# REPORT ON THE BANK'S BUSINESS RESULTS FOR THE THIRD QUARTER 2020

Belgrade, November 2020

# CONTENTS

## 1. OVERVIEW OF KEY PERFORMANCE RATIOS IN THE PERIOD FROM 01.01 TO 30.09.2020

The quarterly report for the third quarter of 2020 presents a credible overview of the development and business results of KOMERCIJALNA BANKA AD Beograd achieved in the third quarter, as well as in the first nine months of 2020.

| POSITION | 30.09.20. | 31.08.20. | 31.07.20. | 30.06.20. | 31.03.20. | 2019. | 2018. |
|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT** (000 RSD) | | | | | | | |
| Profit/loss before tax | 4.459.290 | 4.125.242 | 3.589.404 | 2.909.821 | 2.268.139 | 8.268.685 | 8.121.073 |
| Profit/loss after tax | 4.317.793 | 3.983.745 | 3.447.907 | 2.768.324 | 2.268.139 | 8.955.759 | 8.145.182 |
| Net interest income | 9.027.227 | 8.012.167 | 6.983.810 | 5.951.544 | 3.040.103 | 12.605.384 | 12.834.638 |
| Net fee income | 3.651.560 | 3.211.622 | 2.816.604 | 2.379.936 | 1.199.215 | 5.328.996 | 5.210.149 |
| Operating costs | 8.428.035 | 7.561.053 | 6.722.169 | 5.870.338 | 2.548.033 | 11.064.609 | 10.473.783 |
| Net income from impairment of financial assets which are not measured at fair value through profit or loss | (71.447) | (91.920) | (45.454) | (99.159) | 5.962 | 2.425.931 | 9.493 |

| POSITION | 30.09.20. | 31.08.20. | 31.07.20. | 30.06.20. | 31.03.20. | 2019. | 2018. |
|---|---|---|---|---|---|---|---|
| **BALANCE SHEET** (000 RSD) | | | | | | | |
| Balance Sheet assets | 459.472.475 | 465.529.628 | 462.511.590 | 457.621.394 | 442.107.977 | 432.380.443 | 401.165.980 |
| Off-balance sheet transactions | 486.085.148 | 482.684.377 | 484.735.709 | 488.788.348 | 475.765.325 | 460.440.031 | 457.820.050 |
| RETAIL BANKING | | | | | | | |
| Loans[1] | 109.943.020 | 108.668.339 | 107.060.141 | 105.274.157 | 99.472.706 | 99.057.214 | 92.033.605 |
| Deposits[2] | 305.378.985 | 301.677.656 | 299.269.312 | 295.757.261 | 280.489.943 | 280.484.488 | 260.296.411 |
| CORPORATE BANKING | | | | | | | |
| Loans | 84.482.487 | 84.687.670 | 83.163.288 | 83.068.789 | 82.068.479 | 81.504.403 | 75.264.373 |
| Deposits | 54.002.076 | 51.449.261 | 50.409.155 | 50.875.804 | 47.928.197 | 47.879.400 | 49.879.580 |

| RATIOS | 30.09.20. | 31.08.20. | 31.07.20. | 30.06.20. | 31.03.20. | 2019. | 2018. |
|---|---|---|---|---|---|---|---|
| **LOAN TO DEPOSIT RATIO** | | | | | | | |
| Gross loans/deposits | 55,56% | 56,40% | 56,32% | 55,59% | 57,42% | 57,71% | 58,35% |
| Net loans/deposits | 53,40% | 54,00% | 53,90% | 53,16% | 54,88% | 54,94% | 54,76% |
| **CAPITAL** (000 RSD) | 74.750.040 | 74.834.337 | 74.135.550 | 73.536.236 | 76.926.680 | 75.852.173 | 67.560.513 |
| Capital adequacy | 30,43% | 30,65% | 30,98% | 31,37% | 29,80% | 30,83% | 29,18% |
| Number of employees | 2.690 | 2.696 | 2.703 | 2.710 | 2.725 | 2.744 | 2.766 |
| **PROFITABILITY RATIOS** | | | | | | | |
| ROA | 1,32% | 1,38% | 1,38% | 1,31% | 2,07% | 2,00% | 2,13% |
| ROE – total capital | 7,94% | 8,26% | 8,21% | 7,75% | 11,81% | 11,71% | 12,57% |
| Net interest margin on total | 2,67% | 2,67% | 2,68% | 2,68% | 2,77% | 3,04% | 3,37% |
| Cost / income ratio | 66,47% | 67,37% | 68,59% | 70,46% | 60,10% | 61,70% | 58,04% |
| Operating cash flows | 6.083.853 | 5.274.959 | 4.565.814 | 4.683.632 | 4.400.613 | 9.859.741 | 9.379.217 |
| Asset per employee (000 EUR) | 1.453 | 1.468 | 1.455 | 1.436 | 1.381 | 1.340 | 1.227 |
| Asset per employee (000 RSD) | 170.808 | 172.674 | 171.110 | 168.864 | 162.241 | 157.573 | 145.035 |

[1] Position loans (retail and corporate) does not include other loans and receivables

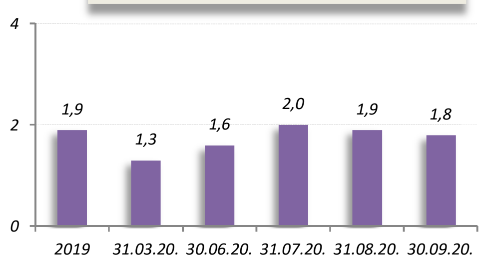
[2] Position deposits does not include other liabilities and funds received through credit lines

## 2. MACRO-ECONOMIC OPERATING CONDITIONS COVERING THE PERIOD FROM 01.01 TO 30.09.2020

In the first three quarters of 2020, macroeconomic business conditions still remained affected by the COVID-19 virus pandemic. After the growth of gross domestic product (GDP) of 4.2% in 2019, growth of 5.1% in the first quarter of 2020, in the second quarter of this year, the Serbian economy recorded a year-on-year decline of 6.4%[3]. The decline in gross domestic product in the second quarter of the current year was influenced by the decline in services; downwards trend in trade, traffic and tourism. Industrial production fell by 7.7%[4] and had a negative contribution to GDP. Favourable agrometeorological conditions resulted in an increase in agricultural production but the contribution to GDP was slightly positive. There was a significant decline in foreign trade activity. The economy is expected to recover by the end of 2020.

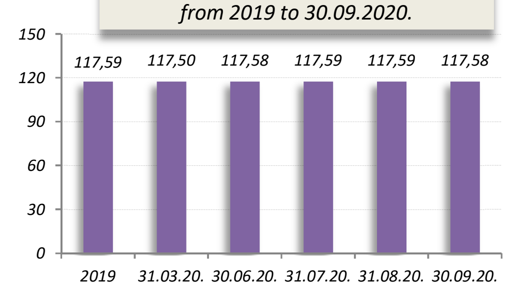
The inflation rate at the end of September 2020 was 1.8%[5] observed year-on-year, and moves within the target limits. The movement of inflation, since the beginning of the year, has been influenced by the prices of fruits and vegetables as well as oil derivatives. Consumer prices in September of the current year decreased by 0.5% on a monthly basis. According to the NBS projection, in the short term, inflation will range at the current level. In the medium term, disinflationary pressures will prevail, primarily from low domestic and foreign demand and low import inflation, while the effect stemming from low world oil prices will gradually disappear.[6]

Year-on-year inflation rate in the period from 2019 to September 30, 2020 in %



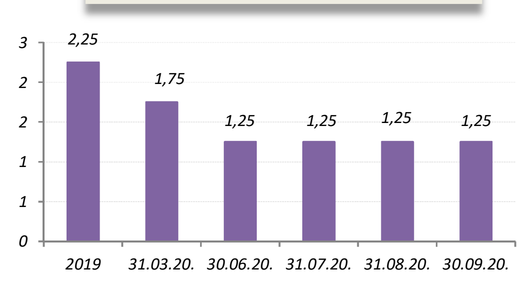

During the first three quarters of 2020, despite the uncertainty on the international financial market, the dinar did not significantly fluctuate in relation to the euro. During the third quarter of the current year, the dinar exchange rate was around 117.6 dinars for one euro. Since the beginning of the year, the National Bank of Serbia has intervened in the interbank foreign exchange market (MDT) with net sales of EUR 1,635 million.[7] Foreign direct investments also have an impact on the movement of the dinar exchange rate. After the inflow of EUR 7.3 billion during the last two years (2018 and 2019), a net inflow of EUR 1.6 billion was generated in the first seven months of the current year [8].

RSD/EUR exchange rate in the period from 2019 to 30.09.2020.




During the third quarter of 2020, the National Bank of Serbia continued to implement previously adopted measures of monetary policy. As part of these activities, the key policy rate (KPR), which was reduced to the level of 1.25% on June 11, 2020, remained at that level during September. The decision was made taking into account the scale of the COVID-19 virus pandemic and the expected effects of a package of fiscal measures that provided support to the private sector in order for the economy to recover from the pandemic as quickly as possible.

NBS key policy rate in the period from 2019 to 30.09.2020 in %

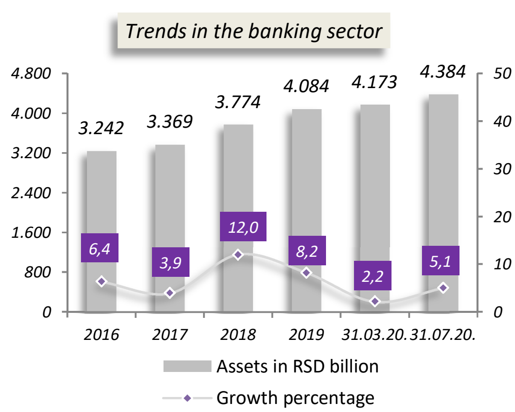


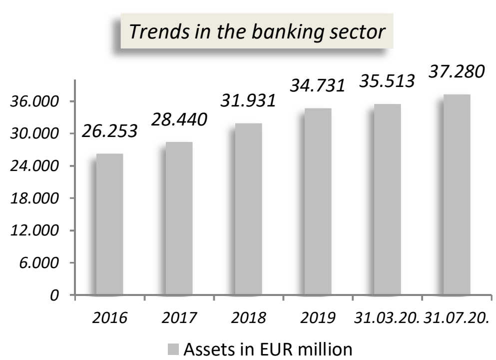

[3] MFIN, Current Macroeconomic Trends, September 2020
[4] MFIN, Current Macroeconomic Trends, September 2020
[5] Statistical Office of the RS (STAT), Announcement, Consumer Price Indices, September 2020
[6] NBS, Macroeconomic Trends in Serbia, September 2020
[7] NBS, State of foreign exchange reserves and movements on the interbank foreign exchange market in September 2020, press release dated 09.10.2020
[8] NBS, Macroeconomic Trends in Serbia, September 2020

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

At the end of the third quarter of 2020, the banking sector of the Republic of Serbia consists of a total of 26 banks, which is the same number of banks as at the beginning of the year. At the end of July this year, 22,848 workers[9] were employed in the banking sector, which represents a decrease of 239 workers since the beginning of the year.

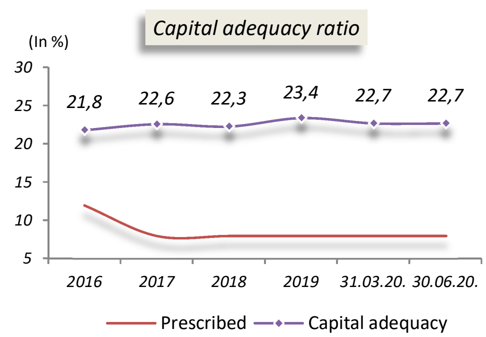
Total assets reached EUR 37,280 million[10] or RSD 4,383.7 billion and compared to the beginning of the year it increased by RSD 299.7 billion or 5.1%. At the end of July 2020, the Bank participates in the assets of the banking sector with 10.6%.



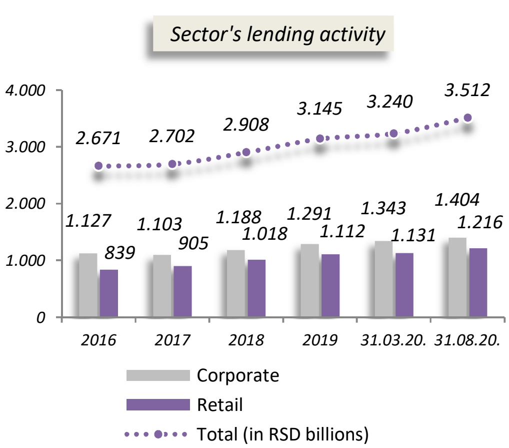

The total capital of the banking sector at the end of July 2020 amounted to EUR 6.023[11] million or RSD 708.2 billion, and compared to the beginning of the year increased by 0.4%. At the end of July 2020, the Bank participated in the total capital of the banking sector with 10.5%.

The average value of the capital adequacy ratio of the banking sector at the end of the second quarter was 22.7%[12] and has not changed compared to the first quarter of 2020. In relation to the legally prescribed value, the realized value of the capital adequacy ratio shows that the banking sector is adequately capitalized.




Capital adequacy ratio of the Bank as at 31.03.2020 was 29.80%, while on 30.06.2020 it came to 31.37% and was above the sector average.

At the level of the banking sector, the tendency of lending growth continued until the end of August 2020.[13]



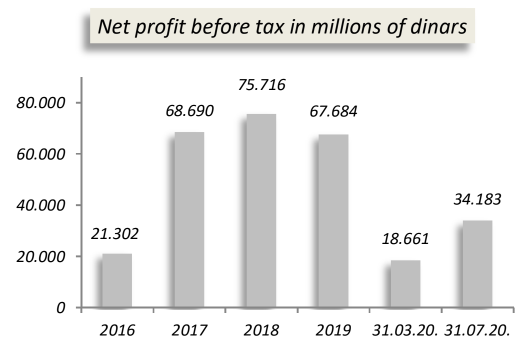

At the level of the banking sector, the share of gross NPL loans in total gross loans at the end of June 2020 was 3.7%, while at the end of August it amounted to 3.5%[14]. NPL provisions cover 63.0%[15] of gross NPLs as of the end of August this year.

[9] NBS, Macroeconomic Trends in Serbia, September 2020
[10] NBS, Macroeconomic Trends in Serbia, September 2020
[11] NBS, Macroeconomic Trends in Serbia, September 2020

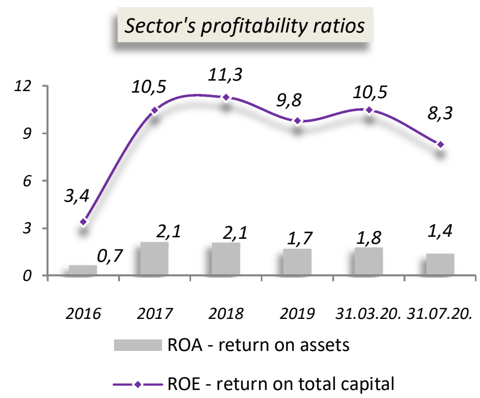
[12] NBS, Key macroprudential indicators of the Republic of Serbia, Table 1.1
[13] NBS, Consolidated Balance Sheet of the Banking System, September 23, 2020
[14] NBS, Macroeconomic Trends in Serbia, October 2020
[15] NBS, Macroeconomic Trends in Serbia, October 2020

At the end of August 2020, retail foreign currency savings amounted to EUR 10,719 million at the sector level, or increased by EUR 250.4 million compared to the end of the year. Total retail savings as of the end of August this year amounted to EUR 11,458 million, which represents an increase of EUR 317.7 million or 2.9% compared to the beginning of the year[16].

At the end of July 2020, the banking sector made a pre-tax profit of EUR 290.7 million or RSD 34.2 billion.




At the end of July 2020, the annual rate of return on equity (ROE) was 8.3% (in 2019 it came to 9.8%), while the rate of return on assets (ROA) amounted to 1.4% at the annual level (1.7% in 2019)[17].




[16] NBS, monetary statistics, table 1.1.20 retail savings with banks

[17] NBS, Macroeconomic Trends in Serbia, September 2020

## 4. ORGANIZATIONAL STRUCTURE AND BANK BODIES

The Board of Directors of the Bank is formed in accordance with the Law on Banks and the Articles of Association of the Bank and consists of at least 5 (five) members, including the Chairman, of which at least one third of the members must be persons independent of the Bank. The members of the Board of Directors of the Bank are appointed by the General Meeting of Shareholders of the Bank to a period of four years. The proposal of the decision on the appointment of the Chairman and members of the Board of Directors of the Bank is determined by the Board of Directors of the Bank, at the proposal of the shareholders.
The competencies of the Board of Directors of the Bank are defined in Article 73 of the Law on Banks and Article 27 of the Bank's Articles of Association. Members of the Board of Directors of the Bank on September 30, 2020 were:

| FIRST AND LAST NAME | SHAREHOLDER/MEMBER INDEPENDENT OF THE BANK | FUNCTION |
|---|---|---|
| *Marija Sokić* | *Republic of Serbia* | *Chairperson* |
| *Daniel Pantić, PhD* | *Republic of Serbia* | *Member* |
| *Dejan Hadzić* | *Republic of Serbia* | *Member* |
| *Katarina Šušić* | *Member independent of the Bank* | *Member* |
| *Goran Knežević* | *Member independent of the Bank* | *Member* |
| *Prof Zoran Jović, PhD* | *Member independent of the Bank* | *Member* |

A quorum for the work and decision-making of the Board of Directors of the Bank exists if the meeting is attended by a majority of the total number of members of the Board of Directors of the Bank. The Chairman and each member have the right to one vote.

The Executive Board consists of the President of the Executive Board, the Deputy President of the Executive Board and at least three members. The term of office of the members of the Executive Board of the Bank, including the President and Deputy President, is four years as of the date of appointment.
The competencies of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Bank's Articles of Association.
The members of the Executive Board of the Bank on September 30, 2020 were:

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

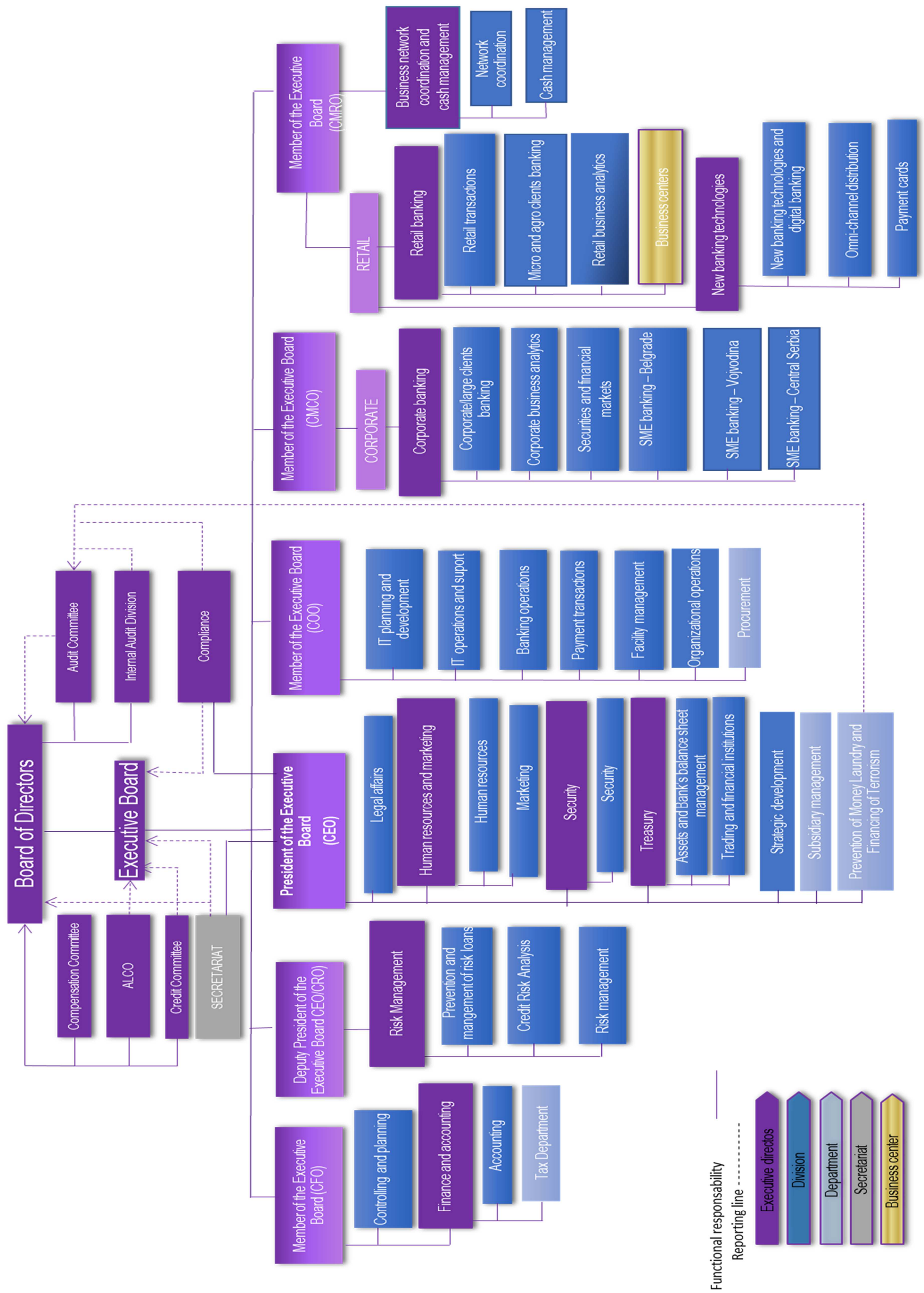
A quorum for the work and decision-making of the Executive Board exists if the session is attended by a majority of the total number of members of the Executive Board. The Executive Board makes decisions by a majority vote of the total number of members.

The Audit Committee of the Bank comprises of three members, two are members of Bank's Board of Directors having appropriate experience in the field of finances. One member of the Audit Committee is a person independent of the Bank. The members of the Committee are elected to a four-year term.

Duties of the Audit Committee are defined in Article 80 of the Law on Banks and Article 34 of Bank's Articles of Association. As of 30 September 2020, the members of the Audit Committee are:

| FIRST AND LAST NAME | FUNCTION |
|---|---|
| *Daniel Pantić, PhD* | *Chairman* |
| *Dejan Hadzić* | *Member* |
| *Aleksandra Dragović Delić* | *Member* |

A quorum for the work and decision-making of the Audit Committee exists if the majority of the total number of members of the Audit Committee is present at the meeting.




*Note: Organizational chart of the Bank on 30.09.2020*

## 5. FINANCIAL POSITION AND PERFORMANCE RESULTS OF THE BANK FROM 01.01 TO 30.09 2020

| POSITION | 30.09.20. | 31.08.20. | 31.07.20. | 30.06.20. | 31.03.20. | 2019. | 2018. |
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| **BALANCE SHEET** (000 RSD) | | | | | | | |
| Balance sheet assets | 459.472.475 | 465.529.628 | 462.511.590 | 457.621.394 | 442.107.977 | 432.380.443 | 401.165.980 |
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| **RETAIL BANKING** | | | | | | | |
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| Deposits | 305.378.985 | 301.677.656 | 299.269.312 | 295.757.261 | 280.489.943 | 280.484.488 | 260.296.411 |
| **CORPORATE BANKING** | | | | | | | |
| Loans | 84.482.487 | 84.687.670 | 83.163.288 | 83.068.789 | 82.068.479 | 81.504.403 | 75.264.373 |
| Deposits | 54.002.076 | 51.449.261 | 50.409.155 | 50.875.804 | 47.928.197 | 47.879.400 | 49.879.580 |

As of 30.09.2020, the Bank's balance sheet assets amounted to 459,472.5 million dinars and increased by 27,092.0 million dinars compared to the beginning of the year.

Off-balance sheet assets increased by 5.6% at the end of the third quarter of 2020, and at the end of September this year amounted to 486,085.1 million dinars.

Corporate and retail deposits amounted to 359,381.1 million dinars at the end of September 2020, which is an increase of 31,017.2 million dinars compared to the beginning of the year. Corporate and retail loans amounted to 194,425.5 million dinars at the end of September 2020, i.e. increased by 13,863.9 million dinars or 7.7% compared to the beginning of the year.

These changes also contain the effect of appreciation of the dinar against the euro (0.01%) and the US dollar (4.74%), and depreciation against the Swiss franc (0.31%) from the beginning of the year to the end of the third quarter of 2020.

| POSITION | 30.09.20. | 31.08.20. | 31.07.20. | 30.06.20. | 31.03.20. | 2019. | 2018. |
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| **INCOME STATEMENT** (000 RSD) | | | | | | | |
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| **PROFITABILITY RATIOS** | | | | | | | |
| ROA | 1,32% | 1,38% | 1,38% | 1,31% | 2,07% | 2,00% | 2,13% |
| ROE – total capital | 7,94% | 8,26% | 8,21% | 7,75% | 11,81% | 11,71% | 12,57% |
| Net interest margin on total assets | 2,67% | 2,67% | 2,68% | 2,68% | 2,77% | 3,04% | 3,37% |
| Cost / income ratio | 66,47% | 67,37% | 68,59% | 70,46% | 60,10% | 61,70% | 58,04% |
| Operating cash flows | 6.083.853 | 5.274.959 | 4.565.814 | 4.683.632 | 4.400.613 | 9.859.741 | 9.379.217 |
| Asset per employee (000 EUR) | 1.453 | 1.468 | 1.455 | 1.436 | 1.381 | 1.340 | 1.227 |
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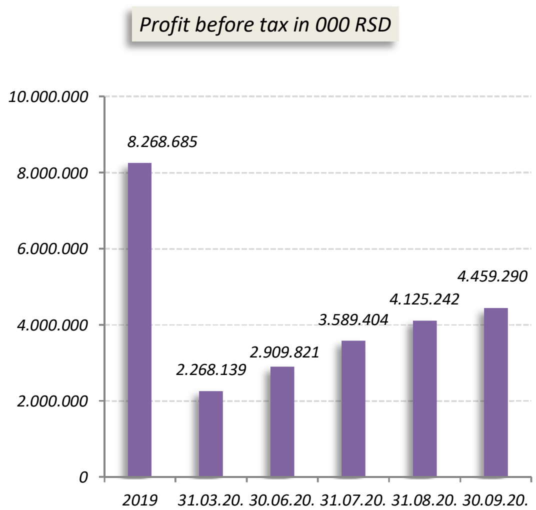
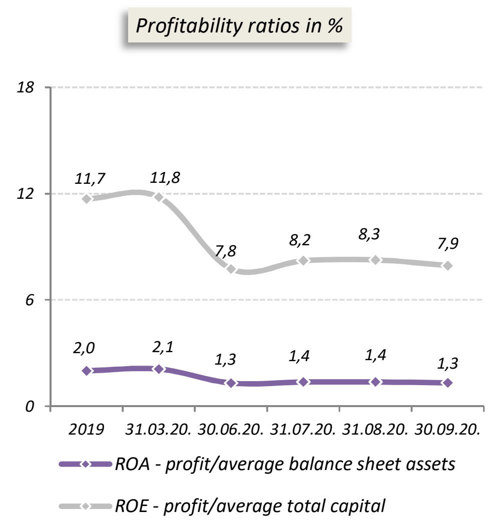



In the period 01.01 through 30.09.2020, the Bank generated profit before tax amounting to 4.459,3 million dinars. The achieved profit provided the Bank with return on total capital of 7.9%, or return on balance sheet assets of 1.3% in the first nine months this year.

Net interest income at the end of the third quarter of the current year amounted to 9,027.2 million dinars, which is 4.6% less compared to the same period last year. Net income from fees, in the period of nine months of 2020, amounts to 3,651.6 million dinars and is lower by 9.1% than realized in the same period last year due to the pandemic of COVID-19 virus.

In the three quarters of 2020, the Bank recorded net expenses based on indirect loan write-offs and provisions in the amount of 71.4 million dinars, while at the end of the third quarter of 2019 the Bank generated net revenues based on indirect loan write-offs and provisions in the amount of 2,484.7 million dinars.

During the first three quarters of this year, operating expenses amounted to 8,428.0 million dinars, which is 634.3 million dinars or 8.1% more than the amount generated in the same period last year. The amount of operating expenses is influenced by the increase in the amount of salary costs, salary compensations and other personal expenses (compared to the same period last year, they increased mainly due to changes in the way of booking other personal expenses for annual bonuses for the employees).

As a result of a significant increase in business volume as well as a decrease in the number of employees in the first nine months of 2020, assets per employee in the Bank increased from 157.6 million dinars (December 31, 2019) to 170.8 million dinars at the end of the third quarter of 2020.

### 5.1. Retail Banking

In the first nine months this year, operation of the Retail Banking function has been considerably affected, due to declaration of a state of emergency in the Republic of Serbia which resulted from COVID-19 virus pandemic.

In the previous period, the focus was on the following:

- Preserving the client base and portfolio from adverse consequences of the pandemic, by implementation of moratorium on repayment of debts, in line with the Decision on Temporary Measures for Preserving Financial System Stability of the National Bank of Serbia;
- Protecting health of our clients and employees, by providing continuity of operation using diminished operating capacity. Branch offices worked part-time, less employees, and 40 branch offices were temporarily closed during the state of emergency.

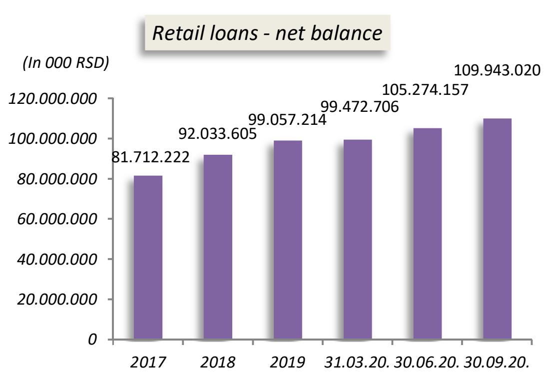
Regardless of all limitations, the Bank managed to provide adequate service to all the clients who required such service.

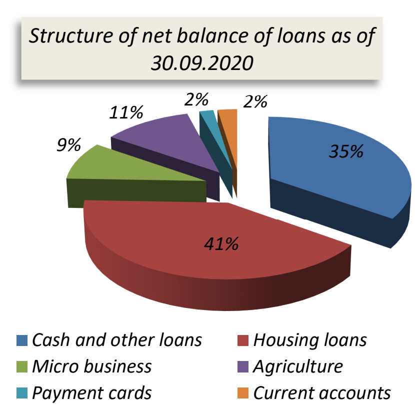
Starting from 11.05.2020, Bank has gradually begun to normalize operation. Lending expanded, especially in micro and agro segment, due to loans from the state guarantee scheme of the Government of the Republic of Serbia and subsidized agricultural loans in cooperation with the Ministry of Agriculture.

In the segment of subsidized agricultural loans, the Bank has been convincingly the first, with share of 37% in the number of loans and 24% in the lending amount. Share in micro business loans from the state guarantee scheme is also respectable, amounting to approx. 10% in both the number and amount.

With all challenges listed above, net balance of retail loans grew by 10,886 million dinars compared to the balance from the beginning of the year.

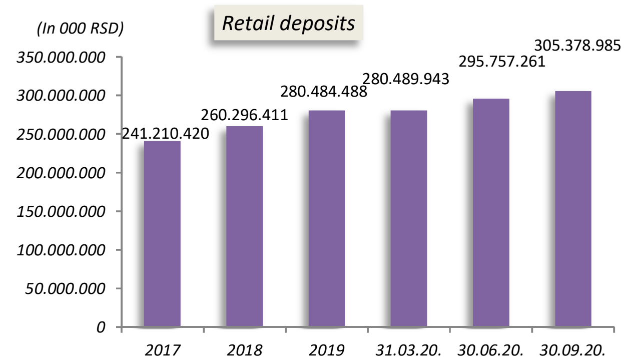
In the structure of net balance, the share of housing loans amounts to 41% and the share of other products is 59%.



*Deposits[18] - operation of the Bank*

In spite of all challenges, as of 30.09.2020 the balance of deposit accounts has increased by considerable 24.894 million dinars compared to the beginning of the year.




*Other products*

The bank has a respectable base with more than 1.3 million retail customers. In the most important segment, individuals with regular income through the current account, the Bank has more than 435,000 clients, with a steady increase since the beginning of the year. Clients with regular income represent one of the most important segments of retail business and are the basis for the growth of lending activity, approved overdrafts per current accounts especially, as they are the most profitable product used by every third client. The bank recorded an increase in the number of clients who use the "Set account", as a higher quality product compared to the basic current account, by about 11%, compared to the end of 2019. Of the total number of "Set of accounts", 12% are "Start sets" intended for the youngest clients, which makes the basis for secure business in the future since they enable the Bank to develop a long-term client base. The number of debit and credit cards has slightly increased.

In the micro business segment, the Bank recorded an increase in the "Set accounts" by about 9% compared to 2019. We need to point out that a large number of micro clients regularly use the Bank's electronic services.

*Electronic banking of retail clients*

At the end of September 2020, the Bank has provided a service for more than 252,000 single clients through electronic channels for physical and legal entities.

The constant growth of users continued in the first nine months of the current year, where the "mBank" channel had an increase in users by 31% while the increase in users compared to the same month last year was 49%.
At the "eBank" channel, the growth in the number of users as of the third quarter of this year was 11%, while compared to the same month last year, the growth came to 16%.

The growth in the number of users of electronic channels is a consequence of the intensive activities of the business network, which has been animating clients explaining the numerous benefits that "eBank" and "mBank" provide.

The number of transactions increased significantly at the "mBank" channel, being higher by 89% in comparison to the same period last year.

At the „eBank "channel, the number of transactions grew by 4% compared to the same period last year.

[18] Position deposits does not include other liabilities and funds received through credit lines

*Business network*

Operation in the retail segment the Bank carried out in 203 branches, which made the Bank the market leader. 284 ATMs and about 13,500 POS terminals are available to customers, which also made the Bank one of the market leaders. Having in mind the needs of clients, the Bank continued with the activities towards better user experience by improving the appearance of branches, moving to new premises, adjusting/optimizing working hours etc.

*Profitability*

Regardless of all business challenges caused by the COVID-19 virus pandemic and the state of emergency, the Bank is in the retail business in the first nine months of 2020 achieved total net incomes from interest and fees in the amount of 7,293 million dinars. The quality of the loan portfolio and customer base has been preserved, which will lead to even higher net income in the future.

### 5.2. New Banking Technologies – Digital Banking and Payment Cards

*The Market – Main Tendencies*

The National Bank of Serbia introduced obligatory instant payment starting from October 22, 2018, which created an obligation for banks to provide clients with the infrastructure to enable instant transfers through one sales channel, while as of 2019, it is the obligation of banks to enable instant payment through all payment channels. The amount of trade commissions is stimulating for merchants, which contributes to faster adoption of non-cash payments.
The Law on Interbank Fee and Special Rules of Operation for Payment transactions on the Basis of Payment Cards has been in application since the end of 2018, and pursuant to this Law a reduction in the interbank fees was prescribed, which in the transitional period (the first six months) amounted to a maximum of 0.5% for debit cards and 0.6% for credit cards. The additional fee reduction applicable from June 18, 2019, is in line with the European level of 0.2% for debit and 0.3% for credit cards.
The National Bank of Serbia also instructed the banks to use the national card scheme and support the domestic brand "Dina" card, pointing out the lower costs. The promotion of the national "Dina" card has had a positive impact on the ratio of reissued payment cards in favour of the "Dina" card.

The trend of adopting cashless payment methods and providing of digital services continues, as indicated by key market parameters:

- The number of deposit and withdrawal of cash has had the falling tendency for several years,
- At the same time, the orders initiated by electronic means record higher annual growth rates, followed by growth in turnover, number of transactions executed on the internet points of sales of merchants is growing, and payment cards remained the dominant payment instrument, with the increased use of electronic money,
- Acceptance network has been expanding with the increase of web-based points of sale, POS terminals and ATMs,
- The number of active internet users and mobile banking has been constantly increasing.

*The Bank's Digital Banking*

Analytical predictive tool (CRM - "Customer Relationship Management") was released in production on February 26, 2019.

During 2019, the creation of program code was completed, which combines the client's responses to the displayed messages with the realization of the product to which the message refers. "Self-Learner" model was activated in late August 2020, as a model based on the history of acceptance/rejection of offers and features of the client, and predicts his behaviour owing to the advanced analytics, it is intended to maximize sales of services and products to digital channel users.

"RTDM" ("Real Time Decision Management") campaign was created to send the best offer to micro legal entities and entrepreneurs through the KOMBANK BIZ WEB application, which is currently in the testing phase, while the campaign is planned to be released by the end of November 2020.

The existing "RTDM" campaign intended for physical persons has been adapted for display on the mobile application. From March 2020, all users of the mobile application are able to "see" "RTDM “.

The regulatory requirement for the introduction of instant payments at the merchant's point of sale has directed digital development activities towards enabling the acceptance of instant payments from the point of view of the Bank as an acceptor, and the Bank as an issuer of payment instruments.

- ✓ In our capacity of an acceptor, the bank has enabled the service of accepting instant payments in the infrastructure that relies on the existing system for accepting payment cards, with the option of using an independent infrastructure being introduced, not requiring the merchant to have a POS terminal.
- ✓ As an issuer of payment instruments, the Bank provided clients with a fast and simple service of non-cash execution of payment transactions at the merchant's points of sale via the Bank's mobile application using a QR code.

- The redesign and improvement of the internet and mobile application for physical persons was performed, with the application being optimized in order to improve the user experience.
  - ✓ The number of physical persons - users of electronic banking has increased, as well as outgoing transactions and the number of electronic banking transactions for physical persons.
  - ✓ The number of physical persons - users of the mobile application has also increased, accompanied by an increase in the number of transactions and an increase in transactions.
  - ✓ The total number of legal persons - users of electronic banking has increased, as well as the total number of electronic banking transactions of legal entities, followed by the growth of e-Banka’s share in the total number of transactions and the Bank's payment volume.
- The digital branch office of the bank "KOMeCENTAR" continued its successful operation, and the number of requests for products is growing compared to the previous year. Of the Bank's products offered through "KOMeCENTAR", the clients expressed the greatest interest for the allowed overdraft.
- The project of reducing the implementation of the Bank's digital branch office "KOMeCENTAR" functionality to a mobile application for the physical persons is planned in order to make it available to an even larger number of clients.
- The project of implementing remote signing through a digital branch is now underway, and it is expected to be completed during the fourth quarter of 2020 when we will expand the offer of services and products in the digital branch given the opportunities provided by remote signing.
- The process of testing and pilot production of IPS QR payments was successfully completed and the functionality was released into mass production in March. Enabling this functionality on the mobile application for legal entities is underway, as well as expanding the network of merchants.
- Also, the NBS license for mass production was obtained for the "Kombank IPS QR" trade application developed in cooperation with the Serbian Chamber of Commerce. The application has been used by several selected retailers for some time and works without any problems.

*Development activities of payment cards*

- The project of introducing a new card product "VISA business Platinum" intended for legal entities is being finalized with the aim of attracting more users, increasing the number of cards and the number of business payment card transactions, taking into account the fact that "Platinum" cards offer various benefits to cardholders in relation to "ordinary" types of payment cards.
- The project of introducing an "electronic wallet/E-wallet" is in the final phase, which will enable Visa and Master card users to make faster and easier purchases or payments.
- A project with MasterCard was launched in order to increase the number of business users and increase the turnover on business cards.
- Ongoing cooperation with the MasterCard team and the Bank's marketing team in order to present all the advantages and benefits of using Master cards.
- Improving the security rules of card organizations and implementing the recommendations of the Security Division, which will separate the sending of cards and pins and reduce the possibility of misuse (the application My Bank-Distribution of card-pins is being finalized).
- Change in the method of internet payment for merchants who have not yet switched to the "3DS2" version, which will allow users to confirm online payments via OTP code instead of creating a "secure code".
- Steady increase in the number of issued debit cards, especially issuing cards from the brand "DINA“.
- Business cooperation launched with the UNICEF office in order to issue 4,000 Visa Pre-Paid cards to the most vulnerable families with children.

### *5.3. Corporate Banking*

*The Market – Main Tendencies*

The operations of corporate entities in the first three quarters of 2020 were, to a significant extent, adversely affected by the COVID-19 virus pandemic, which led to the declaration of a state of emergency in the Republic of Serbia during a part of this year.

During the year, the downward trend in dinar interest rates continued, while interest rates on foreign currency loans stabilized.

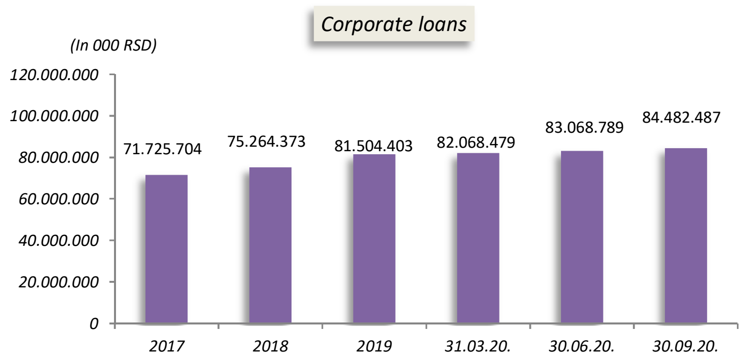
Banks' standards for newly approved corporate loans remained unchanged in 2020, primarily for small and medium-sized enterprises, and to a lesser extent for large enterprises. Observed by maturity and currency, the easing of standards is present in short-term and long-term RSD corporate lending, as well as short-term FX corporate lending.

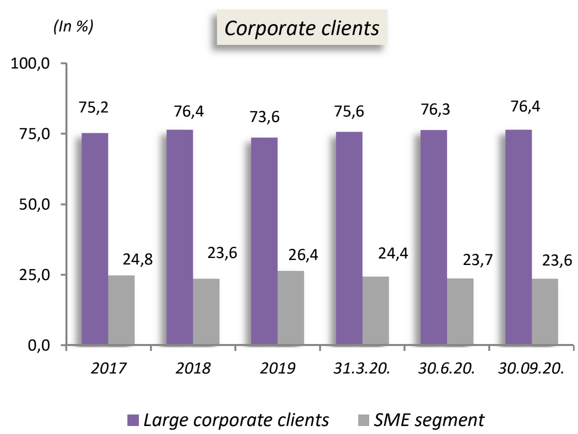
In 2020, there was an increase in the level of corporate loans. At the level of the banking sector, the level of loans is higher compared to the end of 2019 (total companies, public enterprises and local government recorded an increase of 8.6% or 113.4 billion dinars, respectively).[19]

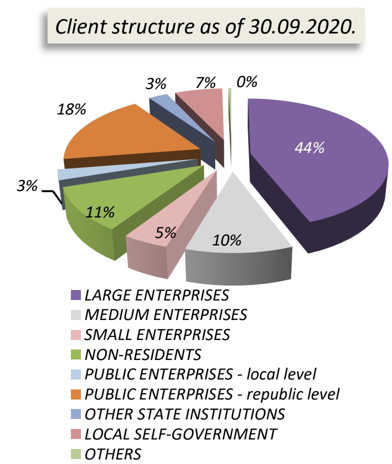
*Loans [20] - Operation of the Bank*

The realization of newly approved loans in the first three quarters of 2020 is lower by 12% compared to the same period last year. In the segment of large corporate clients, higher realization was achieved, while lower realization of loans was recorded in the segment of SME clients in this period. The balance sheet portfolio increased by 3.7% compared to the beginning of the year, and the share of large corporate clients in the portfolio structure increased from 73.6% (at the end of 2019) to 76.4%.

[19] NBS, Consolidated Balance Sheet of the Banking Sector, September 2020
[20] Position of granted loans does not include other loans



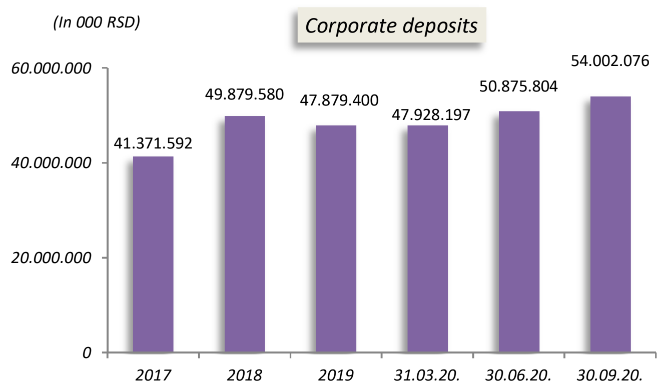




Average weighted interest rates on disbursed loans in 2020 are at a slightly higher level compared to disbursed loans in 2019.

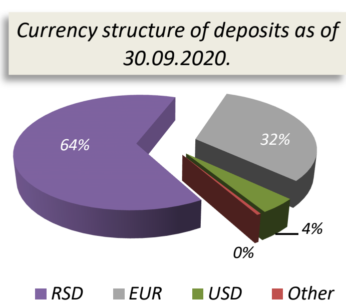
The interest rate on loans indexed in EUR is still lower in relation to loans in dinars, which was the determining factor on the market for higher demand for loans with a currency sign in relation to RSD loans in the conditions of a stable exchange rate. Of the total amount of realized loans in 2020, 22% were realized in dinars, while 78% were realized through loans with a currency sign in EUR. Consequently, in the third quarter of 2020, there was an increase in the share of dinar loans in the total portfolio.

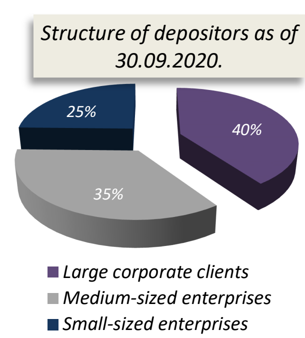
*Deposits*[21]

The high share of transaction deposits of 76% of total corporate deposits results in lower interest expenses and has a positive impact on the Bank's operating result.

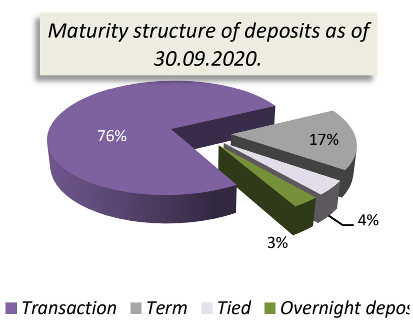


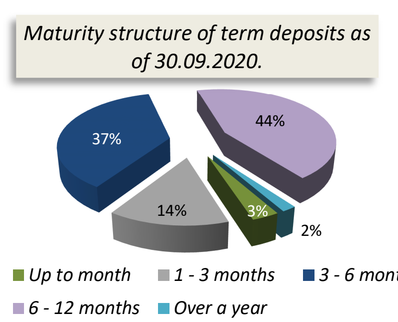

*Note:*
*At the end of 2017, 11.2 billion dinars of deposits from micro clients were transferred from the corporate banking to retail banking function, which is why the data differs from the data presented in the annual report for 2017.*




*Note: The presentation of the structure of depositors is based on the internal segmentation of clients.*



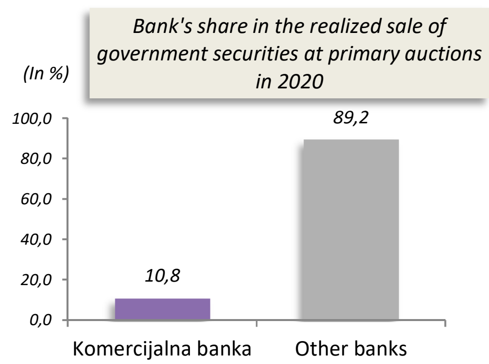

[21] Position deposits does not include other liabilities and funds received through credit lines

### *5.4. Asset Management*

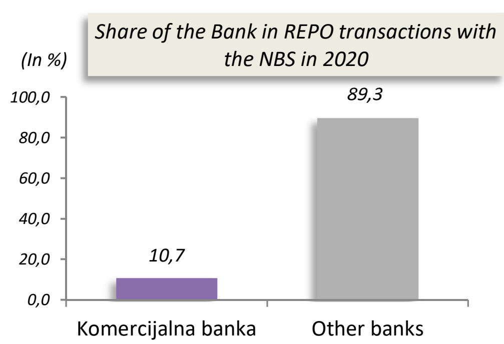
Starting from the strategic orientation of the Bank, the activity of the Treasury business function is focused on active management of assets and liquidity while ensuring the smooth functioning of the Bank and meeting the business needs of clients.

The environment in which the Treasury function operated was marked by a gradual reduction of the key-policy rate (KPR) during the first half of 2020 from 2.25% to 1.25%, stabilization of interest rates during the third quarter at a relatively low level and negative interest rates on EUR and CHF in foreign financial markets, which, given the available funds, posed a very significant challenge for the liquidity management.

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




The Bank's high share in the primary auctions of government securities of the Republic of Serbia was accompanied by a very active participation on the secondary market, while having in mind the maturity structure of funding, the most of the short-term RSD liquidity was invested through short-term investments on the interbank market, through weekly reverse repurchase transactions with the National Bank of Serbia and overnight deposits with the National Bank of Serbia.



### 5.5. Securities Division

The Securities Sector is a separate organizational form of the Bank consisting of the Broker-Dealer Department - Authorized Bank and the Depository and Custody Department, licensed by the Securities Commission to provide investment and additional, i.e. depository and custody services. During the three quarters of 2020, the Bank achieved positive results and implemented the following activities in operations on the financial market:

- Dividend payment to the Bank's shareholders for the period 2014-2019.
- The bank has provided the license of the Securities Commission to perform the activities of a depository bank for UCITS investment funds in accordance with the new regulations - the Securities Commission has issued a decision thereof.
- Significant increase in the number of clients using the “Kombank Trader” web application, which enables "on-line" trading with financial instruments on both domestic and foreign markets via computers and mobile phones, which led to an increase in the number of new clients, as a result of brokerage and custody transactions.
- Attracting many physical persons entitled to newly issued foreign currency savings bonds - estimate over 60% of resident and non-resident persons, for opening accounts in the Bank (proprietary and earmarked cash accounts) and subscription of foreign currency savings bonds (over EUR 50 million nominal value) which represents significant potential for redemption by the Bank or secondary trading on the Belgrade Stock Exchange.
- The bank is second by the number of transactions, and seventh by the value of turnover on the Belgrade Stock Exchange.

## 6. BALANCE SHEET AS OF 30.09.2020

### 6.1. The Bank's Assets as of 30.09.2020

(In 000 RSD)

| No. | BALANCE SHEET POSITION | 30.09.2020. | 31.12.2019. | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 |
| 1 | Cash and funds with the central bank | 72.379.213 | 67.558.219 | 107,1 |
| 2 | Pledged financial assets | - | - | - |
| 3 | Receivables from derivatives | - | - | - |
| 4 | Securities | 156.169.137 | 138.469.551 | 112,8 |
| 5 | Loans and receivables from banks and other financial organizations | 16.104.140 | 24.733.958 | 65,1 |
| 6 | Loans and receivables from customers | 195.692.180 | 180.852.563 | 108,2 |
| 7 | Changes in the fair value of items that are subject to risk hedging | - | - | - |
| 8 | Receivables based on derivatives intended for risk hedging | - | - | - |
| 9 | Investment in affiliations and joint ventures | - | - | - |
| 10 | Investment in subsidiaries | 3.433.697 | 3.433.697 | 100,0 |
| 11 | Intangible assets | 515.983 | 665.735 | 77,5 |
| 12 | Property, plant and equipment | 6.161.644 | 6.437.937 | 95,7 |
| 13 | Investment property | 1.829.112 | 1.857.927 | 98,4 |
| 14 | Current tax assets | 8.899 | - | - |
| 15 | Deferred tax assets | 1.970.662 | 1.074.197 | 183,5 |
| 16 | Fixed assets intended for sale and assets from discontinued operations | 138.017 | 196.300 | 70,3 |
| 17 | Other assets | 5.069.791 | 7.100.359 | 71,4 |
| | **TOTAL ASSETS (from 1 to 17)** | **459.472.475** | **432.380.443** | 106,3 |

At the end of the third quarter of 2020, the Bank's balance sheet assets amounted to 459,472.5 million dinars and increased by 27,092.0 million dinars or 6.3% compared to the beginning of the year.

During the first three quarters of the current year, the position of cash and funds with the central bank increased by 4,821.0 million dinars or 7.1%.

Position of investments in securities amounted to 156,169.1 million dinars at the end of September 2020. Compared to the beginning of the year, investments in securities increased by 17,699.6 million dinars or 12.8%. Position of securities accounts for 34.0% of the Bank's balance sheet assets.

Loans and receivables from customers amount to 195,692.2 million dinars, and compared to the situation at the beginning of the year, they increased by 14,839.6 million dinars or 8.2%. Position of loans and receivables from customers accounted for 42.6% of balance sheet assets at the end of the third quarter of 2020.
Loans and receivables from banks and other financial organizations amounted to 16,104.1 million dinars at the end of the third quarter, and decreased by 8,629.8 million dinars compared to the beginning of the year.

Total loans and receivables from customers and banks amounted to 211,796.3 million dinars on 30.09.2020, or 46.1% of the total balance sheet assets of the Bank.

When preparing the balance sheet as of 30.09.2020, deferred tax assets and deferred tax liabilities were stated on a gross basis. Deferred tax assets in the amount of 1,970.7 million dinars are stated in the assets of the balance sheet. Deferred tax assets mostly consist of deferred tax assets based on transferred tax losses in the amount of 1,198.6 million dinars.

### *6.2. Bank's Liabilities as of 30.09.2020*

(In 000 RSD)

| No. | BALANCE SHEET POSITION | 30.09.2020. | 31.12.2019. | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 |
| 1 | Liabilities from derivatives | - | - | - |
| 2 | Deposits and other financial liabilities to banks, other financial organizations and the Central Bank | 4.514.431 | 5.021.756 | 89,9 |
| 3 | Deposits and other financial liabilities to other customers | 372.326.950 | 335.317.154 | 111,0 |
| 4 | Liabilities under hedging derivatives | - | - | - |
| 5 | Change in the fair value of hedged items | - | - | - |
| 6 | Liabilities from securities | - | - | - |
| 7 | Subordinated liabilities | - | - | - |
| 8 | Provisions | 2.077.788 | 2.328.130 | 89,2 |
| 9 | Liabilities from assets intended for sale and assets from discontinued operations | - | - | - |
| 10 | Current tax liabilities | - | - | - |
| 11 | Deferred tax liabilities | 871.719 | - | - |
| 12 | Other liabilities | 4.931.547 | 13.861.230 | 35,6 |
| | **TOTAL LIABILITIES (from 1 to 12)** | **384.722.435** | **356.528.270** | 107,9 |
| | **CAPITAL** | | | |
| 13 | Share capital | 40.034.550 | 40.034.550 | 100,0 |
| 14 | Treasury shares | - | - | - |
| 15 | Profit | 6.683.812 | 10.425.898 | 64,1 |
| 16 | Loss | - | - | - |
| 17 | Reserves | 28.031.678 | 25.391.725 | 110,4 |
| 18 | Unrealized losses | - | - | - |
| 19 | Non-controlling shares | - | - | - |
| 20 | **TOTAL CAPITAL (from 13 to 19)** | **74.750.040** | **75.852.173** | 98,5 |
| | **TOTAL LIABILITIES (from 1 to 19)** | **459.472.475** | **432.380.443** | 106,3 |

At the end of the third quarter of 2020, the Bank's total liabilities amounted to 384,722.4 million dinars and accounted for 83.7% of the Bank's total balance sheet liabilities (as at 31 December 2019, total liabilities accounted for 82.5% of liabilities). At the same time, the total capital amounts to 74,750.0 million dinars and participates in the total liabilities with 16.3% (as of December 31, 2019, the share amounted to 17.5%).

At the end of September 2020, total liabilities increased compared to the beginning of the year by 28,194.2 million dinars or 7.9%, while total capital decreased by 1,102.1 million dinars or 1.5%. The amount of capital at the end of the third quarter of 2020 is also influenced by the Decision on the distribution of profits from 2019 and retained earnings from previous years (Decision of the General Meeting of Shareholders of the Bank 4690/3 dated April 28, 2020).

The mentioned Decision, among other things, distributed the profit from 2019 and previous years to dividends to the holders of ordinary and preferred shares in the amount of 4,477.9 million dinars.

Total deposits and other financial liabilities to customers and banks amount to 376,841.4 million dinars, which is 82.0% of the Bank's total balance sheet liabilities, and recorded an increase compared to the beginning of the year of 36,502.5 million dinars or 10.7%. The position of deposits and other financial liabilities to customers increased in the reporting period by 37,009.8 million dinars or 11.0%. The position of deposits and other financial liabilities to banks and other financial organizations decreased compared to the beginning of the year by 507.3 million dinars or 10.1%.

The position of other liabilities decreased by 8,929.7 million dinars or 64.4% in the third quarter, mostly due to the payment of dividends to the Bank's shareholders for the business years 2014, 2015, 2016, 2017, 2018 and 2019 and profit-sharing bonus payments to employees.

Position of provisions decreased by 250.3 million dinars during the first three quarters of 2020, as a result of a net decrease in provisions based on lawsuits in the amount of 259.7 million dinars, a decrease in provisions for off-balance sheet assets losses in the amount of 26.8 million dinars and an increase in provisions for long-term employee benefits in the amount of 36.2 million dinars.

On 30.09.2020, deferred tax liabilities were stated on a gross basis, and amounted to 871.7 million dinars, mostly related to increases in the fair value of securities, in the amount of 852.0 million dinars.

At the end of the third quarter of 2020, liabilities on the basis of foreign credit lines amounted to 1,145.2 million dinars and compared to the beginning of the year decreased by 281.7 million dinars.

### *6.3. Loans granted to customers and deposits of customers as of 30.09.2020*

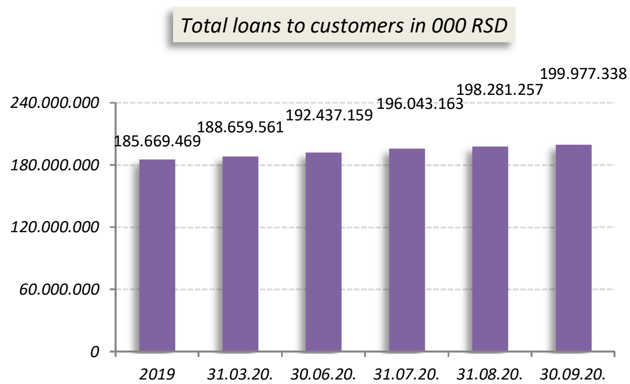
At the end of the third quarter of 2020, the Bank granted loans to customers (corporate, retail, banks and financial organizations) in the total amount of 199,977.3 million dinars, while in the same period customer deposits reached the amount of 374,469.9 million dinars.

(In 000 RSD)

| *No.* | *POSITION* | *BALANCE AS OF 30.09.2020* | *BALANCE AS OF 31.12.2019* | *INDEX* |
|---|---|---|---|---|
| *1* | *2* | *3* | *4* | *5=(3:4)*100* |
| *I* | *LOANS TO CUSTOMERS (1.+2.+3.)* | 199.977.338 | 185.669.469 | 107,7 |
| 1. | Corporate | 84.482.487 | 81.504.403 | 103,7 |
| 2. | Retail | 109.943.020 | 99.057.214 | 111,0 |
| 3. | Banks and financial organizations | 5.551.832 | 5.107.851 | 108,7 |
| *II* | *DEPOSITS FROM CUSTOMERS (1. +2. +3.)* | 374.469.934 | 337.948.699 | 110,8 |
| 1. | Corporate | 54.002.076 | 47.879.400 | 112,8 |
| 2. | Retail | 305.378.985 | 280.484.488 | 108,9 |
| 3. | Banks and financial organizations | 15.088.873 | 9.584.811 | 157,4 |

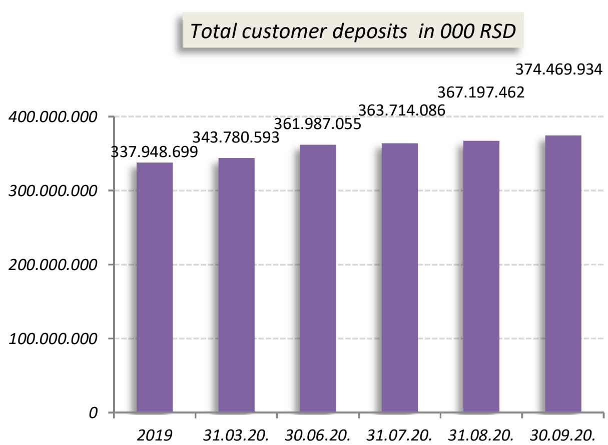
NOTE: granted loans exclude other loans and receivables, received deposits exclude other liabilities and received funds in the form of credit lines.

The most important individual category of balance sheet assets, loans to customers, increased by 14,307.9 million dinars or 7.7% compared to the beginning of the year. In the total assets of the Bank, loans to customers participate with 43.5%.

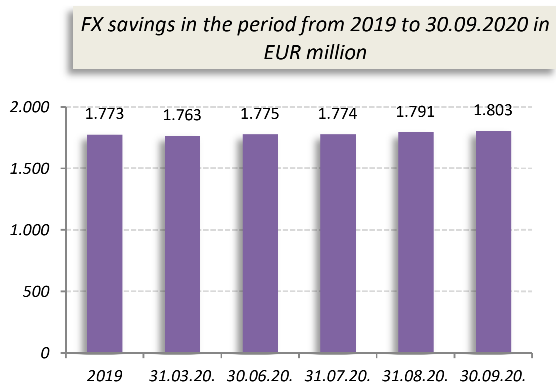



At the end of the third quarter of 2020, loans to business clients reached the amount of 84,482.5 million dinars, which is an increase of 3.7% compared to the end of 2019. Loans to retail clients amounted to 109,943.0 million dinars in the same period, or increased by 11.0% compared to the end of the previous year. Loans to banks and other financial organizations amount to 5,551.8 million dinars at the end of September 2020, which represents an increase of 8.7% compared to the end of the previous year.

At the end of the third quarter of 2020, total customer deposits amounted to 374,469.9 million dinars and accounted for 81.5% of total liabilities, or 97.3% of the Bank's total liabilities. Compared to the beginning of the year, total customer deposits increased by 36,521.2 million dinars or 10.8%.




The strukture of deposits is dominated by retail deposits, which reached the amount of 305,379.0 million dinars and account for 81.5% of total customer deposits. Deposits of legal entities amount to 54,002.1 million dinars and account for 14.4% of total deposits. Compared to the beginning of the year, a significant increase was recorded in deposits of banks and financial organizations, which increased by 57.4% and reached the amount of 15,088.9 million dinars. As a consequence of this growth, the share of deposits of banks and financial organizations in total deposits increased from 2.8% at the end of 2019 to 4.0% at the end of the third quarter of 2020.




At the end of the third quarter 2020 FX savings from the Bank's clients reached 1,803 million euros. Compared to the start of the year, FX savings increased by 30 million euros.

Depositors' trust enabled the Bank to maintain its leading position within the banking sector of the Republic of Serbia in terms of the volume of collected FX savings, image and recognizability.

### *6.4. Off-balance sheet items as of 30.09.2020*

*(In 000 RSD)*

| No. | ITEM | BALANCE AS OF 30.09.2020. | BALANCE AS OF 31.12.2019. | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 |
| 1 | OPERATIONS FOR AND ON BEHALF OF THIRD PARTIES | 4.132.073 | 4.152.268 | 99,5 |
| 2 | FUTURE COMMITMENTS | 48.027.231 | 53.595.618 | 89,6 |
| 3 | RECEIVED GUARANTEES FRO FUTURE LIABILITIES | - | - | - |
| 4 | DERIVATIVES | - | - | - |
| 5 | OTHER OFF-BALANCE-SHEET ITEMS | 433.925.844 | 402.692.145 | 107,8 |
| | **TOTAL** | **486.085.148** | **460.440.031** | 105,6 |

In the first three quarters of 2020, total off-balance-sheet assets of the Bank increased by 25.645,1 million dinars or 5.6% compared to the start of the year.

As of 30.09.2020, future commitments, including issued guarantees and other surety, amounted to a total of 48.027,2 million dinars which, compared to the start of the year, is a decrease of 5.568,4 million dinars or 10.4%, mostly due to the decrease in the amount of irrevocable commitments for undrawn loans and advances.

Operations for and on behalf of third parties, at the end of the third quarter 2020 were marginally less (0.5%) compared to the amount from the start of the year.

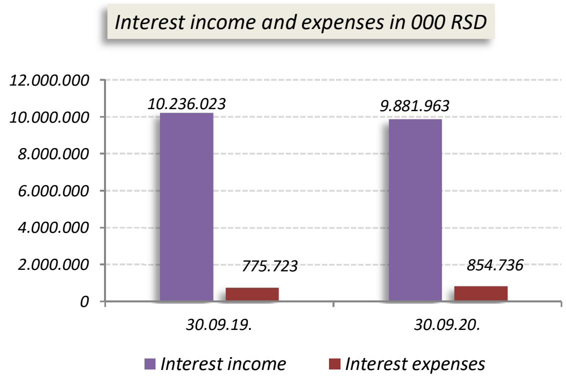
Other off-balance-sheet items increased 31.233,7 million dinars or 7.8%, compared to the amount from the start of the year, primarily as the result of changes in the account "Other off-balance-sheet assets".

## 7. PROFIT AND LOSS FOR THE PERIOD BETWEEN 01.01. AND 30.09.2020

(In 000 RSD)

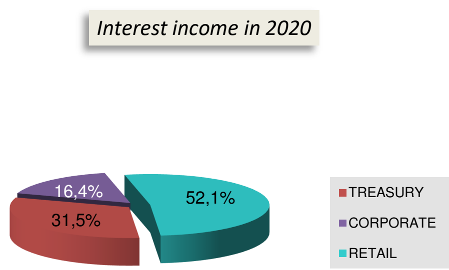
| NO. | ITEM DESCRIPTION | 30.09.2020. | 30.09.2019. | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 |
| | **OPERATING INCOME AND EXPENSES** | | | |
| 1.1. | Interest income | 9.881.963 | 10.236.023 | 96,5 |
| 1.2. | Interest expenses | 854.736 | 775.723 | 110,2 |
| **1.** | **Net interest income/expenses** | **9.027.227** | **9.460.300** | 95,4 |
| 2.1. | Fee and commission income | 4.957.048 | 5.287.178 | 93,8 |
| 2.2. | Fee and commission expenses | 1.305.488 | 1.269.926 | 102,8 |
| **2.** | **Net fee and commission income/expenses** | **3.651.560** | **4.017.252** | 90,9 |
| 3. | Net profit/loss from the change in fair value of financial instruments | 62.659 | 67.834 | 92,4 |
| 4. | Net profit/loss from reclassification of financial instruments | - | - | - |
| 5. | Net profit/loss from discontinued recognition of financial instruments measured at fair value | 121.510 | 249.628 | 48,7 |
| 6. | Net profit/loss from risk hedging | - | - | - |
| 7. | Net income/expenses from exchange rate difference and the effects of the agreed currency clause | (3.634) | 38.398 | - |
| 8. | Net income/expenses from impairment of financial assets not measured at fair value through P&L | (71.447) | 2.484.718 | - |
| 9. | Net profit/loss from discontinued recognition of financial instruments measured at amortized value | - | (579.933) | - |
| 10. | Net profit/loss from discontinuation of recognition of investments into affiliations and joint ventures | - | - | - |
| 11. | Other operating income | 171.152 | 112.641 | 151,9 |
| **12.** | **TOTAL NET OPERATING INCOME** | **12.959.027** | **15.850.838** | 81,8 |
| **13.** | **TOTAL NET OPERATING EXPENSES** | - | - | - |
| 14. | Cost of salaries, salary allowances and other personnel expenses | (4.215.167) | (3.259.962) | 129,3 |
| 15. | Cost of depreciation | (735.301) | (761.228) | 96,6 |
| 16. | Other income | 742.178 | 440.486 | 168,5 |
| 17. | Other expenses | (4.291.447) | (5.183.096) | 82,8 |
| **18.** | **PROFIT BEFORE TAX** | **4.459.290** | **7.087.038** | 62,9 |
| **19.** | **LOSS BEFORE TAX** | - | - | - |
| 20. | Profit tax | - | - | |
| 21. | Deferred tax gains | 17.252 | 293 | - |
| 22. | Deferred tax loss | (158.749) | (147) | - |
| **23.** | **PROFIT AFTER TAX** | **4.317.793** | **7.087.184** | 60,9 |
| **24.** | **LOSS AFTER TAX** | - | - | - |
| 25. | Net profit from discontinued operations | - | - | - |
| 26. | Net loss from discontinued operations | - | - | - |
| **27.** | **RESULT FOR THE PERIOD - PROFIT** | **4.317.793** | **7.087.184** | 60,9 |
| **28.** | **RESULT FOR THE PERIOD - LOSS** | - | - | - |
| 29. | Profit attributable to the parent entity | | | |
| 30. | Profit attributable to the non-controlling interest owners | | | |
| 31. | Loss attributable to the parent entity | | | |
| 32. | Loss attributable to the non-controlling interest owners | | | |
| 33. | Earnings per share | | | |
| 34. | Basic earnings per share (in dinars excl. paras) | | | |
| 35. | Reduced (diluted) earnings per share (in dinars excl. paras) | | | |

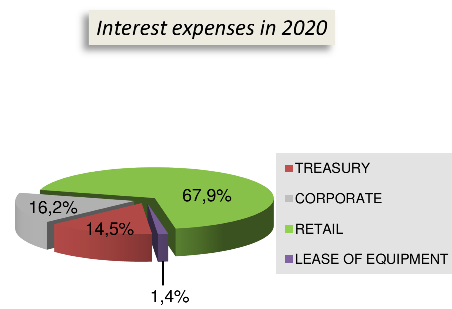
### *7.1. Interest income and expenses*



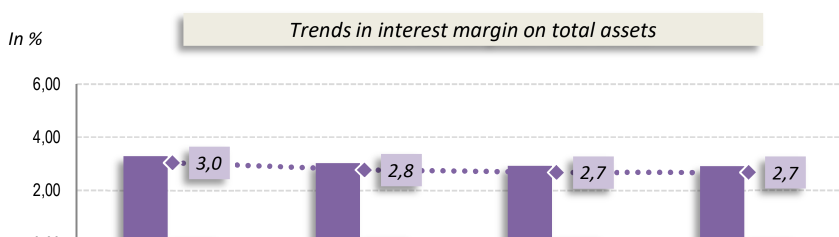

In the first three quarters of 2020 net interest income was realized in the amount of 9,027.2 million dinars which, compared to the same period last year, is a decrease of 4,6%.

Year-over-year, interest income decreased 354.1 million dinars or 3.5% while interest expenses increased 79.0 million dinars or 10.2%. Lower interest income is the result of lower lending interest rates in the market, particularly the interest on securities, while the level of expenses was affected by the more significant increase in deposits that the Bank realized in the past.



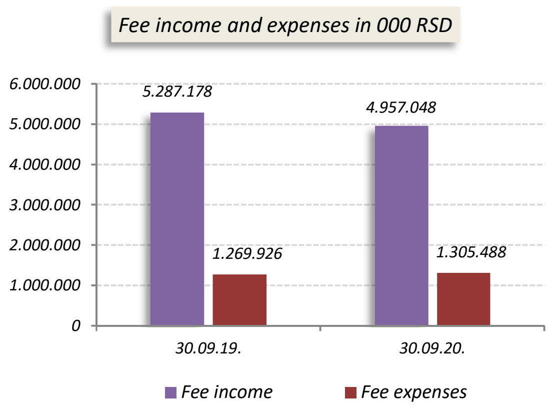

Within interest income, at the end of the third quarter this year, the greatest share comes from interest income from retail operations (5,145.5 million dinars or 52.1%). Retail deposit interest dominate the expenses (580.6 million dinars or 67.9%) which is mostly the result of interest expenses for collected FX savings.




| | 2019 | March | June | September |
|---|---|---|---|---|
| Average lending interest rate | 3,29 | 3,03 | 2,93 | 2,92 |
| Average borrowing interest rate | 0,25 | 0,26 | 0,26 | 0,25 |
| Interest margin | 3,04 | 2,77 | 2,68 | 2,67 |

Average lending interest rate at the end of the third quarter 2020 was 2.92%, while average borrowing interest rate was 0.25%. Therefore, the Bank's interest margin at the end of September 2020 was 2.67%.

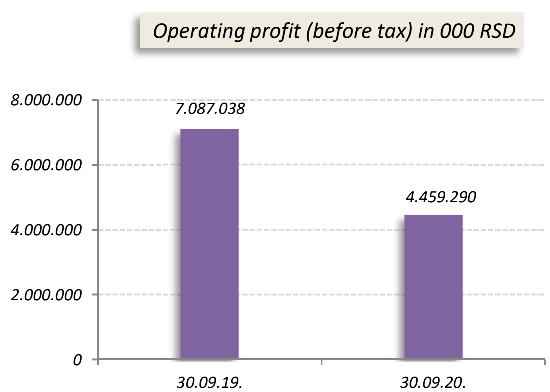
### *7.2. Fee income and expenses*




During the first three quarters of 2020, year-over-year, income from fee and commission for banking services decreased 330.1 million dinars or 6.2%. At the same time fee and commission expenses increased 35.6 million dinars or 2.8%.

Net fee and commission income for the first three quarters 2020 amounted to 3.651,6 million dinars and is less year-over-year by 365.7 million dinars (mostly due to lower fee income for payment transactions and payment cards, due to the COVID-19 pandemic).

### *7.3. Realized operating profit (before tax)*




In the period between 1st January and 30th September 2020 operating profit before tax was realized in the amount of 4.459,3 million dinars.

Realized operating profit secured for the Bank, in the first three quarters 2020, a return on total equity of 7,9% and return on average assets of 1,3%.

### *7.4. Performance indicators prescribed by the Law on Banks*

| NO. | ITEM | PRESCRIBED | 30.09.2020. | 2019. |
|---|---|---|---|---|
| 1. | CAPITAL ADEQUACY RATIO (CAPITAL / RISK ASSETS); *REQUIREMENT FOR A COMBINED CAPITAL BUFFER | MIN 12,8%+ccb* | 30,43% | 30,83% |
| 2. | RATIO OF INVESTMENT INTO ENTITIES OUTSIDE THE FINANCIAL SECTOR AND IN FIXED ASSETS | MAX 60% | 12,07% | 13,05% |
| 3. | LARGE EXPOSURE RATIO | MAX 400% | 15,66% | 26,62% |
| 4. | FX RISK RATIO | MAX 20% | 0,86% | 1,98% |
| 5. | LIQUIDITY RATIO (monthly, final day in the month) | MIN 0,8 | 4,16 | 4,08 |

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

## *8. RISK MANAGEMENT*

### *8.1. Goals and policies for managing financial risks*

Risk management is the key element in managing the operation, given that the exposure to risks stems from all business activities, as an inseparable part of banking operations, that is managed through identifying, measuring, assessing, monitoring, controlling and mitigating i.e. establishing limitation to risks, as well as reporting in accordance with the strategies and policies.

The bank has established a comprehensive and reliable risk management system that includes: framework for managing risks and the statement of assuming risk, strategies, policies and procedures for managing risks, methodologies for managing individual risks, appropriate organizational structure, effective and efficient process of managing all the risks the Bank is exposed to or may be exposed to in its operation, adequate internal control system, adequate information system and adequate internal capital adequacy assessment process. Also, the Bank’s Recovery Plan is integrated into the risk management system, as a mechanism for early identification of a situation of a severe financial distress when the Bank may take measures i.e. apply the defined recovery options with the aim of preventing the descent into the early intervention phase in which the regulator has an active role or improvement of the already deteriorated financial condition. The framework for managing risks is the formalization of the Banks' appetite for materially significant risks, which means defining the targets, tolerance and limit for all materially significant risks that can be quantified. Risk Management Strategy and the Capital Management Strategy and Plan have established the following targets within the risk management system: minimizing the adverse effects on the financial result and capital while observing the specified frameworks of the acceptable risk level, maintaining the necessary level of capital adequacy, development of the Bank's activities in accordance with the business strategy and the possibilities and development of the market, with the aim of generating competitive advantages, diversification of risks the Bank is exposed to, maintaining the share of NPLs in total loans at the level below the set limit, maintaining the concentration risk ratio related to exposure to certain types of products below the level specified in the regulations, maintaining the ratio of coverage by liquid assets above the level specified in the regulations and internal limits. The Bank permanently monitors all the announcements and amendments to the regulatory framework, analyses the effect on the risk level and takes measures to timely bring its operation into compliance with the new regulations.

The Bank has implemented the activities on bringing itself into compliance with the new regulations, particularly in the part that relates to the regulatory framework that specifies the measures for maintaining the stability of the financial system, as well as support to the economy in order to mitigate the consequences of COVID-19 pandemic provided by the National Bank of Serbia and the Ministry of Finance of the Republic of Serbia (a loan repayment freeze(moratorium), guarantee scheme, etc.) in the environment caused by the COVID-19 pandemic. Through a clearly defined process of introducing new and significantly changed products, services and activities related to the processes and systems, the Bank analyses their effect on the future exposure to risks, with the aim of optimizing its income and expenses for estimated risk, as well as minimizing all potentially possible adverse effects on the Banks’ financial result. A detailed overview of risk management targets and policies is presented in the Notes to financial statements.

*Credit risk hedging policy*

With the aim of protecting itself from exposure to credit risk the Bank applies the techniques for mitigating the credit risk by obtaining the acceptable security instruments (collaterals), as secondary sources of loan collection. The Bank endeavors to operate with clients of good creditworthiness, the Bank assesses the creditworthiness at the moment the application is made and regularly monitors the borrower, loan and the collateral, with the aim of undertaking the appropriate activities in the collection process in a timely manner. Types of collaterals depend on the assessed credit risk of the borrower and are specified in each case individually and are obtained upon signing the contract and before disbursing the loan.

With its internal by-laws the Bank has regulated the valuation of loan protection instruments and the management of such instruments.

The Bank pays particular attention to the marketability and adequate valuation of collaterals, in relation to which, when valuing the collaterals, the Bank hires licensed valuers in order to reduce the potential risk of unrealistic valuation to the lowest possible level, while property, goods, equipment and other movable items that are pledged have to be insured by an insurance company acceptable for the Bank, with the insurance policies assigned in favor of the Bank.

With the aim of protection against changes in the market value of collaterals, the appraised value is adjusted by the defined reduction percentages, depending on the type of collateral and the location of the property, that are regularly reviewed and revised.

The Bank pays particular attention to collateral monitoring and undertakes activities on securing new appraisals, but also on obtaining additional collaterals, primarily for clients with identified problems in operation, but also for clients where the coverage of exposure by collaterals is decreased due to the decrease in the value of obtained collaterals.

With the aim of adequately managing risks, the Bank implements the activities on analyzing credit risk when approving the loan and establishing a system for monitoring, prevention and management or risk loans, including also adequate identification of potentially risky clients (watch list), mitigates the credit risk in clients that are in this status, as well as by taking measures and actions aimed at protecting the Banks' interests and preventing the adverse effects on the Bank's financial result and equity.

In the third quarter 2020 the bank continued to improve its risk management system.

In the environment of COVID-19 pandemic, the Bank has successfully continued with its activities on improving the quality of the loan portfolio by decreasing the occurrence of new bad loans and resolving the issues of the clients that are already recognized as problem clients, and implemented also the activities on decreasing the NPLs (collection and write-off by transferring the fully impaired receivables to the off-balance-sheet record). In accordance with the Decision of the National Bank of Serbia about the accounting write-off of the balance-sheet assets of the bank, the Bank continued to transfer the 100% impaired loans from the balance-sheet to off-balance-sheet records, which resulted in a decrease in the NPL ratio.

Level of impairment of credit risk for the PL portfolio, at the end of the third quarter 2020, is, to a great extent, the result of the changed expectations of macroeconomic indicators for the upcoming period due to the COVID–19 pandemic, as well as the expectations regarding the effects of the pandemic on the real sector and the population, which may materialize through deteriorated level of credit risk with their partial mitigation, a set of support measures passed by the Government of the Republic of Serbia and the National Bank of Serbia. Due to these reasons, the Bank paid particular attention to analyzing the clients whose business activity is focused on industries that are particularly exposed to the effects of the potential crisis caused by the COVID-19 pandemic, which resulted in an increase in Level 2 – PL clients with identified deterioration of the credit risk. As the result of all this, the Bank has made additional adjustment of the level of impairment for credit risks i.e. it has allocated an additional buffer.

Given that the emergency health situation in Serbia is still ongoing, in July 2020 the National Bank of Serbia adopted the Decision on temporary measures for banks for the purpose of mitigating the consequences of COVID–19 pandemic with the aim of preserving the stability of the financial system, whereby the borrowers area allowed to additionally postpone the liabilities for loans, loan products and leasing. This decision allowed the borrowers to use another moratorium in repayment of liabilities to the banks, that are due in the period from 1 August 2020 to 30 September 2020, as well as a moratorium in repayment of liabilities due in July this year and the borrower did not settle them.

Also, the during the third quarter 2020 the National Bank of Serbia passed a Decision on temporary measures for banks with the aim of facilitating access to financing for private individuals whereby conditions were created for individuals to access funds more easily. Three sets of measures of temporary character were specified that should allow private individuals to access housing loans more easily and, in doing so, support the economy, construction industry, to be more specific, through faster turnover of funds, then the possibility to extend the repayment period for housing loans to no more than five years and temporary facilitation of the procedure for individuals to access short-term dinar loans up to a certain amount. The Bank has brought its operation into compliance with these regulations in a timely manner.

The Bank implements the IFRS 9 standard and, in accordance with this standard, it calculates impairments of balance-sheet assets and the probable loss from off-balance-sheet items. The Bank applies the concept of “expected loss” by including the effect of expected trends in the macroeconomic factors on future trends in the probability of occurrence of the status of default on the basis of statistically proven interdependencies, whereby in the third quarter 2020 the Bank increased the scope of clients in Level 2 through individual analyses of clients operating in threatened industries for which it is expected that the credit risk will increase. Also, an additional layer of impairment was introduced for PL portfolio on the basis of expert assessments, given that the Bank’s past experience is significantly different from the current conditions caused by COVID-19 pandemic. Inclusion of additional expert assessments in the expected trends in the default rate is based on the assumption that the crisis caused by the effects of the pandemic will result in a combination of V and U curves characterized by smaller effects during 2020, given the set of adopted support measures, so that during 2021 the adverse effects would increase, with the expected recovery in 2022. The portfolio is differentiated into three levels that monitor the client status (level 1 – PL clients without the identified deterioration of credit risk, level 2 – PL clients with identified deterioration of credit risk – measured by the set of defined criteria, level 3 – NPL clients), while defining the criteria for transfer of clients from higher into lower levels that were additionally improved in 2019. Also, in accordance with the IFRS 9, the Bank calculates impairment also for exposure to the Republic of Serbia and the National Bank of Serbia.

Increase in impairments in real terms (P&L) in the third quarter 2020 was caused by an increase among PL clients in the Corporate segment, due to the deterioration of the creditworthiness of certain clients and the transfer from level 1 to level 2 on the basis of increased credit risk due to a significant effect of the COVID-19 pandemic on certain industries, with a slight increase in the existing risk loans to corporate clients as a result of the estimated deterioration of the financial condition and at the same time a decrease in impairments in the profit and loss in the Retail segment due to collection of risk loans. On the other hand, impairments in the balance sheet decreased as the result of transfer of 100% impaired loans from balance-sheet into off-balance-sheet records.

### *8.2. Exposure to risks (price, credit, liquidity and cash flow risk) with a strategy for managing risks and the assessment of their effectiveness*

In its operation the Bank is particularly exposed to the following types of risks:

1. Credit risk and risks related to it,
2. Liquidity risk,
3. Market risk,
4. Interest risk in the banking book,
5. Operational risk,
6. Investment risk,
7. Exposure risk,
8. Country risk, as well as all other risks that might occur in the Bank’s regular operation.

***Credit risk*** is the possibility of occurrence of adverse effects on the Bank's financial result and capital, due to the borrower's failure to settle the liabilities to the Bank.

Credit risk is conditioned by the borrower's creditworthiness, whether the borrower duly settles their liabilities to the Bank and by the quality of security instruments. An acceptable level of exposure to credit risk of the Bank is in accordance with the defined Risk Management Framework and the Risk Management Strategy and depends on the structure of the Bank's portfolio, on the basis of which it is possible to limit the adverse effects on the financial result and the capital of the Bank while minimizing the capital requirements for credit risk, counterparty risk, the risk of decrease in value of the purchased receivables, risk of settlement/deliverable on the basis of free deliverables and with the aim of maintaining capital adequacy at an acceptable level. The Bank manages credit risk on the level of the client, a group of related entities and the overall loan portfolio. The Bank approves loans to clients (legal entities and private individuals) for which it assesses to be creditworthy, by performing an analysis or quantitative and/or qualitative measurement and assessment of credit risk and the financial condition of the borrower. The process of measuring credit risk is based on the measurement of the level of risk for an individual loan on the basis of the internal rating system, as well as on the implementation of regulations passed by the National Bank of Serbia that requires classification of each loan on the basis of specified criteria.

By monitoring and checking the portfolio as a whole and by certain segments, the Bank makes a comparison with previous periods, identifies the trends and causes of changes in the level of credit risk. It also monitors the asset quality indicators (trends in NPLs, degree in coverage of NPLs by impairments, etc.), as well as exposure to regulatory and internally set limits. The decision on managing the concentration risk on the basis of the bank's exposure to certain types of products, on 01.01.2019 the National Bank of Serbia specified also an obligation to monitor the concentration risk i.e. exposure per groups of products, such as exposure regarding cash, consumer and other loans granted to private individuals with agreed maturity of over 8 years in 2019 i.e. its further decrease in the next two years. Also, monitoring and reporting about the level of loan indebtedness of private individuals (DTI ratio) was introduced. These regulations were somewhat relaxed by the amendments and supplements implemented by the National Bank of Serbia with the aim of bringing them into compliance with the current business circumstances caused by the COVID-19 pandemic. The process of monitoring the quality of loans enables the Bank to assess potential losses, as the result of risk it is exposed to and to take the appropriate corrective measures. On the other hand, the Bank does not make high-risk investments such as investment into potentially profitable projects but with a high risk into investment funds with high-risk portfolio, etc.

***Liquidity risk*** is the possibility of occurrence of adverse effects on the Bank's financial result and capital due to the Bank's inability to meet its due liabilities due to the withdrawal of the existing funding sources and the inability to obtain new funding sources – risk of liquidity of funding sources, as well as hindered conversion of property into liquid assets due to disturbances in the market – market liquidity risk.

Liquidity risk materializes as the Bank's difficulty in settling due liabilities in case of insufficient liquidity reserves and the inability to cover the unexpected outflow of other liabilities. In its operation the Bank observes the key liquidity principles by realizing a sufficient level of liquid assets to cover the liabilities that have arisen within a short period i.e. observes the solvency principle by setting up an optimum structure of its own and borrowed funding sources and by establishing a sufficient level of liquidity reserves that do not threaten the achievement of the planned return on equity.

Liquidity risk is expressed as the Bank's inability to transform certain parts of assets into liquid funds within a short period. The Bank analyses the funding sources risk and the market liquidity risk. The problem of liquidity from the aspect of the funding sources relates to the structure of liabilities, i.e. obligations and is expressed as potentially significant share of unstable sources, short-term sources or their concentration. Risk of liquidity of funding sources is the risk that the Bank will not be able to meet its obligations due to the withdrawal of unstable funding sources i.e. the inability to obtain new funding sources. On the other hand, the liquidity risk is expressed also as the deficit of liquidity reserves and as hindered or impossible obtaining of liquid assets at acceptable market prices. During the third quarter of 2020 the Bank was in compliance with the regulatory and internally defined limits, and also in the environment of somewhat lower inflow due to the implementation of another moratorium on loan repayment and in accordance with the Decision on temporary measures for banks for the purpose of mitigating the consequences of the COVID-19 pandemic with the aim of preserving the stability of the financial system, adopted during July 2020. During the third quarter, all the risk liquidity ratios were significantly higher compared to the defined risk tolerance and limits. The Bank actively undertakes preventive measures with the aim of minimizing the exposure to liquidity risk.

***Market risk*** the possibility of occurrence of adverse effects on the Bank's financial result and capital due to the changes in market variables and covers FX risk for all the business activities it performs and the price risk of items in the trading book.

The Bank is exposed to ***FX risk*** which presents itself through the possibility of occurrence of adverse effects on the financial result and capital due to the volatility of exchange rates, ratios, change in the value of the local currency against foreign currencies or changes in the value of gold and other precious metals. With the aim of minimizing the exposure to FX risk, the Bank diversifies the currency structure of the portfolio and the currency structure of liabilities, adjustment of open positions for certain currencies, while observing the principles of maturity transformation of funds. During the third quarter 2020 the Bank was compliant with the regulatory FX ratios that is expressed as 20% of the regulatory capital, as well as with the significantly more conservative internally defined limits i.e. with the defined Framework for risk management.

***Interest risk*** is the risk of occurrence of adverse effects on the Bank's financial result and the capital regarding the items from the banking book due to adverse changes in interest rates. The Bank identifies the causes of current and assesses the factors of future exposure to interest risk in a comprehensive and timely manner.

Exposure to this type of risk depends on the ratio of interest sensitive assets to liabilities. Managing interest risk has as its aim the maintenance of an acceptable level of exposure to interest risk from the aspect of effect on the financial result and the economic value of equity, by pursuing an adequate policy of maturity match for the period of repricing and adjusting the funding sources to the lending according to the level of interest rate and maturity.

***Operational risk*** is the risk of possible occurrence of adverse effects on the Banks' financial result and capital due to the errors in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as due to the occurrence of unpredictable external events. Operational risk includes also legal risk, which is the risk of occurrence of adverse effects on the Bank's financial result and capital regarding court or out-of-court cases. The Bank undertakes measures aimed at mitigating the operational risks and proactive reaction to potential operational risk events thorough permanent monitoring of all the activities, monitoring of key risk indicators that constitute early warning for signaling changes in the Bank's risk profile, implementation of the adequate and reliable information system, the implementation of which improves the business practice and optimizes the business processes in the Bank. With the aim of minimizing the legal risk and its effect on the financial result, the Bank continues to further improve its business practice in the part that relates to timely provisioning for legal claims against the Bank, in accordance with the assessment of future estimated loss on such grounds.

***Investment risk*** of the Bank is the risk of investing in other legal entities or in fixed assets and investment property. In accordance with the regulations of the National Bank of Serbia, the level of permanent investment is monitored and the Bank's bodies and committees are informed of that. In this manner it is ensured that the Bank's investment into a single entity outside the financial sector does not exceed 10% of the Bank's capital and that the Banks' investment into entities that are not in the financial sector and into fixed assets and investment property of the Bank does not exceed 60% of the Bank's capital.

***Large exposure of the Bank*** to a single person or a group of related entities, including also the entities related to the Bank is the exposure that amounts to at least 10% of the Bank's capital. In the third quarter 2020 the Bank was compliant with the internally set exposure limits and with those set by the regulator.

***Country risk*** is the risk that relates to the country of origin of the person the Bank is exposed to i.e. the risk of possibility of occurrence of adverse effects on the Bank's capital and the financial result due to the Bank's inability to collect the receivables from the borrower for reasons that are the consequence of political, economic or social circumstances in the country of origin of the borrower. The Bank's exposure to county risk is at an acceptable level.

A detailed overview and a clarification of the risks the Bank is exposed to in its operation is given in item 5. of the Notes to Financial Statements for the 3rd Quarter 2020.

## 9. ALL MAJOR TRANSACTIONS WITH RELATED ENTITIES

As of 30.09.2020 entities related to the Bank are:

1. Komercijalna banka a.d. Podgorica, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. Four legal entities and a large number of private individuals, according to the provisions of Article 2 of the Law on Banks, in the part that regulates the term “entities related to the bank”.

Total exposure to persons related to the Bank, as of 30.09.2020 was 1,530.5 million dinars which, compared to the capital[22] of 66,237.6 million dinars is 2.31% (The Bank’s exposure to a single entity or a group of related entities must not exceed 25% of the Bank’s capital, in accordance with the Law on Banks).

In accordance with Article 37 of the Law on Banks, the Bank did not grant loans to persons related to the Bank under terms more favorable than those for other persons unrelated to the Bank.

## 10. DESCRIPTION OF SIGNIFICANT EVENTS

After the end of 2019, within the first three quarters of 2020, we would point out the following important business events:

- On 09.03.2020 a regular General Meeting of the Bank’s Shareholders was held where the following decision was adopted:
  - Decision on the adoption of the Strategy and Business Plan for Komercijalna banka AD Beograd for the period 2020 – 2022;
- On 16.03.2020 on the territory of the Republic of Serbia a state of emergency was declared with the aim of mitigating the consequences caused by the COVID-19 pandemic and this lasted until 06.05.2020;
- On 28.04.2020 a regular General Meeting of the Bank’s Shareholders was held where the following decisions were adopted:
  - Decision on adoption of the Annual Report for Komercijalna banka AD Beograd and Regular Financial Statements for 2019 with the external auditor’s opinion;
  - Decision on adoption of the Annual Report for the Group and Consolidated Financial Statements for the Group Komercijalna banka AD Beograd for 2019 with the external auditor’s opinion;
  - Decision on distribution of profit from 2019 and retained earnings from the previous years.
- On 17.07.2020 an extraordinary General Meeting of the Bank’s Shareholders was held, where the following decisions were passed:
  - Decision on adoption of the revised Strategy and Business Plan for Komercijalna banka AD Beograd for the period 2020-2022;
  - Decision on appointing the external auditor of the Bank for 2020.

After the end of the third quarter, until the date the Report was prepared, there were no significant events for the Bank’s operation.

[22] Capital calcualted in accordance with the NBS regulations.

With the aim of preserving the stability of the financial system and mitigating the consequences of the COVID-19 pandemic, the National Bank of Serbia passed the following decisions:

- On 17.03.2020 it passed the Decision on temporary measures for the preservation of stability of the financial system;
- On 27.07.2020 it passed the Decision on temporary measures for banks for the purpose of mitigating the consequences of the COVID-19 pandemic with the aim of preserving the stability of the financial system, and
- On 07.08.2020 it passed the Decision on temporary measures for banks with the aim of facilitating the private individual's access to financing.

A description of events after the balance-sheet date is given in item 6 of the Notes to Financial Statements for the Third Quarter 2020.

## *11. REPURCHASE OF OWN SHARES*

As of 30.09.2020 the Bank did not have own shares not did it have them during 2020. Also, the Bank does not intend to acquire own shares in the upcoming period.

## *12. KEY DATA ABOUT THE PERFORMANCE OF THE 2020 BUSINESS PLAN*

The end of the business year 2019 and the start of 2020 were characterized by high growth rates of the Serbian economy, low inflation, balanced fiscal position, decreased share of the public debt in the gross domestic product and a recovery of the labor market. Such starting position had helped the Serbian economy to readily face the current challenges, particularly those that are the result of the COVID-19 pandemic[23].

During 2019, the growth of gross domestic product (GDP) was 4.2%, and positive trends were also present in the first quarter of 2020, when the GDP growth rate was 5.1%[24]. The appearance and spread of the COVID-19 virus, along with the need to take a number of health measures, has affected economic activity both in the international environment and in Serbia. The adverse effects of the COVID-19 virus pandemic were most pronounced during the second quarter, but they also manifested themselves in the third quarter of this year. During the second quarter, a GDP decline of 6.4% was recorded[25] y.o.y., while the flash estimate of the Republic Statistical Office is a real decline in GDP of 1.3% (y.o.y.) in the third quarter of this year[26]. Based on the comprehensive package of measures that were and are still taken by the NBS and the Government of the Republic of Serbia, economic activity is expected to recover. The National Bank of Serbia has revised the original projection of GDP decline in 2020, so that instead of a decline of 1.5%, a decline of 1.0% is expected.[27]

In the Notes to the financial statements for the first, second and third quarters of 2020, the Bank elaborated on the possible impact of the COVID-19 virus pandemic and the implementation of the NBS Decision on Temporary Measures to Preserve the Stability of the Financial System as of March 17, 2020 and the Decision of the NBS on Temporary Measures to Mitigate Consequences of COVID-19 Pandemic in order to preserve the stability of the financial system dated 27.07.2020. These decisions regulate the measures that banks are obliged to apply in the conditions of the pandemic. In accordance with the aforementioned decisions of the NBS, in 2020 the Bank offered a delay in the repayment of liabilities to debtors twice (first and second moratorium) arising from loans, guarantees, letters of credit, approved overdrafts and other credit products.

In accordance with legal regulations and recommendations of public health institutions and the Government of the Republic of Serbia, the Bank has taken all necessary measures to ensure that all business activities of the Bank, in changed conditions, are performed with full protection of employees and clients.

[23] NBS, Macroeconomic Trends in Serbia, July, September 2020
[24] Idem
[25] Idem
[26] Republic Statistical Office, public announcement, 3.11.2020
[27] NBS, Macroeconomic Trends in Serbia, October 2020

In the first nine months of this year, inflation has been low and stable. The NBS projection is that inflation in the coming period will be around the lower limit of deviation from the target value. By the end of 2021, inflation is expected to move around the lower limit of the target value, gradually approaching the central value of the target. Inflation will be influenced by the speed of recovery of domestic demand and regulated prices, and in terms of the international environment, from the tendencies prevailing in the global trade, economic recovery, capital flows, oil prices and other primary products[28].
In the previous three years, the dinar strengthened by 5.0% against the euro, cumulatively.[29] The stability on the foreign exchange market continued during the first three quarters of 2020, so that the value of the dinar in relation to the euro is almost unchanged. In order to preserve the relative stability of the dinar in periods when there were pressures on strengthening of the dinar, the National Bank of Serbia intervened by buying foreign currency, while in the periods of higher demand for foreign currency, it intervened by selling the foreign currency on the market. In September this year, the National Bank of Serbia sold EUR 120 million net on the interbank foreign exchange market.[30] Since the beginning of the current year, the NBS has sold EUR 1,635 million net in order to maintain relative stability in the foreign exchange market.[31]

With their assessments, the three leading rating agencies confirmed Serbia's economic prospects in the future. In March 2020, Fitch Ratings reaffirmed Serbia's credit rating at BB+ with a stable outlook for further improvement. In September 2020, Moody's confirmed the rating of Serbia's credit rating at the level of Ba3+[32]. S&P reaffirmed Serbia's credit rating at BB+ in June 2020 and highlighted the stable prospects for further increase.

### *12.1. Planned and Achieved Values of Balance Sheet for the Third Quarter 2020*

At the end of the third quarter of 2020, the total balance sheet assets of the Bank amounted to 459,472 million dinars and increased by 12,693 million dinars or 2.8% compared to the planned value for the end of the year.

Investments in securities amounted to 156,169 million dinars and were by 7,741 million dinars or 5.2% above the planned amount for the whole year at the end of the third quarter of 2020.

Loans to customers amounted to 199,977 million dinars at the end of the 3rd quarter 2020. In order to achieve the planned annual level of loans to clients, it is necessary for the Bank to place funds in the amount of 1,300 million dinars in the next quarter, i.e. to achieve 0.6% growth.

At the end of the third quarter this year, total deposits amounted to 374,470 million dinars and were above the annual planned level by 11,958 million dinars or 3.3%. Retail deposits amounted to 305,379 million dinars on 30.09.2020, and were higher than the annual planned level by 8,251 million dinars or 2.8%.

Total amount of other commitments and other liabilities was 10,253 million dinars as of 30.09.2020 (mostly consisting of the balance sheet position of other liabilities", which amounted to 5,803 million dinars) and were 1,661 million dinars above the annual planned value. They are expected to be lowered and returned to the plan by the end of the year.

[28] Idem
[29] Idem
[30] NBS, State of foreign exchange reserves and movements on the interbank foreign exchange market in September, press release, 9.10.2020
[31] Idem
[32] Ministry of Finance, Current macroeconomic trends, September 2020

*Realized and planned items in assets and liabilities in the balance-sheet as of 30.09.2020 have the following values:*

*(In RSD million)*

| No. | I T E M | Plan 31.12.2020. | Realized 30.09.2020 | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(4:3)*100 |
| | **ASSETS** | | | |
| 1. | Cash and cash equivalents | 68.858 | 72.379 | 105,1 |
| 2. | Securities | 148.428 | 156.169 | 105,2 |
| 3. | **Loans to customers (3.1.+3.2.+3.3.)** | **201.278** | **199.977** | 99,4 |
| 3.1. | Corporate | 86.121 | 84.482 | 98,1 |
| 3.2. | Retail | 111.202 | 109.943 | 98,9 |
| 3.3. | Banks and financial organizations | 3.954 | 5.552 | 140,4 |
| 4. | Other assets | 28.216 | 30.947 | 109,7 |
| 5. | **TOTAL ASSETS (1.+2.+3.+4.)** | **446.779** | **459.472** | 102,8 |
| | **LIABILITIES** | | | |
| 1. | **Deposits (1.1.+1.2.+1.3.)** | **362.512** | **374.470** | 103,3 |
| 1.1. | Corporate | 50.760 | 54.002 | 106,4 |
| 1.2. | Retail | 297.128 | 305.379 | 102,8 |
| 1.3. | Banks and financial organizations | 14.624 | 15.089 | 103,2 |
| 2. | Other liabilities | 8.592 | 10.253 | 119,3 |
| 3. | **Total liabilities (1.+2.)** | **371.104** | **384.722** | 103,7 |
| 4. | **Total capital** | **75.676** | **74.750** | 98,8 |
| 5. | **TOTAL LIABILITIES (3.+4.)** | **446.779** | **459.472** | 102,8 |

### 12.2. Planned and realized values of the P&L for the period 01.01.- 30.09.2020

*(In RSD million)*

| No. | I T E M | Plan 01.01.-30.09.2020. | Realized 01.01.-30.09.2020 | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(4:3)*100 |
| 1.1. | Interest income | 9.865 | 9.882 | 100,2 |
| 1.2. | Interest expenses | (856) | (855) | 99,8 |
| 1. | **Interest gains (1.1.+1.2.)** | **9.009** | **9.027** | 100,2 |
| 2.1. | Fee and commission income | 4.940 | 4.957 | 100,3 |
| 2.2. | Fee and commission expenses | (1.277) | (1.305) | 102,2 |
| 2. | **Fee and commission gains (2.1. +2.2.)** | **3.663** | **3.652** | 99,7 |
| 3. | Net exchange differences and change in value (currency clause) | 0 | (4) | - |
| 4. | Net other operating income | 531 | 284 | 53,4 |
| 5. | Net expenses/income from impairment of financial assets that are not measured at fair value through P&L | (98) | (71) | 73,0 |
| 6. | Operating expenses | (8.692) | (8.428) | 97,0 |
| 7. | **OPERATING PROFIT (BEFORE TAX) (1+2+3+4+5+6)** | **4.413** | **4.459** | 101,0 |

In the period 01.01.- 30.09.2020 the Bank realized profit before tax of 4.459 million dinars which is 46 million or 1,0% above the value planned for the same period.

Realized net interest income in the first three quarters 2020 amounted to 9.027 million dinars which is 18 million dinars above the planned value.
Net fee and commission income for the Bank, in the same period, were realized at 99.7% of the planned amount.

For the nine months of 2020 the Bank realized operating expenses in the amount of 8.428 million dinars, which is 264 million dinars or 3.0% less than the planned amount.

Net other operating income, for the three quarters of the current year were realized in the amount of 284 million dinars, which is 248 million dinars below the planned amount.

Net expenses from the decrease in impairment of financial assets that are not measured at fair value through P&L are planned in the amount of 98 million dinars and expenses were realized in the amount of 71 million dinars.

Signed on behalf of Komercijalna banka ad Beograd

Д. Романдић

Dragana Romandić
Director of the Controlling and Planning Division

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД 4

Miroslav Perić, PhD
Member of the Executive Board

# BALANCE SHEET

on 30.09.2020.

(in RSD thousand)

| POSITION | ADP code | Amount | |
|---|---|---|---|
| | | Current year ammount | Previous year ammount |
| 1 | 2 | 3 | 4 |
| **ASSETS** | | | |
| ASSETS<br>Cash and assets held with central bank | 0001 | 72.379.213 | 67.558.219 |
| Pledged financial assets | 0002 | - | - |
| Receivables under derivatives | 0003 | - | - |
| Securities | 0004 | 156.169.137 | 138.469.551 |
| Loans and receivables from banks and other financial organisations | 0005 | 16.104.140 | 24.733.958 |
| Loans and receivables from clients | 0006 | 195.692.180 | 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 | 515.983 | 665.735 |
| Property, plant and equipment | 0012 | 6.161.644 | 6.437.937 |
| Investment property | 0013 | 1.829.112 | 1.857.927 |
| Current tax assets | 0014 | 8.899 | - |
| Deferred tax assets | 0015 | 1.970.662 | 1.074.197 |
| Non-current assets held for sale and discontinued operations | 0016 | 138.017 | 196.300 |
| Other assets | 0017 | 5.069.791 | 7.100.359 |
| **TOTAL ASSETS (from 0001 to 0017)** | 0018 | 459.472.475 | 432.380.443 |
| **LIABILITIES** | | | |
| LIABILITIES<br>Liabilities under derivatives | 0401 | - | - |
| Deposits and other liabilities to banks, other financial organisations and central bank | 0402 | 4.514.431 | 5.021.756 |
| Deposits and other financial liabilities to clients | 0403 | 372.326.950 | 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 | 2.077.788 | 2.328.130 |
| Liabilities under assets held for sale and discontinued operations | 0409 | - | - |
| Current tax liabilities | 0410 | - | - |
| Deferred tax liabilities | 0411 | 871.719 | - |
| Other liabilities | 0412 | 4.931.547 | 13.861.230 |
| **TOTAL LIABILITIES (from 0401 to 0412)** | 0413 | 384.722.435 | 356.528.270 |
| **CAPITAL** | | | |
| CAPITAL<br>Share capital | 0414 | 40.034.550 | 40.034.550 |
| Own shares | 0415 | - | - |
| Profit | 0416 | 6.683.812 | 10.425.898 |
| Loss | 0417 | - | - |
| Reserves | 0418 | 28.031.678 | 25.391.725 |
| Unrealized losses | 0419 | - | - |
| Non-controlling participation | 0420 | - | - |
| **TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0** | 0421 | 74.750.040 | 75.852.173 |
| **TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0** | 0422 | - | - |
| **TOTAL LIABILITIES (0413 + 0421 - 0422)** | 0423 | 459.472.475 | 432.380.443 |

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД 4

## INCOME STATEMENT

from 01.01.2020 to 30.09.2020

(in RSD thousand)

| POSITION | ADP code | Amount – Current year 01.07.-30.09. | Amount – Current year 01.01.-30.09. | Amount – Previous year 01.07.-30.09. | Amount – Previous year 01.01.-30.09. |
|---|---|---|---|---|---|
| 1 | 2 | 3* | 4** | 5 | 6 |
| Interest income | 1001 | 3.356.277 | 9.881.963 | 3.395.104 | 10.236.023 |
| Interest expenses | 1002 | 280.594 | 854.736 | 241.936 | 775.723 |
| **Net interest gains (1001-1002)** | 1003 | 3.075.683 | 9.027.227 | 3.153.168 | 9.460.300 |
| **Net interest losses (1002-1001)** | 1004 | - | - | - | - |
| Income from fees and commissions | 1005 | 1.731.343 | 4.957.048 | 1.888.760 | 5.287.178 |
| Expenses on fees and commissions | 1006 | 459.719 | 1.305.488 | 476.058 | 1.269.926 |
| **Net gains from fees and commissions (1005 - 1006)** | 1007 | 1.271.624 | 3.651.560 | 1.412.702 | 4.017.252 |
| **Net losses on fees and commissions (1006 - 1005)** | 1008 | - | - | - | - |
| Net gains from changes in fair value of financial instruments | 1009 | 27.574 | 62.659 | 30.836 | 67.834 |
| Net losses from changes in fair value of financial instruments | 1010 | - | - | - | - |
| Net gains on reclassification of financial instruments | 1011 | - | - | - | - |
| Net losses on reclassification of financial instruments | 1012 | - | - | - | - |
| Net gains from derecognition of the financial instruments measured at fair value | 1013 | 13.203 | 121.510 | 48.311 | 249.628 |
| Net losses on derecognition of the financial instruments measured at fair value | 1014 | | - | - | - |
| Net gains from hedging | 1015 | - | - | - | - |
| Net losses on hedging | 1016 | - | - | - | - |
| Net exchange rate gains and gains from agreed currency clause | 1017 | 4.527 | - | 29.238 | 38.398 |
| Net exchange rate losses and losses on agreed currency clause | 1018 | - | 3.634 | - | - |
| Net income from reduction in impairment of financial assets not measured at fair value through income statement | 1019 | 27.712 | - | 846.766 | 2.484.718 |
| Net expenses on impairment of financial assets not measured at fair value through income statement | 1020 | - | 71.447 | - | - |
| Net gains from derecognition of the financial instruments measured at amortised cost | 1021 | - | - | 10.518 | - |
| Net losses on derecognition of the financial instruments measured at amortised cost | 1022 | - | - | - | 579.933 |
| Net gains from derecognition of investments in associated companies and joint ventures | 1023 | - | - | - | - |
| Net losses on derecognition of investments in associated companies and joint ventures | 1024 | - | - | - | - |
| Other operating income | 1025 | 45.986 | 171.152 | 44.147 | 112.641 |
| **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 | 4.466.289 | 12.959.027 | 5.575.686 | 15.850.838 |
| **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 | 1.104.711 | 4.215.167 | 1.082.355 | 3.259.962 |
| Depreciation costs | 1029 | 242.459 | 735.301 | 264.271 | 761.228 |
| Other income | 1030 | 7.500 | 742.178 | 31.423 | 440.486 |
| Other expenses | 1031 | 1.577.150 | 4.291.447 | 1.512.091 | 5.183.096 |
| **PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0** | 1032 | 1.549.469 | 4.459.290 | 2.748.392 | 7.087.038 |
| **LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0** | 1033 | - | - | - | - |
| Profit tax | 1034 | - | - | - | - |
| Gains from deferred taxes | 1035 | - | 17.252 | - | 293 |
| Losses on deferred taxes | 1036 | - | 158.749 | - | 147 |
| **PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0** | 1037 | 1.549.469 | 4.317.793 | 2.748.392 | 7.087.184 |
| **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 | 1.549.469 | 4.317.793 | 2.748.392 | 7.087.184 |
| **RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0** | 1042 | - | - | - | - |
| Profit belonging to a parent entity | 1043 | - | - | - | - |
| Profit belonging to non-controlling owners | 1044 | - | - | - | - |
| Losses belonging to a parent entity | 1045 | - | - | - | - |
| Losses belonging to non-controlling owners | 1046 | - | - | - | - |
| EARNINGS PER SHARE | | | | | |
| Basic earnings per share (in dinars, without paras) | 1047 | - | - | - | - |
| Diluted earnings per share (in dinars, without paras) | 1048 | - | - | - | - |

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

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

## STATEMENT OF OTHER COMPREHENSIVE RESULT

from 01.01.2020 to 30.09.2020

(In RSD thousand)

| POSITION | ADP code | Amount – Current year 01.07.-30.09. | Amount – Current year 01.01.-30.09. | Amount – Previous year 01.07.-30.09. | Amount – Previous year 01.01.-30.09. |
|---|---|---|---|---|---|
| 1 | 2 | 3* | 4** | 5 | 6 |
| **PROFIT FOR THE PERIOD** | 2001 | 1.549.469 | 4.317.793 | 2.748.391 | 7.087.183 |
| **LOSS FOR THE PERIOD** | 2002 | - | - | - | - |
| Other comprehensive income for the period<br>**Components of other comprehensive income which cannot be reclassified to profit or loss:**<br>Increase in revaluation reserves based on intangible assets and fixed assets | 2003 | - | 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 | 22.411 | 47.487 | 65.437 | 524.176 |
| Negative effects of change in value of equity instruments measured at fair value through other comprehensive income | 2008 | - | 863 | - | - |
| 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:**<br>Positive effects of change in value of debt instruments measured at fair value through other comprehensive income | 2015 | - | - | 885.679 | 1.497.022 |
| Negative effects of change in value of debt instruments measured at fair value through other comprehensive income | 2016 | 417.311 | 1.162.809 | - | - |
| 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 | 62.597 | 174.551 | - | - |
| Tax losses relating to other comprehensive income for the period | 2028 | 3.362 | 8.307 | 142.668 | 303.180 |
| **Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028 ) ≥ 0** | 2029 | - | - | **808.448** | **1.718.018** |
| **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 | **335.665** | **942.047** | - | - |
| **TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0** | 2031 | **1.213.804** | **3.375.746** | **3.556.839** | **8.805.201** |
| **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.

БЕОГРАД

## CASH FLOW STATEMENT

from 01.01.2020 to 30.09.2020

(in RSD thousand)

| | POSITION | ADP code | Amount 01.01.-30.09.2020. | Amount 01.01.-30.09.2019. |
|---|---|---|---|---|
| | 1 | 2 | 3* | 4 |
| A. | **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| I. | **Cash inflow from operating activities (from 3002 to 3005)** | 3001 | 14.606.083 | 17.532.481 |
| 1. | Interest | 3002 | 9.190.041 | 11.117.452 |
| 2. | Fees | 3003 | 5.015.197 | 5.349.601 |
| 3. | Other operating income | 3004 | 391.789 | 1.056.575 |
| 4. | Dividends and profit sharing | 3005 | 9.056 | 8.853 |
| II. | **Cash outflow from operating activities (from 3007 to 3011)** | 3006 | 8.522.230 | 9.055.780 |
| 5. | Interest | 3007 | 578.773 | 597.571 |
| 6. | Fees | 3008 | 1.339.014 | 1.230.824 |
| 7. | Gross salaries, salary compensations and other personal expenses | 3009 | 2.966.743 | 2.914.569 |
| 8. | Taxes, contributions and other duties charged to income | 3010 | 619.466 | 636.150 |
| 9. | Other operating expenses | 3011 | 3.018.234 | 3.676.666 |
| III. | **Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)** | 3012 | 6.083.853 | 8.476.701 |
| 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 | 36.984.560 | 8.025.551 |
| 10. | Decrease in loans and receivables from banks, other financial organisations, central bank and clients | 3015 | - | - |
| 11. | Decrease in receivables under securities and other financial assets not intended for investment | 3016 | 283.032 | - |
| 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 | 36.701.528 | 8.025.551 |
| 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 | 3.026.312 | 12.367.426 |
| 16. | Increase in loans and receivables from banks, other financial organisations, central bank and clients | 3022 | 3.026.312 | 11.010.757 |
| 17. | Increase in receivables under securities and other financial assets not intended for investment | 3023 | | 1.356.669 |
| 18. | Increase in receivables under hedging derivatives and change in fair value of hedged items | 3024 | - | - |
| 19. | Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients | 3025 | - | - |
| 20. | Decrease in other financial liabilities | 3026 | - | |
| 21 | Decrease in liabilities under hedging derivatives and change in fair value of hedged items | 3027 | - | - |
| VII. | **Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)** | 3028 | 40.042.101 | 4.134.826 |
| VIII. | **Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)** | 3029 | - | - |
| 22. | Profit tax paid | 3030 | 8.899 | - |
| 23. | Dividends paid | 3031 | 14.230.957 | - |
| IX. | **Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)** | 3032 | 25.802.245 | 4.134.826 |
| X. | **Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)** | 3033 | - | - |
| B. | **CASH FLOWS FROM INVESTMENT ACTIVITIES** | | | |
| I | **Cash inflow from investing activities (from 3035 to 3039)** | 3034 | 16.504.969 | 40.891.980 |
| 1 | Investment in investment securities | 3035 | 16.504.969 | 40.891.980 |
| 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 | 37.452.235 | 40.109.758 |
| 6. | Investment into investment securities | 3041 | 37.345.501 | 39.694.278 |
| 7. | Purchase of investments into subsidiaries and associated companies and joint ventures | 3042 | - | - |
| 8. | Purchase of intangible investments, property, plant and equipment | 3043 | 106.734 | 415.480 |
| 9. | Purchase of investment property | 3044 | - | - |
| 10. | Other outflow from investing activities | 3045 | - | |
| III. | **Net cash inflow from investing activities (3034 - 3040)** | 3046 | - | 782.222 |
| IV. | **Net cash outflow from investing activities (3040 - 3034)** | 3047 | 20.947.266 | - |
| C. | **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| I. | **Cash inflow from financing activities (from 3049 to 3054)** | 3048 | 217.096.441 | 67.887.450 |
| 1. | Capital increase | 3049 | - | - |
| 2. | Subordinated liabilities | 3050 | - | - |
| 3. | Loans taken | 3051 | 217.096.441 | 67.887.450 |
| 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 | 216.071.089 | 68.999.665 |
| 7. | Purchase of own shares | 3056 | - | - |
| 8. | Subordinated liabilities | 3057 | - | - |
| 9. | Loans taken | 3058 | 215.739.602 | 68.714.927 |
| 10. | Issuance of securities | 3059 | - | - |
| 11. | Other outflow from financing activities | 3060 | 331.487 | 284.738 |
| III. | **Net cash inflow from financing activities (3048 - 3055)** | 3061 | 1.025.352 | - |
| IV. | **Net cash outflow from financing activities (3055 - 3048)** | 3062 | - | 1.112.215 |
| D. | **TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048)** | 3063 | 285.192.053 | 134.337.462 |
| E. | **TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)** | 3064 | 279.311.722 | 130.532.629 |
| F. | **NET INCREASE IN CASH (3063 - 3064)** | 3065 | 5.880.331 | 3.804.833 |
| G. | **NET DECREASE IN CASH (3064 - 3063)** | 3066 | - | - |
| H. | **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | 3067 | 40.866.651 | 40.375.748 |
| I. | **EXCHANGE RATE GAINS** | 3068 | 398.717 | 403.916 |
| J. | **EXCHANGE RATE LOSSES** | 3069 | 407.253 | 278.699 |
| K. | **CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)** | 3070 | 46.738.446 | 44.305.798 |

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 30.09.2020.

(in RSD thousand)

| ITEM | ADP code | Share capital and other equity (accounts 800, 801,803, 809) | ADP code | Own shares (account 128) | ADP code | Issue premium (account 802) | ADP code | Reserves from profit and other reserves (account group 81) | ADP code | Revaluation reserves (account group 82 credit balance) | ADP code | Revaluation reserves (account group 82 debit balance) | ADP code | Profit (group of accounts 83) | ADP code | Loss (accounts 340,341,842) | ADP code | Non-controlling participation | ADP code | Total (columnS 2-3+4+5-6-7+8-9+10)≥0 | ADP code | Total (columnS 2-3+4+5-6-7+8-9+10)<0 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | | 8 | | 9 | | 10 | | 11 | | 12 |
| **Opening balance as at 1 January of the previous year** | 4001 | 17.191.466 | 4033 | | 4065 | 22.843.084 | 4097 | 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 | 3.288.073 | 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 | 942.047 | 4163 | | | | x | | 4270 | | | | | |
| Profit for the current year | | | | | | | | | | | | | 4190 | 4.317.793 | 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 | 3.582.000 | | | | | 4195 | | 4233 | | 4277 | | | | | |
| Distribution of profit and/or coverage of losses – decrease | 4026 | | 4058 | | 4090 | | 4122 | | | | | | 4196 | 3.582.000 | 4234 | | 4278 | | | | | |
| Dividend payments | 4027 | | 4059 | | 4091 | | 4123 | | | | | | 4197 | 4.477.879 | 4235 | | 4279 | | | | | |
| Other – increase | 4028 | | 4060 | | 4092 | | 4124 | | | | | | 4198 | | 4236 | | 4280 | | | | | |
| Other – decrease | 4029 | | 4061 | | 4093 | | 4125 | | | | | | 4199 | 529.437 | 4237 | | 4281 | | | | | |
| **Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0** | 4030 | 0 | 4062 | 0 | 4094 | 0 | 4126 | 3.582.000 | | 0 | | | 4200 | 0 | 4238 | 0 | 4282 | | | | | |
| **Total transactions with owners (No 31-32+33-34-35+36- 37) < 0** | 4031 | 0 | 4063 | 0 | 4095 | 0 | 4127 | 0 | | 0 | | | 4201 | 8.059.879 | 4239 | 0 | 4283 | | | | | |
| **Balance as at 30 September of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)** | 4032 | 17.191.466 | 4064 | 0 | 4096 | 22.843.084 | 4128 | 22.147.207 | 4146 | 5.884.471 | 4164 | 0 | 4202 | 6.683.812 | 4240 | 0 | 4284 | | 4290 | 74.750.040 | 4296 | |

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД

КОМЕРЦИЈАЛНА БАНКА
АД Београд

# NOTES

## TO FINANCIAL STATEMENTS FOR THE THIRD QUARTER OF 2020

**Belgrade, November 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 30 September 2020, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 6 business centers, three sectors for work with small and medium-sized enterprises, 1 branch and 203 sub-branches.

As of 30 September 2020, the Bank had 2,690 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.

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

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, P&L, 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.

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

*Subsequent valuation of lease asset and liability:*

In accordance with IFRS 16 the Bank as leaseholder/lessee recognizes 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*, recognized purchase value is reduced by:

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

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

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

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

- Present value of leasing 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 amortized 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 P&L – “recycling“(FVOCI)
d) Financial assets valued at fair value through other comprehensive income, without recognition through the P&L (FVOCI)

In accordance with the classification of the assets referred to in the previous paragraph, the Bank categorizes 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 P&L, OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ASSESSMENTS AND ASSUMPTIONS

### BALANCE SHEET

The structure of the Bank's balance sheet as of 30 September 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

| | 30.09.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| ASSETS | Amount | % | Amount | % |
| Cash and cash funds held with the central bank | 72,379,213 | 15.75 | 67,558,219 | 15.62 |
| Securities | 156,169,137 | 33.99 | 138,469,551 | 32.03 |
| Loans and receivables due from banks and other | | | - | - |
| financial organizations | 16,104,140 | 3.51 | 24,733,958 | 5.72 |
| Loans and receivables from customers | 195,692,180 | 42.59 | 180,852,563 | 41.83 |
| Investments in subsidiaries | 3,433,697 | 0.75 | 3,433,697 | 0.79 |
| Intangible assets | 515,983 | 0.11 | 665,735 | 0.15 |
| Property, plant and equipment | 6,161,644 | 1.34 | 6,437,937 | 1.49 |
| Investment property | 1,829,112 | 0.40 | 1,857,927 | 0.43 |
| Current tax assets | 8,899 | - | 1,074,197 | 0.25 |
| Deferred tax assets | 1,970,662 | 0.43 | | |
| Non-current assets held for sale and assets from | | | 196,300 | 0.05 |
| discontinued operations | 138,017 | 0.03 | 7,100,359 | 1.64 |
| Other assets | 5,069,791 | 1.10 | | |
| **TOTAL ASSETS** | **459,472,475** | **100.00** | **432,380,443** | **100.00** |

| LIABILITIES | Amount | % | Amount | % |
|---|---|---|---|---|
| Deposits and other financial liabilities to banks, other financial organizations and the Central Bank | 4,532,788 | 0.99 | 5,021,756 | 1.16 |
| Deposits and other financial liabilities to other customers | 359,771,391 | 78.62 | 335,317,154 | 77.55 |
| Provisions | 1,844,969 | 0.40 | 2,328,130 | 0.54 |
| Deferred tax liabilities | - | - | - | - |
| Other liabilities | 17,936,010 | 3.92 | 13,861,230 | 3.21 |
| **Total liabilities** | **384,085,158** | **83.93** | **356,528,270** | **82.46** |
| **Capital** | | | | |
| Share capital | 40,034,550 | 8.75 | 40,034,550 | 9.26 |
| Profit | 5,134,343 | 1.12 | 10,425,898 | 2.41 |
| Reserves | 28,367,343 | 6.20 | 25,391,725 | 5.87 |
| **Total capital** | **73,536,236** | **16.07** | **75,852,173** | **17.54** |
| **TOTAL LIABILITIES** | **457,621,394** | **100.00** | **432,380,443** | **100.00** |

## INCOME STATEMENT

Income and expense structure for 2020 as follows:

In thousand RSD

| | 30.09.2020 | 30.09.2019 |
|---|---|---|
| INCOME | Total | Total |
| Interest income | 9,881,963 | 10,236,023 |
| Interest expenses | (854,736) | (775,723) |
| **Net interest income** | **9,027,227** | **9,460,300** |
| Fee and commission income | 4,957,048 | 5,287,178 |
| Fee and commission expenses | (1,305,488) | (1,269,926) |
| **Net fee and commission income** | **3,651,560** | **4,017,252** |
| Net gain from changes in fair value of financial instruments | 62,659 | 67,834 |
| Net gain based on derecognition of financial instruments that are measured at fair value | 121,510 | 249,628 |
| Net income from exchange differentials and the effects of agreed currency clause | - | 38,398 |
| Net expense from exchange differentials and the effects of agreed currency clause | (3,634) | - |
| Net income from reduced impairment of financial assets that are not measured at fair value through P&L | - | 2,484,718 |
| Net expense from impairment of financial assets that are not measured at fair value through P&L | (71,447) | - |
| Net loss from ending the recognition of financial instruments that are measured at amortized value | - | (579,933) |
| Other operating income | 171,152 | 112,641 |
| **Total net operating income** | **12,959,027** | **15,850,838** |
| Cost of salaries, allowances and other personnel expenses | (4,215,167) | (3,259,962) |
| Depreciation cost | (735,301) | (761,228) |
| Other income | 742,178 | 440,486 |
| Other expenses | (4,291,447) | (5,183,096) |

| | | |
|---|---|---|
| **Profit /loss before tax** | **4,459,290** | **7,087,038** |
| **Profit from deferred tax** | **17,252** | **293** |
| **Loss from deferred tax** | **(158,749)** | **(147)** |
| **Result for the period (profit /loss)** | **4,317,793** | **7,087,184** |

CASH FLOW STATEMENT

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

In thousand RSD

| | 30.09.2020 | 30.09.2019 |
|---|---|---|
| Item | Total | Total |
| **Cash inflows from operating activities** | **14,606,083** | **17,532,481** |
| Inflow from interest | 9,190,041 | 11,117,452 |
| Inflow from fees | 5,015,197 | 5,349,601 |
| Inflow from other operating activities | 391,789 | 1,056,575 |
| Inflow from dividends and share in profit | 9,056 | 8,853 |
| **Cash outflows from operating activities** | **(8,522,230)** | **(9,055,780)** |
| Outflow from interest payments | (578,773) | (597,571) |
| Outflow from fee payments | (1,339,014) | (1,230,824) |
| Outflows from payments for gross salaries, allowances and other personnel expenses | (2,966,743) | (2,914,569) |
| Outflow from taxes, contributions and other duties charged to expense | (619,466) | (636,150) |
| Outflows for other operating expenses | (3,018,234) | (3,676,666) |
| **Net cash inflow from operating activities before increase or decrease in financial assets and financial liabilities** | **6,083,853** | **8,476,701** |
| **Decrease in financial assets and increase in financial liabilities** | **(36,984,560)** | **(8,025,551)** |
| Decrease in receivables from securities and other financial assets not intended for investment | (283,032) | - |
| Increase in deposits and other financial liabilities towards banks and other financial organizations, central bank and customers | (36,701,528) | (8,025,551) |
| **Increase in financial assets and decrease in financial liabilities** | **3,026,312** | **12,367,426** |
| Increase in loans and receivables from banks, other financial organizations, central bank and customers | 3,026,312 | 11,010,757 |
| Increase in receivables based on securities and other financial assets not intended for investment | - | 1,356,669 |

| Item | 30.09. 2020<br>Total | 30.09.2019<br>Total |
|---|---|---|
| **Net inflow of cash from operating activities before profit tax** | **40,042,101** | **4,134,826** |
| **Net outflow of cash from operating activities before profit tax** | **-** | **-** |
| **Paid profit tax** | 8,899 | |
| **Paid dividends** | 14,230,957 | |
| **Net inflow of cash from operating activities** | **25,802,245** | **4,134,826** |
| **Net outflow of cash from operating activities** | **-** | **-** |
| **Cash inflow from investment activities** | **16,504,969** | **40,891,980** |
| Inflow from investment securities | 16,504,969 | 40,891,980 |
| **Cash outflow from investment activities** | **(37,452,235)** | **(40,109,758)** |
| Outflow from investing in investment securities | (37,345,501) | (39,694,278) |
| Outflow for purchase of intangible assets, property, plants and equipment | (106,734) | (415,480) |
| **Net inflow of cash from investment activities** | **-** | **782,222** |
| **Net outflow of cash from investment activities** | **(20,947,266)** | **-** |
| **Cash inflow from financing activity** | **217,096,441** | **67,887,450** |
| Inflow from borrowings | 217,096,441 | 67,887,450 |
| **Cash outflow from financing activity** | **(216,071,089)** | **(68,999,665)** |
| Outflow of cash from borrowings | (215,739,602) | (68,714,927) |
| Other outflows from financing activity | (331,487) | (284,738) |
| **Net inflow of cash from financing activity** | **1,025,352** | **-** |
| **Net outflow of cash from financing activity** | **-** | **(1,112,215)** |
| **Total cash inflow** | **285,192,053** | **134,337,462** |
| **Total cash outflow** | **(279,311,722)** | **(130,532,629)** |
| **Net increase in cash** | **5,880,331** | **3,804,833** |
| **Net decrease in cash** | **-** | **-** |
| **Cash and cash equivalents at the start of the year** | **40,866,651** | **40,375,748** |
| Exchange rate gains | 398,717 | 403,916 |
| Exchange rate loss | (407,253) | (278,699) |
| **End of period cash and cash equivalents** | **46,738,446** | **44,305,798** |

# 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 amortized 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 amortized 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 recognized 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 recognized as interest income.

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

Net interest income in the period January – September 2020 amounts to RSD 9,027,227 thousand and is lower by RSD 433,073 thousand or 4.58% compared to the same period last year.

Realized net interest income is higher compared to the planned values from the Business plan for the first nine months of 2020 by 18,349 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 P&L 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 recognized as fee income.

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

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

Net fee and commission income in the period January – September 2020 amounts to RSD 3,651,560 thousand and is lower compared to the same period 2019 by 9.10% or RSD 365,692 thousand.

### 3.3. Net profit 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 profit on the basis of the change in the fair value of financial instruments held for trading in the amount of RSD 62,659 thousand (bonds of the Republic of Serbia and investment units of Kombank money fund).

When derecognizing the securities at fair value through other comprehensive income with recognition through income statement (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 when derecognizing the securities at fair value through income statement the previously formed amounts that relate to the change in the value are also recognized in the income statement as gains or loss from derecognition.

On the basis of derecognition of financial instruments that are measured at fair value through income statement and other comprehensive income net gains from sale were recorded in the amount of RSD 121,510 thousand (bonds and T-bills of the Republic of Serbia).

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

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

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

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

Net FX gains and losses arising from business transactions in foreign currency and when restating the balance sheet items shown in foreign currency, were booked as credited or charged to the P&L 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 – September 2020 amount to RSD 3,634 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 amortized cost, and securities measured at fair value through other comprehensive income.

Amortized 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 recognizes the impairment provision for all financial instruments measured at the amortized 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 recognized loss due to impairment.

In the period January – September 2020 the Bank recorded the net expense 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 71,447 thousand, while in the same period of 2019 net income on this basis totaled RSD 2,484,718 thousand. In the same period 2019 the dominant effect on the item net income came from the release of indirect write-off of share in the equity of subsidiary banks that are measured at purchasing value, on the basis of the revaluation of the share in subordinate legal entities in the amount of 826,714 thousand dinars and collection of receivables from February 2019 that the Bank realized with the implementation of the contract between two clients, in accordance with the provisions of the legally valid pre-packaged reorganization plan in the amount of 442,089 thousand dinars). In the current reporting period 2020 the most significant effects are presented below.

Net negative effect of group and individual calculation of impairment provisions for loans, other receivables and off-balance sheet items in the period January – September 2020 amounted to RSD 236,748 thousand.

Net expense based on reduction of debt securities measured at fair value through other comprehensive income amounts to RSD 55,321 thousand in the third quarter of 2020.

The positive effect relates to the collection of written-off receivables in the amount of 220,622 thousand dinars. Of the total amount of collected written-off receivables, the bulk relates to the collection of loans to legal entities in the amount of 112,103 thousand dinars.

### 3.6. Other operating income

In the overall other operating income amounting to RSD 171,152 thousand the most considerable share of 93.21% represents income from operating activities (the same period last year 90.46%), which mostly relate to income realized from lease of property amounting to RSD 111,786 thousand. Other operating income is realized from reimbursement of expenses based on: court and utility costs, income from collected expenses of official mobile phones as per authorization 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 11,618 thousand are shown as income from dividends at the moment of their collection. Out of the total amount of collected dividends, RSD 7,019 thousand relate to the dividend received from VISA Inc. USA, while RSD 1,522 thousand relates to the dividend received from MasterCard USA. In the third quarter 2020 income from dividends from investment into shares of the company Dunav was collected in the amount of 3,077 thousand dinars.

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

Costs of wages, allowances and other personnel expenses in the amount of RSD 4,215,167 thousand are higher by RSD 955,205 thousand or 29.30% against the same period last year. In the structure of increase in the cost of salaries, salary allowance and other personnel expenses, the greatest share comes from other personnel expenses for annual bonus to employees in the amount of 895,576 thousand dinars.

### 3.8. Depreciation Costs

Depreciation costs amounting to RSD 4,215,167 thousand are lower than in period January – September 2019 by RSD 25,927 thousand or 3.41%.

### 3.9. Other Income

In total other income in the amount of RSD 742,178 thousand the most significant share of 95.81% is that of the release of unused provisions for court disputes in the amount of RSD 711,048 thousand (reference note 3.18.). Other income has a share of 4.19%, and/or RSD 31,130 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 7,531 thousand.

### 3.10. Other Expenses

Other expenses are stated in the amount of RSD 4,291,447 thousand and are lower compared to the same period last year by RSD 891,649 thousand or 17.20%. Other expenses comprise:

a) operating expenses amounting to RSD 3,513,772 thousand,
b) cost of provisions for court proceedings liabilities amounting to RSD 526,583 thousand,
c) Other expenses amounting to RSD 251,092 thousand.

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

*a) Operating expenses in the total amount of RSD 3,513,772 thousand, namely:*

intangible costs totaling RSD 1,723,679 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 1,099,959 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 289,995 thousand, property security expenses in the amount of RSD 186,478 thousand, costs of maintenance of IT equipment and software amounting to RSD 155,218 thousand, electricity costs of 96,727 thousand dinars, advertising and commercial propaganda costs in the country of RSD 90,638 thousand, costs of lawyer services amounting to RSD 89,322, costs of current maintenance of commercial space and other equipment in the amount of 76,973 thousand dinars, cost of cash in transit of 66,859 thousand dinars, cost of advertising sign fee of 57,361 thousand dinars, costs of commuting to and from work of RSD 52,520 thousand, costs of material in amount of RSD 226,479 thousand, tax costs amounting to RSD 116,759 thousand, contribution costs amounting to RSD 522,420 thousand and other expenses in amount of RSD 13,380 thousand.

Operating expenses of the current period are lower compared to the same period last year by RSD 258,773 thousand (mostly resulting from lower deposit insurance costs).

*b) Costs of provisions* for court liabilities in the amount of RSD 526,583 thousand relate to increase of provisions for Bank's court liabilities in 2020 (reference Note 3.18.), and

*c) Other expenses in the amount of RSD 251,092 thousand.*

Out of total amount of other expenses for period January – September 2020 in amount *of* RSD *251,092* thousand the largest part relates to costs of the insurance policies for receivables of the loan users in the amount of RSD 159,801 thousand. Other expenses on this basis in the same period of 2019 amounted to RSD 160,976 thousand.

Compared to the same period 2019, other expenses are lower by RSD 86,496 thousand principally as a result, on one side, the decrease in other expenses (decrease of 76,536 thousand dinars) and decreased cost of insurance of users of account sets (decrease of 48,075 thousand dinars), and on the other hand, an increase in expenses for lost court cases (increase of 24,798 thousand dinars), increase in the costs of the forced collection procedure (increase by RSD 7,958 thousand), cost of monetary penalty, contractual and other penalties (increase of 2,162 thousand dinars) and other expenses from interest from court cases from previous years (increase of 1,823 thousand dinars).

### 3.11. Profit/loss from deferred tax

As of 30.09.2020 the Bank posted in the income statement a net profit from the effect of deferred tax in the amount of 141,487 thousand dinars (profit in the amount of 17,252 thousand dinars and loss in the amount of 158,749 thousand dinars).

## BALANCE SHEET

Overall balance sheet total as of 30.09.2020 amounts to RSD 459,472,475 thousand, and represents an increase by RSD 27,092,032 thousand or 6.27% 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 46.10% (2019: 47.55%), securities with a share of 33.99% (2019: 32.03%), cash and funds with the central bank with a share of 15.75% (2019: 15.62%), other assets with a share of 1.10% (2019: 1.64%), property, plant and equipment with a share of 1.34% (2019: 1.49%) and investment in subsidiaries 0.75% (2019: 0.79%).

### 3.12. Cash and Funds with the Central Bank

Cash and balances with the central bank as at 30.09.2020 amount to RSD 72,379,213 thousand, and account for 15.75% of Bank's total assets (15.62% as at 31.12.2019). Compared to 31.12.2019, the position is higher by RSD 4,820,994 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.

## 3.13. Securities

Investments in securities in the amount of RSD 156,169,137 thousand represent a percentage of share of 33.99% 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 10,121,450 thousand and securities measured at fair value through other comprehensive income in the amount of RSD 145,205,117 thousand and securities measured at amortized value in the amount of 842,579 thousand dinars.

Increase of investing in securities is realized compared to 2019 by RSD 17,699,586 thousand, or 12.78%. Realized growth of RSD 17,699,586 thousand is a result of, on the one hand, increase of the securities that are measured at fair value through other comprehensive income by RSD 17,024,585 thousand and also the increase in the securities measured at amortized value of 842,570. On the other hand there was a decrease in securities measured at fair value through income statement of 167,569.

The largest share in the securities structure in RSD is that of the Republic of Serbia bonds (97.34%), T-bills of the Republic of Serbia (1.12%), corporate bonds of state-owned enterprises (0,95%) 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 (94.72%), bonds based on earlier FX savings (0.50%), and bonds of foreign banks and states (4.77%).

## 3.14. 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 30.09.2020, the loans and receivables from banks and other financial organizations amount to RSD 16,104,140 thousand with percentage of share of 3.51% of total assets (2019: 24,733,958 thousand) and are lower by RSD 8,629,818 thousand. The decrease against 31.12.2019 results mostly from the decrease in RSD denominated repurchase transactions by RSD 12,999,880 thousand, on the one hand, and increase in regular FX current accounts abroad of 3,933,496 thousand dinars, on another.

Loans and receivables from customers as at 30.09.2020 amount to RSD 195,692,180 thousand and with percentage of share of 42.59% of total assets (2019: 180,852,563 thousand) have dominant share in structure of assets. Total loans to customers are higher by 8.21% against 2019, and/or by RSD 14,839,617 thousand as the result of net increase in newly approved loans, on the one hand, and decrease in lending due to early and regular repayment, on another, as well as due to the net effect of the calculation and recognition of impairments.

In the period January – September 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 1,759,707 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.

### 3.15. Investment in Subsidiaries

Investments in subsidiaries are RSD 3,433,697 thousand and account for 0.75% of total assets.
The ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with subsidiaries, as a part of regular operations. These include primarily loans and deposits.

Investments in subsidiaries as of 30.09.2020 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 30.09.2020, 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.

### 3.16. 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 3.41% of total assets, of which the highest percentage relates to property, plant and equipment in the amount of 1.34%, other assets in the amount of 1.10% and deferred tax assets in the amount of 0.43%.

Investments in equity of banks, foreign and local legal entities as of 30.09.2020 amount to RSD 1,998,546 thousand measured at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 1,907,497 thousand, and these are the shares in the companies MASTER Card International and VISA INC.

Compared to 31.12.2019 (balance-sheet date), when deferred tax assets are reconciled with deferred tax liabilities, as of 30.09.2020 deferred tax assets and deferred tax liabilities are shown in total amounts without reconciliation. As of 30.09.2020 the assets in the balance-sheet show the deferred tax assets in the amount of 1,970,662 thousand dinars.

Deferred tax assets as of 30.09.2020, if we observe the deferred taxes on gross principle, mostly consist of deferred tax assets based on tax losses carried forward, equal RSD 1,198,592 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 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) | Decrease (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 |
| 30.06.2020. | - | (60,758) | 1,198,592 |
| TOTAL | 2,984,444 | (1,785,852) | 1,198,592 |

The term prescribed for the use of tax losses carried forward is 5 years, so the deadline for the use of the remaining tax losses carried forward is until 2021, inclusive.

An important item in deferred tax assets, if we observe the amounts before netting, in the amount of 330,553 thousand dinars, consist also of tax assets based on temporarily non-recognized expenses on the grounds of impaired property, as well as tax assets on the grounds of provision for court cases in the amount of 167,750 thousand dinars.

On the basis of the filed tax receipt and tax balance for 2019, the Bank makes an advance payment of profit tax. A total of 8.899 thousand dinars was paid until 30.09.2020. Given that for 2020 the Bank will not have an obligation to pay profit tax, due to the coverage with the tax loss carried forward, advance payments will be used for future periods or a request will be made for their refund.

## LIABILITIES

In period January – September 2020, in the structure of liabilities deposits and other financial liabilities to banks and customers still have a dominant share with total percentage of 82.02% (2019: 78.71%) in total liabilities. The share of capital in total liabilities stands at 16.27% (2019: 17.54%).

Other positions make for 1.71% of total liabilities which mainly refers to other liabilities with the percentage of 1.07%.

### 3.17. 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 372,326,950 thousand, which make for 81.04% 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 4,514,431 thousand with share of 0.98% (2019: 1.16%).

Total deposits to customers, banks, other financial organizations and central bank amounted to RSD 376,841,381 thousand and compared to 2019 they are higher by RSD 36,502,471 thousand: transaction deposits are higher by RSD 24,430,586 thousand, while other deposits recorded a growth amounting to RSD 12,071,885 thousand.

Net increase in transaction deposits was the result of an increase in dinar transaction deposits amounting to RSD 21,901,121 thousand, while transaction deposits in foreign currency recorded an increase of RSD 2,529,465 thousand compared to 31.12. 2019. In structure of transaction deposits still prevailing are the deposits in local currency with a share of 68.92%, while the remaining 31.08% relate to deposits in foreign currency.

In the case of other deposits, deposits in foreign currency are dominant with a share of 88.46% while dinar deposits have a share of 11.54%. Foreign currency savings increased by approximately EUR 29,38 million.

*Borrowings*

Borrowings, as part of the deposit and other liabilities towards banks and other customers' position, amounted to RSD 1,145,151 thousand with a percentage of shares in the total liabilities of 0.25% and they relate to received credit lines in foreign currency. The total position is lower in relation to 2019 by RSD 281,710 thousand mostly as a result of regular and early repayments of foreign credit lines in foreign currency, as follows:

- EIB in the amount of EUR 2,032 thousand, and
- Government of the Republic of Italy in the amount of EUR 261 thousand and
- EAR in the amount of EUR 102 thousand.

As of 30.09.2020, the most considerable share in the structure of received loans relates to obligation towards the:

- European Investment Bank (EIB) with percentage of share of 99.31%

Other credit lines have a share of 0.69% and they are composed of:

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

### 3.18. Provisions

Provisions in the amount of RSD 2,077,788 thousand consist of the provisions for:
- covering of potential liabilities (litigations) in the amount of RSD 1,355,144 thousand,
- long-term employee earnings in the amount of RSD 558,483 thousand, and
- provisions for losses on off-balance sheet assets in the amount of RSD 164,161 thousand.

In the observed period, compared to 2019, there was a decrease in the provisions amounting to RSD 250,342 thousand, as a result of net decrease of the provisions on the basis of court disputes by RSD 259,730 thousand, on one hand and impairment allowance for losses from off-balance-sheet assets in the amount of 26,816 thousand dinars and an increase in the provisions for long-term earnings of employees in the amount of 36,205 thousand dinars, on the other.

**Provisions for court disputes**

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

For eleven thousand nine hundred and twenty-three as of 30.09.2020, total provisions amount to RSD 1,355,144 thousand.

Compared to 31.12.2019 there was a change in the total level of provisions in the net amount of RSD 259,730 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 184,465 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 75,265 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.

## 3.19. Deferred tax liabilities

As of 30.09.2020 deferred tax assets and deferred tax liabilities are presented in gross terms in the amount of 871,719 thousand dinars, mostly due to the increase in fair value of securities, in the amount of 851,978 thousand dinars.

## 3.20. Other liabilities

Other liabilities amount to RSD 4,931,547 thousand and compared to 2019 they are lower by RSD 8,929,683 thousand. The percentage of share of other liabilities in total liabilities is 1.07% (2019: 3.21%). The most important positions of other liabilities are: liabilities from leasing in the amount of 850,964 thousand dinars, liabilities in the calculation in dinars in the amount of 760,711 thousand dinars, liabilities in the calculation in a foreign currency in the amount of 519,120 thousand dinars, liabilities for retail RSD loan prepayments in the amount of 245,710 thousand dinars and liabilities for net salaries against expenses in the amount of 236,590 thousand dinars.

Decrease in other liabilities in the amount of 8,929,683 thousand dinars was mostly caused by a decrease in the item of liabilities from profit in the amount of 9,036,729 thousand dinars.
On the basis of the decisions of the Bank's general Meeting of Shareholders, and after fulfilling all the necessary conditions, the Executive Board of the Bank passed decisions on payment of dividends for business years 2014, 2015, 2016, 2017, 2018 and 2019. Dividends were paid in cash on 21.09.2020 to the Bank's shareholders – persons registered in the Central Securities Depository and Clearing House as lawful holders of the Bank's shares on the dividend day. At the same time, the employees were paid profit-sharing bonus for the years 2014, 2017, 2018 and 2019 whereby the liability on those grounds was also decreased.

### 3.21. Capital

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

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

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

As of 30.09.2020 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 | 22,147,207 | 18,565,207 |
| Revaluation reserves | 2,682,475 | 2,636,134 |
| Profit/loss from changes in the value of debt and equity instruments | 3,090,135 | 4,078,52 |
| Actuarial gains | 111,861 | 111,861 |
| Reserves | 28,031,678 | 25,391,725 |
| Accumulated profit | 2,366,019 | 1,470,139 |
| Profit | 4,317,793 | 8,955,759 |
| **Balance as at date** | **74,750,040** | **75,852,173** |

In accordance with the Decision of the Bank's General Meeting of Shareholders 4690/3 of 28 April 2020, profit from 2019 was distributed and on those grounds reserves from profit increased in the amount of 3,582,000 thousand dinars, which is the increase in that item compared to 31.12.2019.

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

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

The capital adequacy ratio of the Bank as of 30 September 2020, calculated on the basis of the financial statements, equals 30.43% having implemented the applicable decisions of the National Bank of Serbia for 2019.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 30.09.2020 the pecuniary part of capital is above the prescribed level.

The structure of the share capital – ordinary shares as at 30.09.2020 is as follows:

| Name of shareholder | % of share |
|---|---|
| Republic of Serbia | 83.23 |
| OTP BANKA SRBIJA (custody account) | 2.56 |
| Jugobanka a.d.., Beograd, in bankruptcy | 1.91 |
| Company Dunav osiguranje a.d., Beograd | 1.73 |
| BDD M&V INVESTMENTS AD BEOGRAD (aggregate account) | 1.62 |
| East capital (lux)-Balkan fund | 0.71 |
| 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 |
| Other | 4.00 |
| | 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 30.09.2020

### RECEIVABLES

In thousand RSD

| Subsidiaries | Advances and loans | Interest and fees | Other assets | Impairment provision | Net | Off-Balance | Total |
|---|---|---|---|---|---|---|---|
| 1. Kom.banka AD Podgorica | 712,193 | 869 | 4,992 | 7,835 | 710,219 | 1,646,124 | 2,356,343 |
| 2. Kom. Banka AD Banja Luka | 189,448 | 24 | 416 | 2,174 | 187,714 | 3,057,088 | 3,244,802 |
| 3. Kombank INVEST | - | 254 | - | 1 | 253 | 200 | 453 |
| **TOTAL:** | **901,641** | **1,147** | **5,408** | **10,010** | **898,186** | **4,703,412** | **5,601,598** |

### LIABILITIES

In thousand RSD

| Subsidiaries | Deposits and loans | Interest and fees | Other liabilities | Total |
|---|---|---|---|---|
| 1. Kom.banka AD Podgorica | 963,028 | - | 6 | 963,034 |
| 2. Kom. Banka AD Banja Luka | 182,981 | - | - | 182,981 |
| 3. Kombank INVEST | 58 | - | - | 58 |
| **TOTAL:** | **1,146,067** | **-** | **6** | **1,146,073** |

### INCOME AND EXPENSES for period 01.01. – 30.09.2020

In thousand RSD

| Subsidiaries | Interest income | Fee and commission income and other income | Interest expenses | Fee and commission expenses | Net income / expenses |
|---|---|---|---|---|---|
| 1. Kom.banka AD Podgorica | 7,590 | 3,272 | (1,039) | - | 9,823 |
| 2. Kom. Banka AD Banja Luka | 2,757 | 933 | - | (147) | 3,543 |
| 3. Kombank INVEST | - | 1,675 | - | - | 1,675 |
| **TOTAL:** | **10,347** | **5,880** | **(1,039)** | **(147)** | **15,041** |

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange gains in the amount of RSD 26,619 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 – 30.09.2019

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 | 45 | 4,160 | (1,757) | (100) | 2,348 |
| 2. Kom. Banka AD Banja Luka | 1,561 | 3,398 | - | (263) | 4,696 |
| 3. Kombank INVEST | - | 1,397 | - | - | 1,397 |
| **TOTAL:** | **1,606** | **8,955** | **(1,757)** | **(263)** | **8,441** |

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange loss in the amount of RSD 13,456 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 process, as well as external auditor's requirements, during the third 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.

**Downgrade Risk**

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

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

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

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

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

**Risk of Change in Value of Assets – assets delinquency**

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

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

**Risk of Change in Value of Assets – assets delinquency**

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.

***Individual Assessment***

- 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:

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

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

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

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

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

For the calculation of EAD for stage 1, the 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).

In the conditions of the COVID-19 virus pandemic and the need to include additional expert assessments – which is necessary due to the lack of reasonable and supported information – in the expected movement of the default rates, the Bank assumed that the effects of this pandemic will result in a combination of V and U curves' scenarios, which are characterized by smaller effects during 2020, to increase the negative effects during 2021, with the expected recovery in 2022.

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. Exceptionally, the update of PD for the second half of the year is done for the date June 30 with the data as of May 31, of the current year.

**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 September 30, 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).

000 RSD

| | 30.09.2020. | | 31.12.2019. | |
|---|---|---|---|---|
| | Gross | Net | Gross | Net |
| **I. Assets** | **483,339,795** | **459,472,475** | **456,990,222** | **432,380,443** |
| Cash and cash funds held with the central bank | 72,379,213 | 72,379,213 | 67,558,219 | 67,558,219 |
| Loans and receivables due from banks and other financial institutions | 16,323,629 | 16,104,140 | 24,952,308 | 24,733,958 |
| Loans and receivables due from customers | 206,246,977 | 195,692,180 | 192,872,896 | 180,852,563 |
| Financial assets | 156,177,131 | 156,169,137 | 138,470,153 | 138,469,551 |
| Other assets | 7,315,393 | 5,069,791 | 9,339,310 | 7,100,360 |
| Non-montary assets | 24,897,453 | 14,058,014 | 23,797,336 | 13,665,793 |
| **II. Off-Balance Sheet Items** | **47,592,693** | **47,428,533** | **53,123,735** | **52,932,759** |
| Payment guarantees | 3,843,946 | 3,821,493 | 4,210,006 | 4,185,429 |
| Performance bonds | 5,462,809 | 5,424,005 | 4,764,048 | 4,722,824 |
| Irrevocable commitments | 38,000,613 | 37,922,929 | 43,588,232 | 43,487,483 |
| Other items | 285,324 | 260,106 | 561,449 | 537,023 |
| **Total (I+II)** | **530,932,488** | **506,901,009** | **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***

000 RSD

| 30.09.2020. | Stage 1 | Stage 2 | Stage 3 | Total | Impairment of Stage 1 | Impairment of Stage 2 | Impairment of Stage 3 | Total impairment | Net |
|---|---|---|---|---|---|---|---|---|---|
| Housing Loans | 43,998,611 | 500,513 | 863,549 | 45,362,673 | 22,161 | 3,032 | 404,174 | 429,367 | 44,933,305 |
| Cash Loans | 38,067,252 | 326,050 | 200,081 | 38,593,383 | 165,451 | 9,594 | 151,281 | 326,327 | 38,267,056 |
| Agricultural Loans | 12,342,942 | 84,404 | 222,380 | 12,649,726 | 144,157 | 4,925 | 89,822 | 238,904 | 12,410,822 |
| Oher Loans | 5,037,588 | 34,780 | 126,439 | 5,198,808 | 35,743 | 913 | 122,177 | 158,833 | 5,039,974 |
| Micro business | 8,589,750 | 1,358,314 | 424,807 | 10,372,871 | 144,224 | 43,272 | 230,880 | 418,376 | 9,954,495 |
| **Total Retail** | **108,036,143** | **2,304,061** | **1,837,256** | **112,177,460** | **511,736** | **61,737** | **998,335** | **1,571,808** | **110,605,653** |
| Large corporate clients | 28,139,672 | 7,082,717 | 6,262,552 | 41,484,941 | 95,607 | 23,668 | 3,774,539 | 3,893,814 | 37,591,127 |
| Middle corporate clients | 7,707,504 | 869,048 | 668,384 | 9,244,936 | 28,425 | 5,479 | 311,164 | 345,068 | 8,899,868 |
| Small corporate clients | 3,046,387 | 449,989 | 779,213 | 4,275,588 | 21,072 | 6,378 | 386,507 | 413,957 | 3,861,632 |
| State owned clients | 19,610,204 | 5,893,232 | 170,325 | 25,673,761 | 55,058 | 216,015 | 132,075 | 403,148 | 25,270,613 |
| Other | 9,369,897 | 926 | 4,019,468 | 13,390,291 | 198,640 | 36 | 3,728,327 | 3,927,003 | 9,463,288 |
| **Total Corporate** | **67,873,664** | **14,295,912** | **11,899,940** | **94,069,517** | **398,801** | **251,576** | **8,332,612** | **8,982,989** | **85,086,528** |
| **Total** | **175,909,808** | **16,599,973** | **13,737,196** | **206,246,977** | **910,537** | **313,313** | **9,330,947** | **10,554,796** | **195,692,180** |
| **Due from Banks** | **16,118,915** | **-** | **204,714** | **16,323,629** | **14,774** | **-** | **204,714** | **219,489** | **16,104,140** |

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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** |

The increase Level 2 exposures is the result of the analysis of clients whose activities are oriented towards industries that are particularly exposed to the effects of the potential crisis caused by the COVID-19 pandemic, which resulted, together with additional overlay, in a slight of impairment level in stage 2. The decrease in exposure and impairment in stage 3 is a consequence of the transfer 100% impaired receivables to off-balance sheet records and collection of a non-performing client placements in bankruptcy.

***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. The level of credit risk impairment for the performing portfolio at the end of the third quarter of 2020 is largely due to changed macroeconomic expectations due to the COVID-19 pandemic, as well as expectations regarding the pandemic effects on the corporate sector and private individuals in increase of credit risk with partial mitigation of the same, by set of Government of the Republic of Serbia and National Bank of Serbia support measures. As a result of all the above, the Bank made additional credit risks impairment adjustments, which is reflected in additional overlay and reclassification of clients from the sectors most affected by the COVID-19 pandemic (catering, tourism, transport) to stage 2 for the purpose of preventive actions and realistic perception of impairment.

### 5.1.2 Non-Performing Receivables, Stage 3

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| 30.09.2020. | 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** | **112,177,460** | **1,571,808** | **1,837,256** | **429,130** | **998,335** | **1,64%** | **1,593,581** |
| Housing Loans | 45,362,673 | 429,367 | 863,549 | 173,723 | 404,174 | 1,90% | 857,643 |
| Cash Loans | 38,593,383 | 326,327 | 200,081 | 17,614 | 151,281 | 0,52% | 96,346 |
| Agricultural Loans | 12,649,726 | 238,904 | 222,380 | 48,546 | 89,822 | 1,76% | 214,373 |
| Oher Loans | 5,198,808 | 158,833 | 126,439 | - | 122,177 | 2,43% | 403 |
| Micro business | 10,372,871 | 418,376 | 424,807 | 189,246 | 230,880 | 4,10% | 424,816 |
| **Corporate** | **94,069,517** | **8,982,989** | **11,899,940** | **5,936,265** | **8,332,612** | **12,65%** | **10,473,508** |
| Agricultural Loans | 3,556,389 | 12,345 | 8,916 | - | 4,922 | 0,25% | 9,084 |
| Manufacturing Industry | 13.580.191 | 1,228,393 | 2,937,825 | 2,887,639 | 1,169,777 | 21,63% | 2,937,276 |
| Electricity | 1,776,754 | 7,284 | - | - | - | 0,00% | - |
| Construction Loans | 12.434.043 | 552,706 | 673,754 | 8,295 | 530,332 | 5,42% | 673,959 |
| Wholesale and Retal | 19.478.182 | 436,603 | 673,577 | 512,717 | 358,504 | 3,46% | 667,153 |
| Services Loans | 13,582,643 | 1,474,358 | 1,632,536 | 1,627,938 | 1,282,535 | 12,02% | 1,631,390 |
| Real Estate Loans | 7.896.336 | 490,898 | 1,030,323 | 687,632 | 460,210 | 13,05% | 1,028,178 |
| Other | 21,764,979 | 4,780,403 | 4,943,009 | 212,044 | 4,526,332 | 22,71% | 3,526,468 |
| **Total** | **206,246,977** | **10,554,796** | **13,737,196** | **6,365,395** | **9,330,947** | **6,66%** | **12,067,089** |
| **Due from Banks** | **16,323,629** | **219,489** | **204,714** | **-** | **204,714** | **1,25%** | **-** |

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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| | 30.09.2020. | | | | 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 | 44,473,351 | 25,773 | 44,499,124 | 44,127,360 | 40,600,372 | 100,647 | 40,701,019 | 40,522,852 |
| Cash Loans | 38,313,825 | 79,477 | 38,393,302 | 10,940,032 | 34,666,856 | 159,126 | 34,825,982 | 10,813,597 |
| Agricultural Loans | 12,409,778 | 17,568 | 12,427,346 | 11,623,044 | 9,415,826 | 22,063 | 9,437,889 | 8,032,833 |
| Other | 5,055,149 | 17,219 | 5,072,368 | 95,709 | 4,817,669 | 20,620 | 4,838,289 | 101,654 |
| Micro Busines | 9,400,987 | 547,077 | 9,948,064 | 13,062,591 | 8,341,708 | 376,110 | 8,717,818 | 8,706,933 |
| **Total Retail** | **109,653,090** | **687,114** | **110,340,205** | **79,848,735** | **97,842,431** | **678,566** | **98,520,997** | **68,177,869** |
| Large corporate clients | 29,582,349 | 5,640,039 | 35,222,388 | 36,198,595 | 31,140,683 | 3,441,528 | 34,582,211 | 34,670,639 |
| Middle corporate clients | 8,559,907 | 16,646 | 8,576,553 | 10,282,733 | 7,869,442 | 58,545 | 7,927,987 | 7,916,337 |
| Small corporate clients | 3,339,918 | 156,458 | 3,496,376 | 4,289,538 | 3,631,327 | 35,971 | 3,667,298 | 3,665,949 |
| State owned clients | 15,311,919 | 10,194,788 | 25,506,707 | 26,796,199 | 14,856,901 | 7,404,073 | 22,260,974 | 22,554,545 |
| Other | 4,626,965 | 4,740,588 | 9,367,552 | 7,392,270 | 4,862,214 | 5,208,551 | 10,070,765 | 7,645,774 |
| **Total Corporate** | **61,421,058** | **20,748,518** | **82,169,576** | **84,959,333** | **62,360,567** | **16,148,668** | **78,509,235** | **76,453,244** |
| **Total** | **171,074,148** | **21,435,633** | **192,509,781** | **164,808,068** | **160,202,998** | **16,827,234** | **177,030,232** | **144,631,113** |
| **Due from Banks** | **16,118,915** | **-** | **16,118,915** | **-** | **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 | |
|---|---|---|---|---|---|---|
| | 30.09.2020 | 31.12.2019 | 30.09.2020 | 31.12.2019 | 30.09.2020 | 31.12.2019 |
| As at 30th | 4.16 | 4.08 | 3.95 | 3.83 | 391% | 410% |
| Average for the period | 4.28 | 4.22 | 4.11 | 3.95 | 383% | 432% |
| Maximum for the period | 4.73 | 4.75 | 4.50 | 4.43 | 413% | 495% |
| Minimum for the period | 3.48 | 3.55 | 3.35 | 3.38 | 295% | 391% |

During the third 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.

| | Limits | 30.09.2020. | 31.12.2019. |
|---|---|---|---|
| GAP up to 1 month / Total assets | Max (10%) | 0.49% | 1.71% |
| Cumulative GAP up to 3 months / Total assets | Max (20%) | (0.93%) | 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.

**Compliance with last day liquidity ratio limits internally defined:**

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

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

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

## 5.3. Market Risk

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

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

### 5.3.1. Interest Risk

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

The Bank manages the following types of interest rate risk:

- Repricing risk of temporal mismatch between maturity and repricing;
- Yield curve risk – to which the Bank is exposed due to changes in yield curve shape;
- Basis risk – to which the Bank is exposed due to different reference interest rates for interest rate sensitive items with similar maturity or repricing characteristics; and

Optionality risk – to which the Bank is exposed due to contractually agreed optional terms – loans with an option of early repayment, deposits with an option of early withdrawal, etc.

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

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

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

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

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

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

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

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

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

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

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

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

| | **Limits** | **30.09.2020** | **31.12.2019** |
|---|---|---|---|
| Relative GAP | Max 15% | (0.42%) | 1.26% |
| Mismatch ratio | 0.75 – 1.25 | 1.00 | 1.02 |

During the first three quarters2020, interest rate risk indicators moved within internally defined limits.

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

**Compliance with internally defined limits of economic value of equity:**

| | 30.09.2020 | 31.12.2019 |
|---|---|---|
| As at | 3.37% | 3.74% |
| Average for the year | 4.06% | 4.60% |
| Maximum for the year | 5.21% | 5.56% |
| Minimum for the year | 3.37% | 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 September30st:**

| | **30.09.2020** | **31.12.2019** |
|---|---|---|
| Total currency risk balance | 572,243 | 1,257,900 |
| Currency risk ratio | 0.86% | 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, monitoring of Key Risk Indicators and self-assessment. Key risk indicators are an early warning for signaling changes in the Bank's risk profile. They relate to a specific operational risk and show greater exposure in the occurrence of operational risk events. Their purpose is to help reduce losses and operational risks through proactive consideration of risk factors. Self-assessment 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.

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

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

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

### 5.5. The Bank's Investment Risks

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

### 5.6. Exposure Risk

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

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

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

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

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

### 5.7. Country Risk

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

- Political and economic risk relates to the likelihood of losses due to the inability to collect the Bank's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;

- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

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

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

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

### 5.8. Capital management

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

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

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

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

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

| Capital adequacy ratio | 30.09.2020. | (000) RSD 31.12.2019. |
|---|---|---|
| Tier 1 (T1) Capital | 68,066,228 | 65,426,275 |
| Common Equity Tier 1 (CET1) Capital | 67,692,718 | 65,052,765 |
| Additional Tier 1 (AT1) Capital | 373,510 | 373,510 |
| Tier 2 (T2) Capital | - | - |
| Deductible items | (1,828,606) | (1,779,291) |
| **Capital** | **66,237,622** | **63,646,984** |
| Credit risk-weighted assets | 180,177,258 | 169,432,937 |
| Operational risk exposure | 34,167,575 | 32,768,254 |
| Foreign currency risk exposure | 3,356,382 | 4,238,173 |
| **Capital adequacy ratio** | **30.43%** | **30.83%** |
| **Share capital adequacy ratio** | **30.43%** | **30.83%** |
| **Basic share capital adequacy ratio** | **30.25%** | **30.65%** |

During the third 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 Q3 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 in China in December 2019 (hereinafter: Corona virus) in the world and Europe, which first broke out in December 2019 in China and spread to Europe and the rest of the world from January 2020, and to Serbia since 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 assessments of the Bank's management, the newly-occurred pandemic could affect the expected level of realized income, on the one hand, and potential increase in expenses, on the other, distribution of loans, quality of the loan portfolio, security, impairments, due to borrowers' decreased capacity to repay their debts, particularly in industries such as tourism, hospitality, transport, petroleum industry, etc. Despite the pandemic, the Bank's liquidity is high and stable, while capital adequacy is at a significantly higher level than that specified by the law.

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 for the duration of at least 90 days, starting from 31st March 2020.

Upon expiration of the terms from the loan repayment moratorium, that related to the pause in repayment of clients' liabilities, the Bank continued with the activities on regular collection of loans. Regular agreed interest was accrued to the main debt with the extension of the repayment period for the number of monthly repayments covered by the moratorium. The Bank executed the activities that relate to the terms for the continuation of the calculation and collection of loans in accordance with the NBS Decision. This relates also to all other clients' liabilities from loan products to which the moratorium was previously applied.

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. On the basis of this, it can be concluded that, although it is expected that the Bank's liquidity will decrease with the introduced loan repayment moratorium, the Bank's liquidity is still significantly above the limits specified by the law.

In accordance with the NBS Decision on temporary measures for the purpose of mitigating the consequences of the COVID 19 pandemic, with the aim of preserving the stability of the financial system, that came into effect on 28.07.2020, the Bank has again offered a moratorium in repayment of client's liabilities for loans, credit cards and current account overdraft within three days from the date this NBS Decision came into effect i.e. 31.07.2020, by posting the offer on the Bank's website, whereby it is considered that the offer has been delivered to all users.

If the borrower, within 10 days from the date this notification was posted on the Bank's website, did not reject the offer for the implementation of moratorium, which was possible to do even subsequently, the moratorium applied to liabilities that are due as of 01.08.2020 until 30.09.2020, including also the unsettled liabilities due in July 2020.

For clients who rejected the moratorium, collection of due monthly liabilities is done in the amount from the existing repayment plan without charging the penalty interest.

Starting from October 2020, regular loan repayments continued.

In accordance with the Decision of the National Bank of Serbia about the second moratorium, interest charged during the moratorium is evenly distributed to the newly specified loan repayment period, without accruing interest to the main debt and with the extension of the repayment period for the number of monthly annuities and deferred principals covered by the additional moratorium.

Additionally, in accordance with the new NBS instruction, with reference to the repayment of due liabilities during the first moratorium, that the effects of the first moratorium be brought into uniformity with the effects of the second one, the Bank has brought interest accrual into uniformity by not accruing the regularly calculated interest for the first moratorium but by distributing it evenly.

Accordingly, the Bank has specified the amount of regular agreed interest for the first moratorium, lowered the remainder of the debt for that amount (undue principal) and evenly distributed to the remaining repayment period (without calculating the interest on interest). Additionally, the Bank reduced the amount of interest for the amount of interest charged on interest for the period from the date of accrual in the first moratorium until the final interest in the second moratorium.

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.

## 7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on 30 September 2020 and 31 December 2019 for certain main currencies are as follows:

| Currencies | Official NBS exchange rate | |
|---|---|---|
| | 2020. | 2019. |
| USD | 100.1706 | 104.9186 |
| EUR | 117.5803 | 117.5928 |
| CHF | 108.7398 | 108.4004 |

In Belgrade,

On 10.11.2020.

Persons responsible for drafting the financial statements

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# STATEMENT

In our opinion, quarterly financial statements for the period 01.01.2020. to 30.09.2020. 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
Executive Director for Finance and Accounting

Miroslav Perić, PhD
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 30.09.2020. 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 |

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