,927	99.5
14	Current tax assets	-	-	
15	Deferred tax assets	2,139,298	1,074,197	199.2
16	Non-current assets held for sale and assets from discontinued operations	138,017	196,300	70.3
17	Other assets	8,415,291	7,100,359	118.5
	TOTAL ASSETS (1 to 17)	**442,107,977**	**432,380,443**	102.2

The Bank's balance sheet assets at the end of Q1 2020 reached 442,108.0 million dinars and were 9,727.5 million dinars or 2.2% higher than at the beginning of the year.

In the first three months of the current year, the position Cash and Assets with the Central Bank saw an increase of 15,175.1 million dinars or 22.5%.
The amount of investment in securities at the end of March 2020 was 142,312.0 million dinars. Compared to the beginning of the year, investment in securities increased by 3,842.5 million dinars or 2.8%. at the end of March, investment in securities accounted for 32.2% of the Bank's total balance sheet assets.

Loans to and receivables from customers amounted to 182,021.2 million dinars and were 1,168.6 million dinars or 0.6% higher than as at 31 December 2019. Loans to and receivables from customers as at 31 March 2020 accounted for 41.2% of balance sheet assets.
Loans to and receivables from banks and other financial organisations shrank by 12,620.0 million dinars.

Total loans to and receivables from customers and banks as at 31 March 2020 amounted to 194,135.5 million dinars, accounting for 43.9% of the Bank's total balance sheet assets.

Relative to 31 December 2019 (the balance sheet date), after offsetting deferred tax assets against deferred tax liabilities, deferred tax assets and deferred tax liabilities during the financial year are presented according to the gross principle on the relevant positions of assets and liabilities.

Deferred tax assets as at 31 March 2020 consisted mainly of deferred tax assets from tax losses carried forward, in the amount of 1,259,350 thousand dinars. This asset position is explained in more detail in section 3.15 of the Notes to Financial Statements for Q1 2020.

6.2. Liabilities of the Bank as at 31 March 2020

(RSD 000)

NO.	DESCRIPTION OF BALANCE SHEET POSITION	31/03/2020	31/12/2019	INDEX
1	2	3	4	5=3/4
1	Liabilities arising from derivatives	-	-	-
2	Deposits and other financial obligations to banks, other financial organisations and the central bank	5,216,193	5,021,756	103.9
3	Deposits and other financial obligations to other customers	340,974,859	335,317,154	101.7
4	Liabilities arising from hedging derivatives		-	
5	Changes in fair value of hedged items		-	
6	Liabilities arising from securities		-	
7	Subordinated liabilities		-	
8	Provisions	1,807,012	2,328,130	77.6
9	Liabilities arising from non-current assets held for sale and discontinued operations		-	
10	Current tax liabilities		-	
11	Deferred tax liabilities	854,460	-	-
12	Other liabilities	16,328,773	13,861,230	117.8
	TOTAL OBLIGATIONS (1 to 12)	**365,181,297**	**356,528,270**	102.4
	CAPITAL			
13	Equity	40,034,550	40,034,550	100.0
14	Own shares		-	
15	Profit	12,694,037	10,425,898	121.8
16	Loss		-	
17	Reserves	24,198,093	25,391,725	95.3
18	Unrealised loss		-	
19	Non-controlling interests		-	
20	**TOTAL CAPITAL (13 to 19)**	**76,926,680**	**75,852,173**	101.4
	TOTAL LIABILITIES (1 to 19)	**442,107,977**	**432,380,443**	102.2

Total obligations of the Bank at the end of Q1 2020 amounted to 365,181.3 million dinars and accounted for 82.6% of total liabilities (as at 31 December 2019, total obligations accounted for 82.5% of total liabilities). At the same time, total capital was 76,926.7 million dinars and accounted for 17.4% of total liabilities (as at 31 December 2019, it accounted for 17.5%). Total obligations increased compared to 2019 year-end by 8,653.0 million dinars or 2.4%, while total capital increased by 1,074.5 million dinars or 1.4%.

Total deposits and other financial obligations to banks and customers stood at 346,191.1 million dinars, accounting for 78.3% of total balance sheet liabilities, with an increase of 5,852.1 million dinars or 1.7% compared to 2019 year-end.

The position Deposits and Other Financial Obligations to Customers increased during the reporting period by 5,657.7 million dinars or 1.7%, while the position Deposits and Other Financial Obligations to Banks saw an increase compared with the end of the previous year of 194.4 million dinars or 3.9%.

The position Other Liabilities increased by 2,467.5 million dinars or 17.8%, while the position Reserves saw a decline of 521.1 million dinars in Q1 2020 as a result of lower provisioning for liabilities. Changes in the position Reserves is explained in detail in section 3.17 of the Notes to Financial Statements.
Liabilities arising from foreign credit lines amounted to 1,376.8 million dinars at the end of March 2020 and were 50.0 million dinars than at the beginning of the year.

The change in the position Deferred Tax Liabilities is explained in detail in sections 3.15 and 3.18 of the Notes to Financial Statements.

6.3. Loans to Customers and Customer Deposits as at 31 March 2020

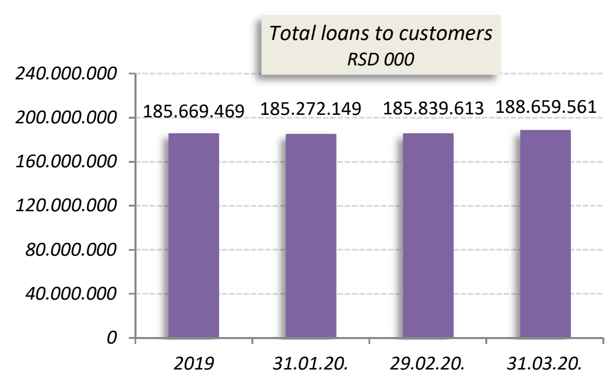
At the end of Q1 2020, the total amount of loans disbursed by the Bank to customers (corporate, retail, banks and financial organisations) was 188,659.6 million dinars, while liabilities owed to customers reached 343,780.6 million dinars.

(RSD 000)

NO.	DESCRIPTION	BALANCE AS AT 31 MARCH 2020	BALANCE AS AT 31 DECEMBER 2019	INDEX
1	2	3	4	5= (3:4)*100
I	*LOANS TO CUSTOMERS (1+2+3)*	188,659,561	185,669,469	101.6
1.	Corporate	82,068,479	81,504,403	100.7
2.	Retail	99,472,706	99,057,214	100.4
3.	Banks and financial organisations	7,118,377	5,107,851	139.4
II	*CUSTOMER DEPOSITS (1+2+3)*	343,780,593	337,948,699	101.7
1.	Corporate	47,928,197	47,879,400	100.1
2.	Retail	280,489,943	280,484,488	100.0
3.	Banks and financial organisations	15,362,453	9,584,811	160.3

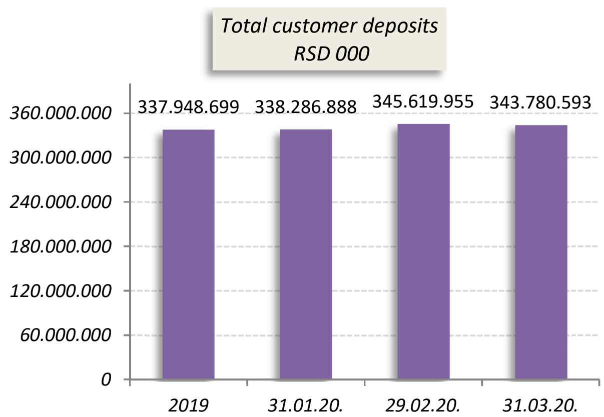
NOTE: Granted loans excluding other investments and receivables, received deposits excluding other liabilities and funds received in the form of credit lines.

The most significant individual category of balance sheet assets – loans to customers – increased by 2,990.1 million dinars or 1.6% from the beginning of the year. Loans to customers account for 42.7% of total assets.

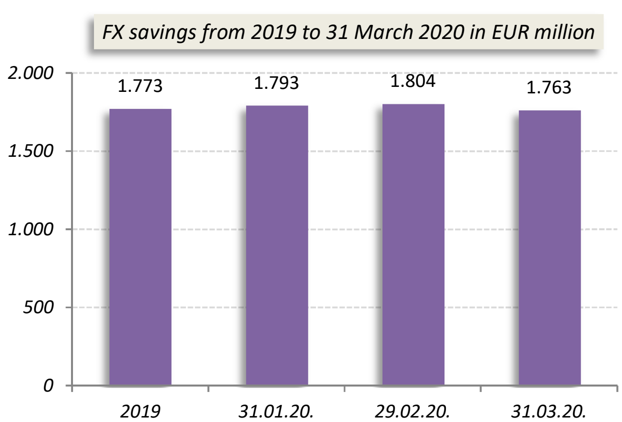


At the end of Q1 2020, loans to corporate clients reached 82,068.5 million dinars – up 0.7% from 2019 year-end. The total amount of retail loans was 99,472.7 million dinars, which was 0.4% higher compared to 2019 year-end. Loans to banks and other financial organisations reached 7,118.4 million dinars at the end of Q1 2020, which was an increase compared to 2019 year-end of 39.4%.

Total customer deposits as at 31 March 2020 stood at 343,780.6 million dinars and accounted for 77.8% of the Bank's total assets, or 94.1% of its total obligations.



Total customer deposits were increased by 5,831.9 million dinars or 1.73% compared to the beginning of the year.
The dominant share in the structure of deposits is that of retail deposits, which amounted to 280,489.9 million dinars and accounted for 81.6% of total customer deposits, while corporate deposits stood at 47,928.2 million dinars and accounted for 13.9% of total deposits. Relative to the beginning of the year, a significant increase was seen in deposits by banks and other financial organisations, which were increased by 5,777.6 million dinars or 60.3%. As a result of this growth, the share of deposits of banks and financial organisations in total deposits was increased from 2.8% as at 31 December 2019 to 4.5% as at 31 March 2020.



Notwithstanding the declining borrowing interest rates, both in the banking sector as a whole and at the Bank, FX savings deposited with the Bank were preserved in Q1 2020 at 1,763 million euros.

Depositors' trust has enabled the Bank to remain the leader in the Serbian banking sector in terms of the volume of FX savings and in terms of image and recognisability.

6.4. Off-Balance Sheet Items in 2020

(RSD 000)

NO.	DESCRIPTION	BALANCE AS AT 31 MARCH 2020	BALANCE AS AT 31 DECEMBER 2019	INDEX
1	2	3	4	5=(3:4)*100
1	TRANSACTIONS ON BEHALF AND FOR THE ACCOUNT OF THIRD PARTIES	4,138,436	4,152,268	99.7
2	ASSUMED FUTURE COMMITMENTS	56,286,927	53,595,618	105.0
3	GUARANTEES RECEIVED FOR FUTURE COMMITMENTS	0	0	-
4	DERIVATIVES	2,350,084	0	-
5	OTHER OFF-BALANCE SHEET ITEMS	412,989,878	402,692,145	102.6
	TOTAL	**475,765,325**	**460,440,031**	103.3

Total off-balance sheet assets of the Bank in Q1 2020 were increased by 15,325.3 million dinars compared to 2019 year-end.

As at 31 March 2020, assumed future commitments, including issued guarantees and other sureties, amounted to 56,286.9 million dinars in total, which was an increase of 2,691.3 million dinars or 5.0% compared to 2019 year-end, mainly due to an increase in assumed irrevocable commitments for undrawn loans and investments.

As at 31 March 2020, the amount of derivatives on off-balance sheet records was 2,350.1 million dinars.

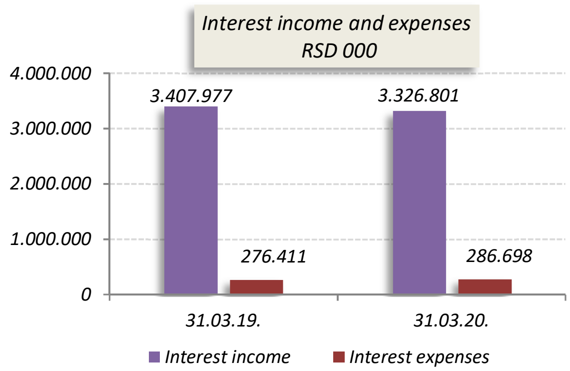
Other off-balance sheet items saw an increase of 10,297.7 million dinars or 2.6% compared to 2019 year-end, as a result of changes in other off-balance sheet assets.

7. INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2020

(RSD 000)

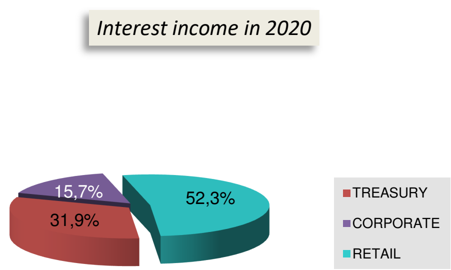
NO.	DESCRIPTION OF BALANCE SHEET POSITION	31 March 2020	31 March 2019	INDEX
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	3,326,801	3,407,977	97.6
1.2.	Interest expenses	(286,698)	(276,411)	103.7
1.	**Net interest income/expenses**	3,040,103	3,131,566	97.1
2.1.	Fee and commission income	1,637,652	1,586,033	103.3
2.2.	Fee and commission expenses	(438,437)	(369,951)	118.5
2.	**Net fee and commission income/expenses**	1,199,215	1,216,082	98.6
3.	Net gain/loss arising from change in the fair value of financial instruments	(29,768)	23,703	-
4.	Net gain/loss arising from reclassification of financial instruments		-	
5.	Net gain/loss arising from derecognition of financial instruments carried at fair value	76,242	58,369	130.6
6.	Net hedging gain/loss		-	
7.	Net exchange gain/loss and gain/loss arising from contractual currency clauses	(17,155)	5,088	-
8.	Net gain/loss arising from impairment of financial assets not carried at fair value through the Income Statement expense	5,962	442,079	1.3
9.	Net gain/loss arising from derecognition of financial instruments carried at amortisation value		-	
10.	Net gain/loss arising from derecognition of investment in affiliates and joint ventures		-	
11.	Other operating income	86,310	32,302	267.2
12.	**TOTAL NET OPERATING INCOME**	4,360,909	4,909,189	88.8
13.	**TOTAL NET OPERATING EXPENSES**			
14.	Costs of salaries, benefits and other personal expenses	*(1,110,357)*	(1,080,986)	102.7
15.	Amortisation costs	*(246,304)*	(249,205)	98.8
16.	Other income	*670,475*	291,436	230.1
17.	Other expenses	*(1,406,584)*	(2,201,942)	63.9
18.	**PROFIT BEFORE TAX**	*2,268,139*	1,668,492	135.9
19.	**LOSS BEFORE TAX**			
20.	Income tax			
21.	Deferred tax gain			
22.	Deferred tax loss			
23.	**PROFIT AFTER TAX**	**2,268,139**	**1,668,492**	135.9
24.	**LOSS AFTER TAX**			
25.	Net profit from discontinued operations			
26.	Net loss from discontinued operations			
27.	**RESULT OF THE PERIOD - PROFIT**	**2,268,139**	**1,668,492**	135.9
28.	**RESULT OF THE PERIOD - LOSS**			
29.	Profit belonging to the parent entity			
30.	Profit belonging to non-controlling owners			
31.	Loss belonging to the parent entity			
32.	Loss belonging to non-controlling owners			
33.	Earnings per share			
34.	Basic earnings per share			
35.	Diluted earnings per share			

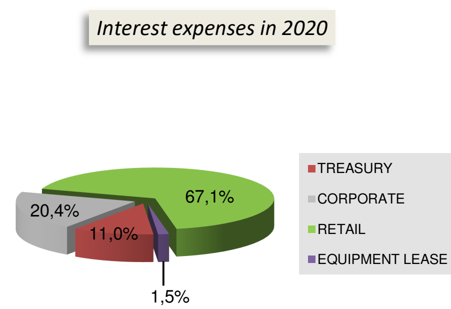
7.1. Interest Income and Expenses



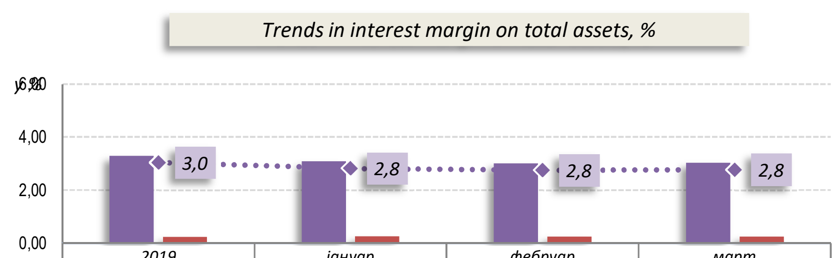
In Q1 2020, the Bank generated net interest gain of 3,040.1 million dinars, which was 2.9% lower than in the same period last year.

Relative to Q1 last year, interest income was lower by 81.2 million dinars or 2.4%, while interest expenses were increased by 10.3 million dinars or 3.7%.





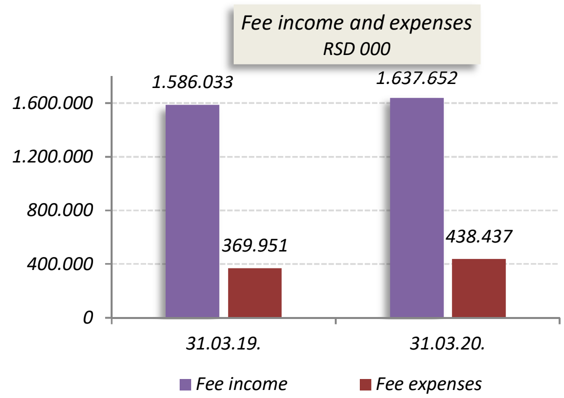
The dominant share in the structure of interest income was that of interest income from retail operations (1,741.5 million dinars or 52.3%). The structure of interest expenses also comprises mainly interest on retail deposits (192.4 million dinars or 67.1%), which is mostly attributable to interest expenses for collected FX savings.



	2019	јануар	фебруар	март
Average lending interest rate	3,29	3,09	3,01	3,03
Average borrowing interest rate	0,25	0,27	0,26	0,26
Average interest rate	3,04	2,82	2,75	2,77

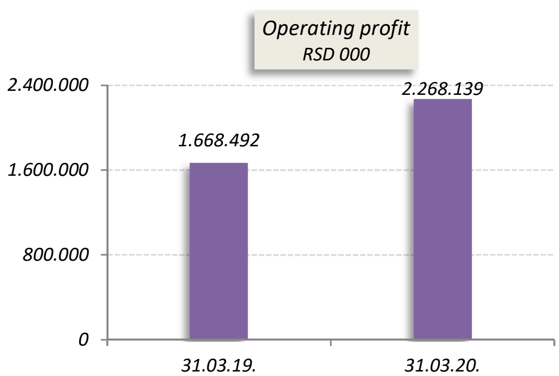
The average lending interest rate at the end of Q1 2020 was 3.03%, while the average borrowing interest rate was 0.26%, which means the Bank's average interest margin in Q1 2020 was 2.77%.

7.2. Fee Income and Expenses



In Q1 2020, compared with the same period last year, banking fee and commission income was higher by 51.6 million dinars or 3.3%. At the same time, fee and commission expenses were also increased by 68.5 million dinars or 18.5%.
Net fee and commission income in Q1 2020 was 1,199.2 million dinars and was 16.9 million dinars lower than in the same period last year.

7.3. Operating Profit



Between 1 January and 31 March 2020, the Bank generated an operating profit of 2,268.1 million dinars – an increase of 599.6 million dinars relative to the same period last year, or 35.9% up.

The operating profit generated in Q1 2020 meant the Bank had a return on total equity of 11.8% and a return on average assets of 2.1%.

7.4. Key Performance Indicators under the Law on Banks

NO.	DESCRIPTION	STATUTORY REQUIREMENT	31 MARCH 2020	2019
1.	CAPITAL ADEQUACY RATIO (CAPITAL / RISK WEIGHTED ASSETS); *COMBINED BUFFER REQUIREMENT	MIN. 12.8%+cb*	29.80%	30.83%
2.	RATIO OF INVESTMENT IN NON-FINANCIAL SECTOR ENTITIES AND FIXED ASSETS	MAX. 60%	13.16%	13.05%
3.	LARGE EXPOSURE RATIO	MAX. 400%	28.05%	26.62%
4.	FOREIGN EXCHANGE RISK RATIO	MAX. 20%	0.83%	1.98%
5.	LIQUIDITY RATIO (monthly, last day of the month)	MIN. 0.8	3.98%	4.08

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

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

A detailed breakdown of the main risks and threats to which the Bank will be exposed in the coming months is provided in the chapter "Risk Management" in the Notes to Financial Statements for Q1 2020.

9. ALL SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

As of 31 March 2020, related parties of the Bank are the following:

1. Komercijalna banka a.d. Podgorica, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. Two legal entities and a number of private individuals, according to Article 2 of the Law on Banks, as it pertains to the term "related parties of a bank".

Total exposure to the Bank's related parties as at 31 March 2020 was 1,533.7 million dinars. In relation to the capital[9] of 62,249.7 million dinars, this translates to 2.46% (the upper limit of total loans to all related persons of the Bank under the Law on Banks is set at 25% of its capital).

In compliance with Article 37 of the Law on Banks, the Bank has not granted loans to its related parties under more favourable terms than those applicable to unrelated parties.

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

After the end of 2019, in Q1 2020, significant events that took place in Q1 2020 include a regular General Meeting of Shareholders of the Bank held on 9 March 2020.

At the General Meeting of Shareholders, the following was passed:

1. Decision on adoption of the Strategy and Business Plan of Komercijalna banka AD Beograd for 2020 - 2022.

Serbia, just like other European countries, faced the COVID 19 pandemic in March 2020. In compliance with the legislation and the recommendations issued by public health institutions, the Bank put in place all necessary measures to ensure its business activities take place with full protection for employees and clients.

A description of events which took place after the balance sheet date is provided in section 6 in the Notes to the Financial Statements for Q1 2020.

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

11. KEY INFORMATION ON EXECUTION OF THE 2020 BUSINESS PLAN

Financial year 2019 and the initial months of 2020 were marked by stable macroeconomic business conditions[10], which was in line with the expectations the Bank had had when developing its Business Plan for 2020.

Notwithstanding the economic slowdown in eurozone member states and the adverse one-off effects, Serbia's GDP growth in 2019 was, according to estimates, 4.2%, which can primarily be attributed to faster investment growth. As a result of macroeconomic stability, improved business environment, strong private and public investment, coupled with the relaxation of monetary conditions for business before the COVID-19 pandemic (March 2020 projection), the projected GDP growth of approx. 4% in 2020[11]. The activities put in place to stop the spreading of COVID-19 will result in an economic slowdown, especially in the services sector, in Q2 2020[12]. GDP trends in the coming months will be impacted by macroeconomic measures that will be put in place, as well as by the pace of economic recovery.

In section 6, Events after Balance Sheet Date, of the Notes to Financial Statements Q1 2020, the Bank addressed in detail the potential impact of the COVID 19 pandemic on the Bank's operations in the coming months.

After y-o-y inflation of 1.9% in December 2019, inflation remained low in Q1 2020: y-o-y inflation at the end of March was 1.3% and, according to March projections, should remain around the bottom threshold of deviation until the end of the first semester (3±1.5%), while beyond that it would gradually come closer to the central figure[13].

In the past three years, the dinar has cumulatively appreciated against the euro by 5%.[14] Forex market security has continued in 2020, so the rate of the dinar against the euro has remained virtually unchanged.

Confirmation of Serbia's economic perspective can also be found in the projections by the three leading rating agencies. In September 2019, Fitch Ratings upgraded Serbia's credit rating from BB to BB+, while Moody's upgraded Serbia's credit rating outlook from "stable" to "positive" (Ba3). In December 2019, S&P upgraded Serbia's credit rating from BB to BB and praised the outlook of its further upgrading. After all adjustments, Serbia's credit rating is a just step away from the Investment level.[15]

11.1. Planned and achieved Balance Sheet figures in Q1 2020

Total balance sheet assets of the Bank at the end of Q1 2020 amounted to 442,108 million dinars and fell short of the planned figure for year-end by 13,468.1 million dinars or 3,888 million dinars or 0.9%.

Investment in securities as at 31 March 2020 reached 142,312 million dinars and was 17,533 million dinars or 14.1% higher than the amount planned for the whole year. One of the reasons for investment in securities exceeding the plan is the fact that lending was lower than expected.

Loans to customers at the end of Q1 2020 amounted to 188,660 million dinars. In order to achieve the planned level of lending to customers, the Bank will have to lend 25,249 million dinars, i.e. it will have to achieve growth of 11.8%.

To achieve the planned annual figures, in the next three quarters of 2020 the Bank will have to achieve growth in total deposits by 15,087 million dinars or 4.2%. The most significant increase is expected to come from retail

[10] National Bank of Serbia - Macroeconomic Trends in Serbia, April 2020
[11] National Bank of Serbia - Macroeconomic Trends in Serbia, March 2020
[12] National Bank of Serbia - Macroeconomic Trends in Serbia, April 2020
[13] See above
[14] See above
[15] See above

deposits, which are expected to grow by 13,578 million dinars, or 4.6%, and from corporate deposits, which are expected to grow by 7,142 million dinars, or 13.0%.

Other liabilities as at 31 March 2020 exceeded the planned annual figure by 11,133 million dinars, but are expected to be lower by the end of the year.

Achieved and planned positions of assets and liabilities on the Balance Sheet as at 31 March 2020 were as follows:

(RSD million)

No.	POSITION	Planned 31 December 2020	Achieved 31 March 2020	INDEX
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents	72,492	82,733	114.1%
2.	Securities	124,779	142,312	114.1%
3.	**Granted loans (3.1+3.2+3.3)**	**213,909**	**188,660**	88.2%
3.1.	Corporate	94,463	82,068	86.9%
3.2.	Retail	110,506	99,473	90.0%
3.3.	Banks and financial organisations	8,940	7,118	79.6%
4.	Other assets	34,816	28,403	81.6%
5.	**TOTAL ASSETS (1+2+3+4)**	**445,996**	**442,108**	99.1%
	LIABILITIES			
1.	**Deposits (1.1.+1.2.+1.3.)**	**358,868**	**343,781**	95.8%
1.1.	Corporate	55,070	47,928	87.0%
1.2.	Retail	294,068	280,490	95.4%
1.3.	Banks and financial organisations	9,730	15,362	157.9%
2.	Other obligations	8,891	20,024	225.2%
3.	**Total obligations (1+2)**	**367,758**	**365,181**	99.3%
4.	**Total capital**	**78,238**	**76,927**	98.3%
5.	**TOTAL LIABILITIES (3+4)**	**445,996**	**442,108**	99.1%

11.2. Planned and achieved Income Statement figures in the period 1 January - 31 March 2020

(RSD million)

No.	POSITION	Planned 1 Jan -31 March 2020	Achieved 1 Jan -31 March 2020	INDEX
1	2	3	4	5=4/3
1.1.	Interest income	3,352	3,327	99.2%
1.2.	Interest expenses	-291	-287	98.8%
1.	**Interest gain (1.1-1.2)**	3,062	3,040	99.3%
2.1.	Fee and commission income	1,779	1,638	92.1%
2.2.	Fee and commission expenses	-463	-438	94.7%
2.	**Fee and commission gain (2.1 -2.2)**	1,316	1,199	91.1%
3.	Net exchange gain/loss and change in value (currency clause)	0	-17	
4.	Net other operating income and expenses	24	588	2450.0%
5.	Net income/expenses of impairment of financial assets not carried at fair value through the Income Statement	79	6	7.6%
6.	Operating expenses	-2,692	-2,548	94.7%
7.	**OPERATING PROFIT (1+2+3+4+5+6)**	1,789	2,268	126.8%

Between 1 January and 31 March 2020, the Bank generated profit before tax of 2,268 million dinars, which was 479 million or 26.8% higher than planned.

The rate of achievement of planned net interest gain was 99.3%, while that of planned net fee gain was 91.1%. The slightly lower realisation of net fee income can be attributed to the fact that actual fee income was somewhat lower than planned.

In the first three months of 2020, the Bank incurred operating expenses of 2,548 million, which was 144 million dinars or 5.3% lower than planned.

The achieved amount of net other business income was 588 million dinars, which was significantly lower than the planned figure. The amount of net other operating income is influenced, among other things, by the net income from cancellation of provisions for legal claims.

Signed on behalf of Komercijalna banka a.d. Beograd

Dragana Romandić
Director of Controlling and Planning Division

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Miroslav Perić, PhD
Executive Board Member

BALANCE SHEET

on 31.03.2020.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year ammount	Previous year ammount
1	2	3	4
ASSETS			
ASSETS Cash and assets held with central bank	0001	82.733.336	67.558.219
Pledged financial assets	0002	-	-
Receivables under derivatives	0003		
Securities	0004	142.312.002	138.469.551
Loans and receivables from banks and other financial organisations	0005	12.114.259	24.733.958
Loans and receivables from clients	0006	182.021.195	180.852.563
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	-	-
Investments into subsidiaries	0010	3.433.697	3.433.697
Intangible investments	0011	610.726	665.735
Property, plant and equipment	0012	6.341.834	6.437.937
Investment property	0013	1.848.322	1.857.927
Current tax assets	0014	-	-
Deferred tax assets	0015	2.139.298	1.074.197
Non-current assets held for sale and discontinued operations	0016	138.017	196.300
Other assets	0017	8.415.291	7.100.359
TOTAL ASSETS (from 0001 to 0017)	0018	442.107.977	432.380.443
LIABILITIES			
LIABILITIES Liabilities under derivatives	0401	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	5.216.193	5.021.756
Deposits and other financial liabilities to clients	0403	340.974.859	335.317.154
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	1.807.012	2.328.130
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	-
Deferred tax liabilities	0411	854.460	-
Other liabilities	0412	16.328.773	13.861.230
TOTAL LIABILITIES (from 0401 to 0412)	0413	365.181.297	356.528.270
CAPITAL			
CAPITAL Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	12.694.037	10.425.898
Loss	0417	-	-
Reserves	0418	24.198.093	25.391.725
Unrealized losses	0419	-	-
Non-controlling participation	0420	-	-
TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	76.926.680	75.852.173
TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	0	0
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	442.107.977	432.380.443

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

INCOME STATEMENT

from 01.01.2020. to 31.03.2020.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03.	01.01.-31.03.	01.01.-31.03.
1	2	3*	4**	5	6
Interest income	1001	3.326.801	3.326.801	3.407.977	3.407.977
Interest expenses	1002	286.698	286.698	276.411	276.411
Net interest gains (1001-1002)	1003	3.040.103	3.040.103	3.131.566	3.131.566
Net interest losses (1002-1001)	1004	-	-	-	-
Income from fees and commissions	1005	1.637.652	1.637.652	1.586.033	1.586.033
Expenses on fees and commissions	1006	438.437	438.437	369.951	369.951
Net gains from fees and commissions (1005 - 1006)	1007	1.199.215	1.199.215	1.216.082	1.216.082
Net losses on fees and commissions (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009			23.703	23.703
Net losses from changes in fair value of financial instruments	1010	29.768	29.768	-	-
Net gains on reclassification of financial instruments	1011	-	-	-	-
Net losses on reclassification of financial instruments	1012	-	-	-	-
Net gains from derecognition of the financial instruments measured at fair value	1013	76.242	76.242	58.369	58.369
Net losses on derecognition of the financial instruments measured at fair value	1014	-	-	-	-
Net gains from hedging	1015	-	-	-	-
Net losses on hedging	1016	-	-	-	-
Net exchange rate gains and gains from agreed currency clause	1017	-	-	5.088	5.088
Net exchange rate losses and losses on agreed currency clause	1018	17.155	17.155	-	-
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	5.962	5.962	442.079	442.079
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	-	-	-	-
Net gains from derecognition of the financial instruments measured at amortised cost	1021	-	-	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	-	-	-
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-	-	-
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-	-	-
Other operating income	1025	86.310	86.310	32.302	32.302
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	4.360.909	4.360.909	4.909.189	4.909.189
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-	-	-
Salaries, salary compensations and other personal expenses	1028	1.110.357	1.110.357	1.080.986	1.080.986
Depreciation costs	1029	246.304	246.304	249.205	249.205
Other income	1030	670.475	670.475	291.436	291.436
Other expenses	1031	1.406.584	1.406.584	2.201.942	2.201.942
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	2.268.139	2.268.139	1.668.492	1.668.492
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Profit tax	1034	-	-	-	-
Gains from deferred taxes	1035	-	-	-	-
Losses on deferred taxes	1036	-	-	-	-
PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	2.268.139	2.268.139	1.668.492	1.668.492
LOSSES AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) < 0	1038	-	-	-	-
Net profit from discontinued operations	1039	-	-	-	-
Net losses on discontinued operations	1040	-	-	-	-
RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	2.268.139	2.268.139	1.668.492	1.668.492
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-	-	-
Profit belonging to a parent entity	1043	-	-	-	-
Profit belonging to non-controlling owners	1044	-	-	-	-
Losses belonging to a parent entity	1045	-	-	-	-
Losses belonging to non-controlling owners	1046	-	-	-	-
EARNINGS PER SHARE					
Basic earnings per share (in dinars, without paras)	1047	-	-	-	-
Diluted earnings per share (in dinars, without paras)	1048	-	-	-	-

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД 4 from 01.01.2020 to 31.03.2020

STATEMENT OF OTHER COMPREHENSIVE RESULT

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03.	01.01.-31.03.	01.01.-31.03
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	2.268.139	2.268.139	1.668.492	1.668.492
LOSS FOR THE PERIOD	2002	-	-	-	-
Other comprehensive income for the period **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves based on intangible assets and fixed assets	2003	7.894	7.894	-	-
Decrease in revaluation reserves based on intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	-	-	280.834	280.834
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	265.246	265.246	-	-
Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009	-	-	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010	-	-	-	-
Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011	-	-	-	-
Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014	-	-	-	-
Components of other comprehensive income that may be reclassified to profit or loss: Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015	-	-	-	-
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	1.146.921	1.146.921	769.933	769.933
Gains from cash flow hedges	2017	-	-	-	-
Losses from cash flow hedges	2018	-	-	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	-	-	-	-
Unrealised gains from hedge of net investments in foreign operations	2021	-	-	-	-
Unrealised losses from hedge of net investments in foreign operations	2022	-	-	-	-
Unrealised gains from other hedging instruments	2023	-	-	-	-
Unrealised losses from other hedging instruments	2024	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026	-	-	-	-
Tax gains relating to other comprehensive income for the period	2027	211.825	211.825	115.490	115.490
Tax losses relating to other comprehensive income for the period	2028	1.184	1.184	42.125	42.125
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) ≥ 0	2029	-	-	-	-
Total negative comprehensive income 2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) < 0	2030	**1.193.632**	**1.193.632**	**415.734**	**415.734**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	**1.074.507**	**1.074.507**	**1.252.758**	**1.252.758**
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	-	-	-	-
Total positive comprehensive income for the period attributable to non-controlling owners	2034	-	-	-	-
Total negative comprehensive income for the period attributable to the parent entity	2035	-	-	-	-
Total negative comprehensive income for the period attributable to non-controlling owners	2036	-	-	-	-

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

Coloumn 4 for 1 quartal 01.01.-31.03., 2 quartal 01.01.-30.06., 3 quartal 01.01.-30.09

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД 4

CASH FLOW STATEMENT

from 01.01.2020. to 31.03.2020.

(in RSD thousand)

	POSITION	ADP code	Amount	
			01.01.-31.03.2020.	01.01-31.03.2019.
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities (from 3002 to 3005)**	3001	7.017.130	7.028.157
1.	Interest	3002	5.197.420	4.861.678
2.	Fees	3003	1.680.824	1.624.330
3.	Other operating income	3004	136.866	540.496
4.	Dividends and profit sharing	3005	2.020	1.653
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	2.616.517	2.721.137
5.	Interest	3007	212.287	223.410
6.	Fees	3008	435.062	361.342
7.	Gross salaries, salary compensations and other personal expenses	3009	763.077	731.691
8.	Taxes, contributions and other duties charged to income	3010	167.362	176.284
9.	Other operating expenses	3011	1.038.729	1.228.410
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	4.400.613	4.307.020
IV.	**Net cash outflow from operating activities before an increase or decrease in financial assets and financial liabilities (3006 - 3001)**	3013	-	-
V.	**Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)**	3014	8.237.459	1.440.538
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	1.440.538
11.	Decrease in receivables under securities and other financial assets not intended for investment	3016	2.845.257	-
12.	Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13.	Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	5.392.202	-
14.	Increase in other financial liabilities	3019	-	-
15.	Increase in liabilities under hedging derivatives and change in fair value of hedged items	3020	-	-
VI.	**Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)**	3021	4.843.699	6.507.731
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	4.843.699	-
17.	Increase in receivables under securities and other financial assets not intended for investment	3023		5.104.254
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		1.403.477
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	7.794.373	-
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	-	760.173
22.	Profit tax paid	3030	-	-
23.	Dividends paid	3031	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	7.794.373	-
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	760.173
B.	**CASH FLOWS FROM INVESTMENT ACTIVITIES**			
I.	**Cash inflow from investing activities (from 3035 to 3039)**	3034	6.668.200	21.915.816
1	Investment in investment securities	3035	6.668.200	21.915.816
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	-	-
4.	Sale of investment property	3038	-	-
5.	Other inflow from investing activities	3039	-	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	16.461.159	24.409.056
6.	Investment into investment securities	3041	16.386.529	24.082.721
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	74.630	326.335
9.	Purchase of investment property	3044	-	-
10.	Other outflow from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	-	-
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	9.792.959	2.493.240
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities (from 3049 to 3054)**	3048	39.577.371	14.498.545
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	39.577.371	14.498.545
4.	Issuance of securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	**Cash outflow from financing activities (from 3056 to 3060)**	3055	39.328.803	14.922.455
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	39.221.015	14.846.724
10.	Issuance of securities	3059	-	-
11.	Other outflow from financing activities	3060	107.788	75.731
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	248.568	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	-	423.910
D.	**TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	61.500.160	44.883.056
E.	**TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	63.250.178	48.560.379
F.	**NET INCREASE IN CASH (3063 - 3064)**	3065	-	-
G.	**NET DECREASE IN CASH (3064 - 3063)**	3066	1.750.018	3.677.323
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	40.866.651	40.375.748
I.	**EXCHANGE RATE GAINS**	3068	202.127	94.575
J.	**EXCHANGE RATE LOSSES**	3069	86.985	91.196
K.	**CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	39.231.775	36.701.804

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

STATEMENT OF CHANGES IN EQUITY

from 01.01.2020 to 31.03.2020

(in RSD thousand)

ITEM	ADP code	Share capital and other equity (accounts 300, 301, 302, 309)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 302)	ADP code	Reserves from profit and other reserves (account group 31)	ADP code	Revaluation reserves (account group 32 credit balance)	ADP code	Revaluation reserves (account group 32 debit balance)	ADP code	Profit (group of accounts 33)	ADP code	Loss (accounts 340, 341, 342)	ADP code	Non-controlling participation	ADP code	Total (columns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP code	Total (columns 2-3+4+5+6-7+8-9+10) < 0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as at 1 January of the previous year	4001	17.191.466	4033		4065	22.843.084	4097	14.223.535	4129	4.254.737	4147		4165	9.047.691	4203	0	4241		4285	67.560.513	4291	
Effects of the first implementation of new IFRS - increase	4002		4034		4066		4098		4130		4148		4166		4204		4242					
Effects of the first implementation of new IFRS – decrease	4003		4035		4067		4099		4131		4149		4167		4205		4243					
Changes in accounting policies and correction of prior period error – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244					
Changes in accounting policies and correction of prior period error – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245					
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4006	17.191.466	4038	0	4070	22.843.084	4102	14.223.535	4134	4.254.737	4152	0	4170	9.047.691	4208	0	4246		4286	67.560.513		
Total positive other comprehensive income for the period									4135	2.571.781	4153				x		4247					
Total negative other comprehensive income for the period									4136		4154				x		4248					
Profit for the current year													4171	8.955.759	x		4249					
Loss for the current year															4209		4250					
Transfer from provisions to retained earnings due to provisions reversal – increase													4172		4210		4251					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4173		4211		4252					
Transactions with owners recognized directly in equity – increase	4007		4039		4071		4103						4174		4212		4253					
Transactions with owners recognized directly in equity – decrease	4008		4040		4072		4104						4175		4213		4254					
Distribution of profit – increase	4009		4041		4073		4105	4.341.672					4176		4214		4255					
Distribution of profit and/or coverage of losses – decrease	4010		4042		4074		4106						4177	4.341.672	4215		4256					
Dividend payments	4011		4043		4075		4107						4178	3.258.073	4216		4257					
Other – increase	4012		4044		4076		4108						4179	22.193	4217		4258					
Other – decrease	4013		4045		4077		4109						4180		4218		4259					
Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0	4014	0	4046	0	4078	0	4110	4.341.672					4181	0	4219	0	4260					
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4015	0	4047	0	4079	0	4111	0					4182	7.577.552	4220	0	4261					
Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	4016	17.191.466	4048	0	4080	22.843.084	4112	18.565.207	4137	6.826.518	4155	0	4183	10.425.898	4221	0	4262		4287	75.852.173	4293	
Opening balance as at 1 January of the current year	4017	17.191.466	4049		4081	22.843.084	4113	18.565.207	4138	6.826.518	4156	0	4184	10.425.898	4222	0	4263		4288	75.852.173	4294	
Effects of the first implementation of new IFRS - decrease	4018		4050		4082		4114		4139		4157		4185		4223		4264					
Effects of the first implementation of new IFRS - decrease	4019		4051		4083		4115		4140		4158	0	4186		4224		4265					
Changes in accounting policies and correction of prior period error – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266					
Changes in accounting policies and correction of prior period error – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267					
Adjusted opening balance as at 1 January of the current year (No 21+22-23)	4022	17.191.466	4054	0	4086	22.843.084	4118	18.565.207	4143	6.826.518	4161	0	4189	10.425.898	4227	0	4268		4289	75.852.173	4295	
Total positive other comprehensive income for the period									4144		4162				x		4269					
Total negative other comprehensive income for the period									4145	1.193.632	4163				x		4270					
Profit for the current year													4190	2.268.139	x		4271					
Loss for the current year															4228		4272					
Transfer from provisions to retained earnings due to provisions reversal – increase													4191		4229		4273					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4192		4230		4274					
Transactions with owners recognized directly in equity – increase	4023		4055		4087		4119						4193		4231		4275					
Transactions with owners recognized directly in equity – decrease	4024		4056		4088		4120						4194		4232		4276					
Distribution of profit – increase	4025		4057		4089		4121						4195		4233		4277					
Distribution of profit and/or coverage of losses – decrease	4026		4058		4090		4122						4196		4234		4278					
Dividend payments	4027		4059		4091		4123						4197		4235		4279					
Other – increase	4028		4060		4092		4124						4198		4236		4280					
Other – decrease	4029		4061		4093		4125						4199		4237		4281					
Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0	4030	0	4062	0	4094	0	4126	0		0			4200	0	4238	0	4282					
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4031	0	4063	0	4095	0	4127	0		0			4201	0	4239	0	4283					
Balance as at 31 March of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4032	17.191.466	4064	0	4096	22.843.084	4128	18.565.207	4146	5.632.886	4164	0	4202	12.6[illegible]037	4240	0	4284		4290	76.926.680	4296	

NOTES

TO FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 2020

Belgrade, May 2020

1. INCORPORATION AND OPERATION OF THE BANK

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

The largest shareholder of the Bank is:

The Republic of Serbia	83.23%

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

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

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

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

As at 31 March 2020, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 6 business centres, three sectors for work with small and medium-sized enterprises, 1 branch and 203 sub-branches.

As of 31 March 2020, the Bank had 2,725 employees, and as of 31 December 2019 it had 2,744 employees. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

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

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

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

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

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

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

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

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

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

2.2. Rules of assessment of financial instruments

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

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

Subsequent valuation of lease asset and liability:

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

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

Subsequently, recognised purchase value is reduced by:

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

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

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

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

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

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

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

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

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

2.2.1. Financial assets

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

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

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

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

Financial assets may be classified into the following categories:

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

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

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

2.2.2. Financial liabilities

Financial liability is any contracted liability of the Bank:

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

2.3. Functional and Reporting Currency

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

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

BALANCE SHEET

The structure of the Bank's balance sheet as of 31 March 2020, with comparative data for 2019, prepared in the format prescribed by the Decision on Forms and the Contents of Items in the Forms for Financial Statements of Banks (RS Official Gazette 101/2017, 38/2018 and 103/2018), apples from 1st January 2018 and can be seen in more detail from the following overview:

In thousand RSD

	31.03.2020		31.12.2019	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	82,733,336	18.71	67,558,219	15.62
Securities	142,312,002	32.19	138,469,551	32.03
Loans and receivables due from banks and other financial organizations	12,114,259	2.74	24,733,958	5.72
Loans and receivables from customers	182,021,195	41.17	180,852,563	41.83
Investments in subsidiaries	3,433,697	0.78	3,433,697	0.79
Intangible assets	610,726	0.14	665,735	0.15
Property, plant and equipment	6,341,834	1.44	6,437,937	1.49
Investment property	1,848,322	0.42	1,857,927	0.43
Deferred tax assets	2,139,298	0.48	1,074,197	0.25
Non-current assets held for sale and assets from discontinued operations	138,017	0.03	196,300	0.05
Other assets	8,415,291	1.90	7,100,359	1.64
TOTAL ASSETS	**442,107,977**	**100.00**	**432,380,443**	**100.00**

LIABILITIES	Amount	%	Amount	%
Deposits and other financial liabilities to banks, other financial organisations and the Central Bank	5,216,193	1.18	5,021,756	1.16
Deposits and other financial liabilities to other customers	340,974,859	77.13	335,317,154	77.55
Provisions	1,807,012	0.41	2,328,130	0.54
Deferred tax liabilities	854,460	0.19	-	-
Other liabilities	16,328,773	3.69	13,861,230	3.21
Total liabilities	**365,181,297**	**82.60**	**356,528,270**	**82.46**
Capital				
Share capital	40,034,550	9.06	40,034,550	9.26
Profit	12,694,037	2.87	10,425,898	2.41
Reserves	24,198,093	5.47	25,391,725	5.87
Total capital	**76,926,680**	**17.40**	**75,852,173**	**17.54**
TOTAL LIABILITIES	**442,107,977**	**100.00**	**432,380,443**	**100.00**

INCOME STATEMENT

Income and expense structure for 2020 as follows:

In thousand RSD

	31.03.2020	31.03.2019
INCOME	Total	Total
Interest income	3,326,801	3,407,977
Interest expenses	(286,698)	(276,411)
Net interest income	**3,040,103**	**3,131,566**
Fee and commission income	1,637,652	1,586,033
Fee and commission expenses	(438,437)	(369,951)
Net fee and commission income	**1,199,215**	**1,216,082**
Net gain from changes in fair value of financial instruments		23,703
Net loss from changes in fair value of financial instruments	(29,768)	-
Net gain based on derecognition of financial instruments that are measured at fair value	76,242	58,369
Net income from exchange differentials and the effects of agreed currency clause	-	5,088
Net expense from exchange differentials and the effects of agreed currency clause	(17,155)	-
Net income from reduced impairment of financial assets that are not measured at fair value through P&L	5,962	442,079
Other operating income	86,310	32,302
Total net operating income	**4,360,909**	**4,909,189**
Cost of salaries, allowances and other personnel expenses	(1,110,357)	(1,080,986)
Depreciation cost	(246,304)	(249,205)
Other income	670,475	291,436
Other expenses	(1,406,584)	(2,201,942)

Profit /loss before tax	**2,268,139**	**1,668,492**
Profit from deferred tax	**-**	**-**
Loss from deferred tax	**-**	-
Result for the period (profit /loss)	**2,268,139**	**1,668,492**

CASH FLOW STATEMENT

Cash flows achieved in 2020 are shown in the table below:

In thousand RSD

	31.03.2020.	31.03.2019.
Item	Total	Total
Cash inflows from operating activities	**7,017,130**	**7,028,157**
Inflow from interest	5,197,420	4,861,678
Inflow from fees	1,680,824	1,624,330
Inflow from other operating activities	136,866	540,496
Inflow from dividends and share in profit	2,020	1,653
Cash outflows from operating activities	**(2,616,517)**	**(2,721,137)**
Outflow from interest payments	(212,287)	(223,410)
Outflow from fee payments	(435,062)	(361,342)
Outflows from payments for gross salaries, allowances and other personnel expenses	(763,077)	(731,691)
Outflow from taxes, contributions and other duties charged to expense	(167,362)	(176,284)
Outflows for other operating expenses	(1,038,729)	(1,228,410)
Net cash inflow from operating activities before increase or decrease in financial assets and financial liabilities	**4,400,613**	**4,307,020**
Decrease in financial assets and increase in financial liabilities	**(8,237,459)**	**(1,440,538)**
Decrease in loans and other receivables from banks and other financial organizations, central bank and customers	-	(1,440,538)
Decrease in receivables based on securities and other financial assets not intended for investment	(2,845,257)	-
Increase in deposits and other financial liabilities towards banks and other financial organizations, central bank and customers	(5,392,202)	-
Increase in financial assets and decrease in financial liabilities	**4,843,699**	**6,507,731**
Increase in loans and receivables from banks, other financial organisations, central bank and customers	4,843,699	-
Increase in receivables based on securities and other financial assets not intended for investment	-	5,104,254
Decrease in deposits and other financial liabilities towards banks and other financial organizations, central banks and customers	-	(1,403,477)

	30.03. 2020	31.03. 2019
Item	Total	Total
Net inflow of cash from operating activities before profit tax	**7,794,373**	**760,173**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Net inflow of cash from operating activities	**7,794,373**	**-**
Net outflow of cash from operating activities	**-**	**760,173**
Cash inflow from investment activities	**6,668,200**	**21,915,816**
Inflow from investment securities	6,668,200	21,915,816
Cash outflow from investment activities	**(16,461,159)**	**(24,409,056)**
Outflow from investing in investment securities	(16,386,529)	(24,082,721)
Outflow for purchase of intangible assets, property, plants and equipment	(74,630)	(326,335)
Other outflows from investment activities		
Net inflow of cash from investment activities	**-**	**-**
Net outflow of cash from investment activities	**(9,792,959)**	**(2,493,240)**
Cash inflow from financing activity	**39,577,371**	**14,498,545**
Inflow from borrowings	39,577,371	14,498,545
Cash outflow from financing activity	**(39,328,803)**	**(14,922,455)**
Outflow of cash from borrowings	(39,221,015)	(14,846,724)
Other outflows from financing activity	(107,788)	(75,731)
	248,568	**-**
Net outflow of cash from financing activity	**-**	**(423,910)**
Total cash inflow	**61,500,160**	**44,883,056**
Total cash outflow	**(63,250,178)**	**(48,560,379)**
Net increase in cash	**-**	**-**
Net decrease in cash	**(1,750,018)**	**(3,677,323)**
Cash and cash equivalents at the start of the year	**40,866,651**	**40,375,748**
Exchange rate gains	202,127	94,575
Exchange rate loss	(86,985)	(91,196)
End of period cash and cash equivalents	**39,231,775**	**36,701,804**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

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

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

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

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

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

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

Net interest income in the period January – March 2020 amounts to RSD 3,040,103 thousand and is lower by RSD 91,463 thousand or 2.92% compared to the same period last year.

Realized net interest income is lower compared to the planned values from the Business plan for the first three months of 2020 by 21,839 thousand dinars.

3.2. Fee and Commission Income and Expenses

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

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

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

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

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

Net fee and commission income in the period January – March 2020 amounts to RSD 1,199,215 thousand and is lower in compare with the same period 2019 by 1.39% or RSD 16,867 thousand.

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

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

In the observed period in 2020 the Bank reported net loss on the basis of the change in the fair value of financial instruments held for trading in the amount of RSD 29,768 thousand (bonds of the Republic of Serbia and investment units of Kombank money fund).

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

On the basis of derecognition of financial instruments that are measured at fair value through Income Statement and other result, net income from sale was recorded in the amount of RSD 76,242 thousand (bonds of the Republic of Serbia and income from the sale of derivatives – swap transactions).

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

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

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

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

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

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

Net expenses from exchange rate differentials in the reporting period January – March 2020 amounts to RSD 17,155 thousand. The stated net expense is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection against risk and management of the Bank's FX position – balanced FX position.

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

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

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

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

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

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

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

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

In period January – March 2020 the Bank recorded the net income from reduction of impairment of financial assets and credit risk-bearing off-balance sheet items not measured at fair value through P&L in amount of RSD 5,962 thousand, while in the same period of 2019 net income on this basis totaled RSD 442,079 thousand.

Net negative effect of group and individual calculation of impairment provisions for loans, other receivables and off-balance sheet items in the period January – March 2020 amounted to RSD 37,306 thousand.

Net expense based on reduction of debt securities measured at fair value through other result amounts to RSD 20,399 thousand in the first quarter of 2020.

The net increase effect relates to the collection of the receivables written-off in the amount of RSD 63,667 thousand. Within the total amount of collected written-off receivables equal to RSD 30,223 thousand, the most significant portion was the recovery of the loans approved to individuals.

3.6. Other operating income

In the overall other operating income amounting to RSD 86,310 thousand the most considerable share of 96.66% represents income from operating activities (the same period last year 92.69%), which mostly relate to income realised from lease of property amounting to RSD 64,343 thousand. Other operating income are realized from reimbursement of expenses based on: court and utility costs, income from collected expenses of official mobile phones as per authorisation of the employees, as well as income from the use of company vehicles for private purposes.

Income from dividends is part of the item Other Operating Income. Dividends received from investment in shares of other legal entities in the amount of RSD 2,885 thousand are shown as income from dividends at the moment of their collection. Out of the total amount of collected dividends, RSD 2,367 thousand relate to the dividend received from VISA Inc. USA, while RSD 518 thousand relates to the dividend received from MasterCard USA.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 1,110,357 thousand are higher by RSD 29,371 thousand or 2.72% against the same period last year.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 246,304 thousand are lower than in period January – March 2019 by RSD 2,901 thousand or 1.16%.

3.9. Other Income

In total other income in the amount of RSD 670,475 thousand the most significant share of 96.50% is that of the release of unused provisions for court disputes in the amount of RSD 647,029 thousand (reference note 3.17.). Other income has a share of 3.50%, and/or RSD 23,446 thousand, of which amount the most important item relates to income generated by interest from previous years, which was collected from corporate clients, entrepreneurs and retail customers in a total amount of RSD 6,032 thousand.

3.10. Other Expenses

Other expenses are stated in the amount of RSD 1,406,584 thousand and are lower compared to the same period last year by RSD 795,358 thousand or 36.12%. Other expenses comprise:

a) Operating expenses amounting to RSD 1,191,372 thousand,
b) Expenses arising from provisions for litigations to RSD 137,425 thousand,
c) Other expenses amounting to RSD 77,787 thousand.

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

a) Operating expenses in the total amount of RSD 1,191,372 thousand, namely:

intangible costs totaling RSD 576,230 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 358,311 thousand. The structure of other expenses in the operating expenses item consists of the following: costs for managing and maintaining the ATM and POS network and other payment cards related equipment in the amount of RSD 92,761 thousand, costs of maintenance of IT equipment and software amounting to RSD 51,249 thousand, advertising and commercial propaganda costs in the country of RSD 47,542 thousand, property insurance expenses in the amount of RSD 61,832 thousand, costs of commuting to and from work of RSD 22,241 thousand, costs of money transport in the amount of RSD 20,596 thousand, costs of lawyer services amounting to RSD 27,886 thousand, cost of material in amount of RSD 72,966 thousand, tax costs amounting to RSD 40,022 thousand, contribution costs amounting to RSD 177,964 thousand and other expenses in amount of RSD 4,456 thousand.

Operating expenses of the current period are lower compared to the same period last year by RSD 41,754 thousand (mostly resulting from lower deposit insurance costs).

b) Expenses arising from provisions for litigations in the amount of RSD 137,424 thousand relate to increase of provisions for Bank's court liabilities in 2020 (reference Note 3.17.), and

c) Other expenses in the amount of RSD 77,787 thousand.

Out of total amount of other expenses for period January – March 2020 in amount *of* RSD *77,787* thousand the largest part relates to costs of the insurance policies for receivables of the loan users in the amount of RSD 56,931 thousand. Other expenses on this basis in the same period of 2019 amounted to RSD 49,693 thousand.

Compared to the same period 2019, other expenses are lower by RSD 5,967 thousand principally as a result, on one side, of the reduced insurance costs of users of the sets of accounts product (decrease by RSD 15,495 thousand) and, on the other, increased costs of insurance of the receivables from loan beneficiaries (increase by RSD 7,238 thousand), costs of the forced collection procedure (increase by RSD 1,493 thousand), and other expenses based on the refund of a part of the commission for acting as agent in insurance (increase by RSD 941 thousand).

BALANCE SHEET

Overall balance sheet total as of 31.03.2020. amounts to RSD 442,107,977 thousand, and represents an increase by RSD 9,727,534 thousand or 2.25% against 31.12.2019.

ASSETS

The dominant share in the total assets of the Bank is that of the loans and deposits to customers and banks of 43.91% (2019: 47.55%), securities with a share of 32.19% (2019: 32.03%), cash and funds with the central bank with a share of 18.71% (2019: 15.62%), other assets with a share of 1.90% (2019: 1.64%), real estate, plant and equipment with a share of 1.44% (2019: 1.49%) and investment in subsidiaries 0.78% (2019: 0.79%).

3.11. Cash and Funds with the Central Bank

Cash and balances with the central bank as at 31.03.2020. amount to RSD 82,733,336 thousand, and account for 18.71% of Bank's total assets (15.62% as at 31.12.2019). Compared to 31.12.2019, the position is higher by RSD 15,175,117 thousand.

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

3.12. Securities

Investments in securities in the amount of RSD 142,312,002 thousand represent a percentage of share of 32.19% in relation to total assets (2019: 32.03%) and comprise of securities that are measured at fair value through profit and loss in the amount of RSD 7,479,560 thousand and securities measured at fair value through other comprehensive income in the amount of RSD 134,832,442 thousand.

Increase of investing in securities is realized compared to 2019 by RSD 3,842,451 thousand, or 2.77%. Realized growth of RSD 3,842,451 thousand is a result of increase of the securities that are measured at fair value through other result by RSD 6,651,910 thousand, on one side, and decrease of the securities that are measured at fair value through Income Statement by RSD 2,809,460 thousand, on the other.

The largest share in the securities structure in RSD is that of the Republic of Serbia bonds (99.41%) and investment units of KomBank Money Fund, Beograd (0.59%). Regarding securities in foreign currency, these are made up of the Republic of Serbia bonds (96.33%), bonds based on earlier FX savings (0.10%), and bonds of foreign banks and states (3.57%).

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

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

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

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

As at 31.03.2020. the loans and receivables from banks and other financial organizations amount to RSD 12,114,259 thousand with percentage of share of 2.74% of total assets (2019: 24,733,958 thousand) and are lower by RSD 12,619,699 thousand. The decrease against 31.12.2019 results mostly from the decrease in RSD denominated repurchase transactions by RSD 11,999,880 thousand.

Loans and receivables from customers as at 31.03.2020. amount to RSD 182,021,195 thousand and with percentage of share of 41.17% of total assets (2019: 180,852,563 thousand) have dominant share in structure of assets. Total loans to customers are higher by 0.65% % against 2019. and/or by RSD 1,168,632 thousand. The mentioned net increase is a result of increase in the loans two of which account for RSD 2,514,428 thousand, on one side and decrease in the loans due to early and regular repayments, on the other, and the impact of the net effects of the calculation and recognition of impairments.

In the period January – March 2020, in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank did a permanent write-off by transferring the balance-sheet assets to off-balance-sheet records in the amount of RSD 666,780 thousand. The permanent write-off did not result in a decrease in balance-sheet assets, given that the write-off was done for the receivables that had been 100% impaired i.e. in full gross amount of carrying value. According to the NBS decision, balance-sheet assets include NPLs that fit the description in the Decision on the classification of balance-sheet assets and off-balance-sheet items.

3.14. Investment in Subsidiaries

Investments in subsidiaries are RSD 3,433,697 thousand and account for 0.78% of total assets.
The ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with subsidiaries, as a part of regular operations. These include primarily loans and deposits.

Investments in subsidiaries as of 31.03.2020 amount to RSD **5.480.888 thousand** (gross amount excluding impairment provision) individually per members:

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

As of 31.03.2020, net value of the share in the subsidiaries equals RSD 3,433,697 thousand, and has not changed against the amount shown as at 31.12.2019.

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

All of the above items account for 4.41% of total assets, of which the highest percentage relates to other assets in amount of 1.90%, property, plant and equipment in amount of 1.44%, and deferred tax assets in amount of 0.48%.

Investments in equity of banks, foreign and local legal entities as of 31.03.2020 amount to RSD 1,686,676 thousand measured at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 1,596,963 thousand, and these are the shares in the companies MASTER Card International and VISA INC.

If viewed against 31.12.2019 (the balance sheet date) when deferred tax assets are netted (net amount RSD 1,074,197 thousand) with deferred tax liabilities, deferred tax assets and deferred tax liabilities are shown during the business year according to gross principle on envisaged items within assets and liabilities. As of 31.03.2020 deferred tax assets amount to RSD 2,139,298 thousand and are shown within the balance sheet, whereas deferred tax liabilities of RSD 854,460 thousand are shown with the balance sheet liabilities.

Deferred tax assets as of 31.03.2020 include preponderantly the deferred tax assets based on tax losses carried forward, equal to RSD 1,259,350 thousand. Deferred tax assets based on tax losses carried forward were, upon the losses shown in 2015 and 2016, recognized in the Bank's business books based on assessed certainty that in the tax balance of forthcoming years there will be a sufficient taxable profit for which deferred tax assets could be used, and/or based on the expectation that there will be a possibility in place of using deferred tax assets according to the following time schedule:

Deferred tax assets based on
tax losses carried forward

In RSD thousand

Year	Increase (creation)	Devrease (use)	Balance
2017	1,235,813	(368,667)	867,146
2018	641,193	(630,339)	878,000
2019	1,107,438	(726,088)	1,259,350
TOTAL	2,984,444	(1,725,094)	1,259,350

The term prescribed for the use of tax losses carried forward is 5 years, the year 2021, inclusive.

Tax assets based on temporarily non-recognized expenses of RSD 324,857 thousand on the grounds of impaired property account for a significant item in deferred tax assets.

LIABILITIES

In period January – March 2020, in the structure of liabilities deposits and other financial liabilities to banks and customers still have a dominant share with total percentage of 78.31% (2019: 78.71%) in total liabilities. The share of capital in total liabilities stands at 17.40% (2019: 17.54%).

Other positions make for 4.29% of total liabilities which mainly refers to other liabilities with the percentage of 3.69%.

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

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

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

The most important share in the structure of liabilities is that of the deposits and other financial liabilities to customers in the amount of RSD 340,974,859 thousand, which make for 77.13% of total liabilities (2019: 77.55%) and deposits and other financial liabilities towards banks, other financial organizations and the central bank in the amount of RSD 5,216,193 thousand with share of 1.18% (2019: 1.16%).

Total deposits to customers, banks, other financial organizations and central bank amounted to RSD 346,191,052 thousand and compared to 2019 they are higher by RSD 5,852,142 thousand: transaction deposits are lower by RSD 471,864 thousand, while other deposits recorded a growth amounting to RSD 6,324,006 thousand. Item Other Deposits in RSD recorded a growth.

Net decrease in transaction deposits was the result of reduction in dinar transaction deposits amounting to RSD 51,467 thousand, while transaction deposits in foreign currency recorded a drop by RSD 420,397 thousand compared to 31.12. 2019. In structure of transaction deposits still prevailing are the deposits in local currency with a share of 64.34%, while the remaining 35.66% relate to deposits in foreign currency.

In the case of other deposits, deposits in foreign currency are dominant with a share of 92.09% while dinar deposits have a share of 7.91%. Foreign currency savings decreased by approximately EUR 9,90 million.

Borrowings

Borrowings, as part of the deposit and other liabilities towards banks and other customers' position, amounted to RSD 1,376,791 thousand with a percentage of shares in the total liabilities of 0.31% and they relate to received credit lines in foreign currency. The total position is lower in relation to 2019 by RSD 50,070 thousand mostly as a result of regular and early repayments of foreign credit lines in foreign currency, as follows:

- Government of the Republic of Italy in the amount of EUR 193 thousand
- EIB in the amount of EUR 186 thousand, and
- EAR in the amount of EUR 38 thousnad

As of 31.03.2020, the most considerable share in the structure of received loans relates to obligation towards the:

- European Investment Bank (EIB) with percentage of share of 98.30%

Other credit lines have a share of 1.70% and they are composed of:

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

3.17. Provisions

Provisions in the amount of RSD 1,807,012 thousand consist of the provisions for:
- covering of potential liabilities (litigations) in the amount of RSD 1,093,126 thousand,
- long-term employee earnings in the amount of RSD 522,278 thousand, and
- provisions for losses on off-balance sheet assets in the amount of RSD 191,608 thousand.

In the observed period, compared to 2019, there was a decrease in the provisions amounting to RSD 521,118 thousand, as a result of net decrease of the provisions on the basis of court disputes by RSD 521,749 thousand, on one hand and increase of the provisions for losses on off-balance sheet assets in the amount of RSD 631 thousand, on the other.

Provisions for litigations

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

For seven thousand and seven cases as at 31.03.2020, total provisions amount to RSD 1,093,126 thousand.

Compared to 31.12.2019 there was a change in the total level of provisions in the net amount of RSD 521,749 thousand. Out of this amount, the change relating to the net income from provisioning, i.e. decrease of the provisions for court obligations amounts to RSD 509,604 thousand recognized within the positions of the profit and loss account (reference Notes 3.9 and 3.10) while the decrease in the provisions in the amount of RSD 12,145 thousand refers to the use of the provisions for making payments and release of provisions as per final judgments without any impact on the Profit and Loss Account. Decrease of the provisions is mainly the result of the judgment of the Supreme Court of Cassation, Prev 546/2019 of 13.02.2020 in favor of the Bank by which the revision of the plaintiff-legal entity was rejected as ungrounded, and the Bank's revision accepted.

3.18. Deferred tax liabilities

As of 31.03.2020 the Bank has deferred tax assets shown at the level of RSD 854,460 thousand. If viewed against 31.12.2019 (the balance sheet date) when deferred tax liabilities are netted with deferred tax liabilities, deferred tax assets and deferred tax liabilities are in the course of the business year shown according to gross principle on envisaged positions within assets and liabilities (reference Note 3.15).

3.19. Other liabilities

Other liabilities amount to RSD 16,328,773 thousand and compared to 2019 they are higher by RSD 2,467,543 thousand. The percentage of share of other liabilities in total liabilities is 3.69% (2019: 3.21%). The most important positions of other liabilities are: liabilities from the profit in the amount of RSD 9,229,643 thousand, liabilities in calculation in dinars amounting to RSD 2,878,725 thousand, liabilities in calculation in foreign currency in the amount of RSD 1,844,392, liabilities based on leasing in the amount of RSD 869,333 thousand, liabilities for net wages charged to expenses in the amount of RSD 277,286 thousand, and liabilities for the contributions payable on wages and compensation of wages of RSD 76,658 thousand.

Increase in other liabilities of RSD 2,467,543 thousand mostly relates to increased liabilities in the calculation in the RSD, equal to 2,597,379 on one side, and/or decrease of liabilities in foreign currency of RSD 186,520 thousand, on the other.

3.20. Capital

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

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

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

As of 31.03.2020 the Bank's capital consists of:

In thousand RSD	2020.	2019.
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from the profit	18,565,207	18,565,207
Revaluation reserves	2,417,385	2,636,134
Profit/loss from changes in the value of debt and equity instruments	3,103,640	4,078,52
Actuarial gains	111,861	111,861
Reserves	24,198,093	25,391,725
Accumulated profit	10,425,898	1,470,139
Profit	2,268,139	8,955,759
Balance as at date	**76,926,680**	**75,852,173**

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

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

The capital adequacy ratio of the Bank as of 31 March 2020, calculated on the basis of the financial statements, equals 29.80% having implemented the applicable decisions of the National Bank of Serbia for 2019.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 31.03.2020 the pecuniary part of capital is above the prescribed level.

The structure of the share capital – ordinary shares as at 31.03.2020 is as follows:

Name of shareholder	% of share
Republic of Serbia	83.23
Jugobanka a.d.., Beograd, in bankruptcy	1.91
OTP BANKA SRBIJA (custody account)	1.82
Company Dunac osiguranje a.d., Beograd	1.73
BDD M&V INVESTMENTS AD BEOGRAD (aggregate account)	1.62
East capital (lux)-Balkan fund	1.13
GLOBAL MACRO ABSOLUTE RETURN A	0.79
GLOBAL MACRO CAPITAL OPPORTUNITIES	0.78
Stankom Co. d.o.o., Beograd	0.70
GLOBAL MACRO PORTFOLIO	0.50
FRONT MARK OPPORTUN.MASTER	0.41
DEKA INZENJERING	0.39
I.N. DRENIK NONWOVENS TRADING	0.35
ALLIANCEBERNS.NEXT 50E.M.(M)F.	0.32
Others	4.32
	100.00

On 26.02.2020, the Ministry of Finance of the Republic of Serbia announced that representatives of Nova Ljubljanska banka d.d. (NLB) and Minister of Finance of the Republic of Serbia have signed the Share Purchase Agreement involving the purchase/sale of 83.23% of ordinary shares of Komercijalna banka AD Beograd.

By signing this Agreement, the Bank has got a new strategic partner who will also assume management of the Bank once the transaction is over.

4. RELATIONS WITH SUBSIDIARIES

4. A. Balance as of 31.03.2020

RECEIVABLES

In thousand RSD

Subsidiaries	Advances and loans	Interest and fees	Other assets	Impairment provision	Net	Off-Balance	Total
1. Kom.banka AD Podgorica	124,182	895	45	1,438	123,684	992,910	1,116,594
2. Kom. Banka AD Banja Luka	87,660	25	110	1,016	86,779	1,175,042	1,261,821
3. Kombank INVEST	-	200	-	-	200	200	400
TOTAL:	**211,842**	**1,120**	**155**	**2,454**	**210,663**	**2,168,152**	**2,378,815**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom.banka AD Podgorica	683,378	-	1	683,379
2. Kom. Banka AD Banja Luka	381,271	-	-	381,271
3. Kombank INVEST	75	-	-	75
TOTAL:	**851,348**	**-**	**1,649**	**852,997**

INCOME AND EXPENSES for period 01.01. – 31.03.2020

In thousand RSD

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

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

4. B. Balance as of 31.12.2019

Balance as at 31.12. 2019

RECEIVABLES

In thousand RSD

Subsidiaries	Advances and loans	Interest and fees	Other assets	Impairment provision	Net o	Off-balance	Total
1. Kom.banka AD Podgorica	6,675	889	-	89	7,475	1,111,252	1,118,727
2. Kom. Banka AD Banja Luka	83,967	25	549	973	83,568	1,999,078	2,082,646
3. Kombank INVEST	-	253	-	1	252	200	452
TOTAL:	**90,642**	**1,167**	**549**	**1,063**	**91,295**	**3,110,530**	**3,201,825**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interest and fee	Other liabilities	Total
1. Kom.banka AD Podgorica	950,104	-	7	950,111
2. Kom. Banka AD Banja Luka	154,073	-	-	154,073
3. Kombank INVEST	25	-	-	25
TOTAL:	**1,104,202**	**-**	**7**	**1,104,209**

INCOME AND EXPENSES for period 01.01 – 31.03.2019

In thousand RSD

Subsidiaries	Interest income	Fee and commission income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. Kom.banka AD Podgorica	16	1,252	-	-	1,268
2. Kom. Banka AD Banja Luka	613	1,651	-	(151)	2,113
3. Kombank INVEST	-	451	-	-	451
TOTAL:	**629**	**3,354**	**-**	**(151)**	**3,832**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange losses in amount of RSD 6,615 thousand.

5. RISK MANAGEMENT

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

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

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

The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy ratios – total, Tier 1 and Common Equity Tier 1, maintaining the NPL's participation in the total loans at the level below the defined limit, maintaining concentration risk indicator based on the exposures toward certain types of products below the regulatory prescribed level, maintaining liquidity coverage ratio above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, during the first quarter of 2020 the Bank conducted appropriate changes of internal acts which regulate risk management.

Risk Management System

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

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

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

Risk Management Strategy sets out:

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

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

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

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

The principles of managing bad assets and risk placements include:

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

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

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

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

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

Jurisdiction

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

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

The Audit Committee (*the Banking Supervision Department*) is competent and responsible for analyzing and monitoring of the adequate implementation of the adopted Risk Appetite Framework, risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

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

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

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

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

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

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

Risk Management Process

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

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

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

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

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

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

Types of Risk

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

5.1. Credit Risk

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

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

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

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

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

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

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

Credit Risk Management

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

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

The basic principles of credit risk management are as follows:

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

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

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

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

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

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

Basic credit risk alleviating techniques are:

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

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

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

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

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

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

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

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

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

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

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

IFRS 9 financial instruments

The Bank continuously applies IFRS 9 standard. In accordance with IFRS 9 standard financial assets can be classified and evaluated as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI[1] criteria;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

The Bank's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Bank has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured at amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

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

Also, by applying IFRS 9, the Bank calculates impairment for credit placements given to the Republic of Serbia and National Bank of Serbia (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 income.

Identification of problematic and restructured claims

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

[1] Solely Payments of Principal and Interest – SPPI

In accordance with the application of IFRS 9, starting from January 1, 2018, the Bank also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients rank as stage 1, clients identifying credit risk increase (Watch List clients, increase in credit risk since the moment of approval, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Clients located in stages 1 and 2 are impaired on a group basis, while Stage 3 clients, with the fulfillment of the criteria of material significance, are impaired individually. NPL clients at stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 standards in at least two collection scenarios.

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

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

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

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

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

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

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

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

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

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

With every change made to credit terms, for placements that are not part of a problematic (PL) client's status, or the status of bad (NPL) clients, the Bank calculates a 10% test with the aim of determining whether the modification made is highly significant or less significant.

In it's system, the Bank keeps a record of every made assets modification, regardless of whether the modification is considered to be highly or less significant, and regardless of whether the modification occured due to changes in market conditions for good (PL) clients or due to bad (NPL) clients' business issues.

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

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

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

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

Downgrade Risk

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

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

A low level of risk implies doing business with customers with a high credit rating and is acceptable for the Bank (risk rating categories 1 and 2), increased level of risk implies doing business with customers with operating difficulties that could have a negative impact on the settlement of liabilities (risk rating categories 3 and 4), and a high level of risk characterizes customers with negative operating results and poor credit rating history (risk rating categories 4D, 4DD and 5). Risk category 4 is divided into five sub-categories: 4+, 4 and 4- - non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

The Bank protects itself against downgrade risk through continuous monitoring of customers' business operations and by identifying changes that could arise through: deterioration of a borrower's financial standing, delays in repayment and changes in the business environment, as well as by securing appropriate collaterals.

Risk of Change in Value of Assets – assets delinquency

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

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

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

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

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

Individual and Group Assessment at Stage 3

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

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

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

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

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

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

In addition, the documents required as proof of the impairment of the loan are presented by the evidence for the assessment of the expected inflow from placement, which are primarily related to the documentation on planned future cash flows of the debtor.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the asset and the present value of the estimated future cash flows whereby the Bank recognizes the existence of several possible collection scenarios when assessing the expected future cash flows, in accordance with IFRS 9. On that occasion, scenarios that can be considered are the following scenario from business operations (restructuring/agreement and the like), scenario from the collateral realization (extrajudicial/judicial/bankruptcy and other) and sale of receivables. The probability of a certain scenario the Bank estimates based on the history of the realization and collection of problematic cases, the specifics of an individual client, as well as the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

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

Group Assessment

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

Group assessment is carried out by groups with similar characteristics in terms of credit risk which are formed on the basis of internally prescribed methodologies (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system, on a monthly basis. The loan loss impairment methodology has been significantly changed and instead IAS 39's incurred loss approach, forward-looking expected loss (ECL) approach is applied, in accordance with IFRS 9, through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies.

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

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

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

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

The Bank considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like). In 2019, the Bank made ammendments to its Methodology for imapairment in the part referring to additional criteria for transfer to Stage 2, where it added a new quantitative criteria for credit risk deterioration from the date of approval to the date of impairment calculation.

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

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

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

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

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

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

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

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

PD represents an estimation of the probability of default in a given period of time. Failure to fulfill obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Bank includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models. In order to include the forward looking component in the value of the calculated Beta factor, the Bank uses three different scenarios of macroeconomic variable movements (optimistic, realistic, pessimistic), after which comes the weighting of probabilities of expected realisations of the three mentioned scenarios, in order to arrive at the final Beta factor which contains all three scenarios (optimistic, realistic, pessimistic).

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

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

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

LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

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

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

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

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

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

Assessment of Provisions for Losses on Off-Balance Sheet Items

Assessment of provisions for losses on off-balance sheet items (contingent liabilities – payment and performance guarantees, letters of credit, and other off-balance sheet items) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities and the borrower is classified in stage 3. Also, for stages 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Credit Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the Bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the National Bbank of Serbia – Decision on the Classification of Bank Balance Sheet assets and Off-Balance Sheet Items and Decision on Capital Adequacy of Banks. For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Bank does not account for provisions based on unused commitments.

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

Means of protection against credit risk (collaterals)

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

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

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

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

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

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

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

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

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

5.1.1. Maximum Credit Risk Exposure

The total exposure to credit risk on December 31, 2019 and March 31, 2020 is presented in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

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	31.03.2020.		31.12.2019.	
	Gross	Net	Gross	Net
I. Assets	**466,371,344**	**442,107,977**	**456,990,222**	**432,380,443**
Cash and cash funds held with the central bank	82,733,336	82,733,336	67,558,219	67,558,219
Loans and receivables due from banks and other financial institutions	12,337,760	12,114,259	24,952,308	24,733,958
Loans and receivables due from customers	193,429,722	182,021,195	192,872,896	180,852,563
Financial assets	142,312,575	142,312,002	138,470,153	138,469,551
Other assets	10,672,364	8,415,292	9,339,310	7,100,360
Non-montary assets	24,885,587	14,511,893	23,797,336	13,665,793
II. Off-Balance Sheet Items	**56,317,703**	**56,126,097**	**53,123,735**	**52,932,759**
Payment guarantees	4,178,381	4,148,915	4,210,006	4,185,429
Performance bonds	4,743,130	4,702,747	4,764,048	4,722,824
Irrevocable commitments	46,764,590	46,667,377	43,588,232	43,487,483
Other items	631,602	607,059	561,449	537,023
Total (I+II)	**522,689,048**	**498,234,075**	**510,113,958**	**485,313,202**

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

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

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31.03.2020.	Stage 1	Stage 2	Stage 3	Total	Impairment of Stage 1	Impairment of Stage 2	Impairment of Stage 3	Total impairment	Net
Housing Loans	40,872,512	692,354	923,746	42,488,612	54,086	20,866	473,581	548,533	41,940,079
Cash Loans	34,629,436	426,940	266,764	35,323,140	161,611	26,632	208,819	397,061	34,926,078
Agricultural Loans	9,327,607	238,033	252,288	9,817,928	101,863	13,436	116,093	231,392	9,586,536
Oher Loans	4,638,834	52,427	141,328	4,832,589	34,473	1,810	136,621	172,904	4,659,685
Micro business	7,249,605	1,063,019	514,133	8,826,757	114,014	28,759	252,071	394,845	8,431,913
Total Retail	**96,717,994**	**2,472,773**	**2,098,259**	**101,289,026**	**466,046**	**91,504**	**1,187,186**	**1,744,735**	**99,544,290**
Large corporate clients	31,338,231	3,783,258	6,287,483	41,408,971	83,830	21,791	3,698,932	3,804,553	37,604,418
Middle corporate clients	7,284,275	151,698	1,357,389	8,793,362	30,664	1,668	950,265	982,597	7,810,765
Small corporate clients	3,167,591	111,215	1,005,842	4,284,649	17,459	754	532,518	550,731	3,733,918
State owned clients	23,459,762	240,566	170,246	23,870,574	117,321	6,836	131,996	256,153	23,614,421
Other	9,513,469	368	4,269,303	13,783,140	136,544	11	3,933,203	4,069,758	9,713,382
Total Corporate	**74,763,327**	**4,287,105**	**13,090,264**	**92,140,696**	**385,818**	**31,060**	**9,246,914**	**9,663,792**	**82,476,904**
Total	**171,481,322**	**6,759,877**	**15,188,523**	**193,429,722**	**851,864**	**122,564**	**10,434,100**	**11,408,527**	**182,021,195**
Due from Banks	**12,119,749**	**-**	**218,010**	**12,337,760**	**5,490**	**-**	**218,010**	**223,500**	**12,114,259**

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31.12.2019.	Stage 1	Stage 2	Stage 3	Total	Impairment of Stage 1	Impairment of Stage 2	Impairment of Stage 3	Total impairment	Net
Housing Loans	40,137,803	563,216	993,518	41,694,537	55,720	18,722	487,612	562,055	41,132,483
Cash Loans	34,456,268	369,714	250,163	35,076,145	161,194	19,467	196,477	377,138	34,699,007
Agricultural Loans	9,316,462	121,427	275,822	9,713,711	103,186	12,406	127,555	243,147	9,470,564
Oher Loans	4,793,469	44,820	159,663	4,997,952	36,250	1,080	153,449	190,779	4,807,173
Micro business	7,937,996	779,822	549,999	9,267,817	127,880	21,209	286,938	436,027	8,831,790
Total Retail	**96,641,998**	**1,878,999**	**2,229,165**	**100,750,162**	**484,230**	**72,884**	**1,252,031**	**1,809,145**	**98,941,017**
Large corporate clients	30,404,295	4,177,915	6,273,603	40,855,813	81,782	43,052	3,714,019	3,838,853	37,016,960
Middle corporate clients	7,749,403	178,584	1,753,845	9,681,832	31,326	2,997	1,335,764	1,370,087	8,311,745
Small corporate clients	3,571,658	95,640	1,149,243	4,816,541	20,410	781	656,700	677,891	4,138,650
State owned clients	21,847,484	413,490	170,672	22,431,646	110,876	5,464	132,088	248,428	22,183,218
Other	10,070,072	694	4,266,136	14,336,902	145,871	21	3,930,037	4,075,929	10,260,973
Total Corporate	**73,642,912**	**4,866,323**	**13,613,499**	**92,122,734**	**390,265**	**52,315**	**9,768,608**	**10,211,188**	**81,911,546**
Total	**170,284,910**	**6,745,322**	**15,842,664**	**192,872,896**	**874,494**	**125,199**	**11,020,639**	**12,020,333**	**180,852,563**
Due from Banks	**24,737,891**	**-**	**214,417**	**24,952,308**	**3,933**	**-**	**214,417**	**218,350**	**24,733,958**

Problematic loans and receivables – stage 3

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

Non-problematic loans and receivables – stages 1 and 2

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

The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (claims in stage 1), unless there is a significant deterioration of credit risks in relation to the time of the initial recognition, when you estimate credit losses made on the basis of the probability of the neizmirenja obligations for a period of life of the instrument (claims in stage 2). By appreciating specificity in dealings with clients, in particular establishes the migration for corporate clients, micro businesses, retail per product type.

5.1.2 Non-Performing Receivables, Stage 3

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31.03.2020.	Gross Exposure	Gross Value Adjustment	Stage 3	Stage 3 - Restructured Loans	Impairment of Stage 3	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**101,289,026**	**1,744,735**	**2,098,259**	**495,748**	**1,187,186**	**2,07%**	**1,790,796**
Housing Loans	42,488,612	548,533	923,746	178,752	473,581	2,17%	915,216
Cash Loans	35,323,140	397,061	266,764	14,863	208,819	0,76%	121,428
Agricultural Loans	9,817,928	231,392	252,288	47,643	116,093	2,57%	239,643
Oher Loans	4,832,589	172,904	141,328	-	136,621	2,92%	389
Micro business	8,826,757	394,845	514,133	254,489	252,071	5,82%	514,119
Corporate	**92,140,696**	**9,663,792**	**13,090,264**	**6,734,353**	**9,246,914**	**14,21%**	**11,599,830**
Agricultural Loans	3,839,880	12,660	8,830	-	5,062	0,23%	8,998
Manufacturing Industry	13,150,953	1,188,413	2,911,113	2,859,862	1,140,046	22,14%	2,910,563
Electricity	91,572	884	-	-	0	0,00%	-
Construction Loans	9,633,727	500,149	674,248	9,456	486,839	7,00%	674,687
Wholesale and Retal	23,654,974	510,681	837,495	585,558	417,049	3,54%	831,076
Services Loans	13,400,082	1,321,171	1,598,178	1,593,660	1,239,600	11,93%	1,597,032
Real Estate Loans	5,666,898	497,172	1,035,413	687,577	489,741	18,27%	1,033,266
Other	22,702,611	5,632,661	6,024,987	998,240	5,468,576	26,54%	4,544,207
Total	**193,429,722**	**11,408,527**	**15,188,523**	**7,230,102**	**10,434,100**	**7,85%**	**13,390,625**
Due from Banks	**12,337,760**	**223,500**	**218,010**	**-**	**218,010**	**1,77%**	**-**

000 RSD

31.12.2019.	Gross Exposure	Gross Value Adjustment	Stage 3	Stage 3 - Restructured Loans	Impairment of Stage 3	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**100,750,162**	**1,809,145**	**2,229,165**	**527,968**	**1,252,031**	**2,21%**	**1,903,216**
Housing Loans	41,694,537	562,054	993,518	209,731	487,612	2,38%	984,826
Cash Loans	35,076,145	377,138	250,163	11,929	196,477	0,71%	112,631
Agricultural Loans	9,713,711	243,147	275,822	44,886	127,555	2,84%	255,180
Oher Loans	4,997,953	190,779	159,663	-	153,449	3,19%	598
Micro business	9,267,816	436,027	549,999	261,422	286,938	5,93%	549,981
Corporate	**92,122,734**	**10,211,188**	**13,613,499**	**6,813,943**	**9,768,608**	**14,78%**	**12,126,609**
Agricultural Loans	4,169,867	64,802	60,217	-	56,463	1,44%	60,385
Manufacturing Industry	13,054,066	1,214,467	2,958,078	2,879,046	1,165,968	22,66%	2,958,078
Electricity	91,586	1,116	-	-	-	0,00%	-
Construction Loans	9,048,163	500,834	673,359	10,276	486,253	7,44%	673,708
Wholesale and Retal	23,100,789	567,209	845,424	607,050	455,214	3,66%	839,099
Services Loans	13,284,210	1,301,523	1,579,328	1,571,626	1,220,425	11,89%	1,578,182
Real Estate Loans	5,182,425	490,297	1,031,805	687,601	482,859	19,91%	1,029,573
Other	24,191,628	6,070,940	6,465,288	1,058,344	5,901,426	26,73%	4,987,584
Total	**192,872,896**	**12,020,333**	**15,842,664**	**7,341,911**	**11,020,639**	**8,21%**	**14,029,825**
Due from Banks	**24,952,308**	**218,350**	**214,417**	**-**	**214,417**	**0,86%**	**-**

5.1.3 Performing Receivables

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	31.03.2020.				31.12.2019.			
	Low (IR 1,2)	Medium (IR 3,4)	Total	Value of Collaterals	Low (IR 1,2)	Medium (IR 3,4)	Total	Value of Collaterals
Housing Loans	41,481,204	83,662	41,564,866	41,393,247	40,600,372	100,647	40,701,019	40,522,852
Cash Loans	34,891,429	164,946	35,056,375	10,624,295	34,666,856	159,126	34,825,982	10,813,597
Agricultural Loans	9,517,012	48,628	9,565,640	8,246,000	9,415,826	22,063	9,437,889	8,032,833
Other	4,666,261	25,000	4,691,261	93,320	4,817,669	20,620	4,838,289	101,654
Micro Busines	7,954,171	358,453	8,312,625	8,301,425	8,341,708	376,110	8,717,818	8,706,933
Total Retail	**98,510,078**	**680,689**	**99,190,767**	68,658,287	**97,842,431**	**678,566**	**98,520,997**	68,177,869
Large corporate clients	31,850,259	3,271,230	35,121,489	35,394,535	31,140,683	3,441,528	34,582,211	34,670,639
Middle corporate clients	7,408,642	27,331	7,435,973	7,431,702	7,869,442	58,545	7,927,987	7,916,337
Small corporate clients	3,245,489	33,318	3,278,806	3,279,207	3,631,327	35,971	3,667,298	3,665,949
State owned clients	16,367,076	7,333,252	23,700,327	23,096,805	14,856,901	7,404,073	22,260,974	22,554,545
Other	4,663,714	4,850,122	9,513,837	7,243,804	4,862,214	5,208,551	10,070,765	7,645,774
Total Corporate	**63,535,180**	**15,515,252**	**79,050,432**	76,446,053	**62,360,567**	**16,148,668**	**78,509,235**	76,453,244
Total	**162,045,258**	**16,195,941**	**178,241,199**	**145,104,340**	**160,202,998**	**16,827,234**	**177,030,232**	**144,631,113**
Due from Banks	**12,119,749**	**-**	**12,119,749**	**-**	**24,737,891**	**-**	**24,737,891**	**-**

5.1.4 Restructured Receivables

Measures implemented by the Bank during the restructuring of loans

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

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

- Extension of the maturity date, followed by the possible adjustment of the interest rate, with the aim of alignment of repayment schedule with the financial position of the clients,
- Supporting the clients in carrying out deinvestment or sale of non core assets in order to reduce their exposure to the Bank,
- The introduction of a grace period or moratorium on settlement of liabilities within a specified period,
- Capitalization of maturity, if there are outstanding liabilities due to date, those are in the process of restructuring returned to claims not due, i.e. new initial balance of claim is formed.
- Refinancing of receivables - in justified cases it is possible to carry out refinancing of receivables from other creditors in order to improve the Bank's position (collateral or financial, by approving more favorable conditions of payment)
- Partial write-off – in the past the Bank has not implemented partial write-offs during the restructuring, while in the process of reviewing each individual request the Bank assesses all available options in order to maximize its collection.
- converting debt into equity – formally, this measure is available, but the Bank didn’t use it in the previous period.

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

5.1.5. Concentration Risk

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

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

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

5.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

The Bank's operations are reconciled daily with legally prescribed liquidity ratio and rigid/cash liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During the first quartet 2020, the Bank's liquidity and rigid liquidity ratios were significantly in excess of the prescribed limits.

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

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

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquid Assets Coverage	
	31.03.2020	31.12.2019	31.03.2020	31.12.2019	31.03.2020	31.12.2019
As at 30th	3.98	4.08	3.84	3.83	368%	410%
Average for the period	4.41	4.22	4.17	3.95	391%	432%
Maximum for the period	4.73	4.75	4.50	4.43	407%	495%
Minimum for the period	3.87	3.55	3.64	3.38	368%	391%

During the first quarter into 2020, the liquidity indicator, the narrow liquidity indicator and the indicator of liquid assets coverage ranged considerably above the defined limits.

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	31.03.2020.	31.12.2019.
GAP up to 1 month / Total assets	Max (10%)	(0.10%)	1.71%
Cumulative GAP up to 3 months / Total assets	Max (20%)	(2.27%)	1.83%

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

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

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

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

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

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

5.3. Market Risk

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

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

5.3.1. Interest Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

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

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

	Limits	31.03.2020	31.12.2019
Relative GAP	Max 15%	1.82%	1.26%
Mismatch ratio	0.75 – 1.25	1.02	1.02

During the first quarter into 2020, interest rate risk indicators moved within internally defined limits.

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

Compliance with internally defined limits of economic value of equity:

	31.03.2020	31.12.2019
As at	5.21%	3.74%
Average for the year	4.05%	4.60%
Maximum for the year	5.21%	5.56%
Minimum for the year	3.43%	3.74%
Limit	**10%**	**10%**

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

5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

Overview of the total currency risk balance and legally defined currency risk ratio at March 31st:

	31.03.2020	**31.12.2019**
Total currency risk balance	515,795	1,257,900
Currency risk ratio	0.83%	1.98%
Legally-defined limit	20%	20%

5.4. Operational Risk

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

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

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

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

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

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

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

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

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

5.5. The Bank's Investment Risks

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

5.6. Exposure Risk

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

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

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

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

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

5.7. Country Risk

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

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

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

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

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

5.8. Capital management

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

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

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

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

The Bank's regulatory capital represents the sum of the Tier 1 Capital (Common Equity Tier 1 - CET1 Capital and Additional Tier 1 Capital) and Tier 2 Capital, reduced for deductible items. The capital adequacy ratios represent the Bank's capital (total capital, Tier 1 capital and Common Equity Tier 1 capital) relative to the sum of: risk weighted exposure amounts for credit, counterparty, dilution risks and free deliveries; risk weighted exposure amount for settlement/delivery (except for free deliveries); risk weighted exposure amount for market risks; for operational risk; for credit valuation adjustment and risk weighted exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty, dilution risks and free deliveries are determined according to risk weights prescribed for all types of assets. Risk weighted exposure amount for operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy ratio		**(000) RSD**
	31.03.2020.	**31.12.2019.**
Tier 1 (T1) Capital	64,232,643	65,426,275
Common Equity Tier 1 (CET1) Capital	63,859,133	65,052,765
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	-	-
Deductible items	(1,982,931)	(1,779,291)
Capital	**62,249,712**	**63,646,984**
Credit risk-weighted assets	172,103,143	169,432,937
Operational risk exposure	34,167,575	32,768,254
Foreign currency risk exposure	2,619,582	4,238,173
Capital adequacy ratio	**29.80%**	**30.83%**
Share capital adequacy ratio	**29.80%**	**30.83%**
Basic share capital adequacy ratio	**29.62%**	**30.65%**

During the first quarter of 2020, all prescribed capital adequacy ratios were above regulatory limits.

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

During Q1 2020, the Bank also calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of Tier 1 capital and the amount of risk weighted exposures that are included in the calculation of the ratio.

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

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

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

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

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

Stages of the internal capital adequacy assessment include the following:

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

    - capital and available internal capital;
    - minimum capital requirements and internal capital requirements for individual risks;
    - the sum of minimum capital requirements and total internal capital requirements.

6. EVENTS AFTER THE BALANCE SHEET DATE

Coronavirus COVID-19 Pandemic

After the outbreak of the coronavirus – COVID-19 pandemic (hereinafter: coronavirus) in the world and Europe, which first appeared in China in December 2019 and spread to Europe and the rest of the world from January 2020, and appeared in Serbia starting from 6 March 2020, the Bank undertook as a responsible legal entity all measures necessary to protect its employees, clients, creditors and business partners. Measures were taken to provide safe conditions for the Bank operation, in compliance with the recommendations of public health institutions of Serbia, as well as the measures of the Serbian Government, which enable a smooth performance of the Bank's business activities.

The course of the coronavirus disease is unpredictable and, therefore, it is highly challenging for the Bank to envisage its implications for economic and business performances, which as a consequence can entail requirement for the revision of estimates and assumptions. Also, uncertainty also implies a set of Government measures for the virus curbing and propagation, those that are already taken and that will be taken in the future. The measures can exert impact on the operation of the entire economy of Serbia and, consequently, on the operation of the Bank.

According to the preliminary estimates of the Bank's management, the current pandemic could in a concrete case influence on the Bank's liquidity, loan distribution, quality of the credit portfolio, impairment because of reduced ability of debtors to repay their liabilities, particularly in economic branches such as tourism, hotel and catering business, entertainment, etc. The strongest impact on the Bank's liquidity will be exerted by moratorium on loan repayment and other receivables from legal entities and individuals in a period of minimum 90 days, starting from 31 March 2020, in accordance with the Decision on Temporary Measures for Preservation of the Financial System Stability, made by the National Bank of Serbia on 17.03.2020, which Decision sets forth the measures and activities that the bank is obligated to apply in the conditions of the pandemic caused by the virus COVID 19, for the purpose of preserving the stability of the financial system in the Republic of Serbia. The Bank has offered to debtors a moratorium in the repayment of their obligations based on loans, guarantees, letters of credit, permitted overdrafts on current accounts, and other credit products.

Also, for the purpose of ensuring the RSD and FX liquidity the National Bank of Serbia launched, after the state of emergency was introduced, the auctions where swap and repo transactions are made with commercial banks. In swap auctions the NBS purchases and sells foreign exchange, while in repo auctions it purchases the government securities from banks. The Bank has as a secondary liquidity reserve a considerable amount of securities that are highly marketable in terms of the very high rate of return they bear. Accordingly, one can conclude that in spite of expected smaller liquidity of the Bank due to the introduced moratorium on loans, the Bank's liquidity will not be endangered.

Additionally, it is expected that the Enactment on fiscal benefits and direct grants to economic entities in the private sector and pecuniary assistance to citizens intended to mitigate the economic consequences caused by the COVID-19 disease (hereinafter: Enactment) of 10.04.2020 and of 24.04.2020 will alleviate the negative effects on the operation of the corporate sector and, thereby, on the Bank's operation. The Bank participates in the Enactment implementation by the opening of specific purpose RSD accounts to which grants will be paid. Economic entities which will meet the criteria from the Enactment will be receiving the money in the next three months. The Bank will be rendering its services on this basis free of charge.

All of the above listed uncertainties in the segment of forecasting the impact of the pandemic and propagation of the virus as well as concrete government measures that will be taken in order to protect against, and prevent spreading of, the virus, as well as the state measures for alleviation of negative economic consequences of the coronavirus pandemic, the effects on the financial result of the Bank cannot be, for the time being, foreseen with a high degree of certainty.

As of the date of drafting these financial statements the Bank is meeting its liabilities as they fall due and, accordingly, continues to apply the going concern principle as the accounting base for the draw-up of financial statements.

Other

On 28.04.2020 was held the regular Annual meeting of the Bank at which decisions were adopted on:

- adoption of the Annual Report on the Bank Operation and of regular financial statements of the Bank for 2019 with the opinion of auditor
- distribution of the profit from 2019 and non-distribution of the profit from earlier years, and
- adoption of the Annual Report on the Group Operation and of consolidated financial statements of the Group for 2019 with the opinion of auditor.

Apart from the above events there was no other significant event after the date of the reporting period that would require disclosure in the Notes to the Financial Statements for 31 March 2020.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on 31 March 2020 and 31 December 2019 for certain main currencies are as follows:

Currencies	Official NBS exchange rate	
	2020.	2019.
USD	106.6775	104.9186
EUR	117.5042	117.5928
CHF	111.0521	108.4004

In Belgrade,

On 13 May 2020

Persons responsible for preparation the financial statements

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STATEMENT

In our opinion, quarterly financial statements for the period 01.01.2020. to 31.03.2020. present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the International Accounting Standards and International Financial Reporting Standards (IAS and IFRS).

Persons responsible for the preparation of financial statements

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

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STATEMENT

Individual financial statements of Komercijalna banka AD Beograd for the period 01.01.2020. until 31.03.2020. have not been audited.

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

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

Persons responsible for the preparation of financial statements

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

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 4 БЕОГРАД