2022 SEMI-ANNUAL CONSOLIDATED REPORT OF NLB KOMERCIJALNA BANKA GROUP

Belgrade, August 2022

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BUSINESS REPORT OF THE GROUP NLB KOMERCIJALNA BANKA AD BEOGRAD FOR THE PERIOD January 1 - June 30, 2022

Belgrade, August 2022

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PRESENTATION OF THE GROUP'S BASIC BUSINESS INDICATORS IN THE PERIOD January 1 - June 30, 2022

Report for the period from January 1 to June 30, 2022 represents a credible presentation of the development and business results of the GROUP NLB KOMERCIJALNA BANKA AD Beograd achieved in the first six months of 2022.

BASIC BUSINESS INDICATORS [1]						
	6/30/22	6/30/21	INDEX 2022/2021	2020	2019	2018
ROA	1.47%	0.26%	561.0	0.80%	1.68%	1.99%
ROE	9.52%	1.72%	554.7	4.93%	10.24%	12.09%
Net interest margin on total assets	2.65%	2.55%	104.0	2.72%	3.00%	3.31%
CIR	61.24%	67.80%	90.3	69.17%	63.67%	60.41%
INCOME STATEMENT (in 000 RSD)						
Profit/loss before tax	3,795,743	672,583	564.4	3,884,127	7,726,328	8,381,166
Profit/loss after tax	3,533,687	809,358	436.6	2,607,184	8,399,865	8,380,334
Net interest income	6,855,805	6,550,661	104.7	13,288,023	13,770,518	13,946,644
Net fee income	3,699,463	2,777,560	133.2	5,266,522	5,727,124	5,540,447
Operating costs	6,464,217	6,324,548	102.2	12,834,821	12,414,562	11,772,192
Net impairment income/expenses of FA not valued at FV through IS [2]	279,200	(1,022,910)	-	(1,264,236)	1,587,676	51,681
BALANCE SHEET (in 000 RSD)	6/30/22	2021	INDEX 2022/2021	2020	2019	2018
Balance sheet assets	543,668,960	489,468,222	111.1	500,868,939	475,755,894	441,586,959
Off-balance-sheet operations	690,605,108	532,084,315	129.8	534,330,733	503,834,838	496,783,044
Loans and receivables from banks and OFO[3]	15,348,470	29,130,701	52.7	18,865,483	26,990,004	21.037,537
Loans and receivables from clients	297,521,736	209,044,942	142.3	219,433,627	208,234,158	191,448,642
Deposits and other liabilities to banks, OFO and CB[4]	9,641,338	2,134,916	451.6	8,096,190	8,318,606	8,228,284
Deposits and other obligations to other clients	437,461,325	403,286,418	108.5	406,192,067	370,987,710	350,668,156
CAPITAL (in 000 RSD)	83,800,831	75,651,707	110.8	78,135,806	79,371,576	71,522,051
Capital adequacy	24.14%	28.55%	84.55	28.82%	27.05%	25.22%
Number of employees[5]	3,076	2,745	112.1	2,985	3,056	3,076
Assets per employee (000 EUR)	1,.504	1,516	99.2	1,427	1,324	1,212
Assets per employee (000 RSD)	176,848	178,313	99.2	167,795	155,679	143,559

Table 1: Presentation of basic business indicators (source: NLB Komercijalna banka a.d. Beograd)

[1] During the preparation of the consolidated balance sheets of the Group Komercijalna banka a.d. Beograd for 2021, a correction of the balance for 2020 was also made, which is why there is a difference in the data compared to the already published Annual Report on the Group's operations for 2020. In accordance with the changes to the balance sheet for 2020, a subsequent correction of the business indicators for 2020 was made to the extent that it was possible.
In the course of preparing the consolidated balance sheets of the Group NLB Komercijalne banka a.d. Beograd for the period from January 1 until June 30, 2022, there was a correction of certain positions of BS for the period January 1 until June 30, 2021, which is why there is a difference in the data compared to the already published Group Business Report for the period January 1 until June 30, 2021. Data in the Group's Business Report as of June 30, 2022, refer to NLB Komercijalna banka a.d. Beograd (the Bank created by the integration of Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd) and members of the Group as of June 30, 2022, with a note that the result achieved for the first six months of 2022 does not include the income statement achieved by NLB Banka a.d. Beograd in the period of the first four months of 2022 (the achieved result for four months was recognized through the capital of the integrated NLB Komercijalna banka a.d. Beograd).
The data on realized values in the balance sheet and income statement for previous periods that are shown in the report refer to Komercijalna banka a.d. Beograd and the members of the Group at that moment (they do not include data from the balance sheet and income statement that NLB Banka a.d. Beograd had on the respective dates).
[2] Net impairment income/expenses of financial assets that are not valued at fair value through the income statement
[3] OFO – other financial organizations
[4] OFO i CB – other financial organizations and the central bank
[5] Number of KB Group employees for 6/30/2022 and 2021 includes NLB Komercijalna banka a.d. Beograd as Parent bank, KOMBANK INVEST a.d. Beograd as a subsidiary company and NLB Bank a.d. Podgorica as an associated company.

MACROECONOMIC BUSINESS CONDITIONS IN THE PERIOD FROM January 1 UNTIL June 30, 2022

Macroeconomic indicators	SERBIA
Gross domestic product	EUR 53.3 bill[6]
Movement of GDP	7.4%[7]
Consumer Price Index (VI 2022/VI 2021)	+11.9%
Assets of the banking sector	-0.2%[8]
Share of banking sector assets in GDP	80.5%[9]
Industrial production	-1.4%[10]
NPL of the banking sector	3.%[11]
Unemployment rate	10.6%[12]

According to the final data of the Republic Institute for Statistics of the RS, real GDP growth for 2021 is 7.4%. According to the preliminary estimate of the Republic Institute for Statistics of the RS, GDP growth for the first quarter of 2022 is 4.4% m.g.[13]
Inflationary pressures, which were mild until the first half of 2021, intensified from the second half of the previous year and affected the growth of year-on-year inflation, which at the end of December 2021 amounted to 7.9% m.g.[14] In May 2022, year-on-year inflation was 10.4%, and in June it was 11.9%. In accordance with the NBS Memorandum, the target rate of total inflation for the period from January 2021 to December 2024 will be within the target range of 3.0%±1.5pp[15]. Due to the negative effects of the conflict between Ukraine and Russia and the economic effects of the EU's sanctions against Russia, the latest May projection of the NBS on the further trend of inflation is at a higher level and amounts to 9.2% in 2022.
The labor force survey of the Republic Institute for Statistics of the RS shows that the unemployment rate for the first quarter of 2022 is 10.6%[16].
The total value of foreign trade exchange in 2021 was EUR 50.2 billion. In the period January-May 2022, the value of foreign trade exchange was EUR 26.4 billion.[17]
The net inflow of foreign direct investments (FDI) for the twelve months of 2021 amounted to EUR 3.6 billion. In the period January-May 2022, the net inflow of FDI reached EUR 1.03 billion[18].
The public debt of the central government at the end of December 2021 amounted to EUR 30.1 billion, which represents 56.4% of GDP, while at the end of May 2022, it amounted to EUR 30.7 billion, which represents 52.3% of GDP[19].
Serbia's risk premium, measured by the EMBI index (emerging countries bond index) for debt in EUR, increased during the first quarter of 2022 by 79 b.p. while at the end of March it would amount to 275 b.p. Risk premiums for debt in EUR and other emerging European countries had similar trends due to the changed willingness of investors to invest in emerging countries[20].
During 2021, the total turnover of RSD 41.2 billion, i.e., EUR 350.7 million, was realized on the Belgrade Stock Exchange, which represents a decrease compared to 2020 (-15.4%). There were realized 18,743 transactions (3.6%) and the market capitalization was RSD 533.3 billion.

[6] NBS, Basic macroeconomic indicators, July 6, 2022 (situation at the end of 2021)
[7] NBS, Macroeconomic developments in Serbia, June 2022
[8] Change in the assets of the banking sector of Serbia on 03.31.2022/2021
[9] The data refers to the GDP and assets of the sector as of December 31, 2021
[10] MFIN, Current macroeconomic developments, April 2022 (Jan-Feb 2022.m.g.)
[11] NBS, Macroeconomic developments in Serbia, May 2022, NPL for March 2022
[12] RZS, Labor Force Survey, Q1 2022.
[13] NBS, Macroeconomic developments in Serbia, June 2022
[14] RZS, Public release, December 2021
[15] NBS, Memorandum of the NBS on target inflation rates until 2024, adopted at the session of the Executive Board of the NBS, Dec 9, 2021
[16] RZS, Labor Force Survey, first quarter 2022
[17] MFIN, Basic indicators of macroeconomic developments, July 5, 2022
[18] NBS, Macroeconomic developments in Serbia, July 2022
[19] MFIN, Table - public debt of the Republic of Serbia, July 2022
[20] NBS, Inflation Report, May2022

The Belexline stock market index ended 2021 with a value of 1,711.57 (9.29%), while the Belex15 index reached a value of 820.78 (9.64%).
During the first six months of 2022, a total turnover of RSD 23.2 billion or EUR 197.6 million was achieved. There were realized 11,222 transactions and the market capitalization of RSD 489.7 billion. At the end of June 2022, the Belexline stock market index reached the value of 1,690.07 (-1.26%), the Belex15 index reached the value of 839.62 (2.30%)[21]

BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP

The Banking Group consists of two banks (the parent bank and one affiliated bank) and one investment fund management company.
NLB Komercijalna banka a.d. Beograd, the Parent bank, as a part of its registered activities, performs the following tasks:

- deposit operations (receiving and placing deposits),
- credit operations (granting and taking loans),
- foreign exchange, foreign currency and exchange operations;
- payment transactions;
- issuance of payment cards;
- transactions with securities (issuance of securities, custodian bank transactions, etc.);
- broker-dealer jobs;
- issuance of guarantees, sureties and other forms of pledges (guarantee operations);
- purchase, sale and collection of receivables (factoring, forfeiting, etc.);
- insurance representation activities, with the prior consent of the National Bank of Serbia;
- operations for which it is authorized by law.

The Parent bank has been authorized to perform foreign payment transactions since 2003, to perform the activities of a broker-dealer company since 2005, to perform the activities of a custody bank since 2006, and to perform insurance representation since 2011.

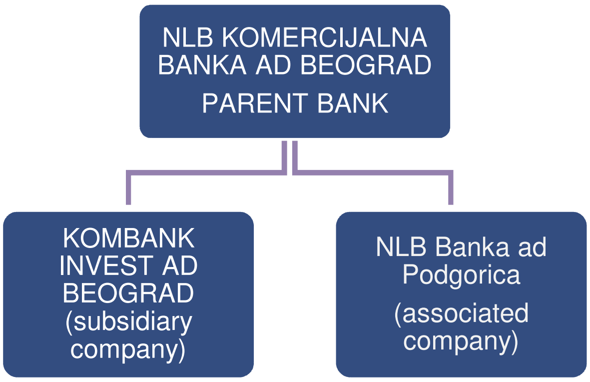
Komercijalna banka a.d. Podgorica was a subsidiary company and part of Group Komercijalna banka a.d. Beograd until November 2021. On November 14, 2021, the operative procedure of the merger of Komercijalna banka a.d. Podgorica to NLB Bank a.d. Podgorica was successfully completed. After the completion of the merger procedure, NLB Komercijalna banka a.d. Beograd has ownership in the share capital of NLB Bank a.d. Podgorica of 23.97%. On June 30, 2022, NLB Banka a.d. Podgorica has the status of an affiliated company of the Group NLB Komercijalna banka a.d. Beograd.

KOMBANK INVEST AD Beograd is registered for the following activities:

- organizing and managing open investment funds,
- establishment and management of closed investment funds,
- management of private investment funds,
- other operations in accordance with the law regulating the capital market, that is, the jobs of portfolio managers and investment advisors.

[21] Belgrade Stock Exchange, annual statistics, 2021, 2022

Organizational structure of the Group



Basic information about members of the Group

	NLB KOMERCIJALNA BANKA AD BEOGRAD	KOMBANK INVEST AD BEOGRAD	NLB Banka AD PODGORICA
ADDRESS	Svetog Save 14	Kralja Petra 19	Bulevar Stanka Dragojevića 46
STATE	Republic of Serbia	Serbia	Montenegro
TELEPHONE	00381-11-30-80-100	00381-11-330-8160	+382 19888

NLB Komercijalna banka AD Beograd, the Parent bank, was founded on December 1, 1970, and transformed into a joint-stock company on May 6, 1992. The Bank was registered at the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered at the Serbian Business Registers Agency on April 14, 2006. The Bank was granted a banking license from the National Bank of Yugoslavia on July 3, 1991.
The business year 2020 was marked by activities on the completion of the privatization process of the Bank. In February 2020, an Agreement was signed between the Ministry of Finance of the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia, on the purchase and sale of 83.23% of ordinary shares of Komercijalna banka a.d. Beograd. After that, from March 2020, the "closing process" was initiated, and the process of taking over (acquisition) of the Bank began. Nova Ljubljanska banka d.d. Ljubljana, Slovenia on December 30, 2020 completed the process of taking over Komercijalna banka a.d. Beograd. On the specified day, the Agreement on the transfer of shares of Komercijalna banka a.d. Beograd was signed between the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia.

Shareholders of the Parent bank with more than 5% of the capital (ordinary shares) (as of June 30, 2022*)*

NLB KOMERCIJALNA BANKA AD BEOGRAD
91,72939% ownership of NLB d.d. Ljubljana 100,00% ownership of NLB d.d. Ljubljana since July 13, 2022

In addition to the network of branches, Parent bank operates in Belgrade at three locations

Address/Head office	Svetog Save 14	Svetogorska 42-44	Trg Politike 1
TELEPHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
FAX	381-11-344-23-72	381-11-32-35-121	381-11-33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

Business network of the Parent bank

At the beginning of 2022, after the integration of NLB Bank a.d. Beograd and Komercijalna banka a.d. Beograd, the Parent bank carried out reorganization and established a new organizational structure of the Bank.

On June 30, 2022, the network of Parent bank consists of 186 branch offices grouped in four regions (Region Belgrade, Vojvodina, Western Serbia, Southeast Serbia) and the Kosovska Mitrovica Branch.

A different organization was established within the corporate operations, so that on June 30, 2022, so trat such operations are carried put through 4 divisions, namely: Corporate Division/large client's operations, Division for small and medium-sized companies, Securities and financial markets Division and Division for corporate analytics.

Detailed information on the organization of the Parent bank, as well as the business network is available on the Bank's website.

KOMBANK INVEST a.d. Beograd

KOMBANK INVEST AD BEOGRAD
100,0% ownership of NLB KB Beograd

KOMBANKINVEST

UCITS fund management company **KOMBANK INVEST a.d. Beograd** is a business entity registered in the Register of business entities of the Serbian Business registers Agency on February 5, 2008. The company operates as a bicameral non-public joint-stock company in accordance with the Law on open-ended investment funds with a Public Offer, the Rulebook on open-ended investment funds with a Public Offer and the Rulebook on the Conditions for Performing the Activities of the Company for the Management of open-ended investment funds with a Public Offer**.**

The Company manages three investment funds, namely:

1. KOMBANK IN FOND, fund type - balanced, fund currencies RSD and EUR,
2. KOMBANK MONEY FUND, fund type - property value preservation, fund currency RSD,
3. KOMBANK FOREIGN EXCHANGE FUND, fund type - asset value preservation, fund currency EUR.

On June 30, 2022 the Company had six employees.

NLB BANKA a.d. Podgorica

NLB BANKA AD PODGORICA
23,97% ownership of NLB KB Beograd

NLB Bank a.d. Podgorica is a bank that performs registered business activities on the territory of Montenegro and is registered under the laws of Montenegro. Head office of NLB Bank a.d. Podgorica is in the street Bulevar Stanka Dragojevića no. 46 in Podgorica. The Bank carries out its activities through a network of branches, branch offices and counters, which after the merger of Komercijalna banka ad Podgorica, on June 30, 2022, consists of 19 branches, 2 branch offices and 1 counter, in the following cities: Podgorica, Ulcinj, Bar, Budva, Cetinje, Bijelo Polje, Rožaj, Herceg Novi, Kotor, Nikšić, Tivat, Pljevlja, Berane and Tuzi.
On June 30, 2022 NLB Bank a.d. Podgorica had 357 employees (December 31, 2021: 367 employees).

CORPORATE GOVERNANCE IN THE GROUP

Rules of Corporate Governance

Code of Corporate Governance of the Parent bank

The Rules of corporate governance are based on the relevant legal regulations (primarily the Law on Banks and the Companies Act).

The powers and authorities of all bodies of NLB Komercijalna banka AD Beograd (Assembly of Shareholders, Board of Directors, Executive Board, Audit Committee, Asset and Liability Management Committee, Credit Committee) are based on appropriate legal regulations and are defined by internal acts (Articles of Incorporation, Articles of Association, the rules of procedure on the work of the Bank's bodies and other internal acts).

NLB Komercijalna banka AD Beograd, the Parent bank, in its operations, in accordance with the Decision of the Executive Board of the Bank no. 8373 from April 9, 2013 applies the Corporate Governance Code of the Serbian Chamber of Commerce ("Official Gazette of RS", No. 99/2012), which was adopted by the Assembly of the Serbian Chamber of Commerce. The Corporate Governance Code establishes the principles of corporate practice, according to which, in conduction its business operations, the Bank's corporate governance officers behave and adhere to. The goal of the Code is the introduction of good business practices in the field of corporate governance, the equal influence of all interested parties, current and potential shareholders, employees, clients, Bank authorities, the state, etc. The final goal is to ensure the long-term and sustainable development of the Bank. The text of the Corporate Governance Code is publicly released on the internet presentation of NLB Komercijalna banka AD Beograd (https://www.nlbkb.rs/o-nama/nlb-komercijalna-banka/korporativno-upravljanje).

Management organs of the Parent bank

The Parent bank's management organs are presented in the Business Report for the second quarter of 2022 of NLB Komercijalna banka a.d. Beograd.

Code of Corporate Governance of the UCITS Fund Management Company KOMBANK INVEST

KOMBANK Invest a.d. Beograd is organized in the form of a non-public one-member joint-stock company with a bicameral management system. In order to ensure impartiality, transparency and responsibility in corporate behavior, the Company applies the Rules of Conduct and Professional Ethics that are harmonized with the Parent company, the Policy for the Management of Conflict of Interest and Personal Transactions, etc.

Management of the UCITS fund management company KOMBANK INVEST

The management of the Company was formed in accordance with the he Law on open-ended investment funds with a Public Offer and the Company's Statute. Management of the Company is organized as bicameral.

The management bodies are: the Assembly, the Supervisory Board and the Director.

The function of the Assembly on behalf of NLB Komercijalna banka AD Beograd as the sole shareholder is performed by the Executive Board of NLB Komercijalna banka AD Beograd. The manner of work and decision-making of the Executive Board of NLB Komercijalna banka AD Beograd, which acts as the Assembly of the Company, is determined by the Rules of Procedure of the Executive Board of NLB Komercijalna banka AD Beograd.

The Supervisory Board has three members elected by the Assembly of the Company.

Members of the Supervisory Board of the Company on June 30, 2022 are:

NAME AND SURNAME	FUNCTION	DATE OF ELECTION	DURATION OF MANDATE
Vlastimir Vuković	*President*	*2/12/2021*	*4 years from the date of election*
Blaž Bračić	*Member*	*2/12/2021*	*4 years from the date of election*
Tanja Ahlin	*Member*	*2/12/2021*	*4 years from the date of election*

The responsibilities of the Supervisory Board of the Company are defined by the Law on open-ended investment funds with a Public Offer and the Company's Statute.

The quorum for the work and decision-making of the Supervisory Board of the Company is the majority of the total number of members of the Supervisory Board of the Company. The president of the Supervisory Board is also considered a member of the Supervisory Board.

The company has one director, who is the Executive Director. The director is appointed by the Supervisory Board of the Company. The director's term of office lasts 4 years, after which he can be reappointed.

Director of the Company on June 30, 2022 is:

NAME AND SURNAME	FUNCTION	DATE OF ELECTION	DURATION OF MANDATE
Vladimir Garić	*Director*	*2/12/2021*	*4 years from the date of election*

The competences and powers of all bodies of the Group's members are based on appropriate legal regulations and defined in internal acts. Corporate governance rules are implemented through internal acts and there are no deviations in their application.

Description of the basic elements of the system of internal controls and risk reduction related to the financial reporting process

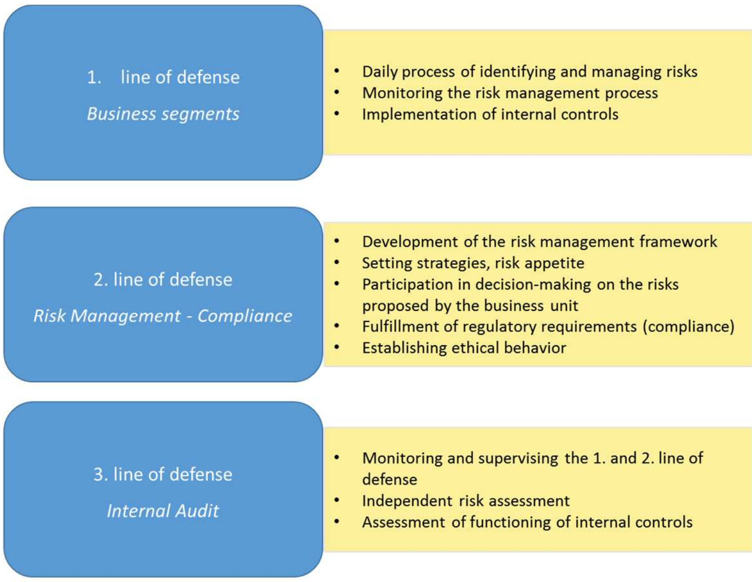
In the Annual report on operations of Komercijalna banka a.d. Beograd for 2021 in chapter 5.6. a detailed description of the System of internal controls and risk reduction in connection with the financial reporting process was made.
In relation to the material released in the Annual Business Report, due to the organizational changes that took place in the meantime, there were minor changes in the part of the material related to the Internal Control System, so now it is released only the part that has been changed.

System of internal controls
The Bank has established three lines of defense which include:

- ***Business lines*** - form the first line of defense, proposing business decisions within defined internal policies and authorizations, thereby assuming responsibility for the risks assumed.
- ***Risk management and business compliance (Compliance)*** - include the second line of defense, defining rules on risk appetite/profile, risk strategy, monitoring and risk management. In addition, it includes the analysis and co-decision on the risks proposed by the business part, and thus the assumption of responsibility for the analysis and the assumed risks. The organizational part responsible for compliance focuses on systematic

monitoring of the legal and regulatory environment. In addition to regulatory compliance, they also deal with compliance checks within the organization. The organizational part responsible for establishing a system for managing the risk of money laundering and financing terrorism (AML Department) focuses on identifying and assessing the risk of money laundering and financing terrorism, defining a strategy and establishing a system for monitoring and managing risks, as well as controlling its effectiveness.

- ***Internal audit*** - Internal audit represents the third line of defense, where Internal audit monitors the decision-making process in all areas of the Bank, considers key risks in business, advises management at all levels. Provides independent and impartial assurance regarding the management of key risks and the functioning of internal controls.



In accordance with the Law on Banks[22] the Bank has established an appropriate system of internal controls in a way that enables continuous monitoring of the risks to which the Bank is exposed in its operations.
In particular, the internal control system consists of:

- Risk management functions,
- Business compliance functions and
- Internal audit functions.

In accordance with the Law on Banks, the Bank has organized a special organizational unit for risk management in order to identify, measure and assess the risks to which it is exposed to in its operations, i.e., in order to manage the risks to which it is exposed. Risk management activities are functionally and organizationally separated from the Bank's regular business activities.

Within the risk management function, in the Bank have been formed three division, namely: Division for prevention and management of risky placements, Division for credit risk analysis and Risk management division.
Corresponding strategies, policies, methodologies, procedures, instructions and other documents are drawn up as a part of regular activities at the level of these three divisions.

The Function of business compliance in the Bank is performed by the Division for the control of business compliance and security (Compliance). The Head of the Division, in accordance with the Law on Banks, is being appointed and dismissed by the Board of Directors of the Bank.

[22] Law on Banks, Chapter 2, Articles from 82 to 87

The Business compliance function identifies and monitors business compliance risks and manages that risk, which in particular includes the risk of regulatory body sanctions and financial losses, as well as reputational risk.
The risk of business compliance arises as a result of failure to comply with the law and other regulations, business standards, procedures on preventing money laundering and financing of terrorism, as well as with other acts regulating the business operations of banks.
The manager and the employees of the Division are independent in their work and perform only the tasks assigned by the legal acts and by-laws of the National Bank of Serbia to the competence of the organizational part for the control of business compliance.
The Division, in accordance with the legal regulations, at least once a year, identifies and assesses the main compliance risks and proposes plans for managing those risks, on which a report is drawn up, which, after approval by the Bank's Executive Board, is submitted to the Bank's Board of Directors for approval. The Bank's Executive Board and the Audit Committee are notified of established deficiencies related to business compliance.
In accordance with the legal regulations, Division prepares a program for monitoring the compliance of the Bank's operations, as well as a significant number of general acts (policies, methodologies, regulations and rules) and other documents in order to ensure compliance of the Bank's operations with legal acts and by-laws.

The Function of internal audit in the Bank is performed by the Internal Audit Division, which was formed in accordance with the Law on Banks, with the aim of providing the Bank's Board of Directors with an independent and objective opinion on issues subject to audit, performing advisory activities aimed at improving the existing system of internal controls and operations of the Bank and to assist the Bank's Board of Directors in achieving its goals.
The Internal Audit Division is independent in its work, which is enabled by the Law on Banks, i.e., the established organizational structure in the Bank, so that the Internal Audit Division reports directly to the Bank's Board of Directors for its work. In accordance with the Law on Banks, the director of the Internal Audit Division is elected or dismissed from office by the Bank's Board of Directors. The Director of the Internal Audit Division has the right to directly address the Bank's Board of Directors whenever necessary.
The head of the Internal Audit Division prepares the internal audit program and determines the methodology of its work, and submits reports on his work to the Business Monitoring Committee and the Bank's Board of Directors.

The Internal Audit Division carries out regular and periodic controls of the work and actions of the Bank's organizational forms in accordance with the defined audit plans. Employees of the Internal Audit Division have the right to inspect all documents of the Bank and its subsidiaries, and the right to supervise operations without restrictions.

Internal control and internal audit of the UCITS fund management company KOMBANK INVEST

The company establishes a structure of internal controls which consists of:
• Compliance monitoring function and
• Internal audit function.

Information on acquisition offers

During the first half of 2022, there were no released bids for the acquisition of shares of other joint stock companies by the Parent bank and the company KOMBANK INVEST AD Beograd.

In accordance with the above, during the first half of 2022, Group NLB Komercijalna banka a.d. Beograd, through the process of taking over other legal entities, did not:

- acquired any direct or indirect share in the capital of another legal entity;
- became the owner of any securities that would enable it to exercise special control over other legal entities;
- became the owner of securities with limited voting rights over another legal entity;
- participated in the appointment and recall of members of the management of another legal entity and
- participated in determining the authority of the administration of another legal entity.

Description of diversity policy

The description of the diversity policy is presented in detail in the Group's Business Report for 2021.

Organizational structure and bodies of NLB Komercijalna banka a.d. Beograd are shown in the Business Report of NLB Komercijalna banka a.d. Beograd for the second quarter of 2022.

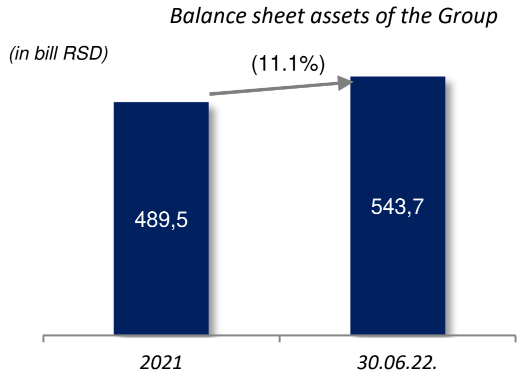
FINANCIAL POSITION AND BUSINESS RESULTS OF THE GROUP IN THE PERIOD January 1 - June 30, 2022

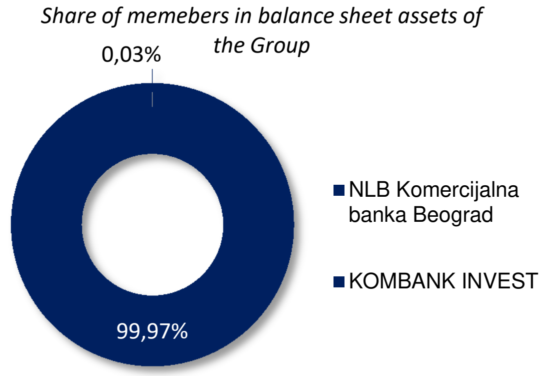
Balance sheet assets of the Group and members of the Group

Despite operating in relatively unfavorable and changed macroeconomic conditions in the country and the immediate environment where it operates, the Group recorded a positive movement of balance sheet assets for the first six months of 2022.

DESCRIPTION[23]	6/30/2022	2021	2020	2019	2018
(in thousand RSD)					
BALANCE SHEET ASSETS OF THE GROUP *	543,668,960	489,468,222	500,295,263	475,755,894	441,586,959
NLB Komercijalna banka a.d. Beograd[24]	543,510,846	489,291,030	455,152,974	428,857,730	398,447,676
Komercijalna banka a.d. Banja Luka[25]	-	-	27,879,636	29,256,166	27,624,178
Komercijalna banka a.d. Podgorica[26]	-	-	17,088,819	17,472,505	15,353,955
KOMBANK INVEST a.d. Beograd	158,114	177,192	173,834	169,493	161,150

*Note: For the preparation of the consolidated balance sheet for June 30, 2022 and in 2021, the full consolidation method was applied for NLB Komercijalna banka a.d. Beogrado (Parent bank) and KOMBANK INVEST a.d. Beograd (subsidiary company). Due to comparability with data from previous years, the table does not show the assets of NLB Banka a.d. Podgorica, which is consolidated by using the equity method as an associated company.





The balance sheet assets of the Group at the end of the first half of 2022 increased compared to the end of 2021 by RSD 54,200.7 million (11.1%). The Parent bank's share in consolidated assets is still dominant.

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[23] During the preparation of the consolidated balance sheets of the Group Komercijalna banka a.d. Beograd for 2021, a correction of the balance for 2020 was also made, which is why there is a difference in the data compared to the already released Annual Report on the Group's operations for 2020. In accordance with the changes to the balance sheet for 2020, a subsequent correction of the business indicators for 2020 was made to the extent that it was possible.
In the course of preparing the consolidated balance sheets of the Group NLB Komercijalna banka a.d. Beograd for the period from January 1 until June 30, 2022, correction of certain positions of IS for the period from January 1 until June 30, 2021, which is why there is a difference in the data compared to the already released Group Business Report for the period from January 1 until June 30, 2021.
Data in the Group's Business Report as of June 30, 2022 refer to NLB Komercijalna banka a.d. Beograd (the Bank created by the integration of Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd) and members of the Group as of June 30, 2022, with a note that the result achieved for the first six months of 2022 does not include the income statement achieved by NLB Banka a.d. Beograd during the period of the first four months of 2022 (the achieved result for four months was recognized through the capital of the integrated NLB Komercijalna banka a.d. Beograd).
The data on realized values in the balance sheet and income statement for previous periods that are shown in the report refer to Komercijalna banka a.d. Beograd and the members of the Group at that time (they do not include data from the balance sheet and income statement that NLB Banka a.d. Beograd had on the respective dates).
[24] From April 2022, the name of the Parent bank is NLB Komercijalna banka a.d. Beograd
[25] From December 2021, after the sale of a package of shares to Banka Poštanska štedionica a.d. Beograd, through the Banja Luka stock exchange, Komercijalna banka a.d. Banja Luka is no longer part of the Group Komercijalna banka
[26] From November 2021, after the merger process with NLB Bank a.d. Podgorica, Komercijalna banka a.d. Podgorica does not exist as an independent legal entity.

Consolidated balance sheet as of June 30, 2022

Consolidated assets of the Group as of June 30, 2022

Ord. No.	DESCRIPTION[27]	6/30/2022	12/31/2021	INDEXES	SHARE 2022
1	2	3	4	5=(3:4)*100	6
	ASSETS (in thousands of RSD)				
1.	Cash and funds at the central bank	87,685,914	82,055,481	106.9	16.1
2.	Pledged financial assets	-	-	-	-
3.	Claims based on derivatives	12,908	-	-	-
4.	Securities	121,957,024	149,744,019	81.4	22.4
5.	Loans and receivables from banks and DFO	15,348,470	29,130,701	52.7	2.8
6.	Loans and receivables from clients	297,521,736	209,044,942	142.3	54.7
7.	Changes of fair value items that are the subject of risk prot.	-	-	-	-
8.	Receivables based on derivatives intended for risk protect.	-	-	-	-
9.	Investments in associates and joint ventures	1,542,595	1,479,000	104.3	0.3
10.	Investments in subsidiaries	-	-	-	-
11.	Intangible assets	603,817	582,101	103.7	0.1
12.	Real estate, plant and equipment	9,609,066	8,755,740	109.7	1.8
13.	Investment property	2,695,112	2,610,531	103.2	0.5
14.	Current tax assets	74	18,985	0.4	-
15.	Deferred tax assets	1,290,358	512,015	252.0	0.2
16.	Fixed assets intended for sale and ass.from suspended oper.	342,063	101,614	336.6	0.1
17.	Other assets	5,059,823	5,433,093	93.1	0.9
	TOTAL ASSETS (from 1 to 17)	**543,668,960**	**489,468,222**	111.1	100.0

Of the individual balance sheet positions, the largest share in the balance sheet assets of the Group, as of June 30, 2022 had loans and receivables from clients (54.7%). The position of loans and receivables from clients has an upward trend as of June 30, 2022, and it increased by 42.3% compared to the end of 2021, among other things, as a result of the integration of NLB Bank a.d. Beograd and Komercijalna banka a.d. Beograd, which affected the growth of Parent bank's balance sheet.

The position of securities represents a significant position of consolidated assets, with a participation of 22.4%, and it recorded a decrease during the first half of 2022, it decreased by 18.6% compared to the end of 2021.

Cash and funds with the central bank accounted for 16.1% of total consolidated assets and increased by 6.9% compared to the end of the previous year.

The balance sheet position of loans and receivables from banks and other financial organizations makes up 2.8% of consolidated balance sheet assets and records a decrease of 47.3% compared to the end of 2021.

[27] During the preparation of the consolidated balance sheets of the Group Komercijalna banka a.d. Beograd for 2021, a correction of the balance for 2020 was also made, which is why there is a difference in the data compared to the already released Annual Report on the Group's operations for 2020. In accordance with the changes to the balance sheet for 2020, a subsequent correction of the business indicators for 2020 was made to the extent that it was possible.
In the course of preparing the consolidated balance sheets of the Group NLB Komercijalna banka a.d. Beograd for the period from January 1 until June 30, 2022, correction of certain positions of IS for the period from January 1 until June 30, 2021, which is why there is a difference in the data compared to the already published Group Business Report for the period from January 1 until June 30, 2021.
Data in the Group's Business Report as of June 30, 2022 refer to NLB Komercijalna banka a.d. Beograd (the Bank created by the integration of Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd) and members of the Group as of June 30, 2022, with a note that the result achieved for the first six months of 2022 does not include the income statement achieved by NLB Banka a.d. Beograd in the period of the first four months of 2022 (the achieved result for four months was recognized through the capital of the integrated NLB Komercijalna banka a.d. Belgrade).
The data on realized values in the balance sheet and income statement for previous periods that are shown in the report refer to Komercijalna banka a.d. Beograd and the members of the Group at that time (they do not include data from the balance sheet and income statement that NLB Banka a.d. Beograd had on the respective dates).

Consolidated liabilities of the Group as of June 30, 2022

Ord. No.	DESCRIPTION	6/30/2022	12/31/2021	INDEXES	SHARE 2022
1	2	3	4	5=(3:4)*100	6
	LIABILITIES *(in thousands of RSD)*				
1.	Liabilities based on derivatives	3,358	-	-	-
2.	Deposits and other financial obligations to banks, other financial organizations and the central bank	9,641,338	2,134,916	451.6	1.8
3.	Deposits and other financial obligations to other clients	437,461,325	403,286,418	108.5	80.4
4.	Liabilities based on derivatives intended for risk protection	-	-	-	-
5.	Changes in fair value of items subject to hedging	-	-	-	-
6.	Liabilities based on securities	-	-	-	-
7.	Subordinated liabilities	1,766,439	-	-	0.3
8.	Reservations	5,107,364	4,251,729	120.1	0.9
9.	Liabilities on the basis of assets intended for sale and assets from suspended operations	-	-	-	-
10.	Current tax liabilities	185,737	-	-	-
11.	Deferred tax liabilities	-	-	-	-
12.	Other liabilities	5,702,568	4,143,452	137.6	1.0
	TOTAL LIABILITIES (from 1 to 12)	**459,868.129**	**413,816,515**	111.1	84.5
	CAPITAL				
13.	Share capital	45,859,620	40,034,550	114.6	8.4
14.	Own actions	31,994	-	-	-
15.	Profit	16,383,302	9,579,290	171.0	3.0
16.	Loss	5,369	-	-	-
17.	Reserves	21,595,272	26,037,867	82.9	4.0
	TOTAL CAPITAL (from 13 to 17)	**83,800,831**	**75,651,707**	110.8	15.4
	TOTAL LIABILITIES	**543,668,960**	**489,468,222**	111.1	100.0

On the side of consolidated liabilities, the dominant position, at the end of the first half of 2022, was deposits and other financial liabilities to other clients with a share of 80.5%. The position of deposits and other financial obligations to other clients has increased compared to 2021 by 8.5% as a result of the implemented integration of NLB Bank a.d. Beograd and Komercijalna banka a.d. Beograd.
In the consolidated liabilities, the total capital participated with 15.4%, and 15.5% was the participation on December 31, 2021. Compared to 2021, the capital of the Group, as of June 30, 2022, was expected to increase (10.8%) primarily due to the increase in share capital positions and capital gain, which is the result of the integration of two banks and the formation of a new Parent bank. Capital reserves decreased by 17.1% at the end of the first half of 2022 compared to 2021, the decrease is a consequence of the decrease in revaluation reserves.

Changes in key balance sheet positions are expected given the changes that took place in the composition of KB Group during 2021 and the first half of 2022 (the sale of Komercijalna banka a.d. Banja Luka as well as the merger of Komercijalna banka a.d. Podgorica to NLB Bank a.d. Podgorica). Also, in April 2022, NLB Banka a.d. Beograd was annexed to Komercijalna banka a.d. Beograd, and thereby formed NLB Komercijalna banka a.d. Beograd, which is the Parent bank of the Group.

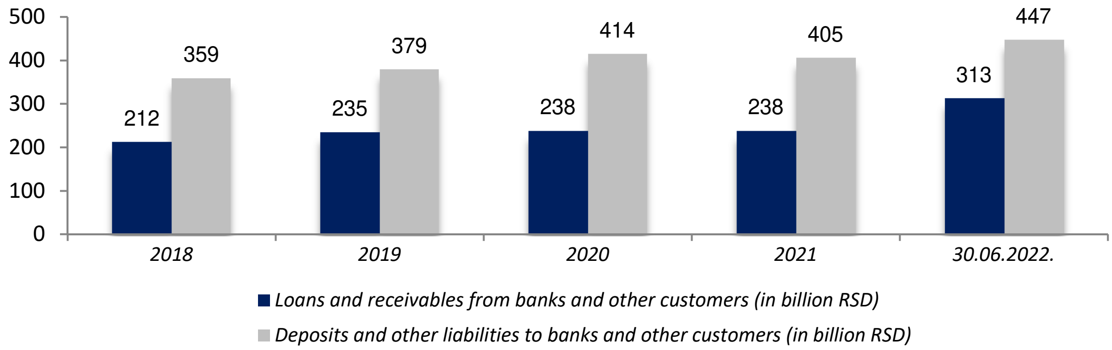
Consolidated balance sheet as of June 30, 2022 - members of the Group

	DESCRIPTION	NLB Komercijalna banka Beograd	KOMBANK INVEST Beograd	TOTAL GROUP
1	2	3	4	5=(3+4)
	ASSETS/position (in thousands of RSD)			
	Cash and funds at the central bank	87,685,914	-	87,685,914
	Receivables based on derivatives	12,908	-	12,908
	Securities	121,819,448	137,576	121,957,024
	Loans and receivables from banks and other financial organizations	15,332,383	16,087	15,348,470
	Loans and receivables from clients	297,521,736	-	297,521,736
	Investments in associates and joint ventures	1,542,595	-	1,542,595
	Intangible assets	603,817	-	603,817
	Real estate, plant and equipment	9,609,009	57	9,609,066
	Investment property	2,695,112	-	2,695,112
	Current tax assets	-	74	74
	Deferred tax assets	1,287,585	2,773	1,290,358
	Fixed assets intended for sale and assets from suspended operations	342,063	-	342,063
	Other assets	5,058,276	1,547	5,059,823
	TOTAL ASSETS	**543,510,846**	**158,114**	**543,668,960**
	LIABILITIES/position			
	Liabilities based on derivatives	3,358	-	3,358
	Deposits and other financial obligations to banks and other financial organizations and the central bank	9,641,338	-	9,641,338
	Deposits and other financial obligations to other clients	437,461,325	-	437,461,325
	Subordinated liabilities	1,766,439	-	1,766,439
	Reservations	5,103,627	3,737	5,107,364
	Current tax liabilities	185,737	-	185,737
	Other obligations	5,700,863	1,705	5,702,568
	TOTAL OBLIGATIONS	**459,862,687**	**5,442**	**459,868,129**
	Total capital	**83,788,152**	**12,679**	**83,800,831**
	TOTAL LIABILITIES	**543,650,839**	**18,121**	**543,668,960**

Loans and deposits of clients and banks of the Group and members of the Group

DESCRIPTION[28]	6/30/2022	2021	2020	2019	2018
(in thousand RSD)					
LOANS AND RECEIVABLES FROM CLIENTS AND BANKS	312,870,206	238,175,643	238,299,110	235,224,162	212,486,179
Change in %	31.4%	(0.1%)	1.3%	10.7%	3.9%
NLB Komercijalna banka a.d. Beograd[29]	312,854,119	238,159,323	206,597,421	205,497,840	185,917,193
Komercijalna banka a.d. Banja Luka[30]	-	-	18,873,327	18,734,989	16,811,744
Komercijalna banka a.d. Podgorica[31]	-	-	12,811,983	10,974,943	9,740,866
KOMBANK INVEST a.d. Beograd	16,087	16,320	16,379	16,390	16,376
DEPOSITS AND OBLIGATIONS TO CLIENTS AND BANKS	447,102,663	405,421,334	414,288,257	379,306,316	358,896,440
Change in %	10,3%	(2,1%)	9,2%	5,7%	10,9%
NLB Komercijalna banka a.d. Beograd	447,102,663	405,421,334	376,433,132	339,234,701	321,271,358
Komercijalna banka a.d. Banja Luka	-	-	23,109,297	24,601,533	23,547,061
Komercijalna banka a.d. Podgorica	-	-	14,745,828	15,470,082	14,078,021
KOMBANK INVEST a.d. Beograd	-	-	-	-	-

Movement of loans and deposits of the Group from 2018 to 6/30/2022



The Parent bank's participation in loans and receivables from banks and other clients of the Group at the end of the first half of 2022 was 100.0% (as well as at the end of 2021). The Parent bank's participation in deposits and other financial obligations to banks and other clients of the Group is dominant with 100.0%, which is expected given the aforementioned changes in the composition of the Group that took place during 2021 and the first half of 2022 (sale of Komercijalna banka a.d. Banja Luka, merger of Komercijalna banka a.d. Podgorica to NLB Bank a.d. Podgorica, merger of NLB Banka a.d. Beograd to Komercijalna banka a.d.Beograd).

[28] During the preparation of the consolidated balance sheets of the Group Komercijalna banka a.d. Beograd for 2021, a correction of the balance for 2020 was also made, which is why there is a difference in the data compared to the already released Annual Report on the Group's operations for 2020. In accordance with the changes to the balance sheet for 2020, a subsequent correction of the business indicators for 2020 was made to the extent that it was possible.
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[29] From April 2022, the name of the Parent bank is NLB Komercijalna banka a.d. Beograd

[30] From December 2021, after the sale of a package of shares to Banka Poštanska štedionica a.d. Beograd, through the Banja Luka Stock Exchange, Komercijalna banka a.d. Banja Luka is no longer part of the Group Komercijalna banka

[31] From November 2021, after the merger process with NLB Bank a.d. Podgorica, Komercijalna banka a.d. Podgorica does not exist as an independent legal entity

Consolidated profit and loss account for the period from 1/1 until 6/30/2022

Ord. No.	DESCRIPTION[32]	6/30/2022	6/30/2021	INDEXES
1	2	3	4	5=(3:4)*100
	INCOME AND EXPENSES FROM REGULAR OPERATIONS (in thousand RSD)			
1.1.	Income from interest	7,240,479	7,230,824	100.1
1.2.	Expenses from interest	(384,674)	(680,163)	56.6
1.	**Net income from interest**	**6,855,805**	**6,550,661**	104.7
2.1.	Income from fees and commissions	4,777,134	3,700,634	129.1
2.2.	Expenses from fees and commissions	(1,077,671)	(923,074)	116.7
2.	**Net income from fees and commissions**	**3,699,463**	**2,777,560**	133.2
3.	Net gain/loss on change in fair value of FI[33]	12,855	2,280	563.8
4.	Net gain/loss based on FI reclassification	-	-	-
5.	Net gain/loss on derecognition of FIs valued at fair value	(63,013)	129,764	-
6.	Net gain/loss from hedging	-	-	-
7.	Net income/expense from exchange rate differences and the effects of the contracted currency clause	(137,897)	39,808	-
8.	Net income/expense based on reduction of impairment of financial assets that are not valued at fair value through IS	279,200	(1,022,910)	-
9.	Net gain/loss on derecognition of FIs valued at amortized cost	86,194	-	-
10.	Net gain/loss on derecognition of investments in associates and joint ventures	-	-	-
11.	Other operating income	317,896	123,456	257.5
	TOTAL NET OPERATING INCOME	**11,050,503**	**8,600,619**	128.5
12.	Salary expenses, salary compensation and other personal expenses	(2,737,164)	(2,714,238)	100.8
13.	Depreciation costs	(540,592)	(548,571)	98.5
14.	Other income	352,195	130,286	270.3
15.	Other expenses	(4,329,199)	(4,795,513)	90.3
	PROFIT/LOSS(-) BEFORE TAX	**3,795,743**	**672,583**	564.4
16.	Income tax	204,648	-	-
17.	Profit on the basis of deferred taxes	115,740	182,952	63.3
18.	Deferred tax loss	(173,148)	(46,177)	375.0
19.	**PROFIT/LOSS(-) AFTER TAX**	**3,533,687**	**809,358**	436.6
	Gain attributable to the parent entity	3,533,687	809,357	436.6
	Gain attributable to non-controlling owners	-	1	-
	Basic earnings per share	-	-	-
	Diluted (diluted) earnings per share	-	-	-

[32] During the preparation of the consolidated balance sheets of the Group Komercijalna banka a.d. Beograd for 2021, a correction of the balance for 2020 was also made, which is why there is a difference in the data compared to the already released Annual Report on the Group's operations for 2020. In accordance with the changes to the balance sheet for 2020, a subsequent correction of the business indicators for 2020 was made to the extent that it was possible.
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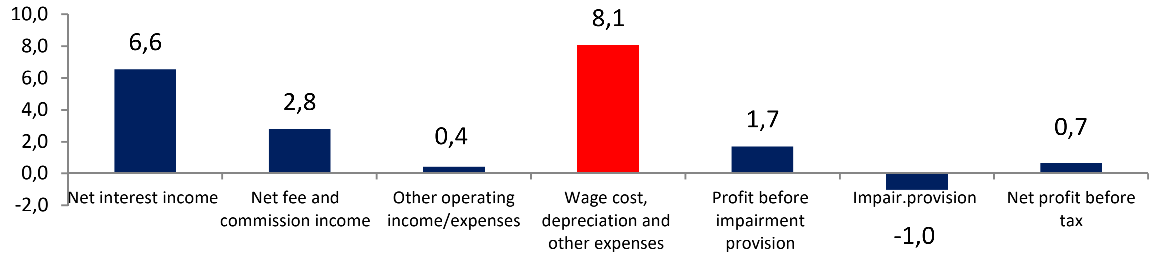
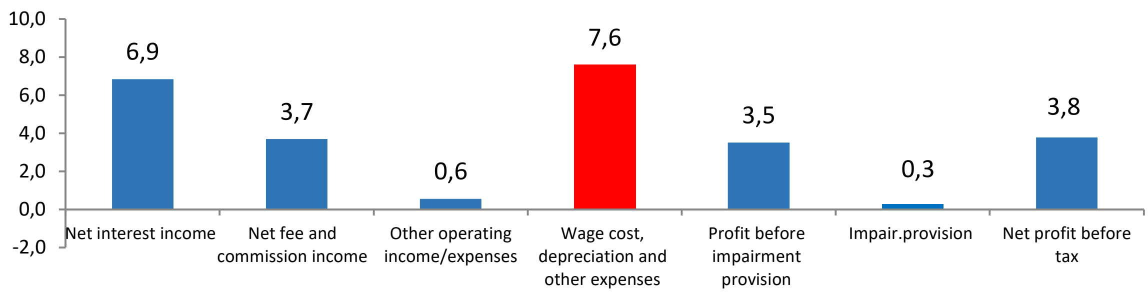
The data on realized values in the balance sheet and income statement for previous periods that are shown in the report refer to Komercijalna banka a.d. Beograd and the members of the Group at that time (they do not include data from the balance sheet and profit and loss account that NLB Banka a.d. Beograd had on the respective dates).

[33] FI – financial instruments

Income statement of the Group in the period from 1/1 until 6/30/2021



Income statement of the Group in the period from 1/1 until 6/30/2022



During the first six months of 2022, at the level of the Group NLB Komercijalna banka a.d. Beograd made a profit before taxation in the amount of RSD 3,795.7 million. The consolidated profit before taxation of the Group during the first six months of 2022 increased by 464.4%, i.e., by RSD 3,123.2 million compared to the same period in 2021.

The Group's interest income, during the first six months of 2022, increased slightly compared to the same period in 2021 (increase by 0.1%), while interest expenses decreased in the same period (decrease by 43.4%). The aforementioned resulted in an increase in the Group's net interest income in the amount of RSD 305.1 million, or 4.7%.

Consolidated revenues based on fees and commissions in the first half of 2022 increased by 29.1% compared to the same period in 2021. Expenses from fees and commissions recorded an increase, but in a smaller percentage, they increased by 16.7%, which resulted in the Group's net income from fees and commissions being higher by 33.2% compared to the same period in 2021.

During the first half of 2022, net income was realized based on the impairment of financial assets that are not valued at fair value through the income statement in the amount of RSD 279.2 million, unlike the same period in 2021 when net expenditure was realized in the amount of RSD 1,022.9 million.

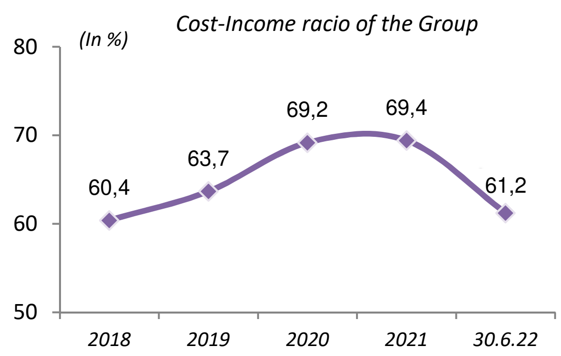
During the first six months of 2022, a net loss was recorded based on the derecognition of financial instruments valued at fair value in the amount of RSD 63.0 million, while in the same period of 2021, a net gain was recorded in the amount of RSD 129.8 million.

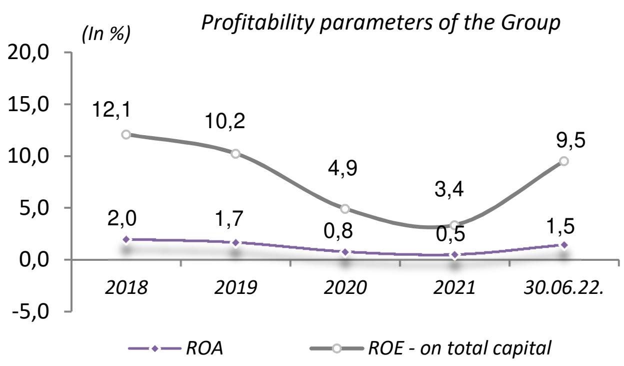
Salary expenses, salary compensation, depreciation expenses and other expenses were reduced compared to the same period in 2021 by 5.6%, i.e., they were reduced by RSD 451.4 million.

The position of other revenues of the Group recorded an increase of RSD 221.9 million, i.e., an increase of 170.3% during the first six months of 2022 compared to the same period of 2021.
During the first six months of 2022, the Group recorded a net gain based on the derecognition of financial instruments valued at amortized value in the amount of RSD 86.2 million, while on the same date of the previous year there was no amount.

The realized consolidated profit before tax during the first half of 2022 is RSD 3,795.7 million and it is 464.4% higher than the result achieved in 2021, which is also influenced by all the organizational changes that occurred in the previous period.

Group profitability indicators





Consolidated income statement for the period from 1/1 until 6/30/2022 - members of the Group

	DESCRIPTION	NLB Komercijalna banka Beograd	KOMBANK INVEST Beograd	TOTAL GROUP
1	2	3	4	5
	(in thousand RSD)			
1.1.	Income from interest	7,240,228	251	7,240,479
1.2.	Expenses from interest	384,674	-	(384,674)
1.	**Net interest from income**	**6,855,554**	**251**	**6,855,805**
2.1.	Income from fees	4,765,740	11,394	4,777,134
2.2.	Expenses from fees	1,077,524	147	(1,077,671)
2.	**Net income from fees**	**3,688,216**	**11,247**	**3,699,463**
3.	Net gain/loss on change in fair value of FI[34]	11,734	1,121	12,855
4.	Net gain/loss on derecognition of FIs valued at fair value	(63,034)	21	(63,013)
5.	Net income/expenditure from exchange rate differences and the effects of contracted CC[35]	(137,896)	(1)	(137,897)
6.	Net income/expense based on reduction of impairment of financ. assets that are not valued at fair value through income stat.	279,200	-	279,200
7.	Net gain/loss on derecognition of FIs valued at amortized cost	86,194	-	86,194
8.	Other operating income	317,896	-	317,896
I	**TOTAL NET OPERATING INCOME**	**11,037,864**	**12,639**	**11,050,503**
9.	Salary expenses, salary compensation and other personal expenses	(2,727,824)	(9,340)	(2,737,164)
10.	Depreciation costs	(540,568)	(24)	(540,592)
11.	Other income	352,191	4	352,195
12.	Other expenses	(4,321,831)	(7,368)	(4,329,199)
II	**PROFIT BEFORE TAX**	**3,799,832**	**(4,089)**	**3,795,743**
13.	Income tax	204,648	-	204,648
14.	Profit based on deferred taxes	115,740	-	115,740
15.	Deferred tax loss	173,148	-	173,148
III	**PROFIT/LOSS(-) AFTER TAX**	**3,537,776**	**(4,089)**	**3,533,687**

[34] FI – financial instruments
[35] CC – currency clauses

FINANCIAL INSTRUMENTS SIGNIFICANT FOR THE ASSESSMENT OF THE GROUP'S FINANCIAL POSITION

For an adequate assessment of the financial position of the Group, at the end of the first six months of 2022, the following financial instruments or balance sheet positions are of key importance: loans and receivables from clients, securities, cash and funds at the central bank, deposits and other financial obligations to other clients and capital.

The position of loans and receivables from clients accounted for 54.7% of total consolidated assets and increased by RSD 88,476.8 million compared to the end of 2021.

The securities position accounted for 22.4% of the Group's total consolidated assets and was reduced by RSD 27,787.0 million compared to 2021 and mostly consists of the placement of Parent bank in securities of the Republic of Serbia (RSD 121,819.4 million, 99.9%).

Cash and assets with the central bank at the end of the first half of 2022 accounted for 16.1% of consolidated assets and increased by RSD 5,630.4 million compared to the end of 2021.

On the other hand, the position of deposits and other financial obligations to other clients made up 80.5% of consolidated liabilities and increased by RSD 34,174.9 million. Deposits were the main source of financing for KB Group during the first six months of 2022.

The Group's total capital position was 15.4% of consolidated liabilities and increased by RSD 8,149.1 million, primarily due to the increase in share capital and capital gains (the result of the implemented integration of NLB Banka a.d. Beograd and Komercijalna banka a.d. Beograd).
The members of the Group are well capitalized, and the Group's capital adequacy ratio is 24.14%, which is significantly above the prescribed limit.

More detailed information on the structure of the balance sheet positions of the Parent bank, as a key member of the Group, is presented in the Business Report of NLB Komercijalna banka a.d. Beograd for the second quarter of 2022, Notes to the financial statements of NLB Komercijalna banka a.d. Beograd for the second quarter of 2022 and in the Notes to the consolidated financial statements for June 30, 2022.

ACTIVITIES OF BRANCHES BEFORE CONSOLIDATION

NLB Komercijalna banka a.d. Beograd, the Parent bank, keeps business books and prepares financial reports in accordance with the accounting regulations of the Republic of Serbia.
KOMBANK INVEST a.d. Beograd prepares financial reports in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of preparing consolidated financial statements, the individual financial statements of the Parent bank and the company KOMBANK INVEST have been adapted for the presentation of financial statements based on:

- accounting regulations of the Republic of Serbia,
- internal acts of Parent bank - NLB Komercijalna banka AD Beograd and
- relevant IAS and IFRS.

Reclassified individual balance sheets of Group members before consolidation on June 30, 2022

DESCRIPTION	NLB Komercijalna banka Beograd	KOMBANK INVEST Beograd
(in thousand RSD)		
Cash and funds at the central bank	87,685,914	221
Pledged financial assets	0	0
Receivables based on derivatives	12,908	0
Securities	121,819,448	137,576
Loans and receivables from banks and OFO	15,332,383	16,087
Loans and receivables from clients	297,521,736	0
Investments in associates and joint ventures	1,488,063	0
Investments in subsidiaries	140,000	0
Intangible assets	603,817	0
Real estate, plant and equipment	9,609,009	57
Investment property	2,695,112	0
Current tax assets	0	74
Deferred tax assets	1,287,585	2,773
Fixed assets intended for sale and assets from suspended operations	342,063	0
Other assets	5,058,490	1,547
TOTAL ASSETS	**543,596,528**	**158,335**
Liabilities based on derivatives	3,358	0
Deposits and other financial obligations to banks, other financial organizations and the central bank	9,641,559	0
Deposits and other financial obligations to other clients	437,461,325	0
Subordinated liabilities	1,766,439	0
Reservations	5,103,627	3,737
Current tax liabilities	185,737	0
Deferred tax liabilities	0	0
Other obligations	5,700,863	1,919
TOTAL OBLIGATIONS	**459,862,908**	**5,656**
Total capital	**83,733,620**	**152,679**
TOTAL LIABILITIES	**543,596,528**	**158,335**

NOTE: For the purposes of consolidation, the positions in the individual (statutory) financial statements of the Group members are reclassified, which affect the correction of the balance sheet amount and the results in the income statement shown in the statutory statements. Corrected (reclassified) financial statements represent initial balance sheets and positions that are further subject to consolidation.

Reclassified individual income statements of Group members before consolidation for the period from 1/1 until 6/30/2022

DESCRIPTION	NLB Komercijalna banka Beograd	KOMBANK INVEST Beograd
(in thousand RSD)		
Income from interest	7,240,228	251
Expenses from interest	(384,674)	0
Net income from interest	**6,855,554**	**251**
Income from fees and commissions	4,767,020	11,394
Expenses from fees and commissions	(1,077,524)	(1,427)
Net income from fees and commissions	**3,689,496**	**9,967**
Net gain/loss on change in fair value of FI[36]	11,734	1,121
Net gain/loss on derecognition of financial instruments valued at fair value	(63,034)	21
Net income/expense from exchange rate differences and the effects of the contracted currency clause	(137,896)	(1)
Net income/expense based on reduction of impairment of financial assets that are not valued at fair value through IS	279,200	0
Net gain/loss on derecognition of FIs valued at amortized cost	86,194	0
Net gain/loss on derecognition of investments in associates and joint ventures	0	0
Other operating income	177,304	0
TOTAL NET OPERATING INCOME	**10,898,552**	**11,359**
Salary expenses, salary compensation and other personal expenses	(2,727,824)	(9,340)
Depreciation costs	(540,568)	(24)
Other income	352,191	4
Other expenses	(4,321,831)	(7,368)
PROFIT/LOSS(-) BEFORE TAX	**3,660,520**	**(5,369)**

REPURCHASE OF OWN SHARES

In the process of integration of Komercijalna banka a.d. Beograd with NLB Banka a.d. Beograd, in March 2022, after receiving the Decision of the National Bank of Serbia on granting prior approval for the acquisition of its own shares, the Bank repurchased 487,054 of its own shares from dissenting shareholders, at a market value of 4,589.01 dinars per share, in the total amount of 2,235,096 thousand dinars.

On April 18, 2022, the Bank submitted an offer for the sale (disposal) of its own shares.

On May 23, 2022, the Bank released a notice on the disposal of its own shares (the Bank disposed of a total of 455,060 own shares, which represents 93.4311% of its own shares, i.e., 2.4629% of the total number of issued ordinary shares). The settlement date of the transaction is 5/23/2022. On the day of publication of the notice (May 24, 2022), the Bank owned a total of 31,994 own shares, i.e., 0.17316% of the total number of issued ordinary shares, i.e., 0.16973% of the total number of issued shares of both types (ordinary and preferred).

[36] FI – financial instruments

On July 4, 2022, the Bank released a Notice to shareholders on the compulsory purchase of shares of NLB Komercijalna banka a.d. Beograd.

On 14.07.2022. In 2008, the Bank published the Notice on the disposal of own shares.

Additional information on the purchase of own shares is available on the website of NLB Komercijalna banka a.d. Beograd, in the Report of NLB Komercijalna banka a.d. Beograd for the second quarter of 2022, namely in the Note to the financial statements for the second quarter of 2022, in chapter 1. Establishment and operations of the Bank and chapter 3.26. Capital, as well as in the Notes to the consolidated financial statements for June 30, 2022.

RISK MANAGEMENT

Objectives and policies for financial risk management

At the sub-consolidated level, the banking Group Komercijalna banka ad Beograd consists of the superior Komercijalna banka ad Beograd (hereinafter referred to as Parent bank) and Company for investment fund management Kombank Invest. The Bank, together with its subordinate companies, became a member of the banking Group at the end of 2020, and during 2021 and in the first half of 2022, harmonization with the risk management standards was carried out. Bearing in mind the different nature and scope of operations, the Parent bank is dominant, while the standards of the banking Group have been implemented on the subsidiary company, respecting the nature and scope of operations.

Risk management is a key element of business management, given that risk exposure arises from all business activities, as an inseparable part of banking operations, which is managed through identification, measurement, assessment, monitoring, control and mitigation, that is, by establishing risk limits, as well as reporting in accordance with strategies and policies.

The Parent bank has established a comprehensive and reliable risk management system that includes: a risk management framework and a statement on risk assumption, strategies, policies and risk management procedures, methodologies for managing individual risks, an appropriate organizational structure, an effective and efficient process for managing all risks that Parent bank is exposed or may be exposed to in its operations, an adequate system of internal controls, an adequate information system and an adequate process of internal assessment of capital adequacy. Also, the Bank's Recovery Plan is integrated into the risk management system, as a mechanism for early identification of a situation of severe financial disruption in which the Parent bank can take measures, i.e., apply defined recovery options in order to prevent entry into the phase of early intervention in which the regulator has an active role or improvement already deteriorating financial condition. The framework for risk management represents the formalization of the Bank's tendency towards materially significant risks, which implies the definition of goals, tolerances and limits for all materially significant risks that can be quantified. With the Risk Management Strategy and the Capital Management Strategy as well as the Capital Management Plan, the Bank has set the following goals within the risk management system: minimization of negative effects on the financial result and capital while respecting the defined framework of an acceptable level of risk, maintaining the necessary level of capital adequacy, developing the activities of the Parent Bank in accordance with the business strategy and opportunities and market development in order to create competitive advantages, diversifying the risks to which the Parent bank is exposed, maintaining the share of NPLs in total loans at a level below the defined limit, maintaining the concentration risk indicator based on exposure to certain types of products below the level prescribed by the regulation, maintaining the share of loans in dinars with a currency clause in foreign currency and loans in foreign currency in the total loans of the Parent bank below the level prescribed by the regulation, maintaining the indicator of coverage with liquid assets above the level of written by regulations and internal limits. The Bank permanently monitors all announcements and changes in the regulatory framework, analyzes the impact on the level of risk and takes measures for timely alignment of its operations with new regulations.

In the first half of the year, the Bank carried out activities to align with the new regulation in the part that regulates measures to preserve the stability of the financial system. With the Decision on the temporary measure related to the calculation of the bank's capital, the National Bank of Serbia prescribed benefits that banks can apply in order to mitigate the potential negative effects of the current situation, based on the increase in unrealized losses of part of the debt instruments on the regulatory capital.
Through a clearly defined process of introducing new and significantly changed products, services and activities related to processes and systems, the Parent bank analyzes their impact on future exposure to risks with the aim of optimizing its income and costs for the assessed risk, as well as minimizing all potentially possible adverse effects on the financial result of the Bank.

Protection policy against exposure to credit risk

In order to protect itself against exposure to credit risk, the Parent bank applies credit risk mitigation techniques by obtaining acceptable security instruments (collaterals) as secondary sources of placement collection. The Parent bank strives to conduct operations with clients of good creditworthiness, assessing it at the time of submission of applications and by regularly monitoring of debtors, placements and collateral, with the aim of timely undertaking appropriate activities in the collection procedure. The types of claim security depend on the assessment of the credit risk of the debtor, and are determined in each specific case individually, and their acquisition is carried out after the conclusion of the contract and before the implementation of the placement.

Parent bank significantly improved the process and system of environmental and social protection risk management during the first half of 2022.

The Parent bank regulated the valuation of credit protection instruments and the management of those instruments by internal acts.

The Parent bank pays special attention to the marketability and adequate assessment of collateral, in connection with which, when assessing the value of collateral, it hires authorized appraisers in order to minimize the potential risk of unrealistic assessment and bring it to the smallest possible extent, and as for the real estate, goods, equipment and other movables that are the subject of a pledge, they must be insured with an insurance company acceptable to the Parent bank, with insurance policies tied in favor of the Bank.

In order to protect against changes in the market value of collateral, the estimated value is corrected for defined percentages of reduction depending on the type of collateral and the location of the real estate, which are regularly reviewed and revised.

The Parent bank pays special attention to collateral monitoring and undertakes activities to secure new valuations, but also to obtain additional collateral, primarily for clients with identified problems in business activities, but also for clients whose collateral exposure coverage is reduced due to the decline in the value of acquired collateral.

In order to adequately manage risks, the Parent bank conducts credit risk analysis activities when approving placements and establishing a system for monitoring, preventing and managing risky placements, including adequate identification of potentially risky clients (Watch List), mitigating credit risk for clients of the aforementioned status, as well as through taking measures and actions aimed at protecting the interests of the Bank and preventing negative effects on the financial result and capital of the Parent bank.

During the first half of 2022, the Parent bank continued to improve the risk management system, taking into account the process of integration with NLB Bank Beograd, as well as the impact of the Russian-Ukrainian crisis.

In the first half of 2022, in the conditions caused by the COVID-19 pandemic with a slight improvement in the business environment, a special challenge from the aspect of credit risk management is the Russian-Ukrainian crisis, as well as an increase in the reference interest rates of Central Banks in the world and in the Republic of Serbia. The Bank continued to maintain the quality of the credit portfolio by regular analyzes of the impact of the pandemic on the decline in business activities and the reduction of the financial potential of clients from the most threatened activities and solving the problems of clients that have already been recognized as problematic, and it also carried out activities to reduce non-performing loans.

The concept of "expected losses" is applied through the inclusion of the influence of the expected movement of macroeconomic factors on the future movement of the probability of default status based on statistically proven interdependencies. The portfolio is differentiated into three levels that follow the status of the client (level 1 - PL clients without an identified worsening of credit risk, level 2 - PL clients with an identified worsening of credit risk - measured by a set of defined criteria, level 3 - NPL clients), with defined criteria for transition of clients from higher to lower levels. Also, in accordance with the IFRS 9 Standard, the Parent bank calculates impairment for exposures to the Republic of Serbia and the National Bank of Serbia.

Starting from December 31, 2021 and on June 30, 2022, the calculation of LGD unsecured and LGD secured includes the impact of macroeconomic factors in the next three years, taking into account three scenarios (optimistic, realistic and pessimistic).

Risk exposure (price, credit, liquidity risk and cash flow risk) with risk management strategy and assessment of their effectiveness

In its operations, the Parent bank is particularly exposed to the following types of risks:

1. Credit and related risks.
2. Liquidity risk.
3. Market risk.
4. Interest risk in the banking book.
5. Operational risk.
6. Investment risk.
7. Risk of exposure.
8. Country risk as well as all other risks that may arise in the regular operations of the Bank. The aforementioned risks are not all present in the operations of the subsidiary company, bearing in mind the nature and scope of operations.

Credit risk is the possibility of adverse effects on the financial result and capital, due to non-fulfillment of the debtor's obligations to the Bank.

Credit risk is determined by the debtor's creditworthiness, his regularity in fulfilling his obligations to the Bank, as well as the quality of security instruments. The Bank's acceptable level of exposure to credit risk is in accordance with the defined Risk Management Framework and Risk Management Strategy and depends on the structure of the Parent bank's portfolio, on the basis of which it is possible to limit negative effects on the Parent bank's financial result and capital, while minimizing capital requirements for credit risk, the risk of the other contracting party, the risk of a decrease in the value of purchased receivables, the risk of settlement/delivery based on free deliveries and in order to maintain capital adequacy at an acceptable level. The Bank manages credit risk at the level of the client, the group of related parties and the entire credit portfolio. The bank approves placements to clients (legal and natural persons) that it assesses as creditworthy by performing analysis, i.e., quantitative and/or qualitative measurement and assessment of credit risk and the debtor's financial condition. The process of measuring credit risk is based on measuring the level of riskiness of an individual placement based on the internal rating system, as well as on the application of the regulations of the National Bank of Serbia, which requires the classification of each placement based on prescribed criteria.

By monitoring and controlling the portfolio as a whole and by individual segments, the Bank makes comparisons with previous periods, identifies trends and causes of changes in the level of credit risk. It also monitors asset quality indicators (movement of NPLs, degree of NPL coverage by value adjustments, etc.), as well as exposure according to regulatory and internally defined limits by the Decision on concentration risk management based on the bank's exposure to certain types of products. Also, monitoring and reporting on the degree of credit indebtedness of natural persons (DTI ratio) was introduced. The loan quality monitoring process enables the Bank to assess potential losses as a result of the risks it is exposed to and to take appropriate corrective measures. On the other hand, the Parent bank does not invest in high-risk placements, such as investments in potentially profitable projects but with high risk, in investment funds with a high-risk portfolio, and the like.

Liquidity risk represents the possibility for occurrence of negative effects on the Bank's financial result and capital due to the inability of the Parent bank to fulfill its due obligations due to the withdrawal of existing sources of financing and the inability to obtain new sources of financing - the risk of liquidity of sources of financing, as well as the difficulty of converting assets into liquid assets due to disruptions in market - liquidity market risk.

Liquidity risk manifests itself through the Bank's difficulties in settling due obligations in case of insufficient liquidity reserves and the inability to cover unexpected outflows of other liabilities. In its operations, the Bank respects the basic principles of liquidity, achieving a sufficient level of liquid assets to cover obligations incurred in the short term, that is, it respects the principle of solvency, by forming an optimal structure of own and borrowed sources of funds and forming a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

Liquidity risk also manifests itself in the inability of the Bank to transform certain parts of assets into liquid funds in the short term. The Bank analyzes the risk of sources of funds and the market risk of liquidity. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities, that is, obligations, and is expressed through a potentially significant participation of unstable sources, short-term sources or their concentration. The liquidity risk of the source of funds actually represents the risk that the Bank will not be able to fulfill its obligations due to the withdrawal of unstable sources of funds, that is, the inability to obtain new sources of funds. On the other hand, liquidity risk manifests itself through the deficit of liquidity reserves and the difficulty or impossibility of obtaining liquid assets at acceptable market prices. In order to adequately manage liquidity risk, an internal liquidity management adequacy assessment process (ILAAP) has been established, which is carried out at least once a year. A system of internal limits and a Risk Appetite Framework were established, in accordance with the Group's standards for structural liquidity indicators, as well as with the nature of the Bank's operations.

During 2022, the Bank was in compliance with regulatory and internally defined limits, as well as the Risk Management Framework, and the liquidity risk was within controlled limits. The Bank actively undertakes preventive measures in order to minimize exposure to liquidity risk.

Market risk represents the possibility of adverse effects on the Bank's financial result and capital due to changes in market variables and includes foreign exchange risk for all business activities performed and price risk of trading book positions.

The Bank is exposed to foreign exchange risk, which manifests itself through the possibility of adverse effects on the financial result and capital due to the volatility of exchange rates, relations, changes in the value of the domestic currency in relation to foreign currencies or changes in the value of gold and other precious metals. In order to minimize exposure to foreign exchange risk, the Bank diversifies the currency structure of the portfolio and the currency structure of liabilities, aligns open positions by individual currencies, respecting the principles of term transformation of funds. During 2022, the Bank was in compliance with the regulatory indicator of foreign exchange risk, which is expressed as 20% of regulatory capital, as well as with significantly more conservative internally defined limits, i.e., with the defined Risk Management Framework.

Interest rate risk represents the risk of adverse effects on the Bank's financial result and capital based on positions in the banking book due to unfavorable changes in interest rates. The Bank comprehensively and in timely manner determines the causes of the current exposure and evaluates the factors of future exposure to interest rate risk. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities. Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result and economic value of capital, by conducting an adequate policy of term compliance of the period of re-formation of interest rates and harmonizing sources with placements according to the level of interest rate and maturity.

During 2022, the Bank was in compliance with regulatory and internally defined limits, as well as the Risk Management Framework.

Operational risk is the risk of loss arising from deficiencies or errors in the functioning of internal processes, systems and people or due to external events. Operational risk includes legal risk, but not strategic and reputational risk. However, due to its importance, reputational risk is considered when managing operational risk. Operational risk is defined as an event that occurred as a result of inadequate or failed internal processes, employee and system actions or systemic and other external events, internal and external fraud, employment practices and workplace safety, customer claims, product distribution, fines and penalties due to injuries, damage to material assets, business disruptions and system failures and process management.

The measurement, that is, the assessment of the operational risk of the Parent bank is carried out through a quantitative and/or qualitative assessment of the identified operational risk. The Bank measures exposure to operational risks through event records, monitoring of key risk indicators and determination of operational risk profiles.

Key risk indicators represent an early warning to signal changes in the Bank's risk profile. They relate to a specific operational risk and show greater exposure in the event of an operational risk event. Their purpose is to help reduce losses and operational risks through proactive consideration of risk factors.

The Bank's operational risk profile represents the Bank's exposure to operational risk and serves as a basis for making additional decisions, which would improve the existing operational risk profile and bring it closer to the target profile. The existing profile of identified operational risks is the result of the identification and evaluation of operational risks within certain processes by organizational forms, which is carried out at least once a year. The existing profile of operational risks includes operational risks that the trustees of operational risks (persons who are responsible for monitoring operational risks, as well as other employees), see within their organizational forms or outside them. During 2022, in addition to other assessments of operational risks in the processes, the Parent bank also conducted an assessment of the exposure to operational risks in the conditions of the integration of the two banks. Appropriate measures for risk reduction are defined for the identified operational risks.

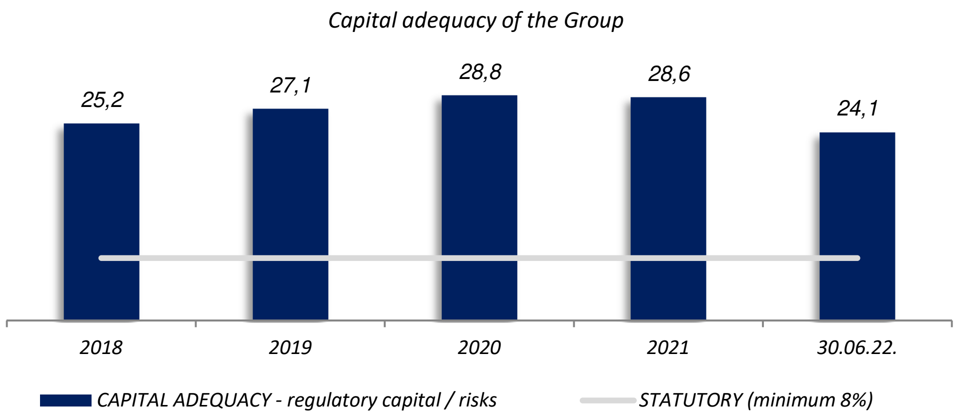
The Bank undertakes measures aimed at mitigating operational risks and proactively reacting to potential operational risk events through permanent monitoring of all activities, monitoring of key risk indicators that represent an early warning for signaling changes in the Bank's risk profile, implementation of an adequate and reliable information system, the implementation of which improves business practice and optimizes the Bank's business processes.

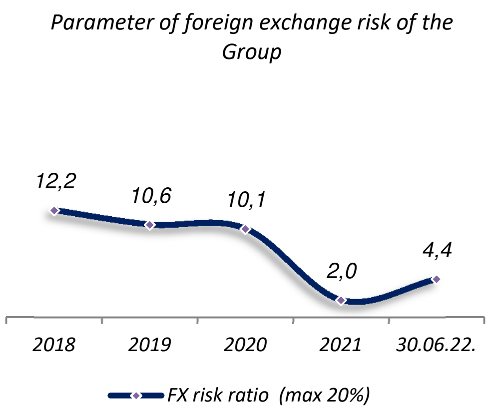
The investment risk of the Parent bank represents the risk of investing in other legal entities and in fixed assets and investment real estate. In accordance with the regulations of the National Bank of Serbia, the level of permanent investments is monitored and the Organs and Boards of the Bank are informed about it. In this way, it is ensured that the Parent bank's investment in one person that is not in the financial sector does not exceed 10% of the capital of the Parent bank, and that the Bank's investments in persons that are not in the financial sector as well as in the Bank's fixed assets and investment properties do not exceed 60% of the Bank's capital.

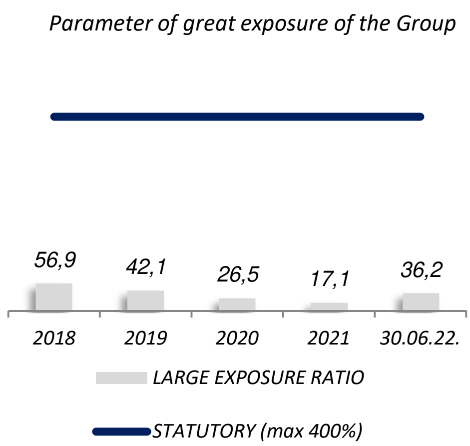
A large exposure of the Bank to one person or a group of related persons, including persons related to the Parent bank, is an exposure that amounts to at least 10% of the Bank's capital. During the first half of 2022, the Parent bank was in compliance with regulatory and internally defined exposure limits.

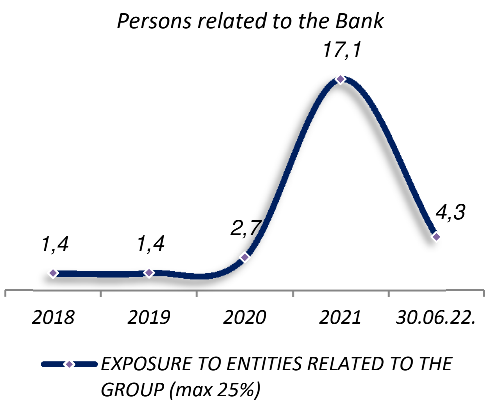
Country risk is the risk related to the country of origin of the person to which the Parent bank is exposed to, i.e., the risk of the possibility of adverse effects on the Bank's financial results and capital due to the Bank's inability to collect claims from debtors for reasons that are a consequence of political, economic or social conditions in the debtor's country of origin. The Bank's exposure to country risk is at an acceptable level.

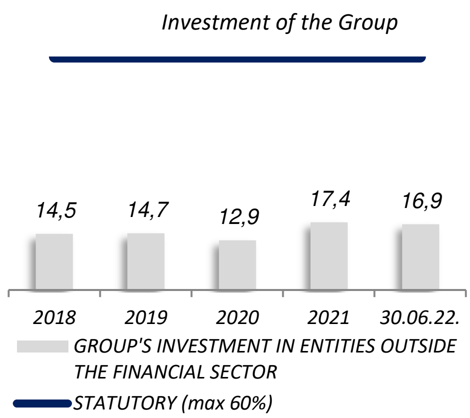
A detailed presentation and explanation of the risks to which the Group is exposed to in its operations is presented in point 4. Risk management in the Notes to the financial statements.











NON-FINANCIAL INFORMATION OF THE GROUP

The Group's business model

Parent bank of the NLB Komercijalna banka a.d. group. Beograd functions as a universal commercial bank. In its operations, the Bank is equally focused on working with individuals, legal entities and registered agricultural holdings. The Group's activities include credit, deposit and guarantee operations and payment operations, in the country and abroad, in accordance with the Law on Banks, as well as investment fund management operations.

The Bank operates independently, according to market principles, with the application of the principles of liquidity, profitability and security, with respect for the law, other regulations and general principles of banking business in achieving its goals in a socially responsible manner, in accordance with fundamental values and business ethics.

The Bank's business model is defined as collecting and holding free funds from legal and natural persons under defined conditions (principal and interest) and placing the collected funds to legal and natural persons in the form of loans under other, defined conditions (principal and interest), investing in securities and other registered businesses.

The main activity of the company KOMBANK INVEST AD Beograd is the organization and management of UCITS funds. Exceptionally, the Company may manage other collective investment institutions in accordance with a special law and in respect of which it is subject to prudential supervision. The assets of the Company consist of items and rights owned by the Company, as well as other rights of the Company. The Company is responsible for its obligations with all its assets.
The company manages the work and operations of the following funds:

1. KOMBANK INFOND

The primary investment goal of the management company is to enable the members of the UCITS fund, through responsible and professional management, to achieve high rates of return on assets invested for a long period of time while assuming moderate risk.
The basic investment goal (benchmark) of the UCITS fund is to achieve a rate of return that continuously follows the movement of the leading world indexes.
Taking into account the commitment to invest in financial instruments that are sensitive to changes in market conditions on a daily basis, as well as to the composition of the UCITS fund portfolio, moderate volatility of the investment unit is possible.

2. KOMBANK MONEY FUND

The investment goal of the UCITS fund is to ensure, through responsible and professional management, the realization of a stable return for its members, with the highest possible investment profitability, with a low level of risk and while maintaining asset liquidity at the highest possible level.
The basic investment goal (benchmark) of the UCITS fund is to achieve a rate of return that continuously follows the movement of the daily BEONIA (Belgrade over-night interest rate) interest rate as a reference indicator of the UCITS fund.

3. KOMBANK FOREIGN EXCHANGE FUND

The investment goal of the UCITS fund is to ensure, through responsible and professional management, the realization of a stable return for its members, with the highest possible investment profitability, with a low level of risk and while maintaining asset liquidity at the highest possible level.
The main investment goal of the UCITS fund (benchmark) is to achieve a return that continuously follows the movement of the EURIBOR interest rate, as well as other reference rates on the foreign exchange market.

Investments in order to protect the environment

The Group respects international standards and values in the creation of financial products and services, develops and implements activities in the field of environmental protection and protection of human and labor rights.
NLB Komercijalna banka a.d. Beograd, the Parent bank, is particularly concerned about the protection of the environment and is committed to responsible business, where it strives to minimize the generation of waste, optimize the consumption of resources in order to reduce the impact on the environment to the smallest possible extent, as well as properly manage potential risks to the environment when lending. The measures taken to reduce the negative impact on the environment are:

Paper printing/recycling and environmental impact
Reducing printing is a permanent and long-term process in the Bank, which was initiated with the introduction of DMS back in 2012. During the last few years, an electronic office was introduced where all incoming mail is scanned and sent in digital form to organizational forms in the Bank. In recent years, documents have been signed with a certified electronic signature, and constant work is being done on the digitization of business processes, which leads to a constant reduction in paper consumption (in the period 2019-2020 by 20%, and in the period 2020-2021 by an additional 19%). One of the goals of the Bank head office relocation project is the introduction of a paperless way of doing business. After the selection of archival material that has expired, it is separated for destruction and recycling according to the strictest standards and procedures.

Waste recycling
Waste management involves sorting waste into commercial waste and waste from electrical and electronic equipment. Disposal of waste from electrical and electronic equipment is carried out after the completion of the annual inventory of fixed assets in such a way that the same is handed over to a certified company for the disposal of this type of waste, which, after completion of transport, submits to the Bank a certified certificate that the waste has been collected.

Use of light
With its daily activities, Komercijalna banka contributes to the saving of electricity by keeping the light off in rooms that are not in constant use and turning it on only when necessary, and it has also started installing LED bulbs in the buildings. With the relocation of the Bank head office, the implementation of technological solutions is planned in such a way that it will make the head office a smart building with an implemented BMS (building management system) and solar panels that will further contribute to lower energy consumption.

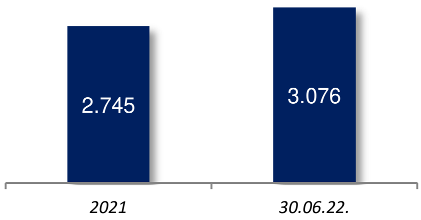
Reduction of CO2 emissions
Recognizing the importance and unfavorable trend of increasing CO2 emissions at the global level, Komercijalna banka undertook a set of measures aimed at limiting its own impact on CO2 gas emissions. Starting in 2022, Komercijalna banka has ensured that all electricity consumed comes exclusively from renewable energy sources. In this way, an indirect incentive for the emission of greenhouse gases resulting from the burning of coal was avoided. Also, activities have been initiated to calculate the total emission of the mentioned gases due to the regular activities of Komercijalna banka, and the results of these activities will be used in order to set strategies aimed at further reducing the emission of all harmful gases.

Environmental Protection Management System
Komercijalna banka is actively working on establishing an Environmental and Social Management System (ESMS) that will ensure daily analysis, limitation and management of all potential risks to the environment or society that may arise from lending to certain industries or projects. The environmental protection management system will function in accordance with the principles and rules adopted by the European Bank for Reconstruction and Development (EBRD), the Multilateral Investment Guarantee Agency (MIGA) and the legal framework of the Republic of Serbia, which will ensure the highest standards when managing environmental and society risks.

Social and personnel issues of the Group

On June 30, 2022, the Group had a total of 3,076 employees, 331 more than at the end of 2021. The increase occurred as a result of the changes implemented during 2021 and 2022, i.e., the sale of a member of the Group Komercijalna banka a.d. Banka Luka and the merger of Group member Komercijalna banka a.d. Podgorica with NLB Banka a.d. Podgorica, i.e., the merger of NLB Banka a.d. Beograd with Komercijalna banka a.d. Beograd. The data of 3,076 employees includes the employees of Parent bank, KOMBANK INVEST and NLB Banka a.d. Podgorica.

Nuber of employees of the Group



Members of the Group independently define and implement personnel policy in accordance with individual business policies and strategies and business plans.
The mission of human resources management in NLB Komercijalna banka a.d. Beograd is the development and maintenance of a high level of expertise and motivation of employees in order to realize the Bank's business plans. Along with the continuous optimization of the number and structure of employees in recent years, the efficiency of the Bank, measured by assets per employee, has also increased.

Questions related to the social and personnel issues of the Group are additionally addressed in the Annual Report on the Group's operations for 2021.

Respect of human rights

The Group respects all human rights guaranteed by local regulations where Group members operate. In its operations, the Group does not use or abuse children or minors. Female employees in the Group are allowed to use the right to pregnancy and maternity leave in accordance with local regulations and the Collective Agreement.

The Parent bank respects all human rights guaranteed by the Constitution of the Republic of Serbia. In its operations, the Bank does not use or abuse children or minors. Female employees in the Bank are allowed to use the right to pregnancy leave, maternity leave, leave for child care and leave from work for special child care, in accordance with the Labor Law and the Collective Agreement.

In order to respect the protection of personal data, in accordance with the Law on the Protection of Personal Data, NLB Komercijalna banka has adopted the Rulebook on Personal Data Protection (Pr-05-01-BK).

The Bank respects the privacy of its employees in accordance with the regulations regarding the protection of personal data. The Bank makes efforts to provide employees with safety at work, in which direction a large number of acts and procedures have been adopted.

In accordance with the provisions of the Collective Agreement, the Bank collectively insures all employees in case of serious illness and surgical interventions and in case of death due to accident and disability (24/7/365).

The employee is obliged to comply with the regulations on safety and protection of life and health at work, and failure to comply with those regulations and failure to notify the Bank of any type of potential danger that could affect the safety and health at work of the employee or other employees is a violation of work discipline, in accordance with provisions of the Collective Agreement of Komercijalna banka a.d. Beograd.

In the Bank, there is a Committee for Safety and Health at Work, whose responsibilities are governed by the law and the Collective Agreement of NLB Komercijalna banka a.d. Beograd.

The fight against corruption and issues related to bribery

The Parent bank has implemented the document which regulates the fight against corruption and bribery, Policy of conflict of interest management and prevention of corruption of NLB Komercijalna banka AD Beograd - NLB Group (hereinafter: Policy)[37].

In applying this Policy, the Parent bank adheres to:

- valid legal regulations;
- Corporate Governance Code of the Serbian Chamber of Commerce,
- Business rules of the Belgrade Stock Exchange a.d. and
- best practices of the NLB Group.

In accordance with the stated Policy:

- Conflict of interest means a conflict between the private interests of an individual and persons related to them (including members of their immediate family) and the interests of NLB d.d. or a member of the NLB Group, which the individual is obliged to protect, and which could have negative consequences on the implementation of business activities, making business decisions, performing work tasks and fulfilling obligations
- Corruption means any abuse of position for private purposes. This includes obtaining financial and non-financial benefits for oneself or for others. Examples of corruption are blackmail, bribery, fraud, nepotism, payment of benefits.
- Bribery means asking for or accepting, for oneself or for someone else, an illegal reward, gift or any other benefit or a promise or offer of such a benefit which, in order to obtain or retain a transaction or other illegal benefit, would disregard the interests of a member of the NLB Group or another natural person or caused damage to them. Bribery also means the promise, offer or giving of an impermissible reward, gift or any other benefit to a person or anyone in order to afford oneself or someone else an undue advantage in obtaining or retaining a transaction or other illegal benefit, also in exchange for a service in obtaining or retaining a transaction or other uses.

Prohibited actions related to corruption

In the NLB Group, any form of corruption is strictly prohibited. It is prohibited in NLB Group to use any resources of any member of NLB Group for any illegal purposes or purposes that are not in accordance with the anti-corruption rules stipulated in this Policy. Employees are required to reject any corrupt behavior and immediately report it to the organizational unit responsible for compliance.

In order to fight corruption, NLB Komercijalna banka a.d. Beograd has developed procedures to fight against:

- illegal acceptance and illegal giving of gifts (bribery) - it is strictly forbidden to illegally give or accept gifts to/from anyone, whether it is a business partner, supplier or public official, in order to get a new job, keep an existing job or give advantages to one's interests in a wrong way;

[37] Inducement is also considered corruption - if someone promises or even gives a reward to another person in exchange for an action that has hints of corruption. In that case, both the person to whom the incentive was given and the person who essentially performs such an act are involved in a corrupt act.

- payment of allowances - this activity is prohibited, so the payment of allowances may neither be made nor received;
- nepotism - prohibited activity;
- lobbying and political contributions - NLB Group members will not pay any political contributions - neither direct nor indirect;
- sponsorships and donations - approval of donations and sponsorships in a non-transparent manner for profit organizations must be avoided; associations or organizations or persons associated with the NLB Group, or without respecting the rules established for the approval of donations and sponsorships;
- standards for suppliers and/or external service providers - suppliers and external service providers must be informed in advance about compliance and integrity requirements, receive links to access the published NLB Group Code of Conduct (for public use), while contracts with the Bank must contain standards in the area of compliance and prevention of corruption, as well as appropriate legal remedies (termination of the contract due to non-compliance with NLB Group standards);
- use of intermediaries - intermediaries, agents, advisers, real estate agents, representatives and other persons acting in the name and on behalf of the Bank or other members of the NLB Group must be informed in advance of requirements in the area of compliance and integrity, receive links to access the published NLB Group Code of Conduct (for public use), while contracts with the Bank must contain standards in the area of compliance and corruption prevention, as well as appropriate legal remedies (termination of contract due to non-compliance with NLB Group standards;
- hiring or ordering services from former civil servants, officials or their relatives - public servants and office holders, members of their immediate family and other persons closely related to them (e.g. friends, other close acquaintances) enjoy the same treatment as others (potential) employees or business partners, based on their experience, skills and competences, and can never be given priority because of these connections in recruitment procedures or processes of ordering services or purchasing goods;
- contacts with high government officials - members of the management bodies of NLB Group members who have contacts with the government or state representatives or representatives of diplomatic missions or international organizations must, in addition to respecting the rules on accepting and giving gifts, in order to protect the integrity and reputation of NLB Group, take care to achieve the basic goal of this Policy in those contacts, i.e., to ensure the transparency of business operations and
- contacts with other persons - NLB Group employees who have been approached by a representative or agent of a supplier, external service provider, client or third party in order to try to inappropriately influence the business decisions of a member of the NLB Group in an inappropriate or illegal manner, are obliged to immediately indicate such conduct to the organizational unit responsible for the compliance of bank operations.

Other illegal or prohibited actions in the performance of business activities of the Bank and the Group are described in the aforementioned document, i.e., the Policy.

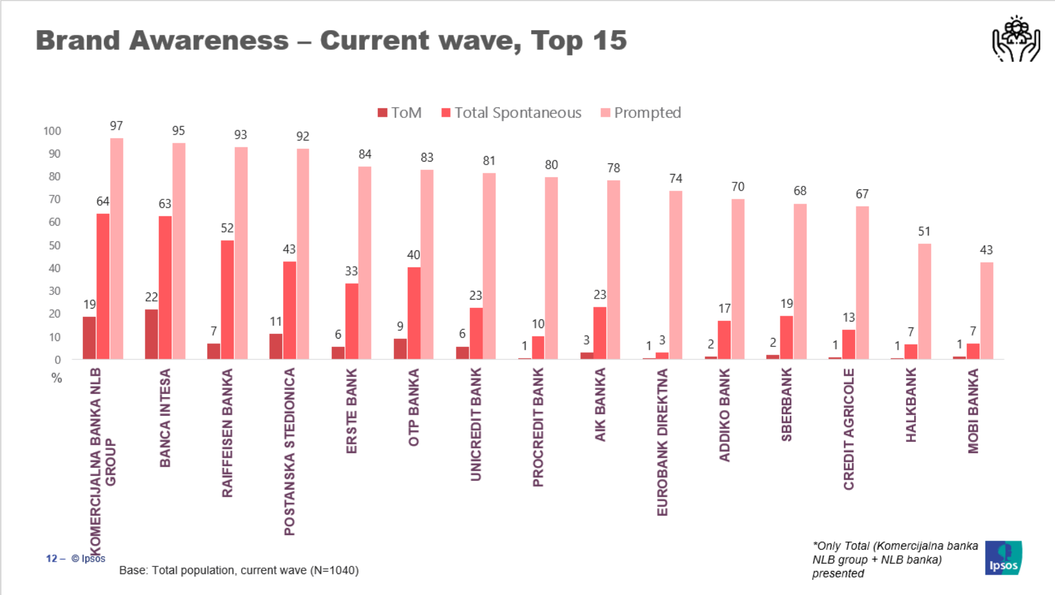
Research activities

During 2022, NLB Komercijalna banka followed the developments on the financial market in detail and up-to-date and successfully adapted to the conditions and changes on the same, in order to maintain its enviable position, as shown by the conducted research.

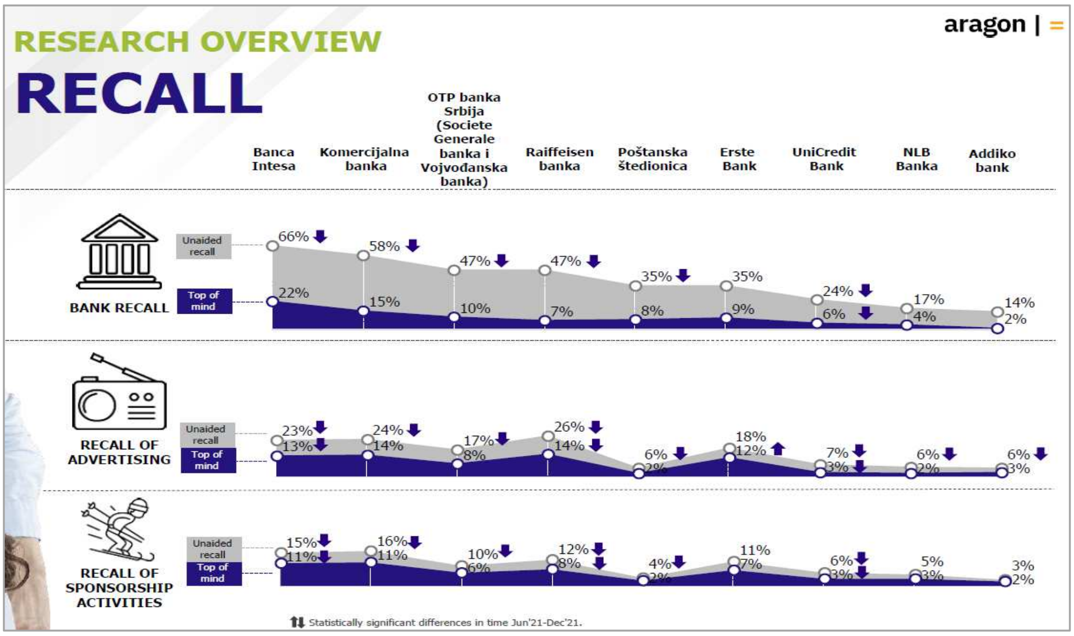
The market positioning of the Bank as a brand, its products and services, were also checked during 2022, through the Banking Omnibus, conducted by the research agency "IPSOS", specialized in this type of research, as well as through the Brand Track, conducted by Aragon, the research agency from Slovenia. Research shows that the Bank holds one of the leading positions in the eyes of the public for a long period of time, measured by the criteria of brand recognition, quality and satisfaction with the products and services used by clients. All research results are presented to relevant organizational units of the Bank for additional strengthening of the brand NLB Komercijalna banka.

The latest reports of the Banking Omnibus (from January 2022) and Brand Track research (from February 2022) show that Komercijalna banka NLB Group, according to respondents, is ranked at the very top in terms of brand recognition among the leading 15 banks in Serbia.

Brand recognition of banks in Serbia (Banking Omnibus, January 2022)



Recalling bank brands in Serbia (Brand Track, February 2022)



Among other things, in February 2022 Customer Satisfaction Study was conducted by the Slovenian research agency Valicon, which showed that there is a space for improvement in the following attributes: attitude towards clients, user experience and product prices.

Study on the satisfaction of clients of Komercijalna banka NLB Group (February 2022)

VALICON

Index of Total Satisfaction

Index of Total Satisfaction aggregate index calculated based on individual elements (Reputation and Trust, Customer Relationship, Products and Prices of products, User Experience). It also takes into account the importance of different elements, marked with blue for each segment.

The results of research and analysis contribute to the improvement of the efficiency of the process of making business decisions, especially important in the segment of development of new and improvement and modification of existing products and services.

In the continuous process of monitoring market signals and the needs of existing users and potential clients, the relevant sectors of the Group's members in the previous period offered users new and/or improved existing products and services of the Bank.

Socially responsible operations of the Group

NLB KOMERCIJALNA BANKA AD BEOGRAD

A special contribution to preserving and increasing the value of the corporate image was made by activities in the field of socially responsible business (Corporate Social Responsibility - CSR). The Bank carefully selected and supported those activities and actively cooperated with its partners in conducting them, but at the same time launched its own actions and campaigns that have a wider impact and significance for certain target groups, but also for society as a whole.

The campaign "Housing loans for young people" continued, after the initial launch of the campaign in October 2021. At that time, Komercijalna banka continued with the action "A real opportunity to live your own life", which is a part of the strategic initiative of the NLB Group to support the trend of young people staying in their home countries.

The first 350 clients who applied for a housing loan from February to the end of March 2022 and whose loan was paid by the end of May 2022, received a valuable gift from the Bank for moving into their apartment, in the amount of 30,000 dinars.

Regular activities in the field of social responsibility were hampered due to the situation in the country caused by the corona virus pandemic. This year, the Bank responded to this challenge with procedures that enabled business even in this situation, so Komercijalna banka and NLB Banka continued with the traditional action and competition "Organic".

At that time, still as two separate banks, members of the NLB Group, jointly organized a competition for organic producers – it was even the 11th competition in a series of Organic competitions, where five projects in the field of organic production and food processing were awarded with cash prizes in the total amount of 2.5 million dinars.

For several years now, the Organic competition has been one of the biggest competitions that rewards organic producers in the entire region. Proof of that claim is over 640 projects that have arrived at the addresses of NLB Banka and Komercijalna Banka since 2012.

As a member of the NLB Group in Serbia, NLB Komercijalna banka completed the donation to the B92 Fund, whose work the Bank has been supporting since 2014, and which is in accordance with the previous Donation Agreement. NLB Komercijalna banka paid a certain remaining amount to the Fund for the purchase of nine air-flow meter for oxygen therapy for the needs of the Institute of Neonatology. These are devices that measure the flow of oxygen needed by patients, in this case babies and neonates.

All implemented activities of Komercijalna banka, and then of NLB Komercijalna banka in this area, were followed by appropriate PR support when it comes to both internal and external communication. This proved to be a necessary support in the extraordinary circumstances in which we found ourselves in 2021 and 2022. The Bank communicated with its employees, clients and partners with a high-quality, clear and targeted manner, in order to inform them in a timely manner about all the changes that accompanied (socially responsible) operations, as well as the integration process of the two banks. This achieved mutual understanding and maintained trust in the Bank, but also laid strong foundations for the creation of a new brand of a new bank with real opportunities, which contributes to the improvement of the acquired image and reputation.

GROUP'S FUTURE DEVELOPMENT PLAN

Strategies and business plans for the future period are defined and adopted at the level of individual members of the Group.

In accordance with the policy of NLB Group Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, In the period July - October 2021, prepared the Budget for the year 2022 and financial projections for the period 2023 - 2026 for the bank that was created by the integration of two banks.

The initial assumption for the development of the plan is the appreciation of the synergy effects, especially from April 2022, which are expected in the integration process. The integration process was successfully completed on 4/30/2022, and thus the first big challenge in the following period has ended.

The goals that the Parent bank wants to achieve in the next five-year period are detailed in the Annual Report on the Group's operations for 2021.

Business goals of the UCITS fund management company KOMBANK INVEST a.d. Beograd for the future planning period are presented in the Annual Report on the Group's operations for 2021.

SIGNIFICANT EVENTS AT THE END OF THE BUSINESS YEAR

From December 31, 2021 to the end of June 2022, among the most important business events, four extraordinary and one regular meeting of the Shareholders' Assembly of the Parent bank were scheduled and held.
At the extraordinary session of the Bank's Shareholders' Assembly which was scheduled and held on February 2, 2022, the following decisions were adopted:

1. Decision on amendments and additions to the Founding Agreement;
2. Decision on adoption of the Articles of Association of NLB Komercijalna banka AD Beograd
3. Decision on Supplementing the Decision on Accepting the Merger of NLB Banka AD Beograd to Komercijalna Banka AD Beograd.

The second extraordinary session of the Bank's Shareholders' Assembly was scheduled and held on February 25, 2022, at which the following decision was adopted:

1. Decision on amendments to the Decision on the acquisition of the Bank's own shares from dissenting shareholders.

The third extraordinary session of the Bank's Shareholders' Assembly was scheduled and held on April 13, 2022, at which the following decision was adopted:

1. Decision on amendments to the Decision on amendments to the Founding Agreement.

The regular session of the Bank's Shareholders' Assembly was scheduled and held on April 18, 2022, at which the following decisions were adopted:

1. Decision on the adoption of the Annual Business Report and regular financial reports for 2021 with the auditor's opinion;
2. Decision on the adoption of the Annual Report on the Group's operations and the Group's consolidated financial statements for 2021 with the auditor's opinion;
3. Decision on distribution of profit from 2021 as well as undistributed profit from earlier years;
4. Decision on sale (disposal) of own shares of Komercijalna banka AD Beograd;

5. Decision on the adoption of the Strategy and Business Plan of Komercijalna banka AD Beograd for 2022-2026.

On April 29, 2022, Komercijalna banka a.d. Beograd completed the integration process with NLB Banka a.d. Beograd and adequately implemented the status change by merging NLB Banka a.d. Beograd with Komercijalna banka a.d. Beograd in the sense of Article 486 of the Company Law.

The fourth extraordinary session of the Bank's Shareholders' Assembly was scheduled and held on June 29, 2022. The following decisions were made at the meeting of the Bank's Shareholders' Assembly:

1. Decision on the compulsory purchase of shares;
2. Information on the income of the members of the Board of Directors and the Executive Board of NLB Komercijalna banka a.d. Beograd in 2021 and submitting data from Article 77 and 78 of the Law on Banks;
3. Decision on the adoption of financial statements with the balance on the date of registration of the status change with the opinion of the external auditor.

On July 4, 2022 the Bank released a Notice to shareholders on the compulsory purchase of shares of NLB Komercijalna banka a.d. Beograd.

On July 14, 2022, the Bank released a Notice on the disposal of its own shares.

On July 29, 2022, an invitation was sent for an extraordinary meeting of the Assembly of NLB Komercijalna banka AD Beograd (to be held on August 22, 2022) with a fixed proposal for the agenda:

1. Decision on the withdrawal of shares of NLB Komercijalna banka AD Beograd from the regulated market and the termination of the status of a public company.

Other significant events after the end of the business year in the Group NLB Komercijalna banka a.d. Beograd, i.e., in the members of the Group, are disclosed in the Notes to the consolidated financial statements - Events after the balance sheet date.

Signed on behalf of NLB Komercijalna banka a.d. Beograd

Vesna Petrović Executive Director of the Planning and Controlling Division	Dejan Janjatović Deputy Chief Executive Officer

BALANCE SHEET CONSOLIDATED

as at 30.06.2022.

in RSD thousand

ITEM	ADP code	Amount 30.06. Current year	Amount 31.12. Previous year
1	2	3	4
ASSETS			
Cash and assets held with the central bank	**0001**	87.685.914	82.055.481
Pledged financial assets	**0002**	-	-
Receivables under derivatives	**0003**	12.908	-
Securities	**0004**	121.957.024	149.744.019
Loans and receivables from banks and other financial organisations	**0005**	15.348.470	29.130.701
Loans and receivables from clients	**0006**	297.521.736	209.044.942
Change in fair value of hedged items	**0007**	-	-
Receivables under hedging derivatives	**0008**	-	-
Investments in associated companies and joint ventures	**0009**	1.542.595	1.479.000
Investments into subsidiaries	**0010**	-	-
Intangible investments	**0011**	603.817	582.101
Property, plant and equipment	**0012**	9.609.066	8.755.740
Investment property	**0013**	2.695.112	2.610.531
Current tax assets	**0014**	74	18.985
Deferred tax assets	**0015**	1.290.358	512.015
Non-current assets held for sale and discontinued operations	**0016**	342.063	101.614
Other assets	**0017**	5.059.823	5.433.093
TOTAL ASSETS (from 0001 to 0017)	**0018**	543.668.960	489.468.222
LIABILITIES			
LIABILITIES			
Liabilities under derivatives	**0401**	3.358	-
Deposits and other liabilities to banks, other financial organisations and central bank	**0402**	9.641.338	2.134.916
Deposits and other financial liabilities to clients	**0403**	437.461.325	403.286.418
Liabilities under hedging derivatives	**0404**	-	-
Change in fair value of hedged items	**0405**	-	-
Liabilities under securities	**0406**	-	-
Subordinated liabilities	**0407**	1.766.439	-
Provisions	**0408**	5.107.364	4.251.729
Liabilities under assets held for sale and discontinued operations	**0409**	-	-
Current tax liabilities	**0410**	185.737	-
Deferred tax liabilities	**0411**	-	-
Other liabilities	**0412**	5.702.568	4.143.452
TOTAL LIABILITIES (from 0401 to 0412)	**0413**	459.868.129	413.816.515
CAPITAL			
Share capital	**0414**	45.859.620	40.034.550
Own shares	**0415**	31.994	-
Profit	**0416**	16.383.302	9.579.290
Loss	**0417**	5.369	-
Reserves	**0418**	21.595.272	26.037.867
Unrealized losses	**0419**	-	-
Non-controlling participation	**0420**	-	-
TOTAL CAPITAL (0414-0415+0416-0417+0418-0419+0420) ≥ 0	**0421**	83.800.831	75.651.707
TOTAL CAPITAL SHORTFALL (0414-0415+0416-0417+0418-0419+0420) < 0	**0422**	-	-
TOTAL LIABILITIES (0413+0421-0422)	**0423**	543.668.960	489.468.222

INCOME STATEMENT - CONSOLIDATED

from 01.01.2022. to 30.06.2022.

in RSD thousand

ITEM	ADP code	Amount 01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
Interest income	1001	7.240.479	7.230.824
Interest expenses	1002	384.674	680.163
Net interest gains (1001-1002)	1003	6.855.805	6.550.661
Net interest losses (1002-1001)	1004	-	-
Income from fees and commissions	1005	4.777.134	3.700.634
Expenses on fees and commissions	1006	1.077.671	923.074
Net gains from fees and commissions (1005 - 1006)	1007	3.699.463	2.777.560
Net losses on fees and commissions (1006 - 1005)	1008	-	-
Net gains from changes in fair value of financial instruments	1009	12.855	2.280
Net losses from changes in fair value of financial instruments	1010	-	-
Net gains from 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	-	129.764
Net losses on derecognition of the financial instruments measured at fair value	1014	63.013	-
Net gains from hedging	1015	-	-
Net losses on hedging	1016	-	-
Net exchange rate gains and gains from agreed currency clause	1017	-	39.808
Net exchange rate losses and losses on agreed currency clause	1018	137.897	-
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	279.200	-
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	-	1.022.910
Net gains from derecognition of the financial instruments measured at amortised cost	1021	86.194	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	-
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-
Other operating income	1025	317.896	123.456
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	11.050.503	8.600.619
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	2.737.164	2.714.238
Depreciation costs	1029	540.592	548.571
Other income	1030	352.195	130.286
Other expenses	1031	4.329.199	4.795.513
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	3.795.743	672.583
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1033	-	-
Profit tax	1034	204.648	-
Gains from deferred taxes	1035	115.740	182.952
Losses on deferred taxes	1036	173.148	46.177
PROFIT AFTER TAX (1032-1033-1034+1035-1036) ≥ 0	1037	3.533.687	809.358
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	3.533.687	809.358
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-
Profit belonging to a parent entity	1043	3.533.687	809.357
Losses belonging to a parent entity	1044	-	1
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		

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

from 01.01.2022. to 30.06.2022.

in RSD thousand

ITEM	ADP code	Amount	
		01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
PROFIT FOR THE PERIOD	**2001**	3.533.687	809.358
LOSS FOR THE PERIOD	**2002**	-	-
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss: Increase in revaluation reserves based on intangible assets and fixed assets	**2003**	-	-
Decrease in revaluation reserves based on intangible assets and fixed assets	**2004**	-	-
Actuarial gains	**2005**	-	-
Actuarial losses	**2006**	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	**2007**	-	200.531
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	**2008**	79.903	-
Unrealised gains from equity hedges measured at fair value through other comprehensive income	**2009**	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	**2010**	-	-
Unrealised gains from bank’s financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	**2011**	-	-
Unrealised losses from bank’s financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	**2012**	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	**2013**	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	**2014**	-	-
Components of other comprehensive income that may be reclassified to profit or loss: Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	**2015**	-	138.326
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	**2016**	5.204.169	41.223
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**	2.455	2.223
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**	792.016	4.597
Tax losses relating to other comprehensive income for the period	**2028**	-	50.781
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 -2024 + 2025 - 2026 + 2027 - 2028) ≥ 0	**2029**	-	249.227
Total negative other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 -2024 + 2025 - 2026 + 2027 - 2028) < 0	**2030**	4.494.511	-
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	**2031**	-	1.058.585
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	**2032**	960.824	-
Total positive comprehensive income for the period attributable to the parent entity	**2033**	-	1.058.585
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**	960.824	-
Total negative comprehensive income for the period attributable to non-controlling owners	**2036**	-	-

CASH FLOW STATEMENT - CONSOLIDATED

from 01.01.2022. to 30.06.2022.

in RSD thousand

ITEM	ADP code	Amount 01.01. - 30.06. Current year	Amount 01.01. - 30.06. Previous year
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (from 3002 to 3005)	**3001**	15.316.182	15.077.622
1. Interest	**3002**	9.524.183	9.640.884
2. Fees	**3003**	4.886.434	3.729.214
3.Other operating income	**3004**	900.428	1.705.162
4. Dividends and profit sharing	**3005**	5.137	2.362
II. Cash outflow from operating activities (from 3007 to 3011)	**3006**	7.724.380	7.669.701
5. Interest	**3007**	361.947	581.751
6. Fees	**3008**	1.077.735	920.558
7. Gross salaries, salary compensations and other personal expenses	**3009**	2.102.948	2.304.823
8. Taxes, contributions and other duties charged to income	**3010**	499.001	438.738
9. Other operating expenses	**3011**	3.682.749	3.423.831
III. Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)	**3012**	7.591.802	7.407.921
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**	68.425	30.513.110
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**	68.425	7.869.117
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**	-	22.643.993
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**	48.151.930	17.777.433
16. Increase in loans and receivables from banks, other financial organisations, central bank and clients	**3022**	26.421.329	17.777.433
17. Increase in receivables under securities and other financial assets not intended for investment	**3023**	-	-
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**	21.730.601	-
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**	-	20.143.598
VIII. Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	**3029**	40.491.703	-
22. Profit tax paid	**3030**	11.914	9.957
23. Dividends paid	**3031**	1.971	9.797
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	**3032**	-	20.123.844
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	**3033**	40.505.588	-
B. CASH FLOW FROM INVESTING ACTIVITIES			
I. Cash inflow from investing activities (from 3035 to 3039)	**3034**	54.410.093	12.586.894
1. Investment in investment securities	**3035**	43.648.070	12.586.894
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**	59.920	-
5. Other inflow from investing activities	**3039**	10.702.103	-
II. Cash outflow from investing activities (from 3041 to 3045)	**3040**	18.254.797	13.877.760
6. Investment into investment securities	**3041**	17.427.702	13.809.123
7. Purchase of investments into subsidiaries and associated companies and joint ventures	**3042**	-	-
8. Purchase of intangible investments, property, plant and equipment	**3043**	827.095	68.637
9. Purchase of investment property	**3044**	-	-
10. Other outflow from investing activities	**3045**	-	-
III. Net cash inflow from investing activities (3034 - 3040)	**3046**	36.155.296	-
IV. Net cash outflow from investing activities (3040 - 3034)	**3047**	-	1.290.866
C. CASH FLOW FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (from 3049 to 3054))	**3048**	194.216.829	204.642.371
1. Capital increase	**3049**	-	-
2. Subordinated liabilities	**3050**	-	-
3.Loans taken	**3051**	192.316.257	204.642.371
4. Issuance of securities	**3052**	-	-
5. Sale of own shares	**3053**	1.900.572	-
6. Other inflow from financing activities	**3054**	-	-
II. Cash outflow from financing activities (from 3056 to 3060)	**3055**	195.207.392	204.880.343
7. Purchase of own shares	**3056**	2.235.096	-
8. Subordinated liabilities	**3057**	-	-
9. Loans taken	**3058**	192.791.758	204.614.297
10. Issuance of securities	**3059**	-	-
11. Other outflow from financing activities	**3060**	180.538	266.046
III. Net cash inflow from financing activities (3048 - 3055)	**3061**	-	-
IV. Net cash outflow from financing activities (3055 - 3048)	**3062**	990.563	237.972
D. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	**3063**	264.011.529	262.819.997
E. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	**3064**	269.352.384	244.224.991
F. NET INCREASE IN CASH (3063-3064)	**3065**	-	18.595.006
G. NET DECREASE IN CASH (3064-3063)	**3066**	5.340.855	-
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3067**	60.638.036	54.055.112
I. EXCHANGE RATE GAINS	**3068**	1.171.025	940.380
J. EXCHANGE RATE LOSSES	**3069**	751.190	895.929
K. CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	**3070**	55.717.016	72.694.569

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED

from 01.01.2022. to 30.06.2022.

in RSD thousand

DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 128)	ADP	Premium on issue of shares (account 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82 credit balance)	ADP	Revaluation reserves (group of accounts 82 debit balance)	ADP	Profit (group of accounts 83)	ADP	Loss (accounts 840, 841, 842)	ADP	Non-controlling participation	ADP	Total comumns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP	Total (columns 2-3+4+5+6-7+8-9+10) < 0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as at 1 January of the previous year	4001	17.191.466	4033	-	4065	22.843.084	4097	25.432.814	4129	8.544.078	4147	-	4165	5.385.674	4203	1.261.380	4241	70	4285	78.135.806	4291	-
Effects of the first implementation of new IFRS - increase	4002	-	4034	-	4066	-	4098	-	4130	-	4148	-	4166	-	4204	-	4242	-	x	x	x	x
Effects of the first implementation of new IFRS – decrease	4003	-	4035	-	4067	-	4099	-	4131	-	4149	-	4167	-	4205	-	4243	-	x	x	x	x
Changes in accounting policies and correction of prior period error – increase	4004	-	4036	-	4068	-	4100	-	4132	-	4150	-	4168	-	4206	-	4244	-	x	x	x	x
Changes in accounting policies and correction of prior period error – decrease	4005	-	4037	-	4069	-	4101	-	4133	-	4151	-	4169	-	4207	-	4245	-	x	x	x	x
The adjusted opening balance as at 1 January of the previous year (No. 1+2-3+4-5)	4006	17.191.466	4038	-	4070	22.843.084	4102	25.432.814	4134	8.544.078	4152	-	4170	5.385.674	4208	1.261.380	4246	70	4286	78.135.806	4292	-
Total positive other comprehensive income for the period	x	x		x	x	x	x	x	4135	84.129	4153	-	x	x	x	x	4247	-	x	x	x	x
Total negative other comprehensive income for the period	x	x		x	x	x	x	x	4136	4.738.089	4154	322	x	x	x	x	4248	-	x	x	x	x
Profit for the current year	x	x		x	x	x	x	x	x	x	x	x	4171	2.777.593	x	x	4249	-	x	x	x	x
Loss for the current year	x	x		x	x	x	x	x	x	x	x	x	x	x	4209	-	4250	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – increase	x	x		x	x	x	x	x	x	x	x	x	4172	2.869.029	4210	-	4251	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x		x	x	x	x	x	x	x	x	x	4173	-	4211	-	4252	-	x	x	x	x
Transactions with owners recognized directly in equity – increase	4007	-	4039	-	4071	-	4103	-	x	x	x	x	4174	-	4212	-	4253	-	x	x	x	x
Transactions with owners recognized directly in equity – decrease	4008	-	4040	-	4072	-	4104	-	x	x	x	x	4175	-	4213	-	4254	-	x	x	x	x
Distribution of profit – increase	4009	-	4041	-	4073	-	4105	4.060	x	x	x	x	4176	-	4214	-	4255	-	x	x	x	x
Distribution of profit and/or coverage of losses – decrease	4010	-	4042	-	4074	-	4106	-	x	x	x	x	4177	63.705	4215	59.645	4256	-	x	x	x	x
Dividend payments	4011	-	4043	-	4075	-	4107	-	x	x	x	x	4178	-	4216	-	4257	-	x	x	x	x
Other – increase	4012	-	4044	-	4076	-	4108	-	x	x	x	x	4179	623.402	4217	588.441	4258	-	x	x	x	x
Other – decrease	4013	-	4045	-	4077	-	4109	3.288.803	x	x	x	x	4180	2.012.703	4218	1.790.176	4259	70	x	x	x	x
Total transactions with owners (No. 13-14+15-16-17+18-19) ≥ 0	4014	-	4046	-	4078	-	4110	-	x	x	x	x	4181	-	4219	-	4260	-	x	x	x	x
Total transactions with owners (No. 13-14+15-16-17+18-19) < 0	4015	-	4047	-	4079	-	4111	3.284.743	x	x	x	x	4182	1.453.006	4220	1.261.380	4261	70	x	x	x	x
Balance as at 31 December of the previous year (No. 6+7-8+9-10+11-12+20-21 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 6+8-7)	4016	17.191.466	4048	-	4080	22.843.084	4112	22.148.071	4137	3.890.118	4155	322	4183	9.579.290	4221	-	4262	-	4287	75.651.707	4293	-
Opening balance as at 1 January of the current year	4017	17.191.466	4049	-	4081	22.843.084	4113	22.148.071	4138	3.890.118	4156	322	4184	9.579.290	4222	-	4263	-	4288	75.651.707	4294	-
Effects of the first implementation of new IFRS - increase	4018	-	4050	-	4082	-	4114	-	4139	-	4157	-	4185	-	4223	-	4264	-	x	x	x	x
Effects of the first implementation of new IFRS – decrease	4019	-	4051	-	4083	-	4115	-	4140	-	4158	-	4186	-	4224	-	4265	-	x	x	x	x
Changes in accounting policies and correction of prior period error – increase	4020	-	4052	-	4084	-	4116	-	4141	-	4159	-	4187	-	4225	-	4266	-	x	x	x	x
Changes in accounting policies and correction of prior period error – decrease	4021	-	4053	-	4085	-	4117	-	4142	-	4160	-	4188	-	4226	-	4267	-	x	x	x	x
Adjusted opening balance as at 1 January of the current year (No. 23+24-25+26-27)	4022	17.191.466	4054	-	4086	22.843.084	4118	22.148.071	4143	3.890.118	4161	322	4189	9.579.290	4227	-	4268	-	4289	75.651.707	4295	-
Total positive other comprehensive income for the period	x	x	x	x		x	x	x	4144	-	4162	-	x	x	x	x	4269	-	x	x	x	x
Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4145	3.890.118	4163	552.523	x	x	x	x	4270	-	x	x	x	x
Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4190	3.533.687	x	x	4271	-	x	x	x	x
Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4228	-	4272	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191	-	4229	-	4273	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4192	-	4230	-	4274	-	x	x	x	x
Transactions with owners recognized directly in equity – increase	4023	1.658.430	4055	455.060	4087	4.166.640	4119	-	x	x	x	x	4193	1.857.914	4231	-	4275	-	x	x	x	x
Transactions with owners recognized directly in equity – decrease	4024	-	4056	487.054	4088	-	4120	-	x	x	x	x	4194	1.748.041	4232	-	4276	-	x	x	x	x
Distribution of profit – increase	4025	-	4057	-	4089	-	4121	47	x	x	x	x	4195	-	4233	-	4277	-	x	x	x	x
Distribution of profit and/or coverage of losses – decrease	4026	-	4058	-	4090	-	4122	-	x	x	x	x	4196	47	4234	-	4278	-	x	x	x	x
Dividend payments	4027	-	4059	-	4091	-	4123	-	x	x	x	x	4197	-	4235	-	4279	-	x	x	x	x
Other – increase	4028	-	4060	-	4092	-	4124	-	x	x	x	x	4198	3.160.499	4236	5.369	4280	-	x	x	x	x
Other – decrease	4029	-	4061	-	4093	-	4125	1	x	x	x	x	4199	-	4237	-	4281	-	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) ≥ 0	4030	1.658.430	4062	-	4094	4.166.640	4126	46	x	x	x	x	4200	3.270.325	4238	5.369	4282	-	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) < 0	4031	-	4063	31.994	4095	-	4127	-	x	x	x	x	4201	-	4239	-	4283	-	x	x	x	x
Balance as at 30 June of the current year (No. 28+29-30+31-32+33-34+42-43 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 28+30-29)	4032	18.849.896	4064	31.994	4096	27.009.724	4128	22.148.117	4146	-	4164	552.845	4202	16.383.302	4240	5.369	4284	-	4290	83.800.831	4296	-

NLB Komercijalna banka

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS AS OF

30.06.2022

Belgrade, August 2022

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2022

1. ESTABLISHMENT AND BUSINESS ACTIVITY OF THE BANKING GROUP

Komercijalna Banka a.d. Beograd (hereinafter: the Parent Bank) was founded on 1st December 1970 and transformed into a joint-stock company on 6th May 1992. The Parent Bank was registered at the Commercial Court in Belgrade on 10 July 1991 and was legally reregistered at the Business Registers Agency on 14th April 2006. Parent Bank was issued a banking license from the National Bank of Yugoslavia on 3rd July 1991. Tax identification number of the Parent Bank is 100001931.

The greatest stake in the voting shares of the Parent Bank has:

NLB d.d. Ljubljana	91.73%

With the signing of the Contract on the Transfer of Shares of December 30th 2020 between the Republic of Serbia and NLB d.d. Ljubljana, the process of selling Komercijalna banka a.d. Beograd was completed. The subject-matter of the contract was 83.23% of ordinary shares of Komercijalna banka whereby NLB d.d. Ljubljana became the owner of shares of Komercijalna banka that were previously owned by the Republic of Serbia and the single largest owner of the Parent Bank with the management right, while Komercijalna banka became a subsidiary of NLB Group.

NLB d.d. Ljubljana released its bid for acquisition of the remaining ordinary and total issue of preferred shares of Komercijalna banka a.d. Beograd on 11.03.2021. With the additional purchase of ordinary shares by 31.12.2021, it increased its share in the voting shares of Komercijalna banka a.d. Beograd to 88.28%.

At the General Meeting of the Bank's Shareholders, held on December 23, 2021, the Decision on accepting the merger of NLB Banka a.d. Beograd to Komercijalna banka a.d. Beograd was passed. The decision of the Business Registers Agency No. BD 37318/2022 of April 29th 2022, the status change of a merger of NLB banka a.d. Beograd, as the transferring company that is deleted from the register of business entities due to the status change, and Komercijalna banka AD Beograd as the acquiring company was registered. At the same General Meeting of the Bank's Shareholders, also a Decision on changing the Bank's business name was passed. The new business name of Komercijalna banka a.d. Beograd is NLB Komercijalna banka a.d. Beograd. This Decision applies as of the date of registering the status change in the Register of Business Entities at the Business Registers Agency.

Komercijalna banka a.d. Beograd, as the acquiring company, issued 1,658,430 ordinary shares of nominal value of 1,000.00 for the purpose of replacing ordinary shares of NLB banka a.d. Beograd, as the transferring company, that were assigned to the shareholder NLB d.d. Ljubljana, as the only shareholder If the transferring Bank, which ceases to exist with the merger. With this, NLB d.d. Ljubljana increased its share in the voting shares of NLB Komercijalna banka a.d. Beograd to 89.33%.

In the process of selling 487,054 treasury shares that he Bank had acquired from dissenting shareholders when passing the decision of the General Meeting of the Bank's Shareholders on the status change, in accordance with the Company Law, NLB d.d. Ljubljana exercised, in May 2022, its right to purchase these shares, proportionately to its own stake and purchased additional 442,799 Bank's shares and, in doing so increased its stake in the voting shares of NLB Komercijalna banka a.d. Beograd to 91.73%.

The Parent Bank has a single subsidiary and one affiliation with a share in ownership:
- 100,00% - UCITS fund management company KomBank INVEST a.d. Beograd, Serbia and
- 23,9686% - NLB banka a.d. Podgorica, Montenegro.

Consolidated financial statements and notes to consolidated financial statements are the consolidated data of the Parent Bank, the UCITS Fund Management Company KomBank INVEST a.d. Beograd and NLB banka a.d. Podgorica (hereinafter: the Group).

With the status change of Komercijalna banka a.d. Podgorica and the sale of Komercijalna banka a.d. Banja Luka in 2021, there was a change in the composition of the Group, both in terms of the circle of the Group consolidation (as the result of the sale of Komercijalna banka a.d. Banja Luka), and the level of control (with the status change of a merger of Komercijalna banka a.d. Podgorica to NLB a.d. Podgorica, instead of the previous control in the subsidiary, the Parent Bank has a significant influence on the affiliation).

UCITS Fund Management Company KomBank INVEST a.d. Beograd was founded in December 2007 and was registered on 5th February 2008. The Company's registration number is 20379758. In accordance with the Law on Open-End Investment Funds with a public offering, the business name was changed on November 04, 2021 to the UCITS Fund Management Company KomBank INVEST a.d. Belgrade.

Activities of the Group include credit, deposit and guarantee operations and national and international payment transactions in accordance with the Law on Banks, as well as the tasks of managing investment funds. The Group is obliged to operate on the principles of liquidity, safety and profitability.

As of 30th June 2022 the Group consisted of: headquarters and the seat of the Parent Bank in Belgrade, 14 Svetog Save Street; headquarters of the UCITS Fund Management Company KomBank INVEST a.d. Beograd in Belgrade, in 19 Kralja Petra St; headquarters of NLB banka a.d. Podgorica at Bulevar Stanka Dragojevića br. 46, 4 regions, 20 branches and 188 branch offices in Serbia and Montenegro (2021: 6 business centers, 3 sectors for work with small and medium enterprises, 20 branches and 192 branch offices and one counter on the territory of Serbia and Montenegro).

As of June 30, 2022 the Group had 3,076 employees, while on December 31 2021 it had 2,745 employees.

2. BASIS OF PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1. Compliance Statement

The Parent Bank keeps the business accounts and prepares financial statements in accordance with the applicable Law on Accounting of the Republic of Serbia (RS Official Gazette No. 62/2013, 30/2018 and 73/2019), the Law on Banks (RS Official Gazette No. 107/2005, 91/2010 and 14/2015) and other relevant secondary legislation of the National Bank of Serbia, as well as other applicable legislation in the Republic of Serbia.

In accordance with the Law on Accounting, legal entities and entrepreneurs in the Republic of Serbia prepare and present financial statements in accordance with the legal, professional and internal regulations, where professional regulation means the applicable Framework for Preparation and Presentation of Financial Statements (the Framework), International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and interpretations that form an integral part of the standard i.e. the wording of the IAS and IFRS, that is applicable, does not include the basis for conclusions, illustrating examples, guidelines, comments, dissenting opinions, elaborated examples and other supplement material.

In late 2021, the Parent Bank changed the accounting policies for subsequent valuation of investment property so that instead of the previously used procurement value method, the new accounting policy defines the fair value method for measurement after the initial recognition. The new policy applies to all investment property of the Parent Bank.

The Parent Bank's management has voluntarily changed these accounting policies with the aim of bringing them into compliance with the accounting policies of NLB Group, as well as preparing the financial statements that will result in providing more reliable and relevant information on the effects of the transactions on the Parent Bank's financial position and financial performance.

Enclosed consolidated financial statements were prepared in the format prescribed by the Rulebook on the contents, form and manner of disclosing annual, semi-annual and quarterly statements of public companies (RS Official Gazette No. 14/2012, 5/2015, 24/2017 and 14/2020) on the basis of the Law on Capital Market (RS Official Gazette 31/2011, 112/2015, 108/2016, 9/2020 and 153/2020). The prescribed set of consolidated financial statements consists of: Balance-Sheet, Profit & Loss, Statement of Other Comprehensive Income, Cash-Flow Statement, and Statement of Changes in Equity and Notes to Consolidated Financial Statements.

Consolidated financial statements for the Group as of 30.06.2022 are prepared in accordance with the International Financial Reporting Standards (IFRS).

Consolidated financial statements are prepared in accordance with the historic cost principle, except if specified differently in the accounting policies further in the text.

The Parent Bank applied the accounting policies explained in note 3 in preparing these financial statements.

2.2. Rules of financial instrument valuation

From the aspect of classification and measurement, IFRS 9 introduced the criteria for classification of financial assets, except for proprietary instruments and derivatives that are based on the assessment of the business model for managing specific financial assets and contractual characteristics of cash flows of financial instruments, in accordance with the accounting policies of the Parent Bank.

IFRS 16 regulated that, on the date of the start of the lease, the leasee recognizes the obligation to pay for the lease (i.e. the leasing liability) and the asset that is the right to use the specific asset during the lease (i.e. the right to use the asset). The lessee is required to recognize the cost of interest on the leasing liability separately from the cost of depreciation as the result of the right to use of an asset.

Subsequent valuation of the leasing assets and liabilities:

In accordance with IFRS 16, the Parent Bank, as the lessee recognizes the asset with the right to use and the leasing liability at the start of the lease. The lease starting date is the date as of which the lessor places the basic asset (i.e. the asset that is the subject-matter of leasing) at the lessee's disposal.

The Parent Bank as the lessee, *initially* (at the start of the leasing) measures the value of an asset with the right to use, at purchasing value.

Subsequently, the recognized purchasing value is reduced by:

- Accumulated depreciation (where depreciation is calculated according to the proportionate method) and
- Accumulated loss from impairment, in accordance with IFRS 36.

The Parent Bank, as the lessee, should combine two or more contracts signed at the same time or close to the same with the same contractual party (or related entities of the contractual party), as well as calculate the contracts as one , if the contracts are negotiated as a package with general commercial goal that cannot be understood without their joint consideration, the amount of fee that is paid in one contract depends on the price or the execution of another contract or right to use the fixed assets that are transferred by contracts (or some rights to use the basic assets that are transferred in each of the contracts) form a unique leasing component.

The Parent Bank, as the lessee, initially (on the lease starting date) and consequently, measures the value of leasing liability in the following manner:

Initially at the present value of future leasing payments to be made during the leasing and includes:

- The present value of the lease installments and
- The present value of the expected payments at the end of the lease contract.

When calculating the present value of the leasing payment, three parameters need to be determined: lease period, lease payment and the applicable interest (discount) rate.

Accordingly, the leasing liability is accumulated by using the amount that gives a constant periodic discount rate on the remaining amount of liability (i.e. discount rate is determined at the start of the lease period, until a repeat valuation is conducted which requires the change in the discount rate). Payment of leasing reduces the leasing liability once it is paid.

Subsequently, the Parent Bank measures the value of the lease liability, also, at the present value of future lease payments that will be carried out during the lease period, in the following manner:

- By increasing the present value of future lease payments from the previous period for the cost of interest by using the effective interest rate method, by applying the discount rate determined at the start of the lease period (unless it has been changed subsequently) and
- By making a reduction for the payments related to leasing.

2.2.1. Financial assets

The Parent Bank assesses the goals of the business models for managing financial assets on the level of portfolio, given that this assessment provides the best picture of the manner of managing business activities and the manner of reporting to the management.

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

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

Completion of the test of the characteristics of the agreed cash flows means that the cash flows consist only of the payment of the principal and interest on the remaining principal (SPPI criterion).

The financial assets can be classified into the following categories:

a) financial assets valued at amortized cost (AC),
b) financial assets measured at fair value through P&L (FVTPL)
c) financial assets measured at fair value through other comprehensive income with the recognition through the P&L – “recycling” (FVOCI)
d) financial assets measured at fair value through other comprehensive income without recognition though the P&L (FVOCI).

In accordance with the classification of assets from the previous paragraph, the Parent Bank categorizes all the lending from its portfolio that relate to:

- Loans and receivables as non-derivative financial assets with fixed and determinable repayments that are not listed on the active market and which the Bank does not intend to sell within a short period,
- Securities measured at fair value through P&L that are instruments acquired for the purpose of generating profit from the fluctuation of the price and margin,
- Securities that include debentures and proprietary securities (equity instruments) and
- Financial derivatives that include forward and swap transactions.

2.2.2. Financial liabilities

A financial liability is any agreed liability of the Parent Bank:

- to deliver cash or another financial asset to another legal entity,
- to exchange financial instruments with another legal entity under the terms that are potentially unfavorable.

2.3. Functional and reporting currency

During 2022 the Group members maintained the books of accounts and prepared standalone financial statements in accordance with local legal requirements, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as well as the regulations of the competent central banks and regulatory bodies. The standalone annual financial statements of each member of the Group have been audited by external auditors, in accordance with applicable local regulations. The semi-annual financial statements are not subject to audit in accordance with the applicable legal regulations of the Group members.

For the purpose of preparing consolidated financial statements, the standalone financial statements of subsidiaries are adjusted to the presentation of the financial statements in accordance with the accounting regulations of the Republic of Serbia.

The Group's consolidated financial statements are presented in thousands of dinars. The dinar represents the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are stated in dinars and rounded in thousands.

Consolidated financial statements of the Group were expressed in RSD thousand. The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

In the past, when the Parent Bank had also the subsidiaries abroad, the functional currencies EUR from the financial statements of Komercijalna banka AD Podgorica and BAM from the financial statements of Komercijalna Banka a.d. Banja Luka have been converted into the reporting currency i.e. the functional currency of the Parent Bank – the dinar (RSD) on the basis of the official exchange rate of the National Bank of Serbia. Special data for the implementation of the equity method from the financial statements of NLB a.d. Podgorica, that were expressed in the functional currency EUR, were recalculated in the reporting currency i.e. the functional currency of the Parent Bank – the dinar (RSD) on the basis of the officially released exchange rates of the National Bank of Serbia.

3. OVERVIEW OF KEY ACCOUNTING POLICIES

Accounting policies, specified below, are applied by Group in the presented periodic financial statements.

(a) Consolidation

As of 30.06.2022, the Parent Bank has control over the following legal entities, whose consolidation has been performed in the presented financial statements:

Legal entity	Share in equity
UCITS Fund Management Company KomBank INVEST a.d. Beograd	100%

In 2021 the Parent Bank lost control over:

- Komercijalna banka a.d. Podgorica, Montenegro due to the status change of a merger with NLB banka a.d. Podgorica in November 2021. The Bank's share in the equity of NLB banka a.d. Podgorica, after the merger, is 23.97% with which it acquired the status of the Parent Bank's affiliation, and
- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina, by selling 100% of stake in this bank in December 2021.

In consolidated financial statements, the investment into affiliations is recorded using the equity method. Affiliations are the entities where the Parent Bank holds between 20% and 50% of the voting rights and which it has a significant influence over, but does not have the control.

In accordance with the equity method, the investment in affiliations is initially recognized at purchasing value (level of investment) and then, for the changes that occur after the acquisition date, a correction is made to the Group's share in net assets of the affiliation. The Group's share in profit or loss after the acquisition of the affiliation is recognized in the consolidated P&L and its share in other comprehensive income is recognized in the Group's other comprehensive income. The collected dividends are not recognized as a decrease in the book value of investment. The share in the loss of the affiliation is recognized up to the amount of investment, unless the Group has undertaken the liability or made a payment on behalf of the affiliation. The group again starts to recognize the share in profit after its share in profit is leveled with the share in loss that was not recognized.

In individual financial statements, the investment in subsidiaries and affiliations is shown using the purchasing value method reduced by the loss from impairment.

(b) Recalculation of FX amounts

Business changes in a foreign currency have been recalculated into dinars at the mid-market rate for the currency, valid on the date of the business change.

Monetary items of assets and liabilities in a foreign currency, expressed in purchase value, have been converted into dinars, at the mid-market rate that vas valid on the balance-sheet date. Exchange rate gains/loss arising as a result of recalculation of FX items has been presented within Profit and Loss Statement. Non-monetary items of assets that are valued at purchase value in a foreign currency have been recalculated into dinars at the mid-market exchange rate valid on the date of business change.

Exchange rates of the most important currencies that were used when recalculating the balance-sheet items presented in a foreign currency have been set by the National Bank of Serbia and are listed in note 11.

(c) Interest

Interest income and expenses, including penalty interest and other income and other expenses related to interest-bearing assets and liabilities have been calculated on accrual basis with the conditions from the contractual relation specified in the contract between the Group member and the client.

Interest income and expenses are recognized in the profit&loss by applying the effective interest rate method. Effective interest rate is the rate at which future cash flows are discounted during the expected life of a financial asset or liability (or, according to the need, for a shorter period) against its present value.

When calculating the effective interest rate, Group members assess the future cash flows, taking into consideration all the agreed conditions that relate to a financial instrument, but also future losses that might arise.

Calculation of effective interest rate includes all paid or received fees and expenses that are an integral part of effective interest rate – loan processing fee and the annexing fee.

Transactional expenses are expenses that can be directly attributed to procurement or issue of a financial asset or a liability.

Recognition of interest income to impaired loans is done on net principle, by reducing gross accrued interest for the amount of impairment of interest receivables i.e. the amount that is unlikely to be collected.

Recognition of interest income from impaired loans that belong to impairment level 3, on net principle, is performed by applying the concept of unwinding, in accordance with the document of the Group member that regulates that area. Once a financial asset becomes significantly impaired, from the moment of initial recognition, it is then classified into impairment level 3 and interest income is calculated by applying an alternative unwinding concept – IRC method, by reducing the calculated interest income with its relevant cost of impairments, recognized in the current year, where the interest receivables are recognized using gross principle.

(d) Fees and commissions

Income and expenses from fees and commissions, which form an integral part of effective interest rate of a financial asset or liability, are factored into the calculation of effective interest rate and are accrued during the life of the financial asset/liability and are expressed within the interest income and expenses in the amounts obtained by applying the effective interest rate.

Fee and commission income include the income from performed national and international payment transactions services, issue and use of payment cards, issue of guarantees, L/Cs and other banking services. Fee and commission income is recorded at the moment of providing the services. When the service is provided over a period, the fees are accrued and the proportionate part is recognized as income for the period.

Fee and commission expenses mostly relate to the fees for performed transactions and services and are recorded at the moment the service is received.

e) Net gain from change in fair value of financial instruments

Net gains from the change in fair value of financial instruments includes the gains reduced for the loss arising from the change in the value of: derivatives, change in the value of financial assets measured at fair value through P&L and profit reduced by the loss arising from the change in the value of financial liabilities that are measured at fair value through P&L.

f) Net gain from derecognition of financial instruments that are measured at fair value

Net gains from the discontinued recognition of financial instrument art fair value relate to the financial assets and liabilities expressed at fair value through P&L and fair value through other comprehensive income.

When derecognizing financial instruments at fair value through other comprehensive income with recognition through profit&loss (sale or permanent impairment), appropriate amounts of previously formed revaluation reserves are presented in profit&loss as gains or losses on the basis of derecognition, while when derecognizing financial instruments at fair value through profit&loss the previously formed amounts related to change in value are also recognized in profit&loss as gains or losses on the basis of derecognition.

Gains/losses based on agreed currency clause and changes in the exchange rate of securities as well as interest income on securities other than financial instruments measured at fair value through profit&loss are stated in the Profit and Loss Statement.

(g) Dividends

Income from dividends is recognized at the moment the right to a dividend is established. Dividends are shown as part of the item other operating income.

h) Leasing

At the start of the contract, the Parent Bank assesses whether the contract contains a leasing component or constitutes leasing. More accurately, what is analyzed is whether the contract transfers the right to the control of the use of separable assets during the defined period, in exchange for a fee.

Parent Bank as the lessee

The Parent Bank applies a unique approach to recognition and measurement for all leases, except for a sort-term leas and the lease of assets of small value. The Parent Bank recognizes the leasing liabilities for payment of a lease and the right to use, which is the right to use fixed assets.

(i) Right to use the assets

The Parent Bank recognizes the right to use the property on the starting date of the lease (i.e. on the date when the property is available for use). The right to use the property is valued at the level of the purchasing value, reduced by the accumulated depreciation and the loss from impairment and is adjusted to any subsequent measurement of liabilities from leasing. The purchasing value of the right to use the asset includes the amount of recognized leasing liabilities, initial direct expenses and leasing payments made on the date or before the starting date, reduced by the received lease incentives.
The right to use the assets is depreciated proportionately, to a period shorter than the lease period or the estimated useful life of the property.

Leasing assets are depreciated by applying the rate that ranges from 92.31% to 6.70% per year, depending on the agreed right to use the assets.

(ii) Leasing liabilities

On the starting date of the leasing, the Parent Bank recognizes the liabilities related to leasing, measured at the present value of the leasing payments that need to be made during the life of the lease. The leasing payments include fixed payments, decreased by all the receivables related to the lease incentives, variable payments for lease that depend on the index or the rate, and for the amounts that are expected to be definitely paid for the residual value. Leasing payments also include the price of performing the purchase option for which it is reasonably expected to be performed by the Parent Bank and payment of penalties for termination of the contract, if it is the termination option that the Bank may use during the life of the contract.

Variable leasing payments that do not depend on the index or the rate are recognized as the expenses in the period in which the events or terms occurred that result in payment.

When calculating the present value of leasing payment, the Parent Bank uses its incremental rate of borrowing on the lease start date, as the implicit interest rate for leasing is not easy to determine. After the start date, the amount of leasing liabilities is increased by the cacluacated interest for the past period and is reduced by the completed leasing payments. Apart from that, the book value of leasing liabilities is measured again if there is a modification of the contract, change in the duration of the lease, change in the payment of the lease (e.g. changes in future payments that are the result of a change in the index or the rate used to determine such lease payments) or changes in the assessment of the option for the purchase of a fixed asset that is the subject-matter of the lease.

(iii) Short-term lease and small value lease

The Parent Bank applies exemption from recognition of the short-term lease for its short-term lease of machines and equipment (i.e. those leases that have the life shorter than 12 months from the start date and do not contain the option of a purchase). An exemption from recognition also applies for the lease of assets of small value, for the lease of office supplies. Leasing payments in short-term leases and small-value leases are recognized as an expense, proportionately over the life of the lease.

Parent Bank as the lessor

Leases where the Parent Bank does not transfer, substantially, all the risks and benefits related to the ownership of an asset are classified as operatizing lease. Income from releasing is calculated proportionately during the life of the contract and is recorded as income in the P&L, due to its operating nature. The initial direct expenses arising in the negotiating and arranging operating leasing are added to the book value of assets that are leased out and are recognized during the life of the lease on the same grounds as the lease income. Potential lease fees are recognized as income in the period they are earned.

(i) Tax expenses

Tax expenses include current taxes and deferred taxes. Current taxes and deferred taxes are shown in the profit&loss, except to the extent they relate to items that are directly recognized within equity or within other comprehensive income.

(i) Current corporate income tax

Current tax is the expected liability or receivables as a result of income tax for the accounting period that has been determined in accordance with the tax return for income tax, with the use of applicable tax rates or tax rates that will apply on the reporting date, with the relevant corrections of tax liability from the previous year.

(ii) Deferred taxes

Deferred taxes are determined on the basis of temporary difference between book value of assets and liabilities in the financial statements and the value of assets and liabilities for tax purpose. When determining deferred taxes we are using tax rates that are expected to be applicable at the moment temporary differences arise, on the basis of legislation that applied on the reporting date.

Deferred tax assets and liabilities are netted if there is a legal right to net the current tax assets and liabilities and deferred tax assets and liabilities relate to the profit tax imposed by the same tax authority on the same tax payer or different tax payers who intend to either settle their current tax liabilities and assets on a net basis or to, simultaneously, generate assets and settle the liabilities in any future period where the settlement or a refund of significant amounts of deferred tax liabilities or assets are expected.

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and credits that can be carried over to the following fiscal periods up to the degree to which there will probably be taxable profit that tax loss is taken from and the loans can be reduced. Deferred tax assets are the subject of analysis at the end of each reporting period and are adjusted to the amount for which it is no longer probable that the necessary taxable profit will be realized. Deferred tax liabilities are recognized for all taxable temporary differences.

(iii) Other taxes and contributions

In accordance with the applicable regulations in the Republic of Serbia and in Montenegro, Group members pay different taxes and contributions, such as: value added tax, property tax, contributions for salaries at the expense of the employer and other public levies. These expenses are included in “Other operating expenses”.

(j) Financial instruments, classification and measurement of financial assets and liabilities – IFRS 9

Financial instruments

A financial instrument is any contract that results in a financial asset or a financial liability of a Group member, with simultaneous occurrence of a financial liability or a financial asset of a third party.

Financial assets

Financial asset is each asset which is

- cash,
- equity instrument of another legal entity,
- contractual right for receiving cash or another financial asset from another legal entity,
- contractual right for exchange of financial assets or financial liabilities with another legal entity, under the terms that are potentially favorable,
- contract that will or may be executed by instruments of own equity and which is non-derivative, and for which the Group members are or may be obliged to receive variable number of equity instruments,
- contract that will or may be settled by the instruments of own equity and which is derivative, and which will be or may be settled other than by exchanging a fixed amount of cash or another financial asset for a fixed number of instruments of own equity

Financial liabilities

Financial liability is every contractual liability of a group member:
- to deliver cash or another financial asset to another legal entity
- to exchange financial instruments with another legal entity on terms that are potentially unfavorable.

Valuation rules for financial instruments

From the aspect of classification and measurement, IFRS 9 defines new criteria for classification of financial assets, except for equity instruments and derivatives that are based on the assessment of a business model for managing specific financial assets and contract characteristics of cash flows of financial instruments.

Financial assets

Classification of financial assets is based on applying a relevant business model for managing financial assets and the fulfilment of the test of features of agreed cash flows.

A business model determines whether cash flows stem from collecting the agreed cash flows, sale of a financial asset or both. Business model for classification of financial assets is determined at the appropriate aggregate level.

Fulfilment of the test of features of agreed cash flows means that the cash flows consist only of payment of principal and interest on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets valued, and/or measured at amortized cost (AC)
- financial assets valued, and/or measured at fair value through profit&loss (FVTPL)
- financial assets valued, and/or measured at fair value through other comprehensive income, with losses and gains reclassified in the P&L upon termination of recognition – "recycling" (FVOCI)
- financial assets valued, and/or measured at fair value through other comprehensive income, without reclassifying the losses and gains in the P&L (FVOCI).

In accordance with the classification of assets from the previous paragraph, members of the Group classify all lending from their portfolio that relates to:

- Loans and receivables as non-derivative financial assets with fixed or determinable repayments that are not listed on an active market and which the Group member does not intend to sell shortly,
- Securities that are measured at fair value through profit&loss, which represent instruments acquired for the purpose of generating profit from price fluctuation and margin.
- Securities that include debentures and equity securities (equity instruments):
  - Debentures include bonds and transferrable securitized debt instruments, government bills, treasury bills, commercial bills, certificates of deposit, banking acceptances, subordinated bonds and other similar debentures that are traded in financial markets.
  - Equity shares include shares that are a stake in equity of a joint-stock company and convertible bonds that grant the holder, on conditions specified in the decision on issue, the right to exchange them for ordinary shares of the company. Shares (equity instruments) include all
    types of stakes in equity of legal entities for which there is an intention to keep them for an unspecified period and which can be sold due to the need for liquidity or due to a change in interest rates, exchange rates or market prices.
  - Investment in subsidiaries that ensure control i.e. over 50% of controlling rights and investments in affiliated legal entities that allow for 20% to 50% of controlling rights and
- Financial derivatives that include forward and swap transactions.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, funds with the central banks that can be used without limitation and highly liquid financial assets with the original maturity shorter than 3 months, small risk of change in the value, and which are used by the Group for managing short-term liquidity.

(l) Property and equipment

(i) Recognition and valuation

Initial measurement of property and equipment is done at purchasing value of cost prices.

Purchasing value includes expenses that can be directly attributed to the procurement of assets. Purchased software that is an integral part necessary for the functional usability of equipment, is capitalized as part of that equipment.

After initial recognition, equipment is valued at purchasing value reduced by the total accumulated depreciation and total accumulated losses due to decrease in value.

After the initial recognition, property is valued at revaluation amount that is their fair value on the revaluation date reduced by the subsequent accumulated depreciation and subsequent accumulated losses due to depreciation. Revaluation is performed regularly enough in order to ensure that the book value does not differ significantly from the value that we would arrive at by using fair value at the end of the reporting period.

Booking the effects of revaluation depends on whether the difference between the book value of assets and its fair value on the revaluation date is positive or negative. The positive effects are recognized as increase in revaluation reserves and/or as income from the change in the value of a fixed asset up to the level of the previously recognized expenses on the same grounds for the same asset. The adverse effects are recognized as a decrease in the previously allocated revaluation reserve and/or in case when the allocated revaluation reserves are lower than the negative effects, as the cost of change in the value of a fixed asset. Revaluation reserve that has arisen on such basis is fully transferred to retained earnings when the property is no longer recognized.

Revaluation reserve can be transferred into retained earnings and while an asset is used in the amount that is the difference between depreciation based on revaluation book value of an asset and the depreciation on the basis of the initial purchasing value of an asset. Transfer of revaluation reserves into retained earnings is nod done through the P&L.

When parts of property or equipment have different useful lives, they are recorded as standalone items (key components) of the equipment.

Profit or loss from disposal of property and equipment are calculated as a difference between the values realized by their sale and their book value and are shown as part of other income or expenses.

(ii) Subsequent expenses

Cost of replacing an integral part of any fixed asset are recognized as part of carrying value of that fixed asset if it is probable that future economic benefit related to that integral part will arrive to the Group member and if the cost price of that part may be measured reliably. Carrying value of the replaced part is derecognized. The cost of regular servicing of property and equipment is recognized in the profit&loss when occurred.

(iii) Depreciation

Depreciation is recognized in the profit&loss in equal annual amounts during the estimated life of each item of property and equipment, given that this manner best reflects the expected consumption of the useful economic value contained in the asset. Leased in assets are depreciated during the shorter of the leasing period and the useful life of an asset.

Applied depreciation rates in the current and previous accounting period are:

Description	**Estimated useful life (in years)**	**%**
Buildings	15 - 58	1.72 – 6.67%
Computer equipment	4	25.00%
Furniture and other equipment	5-10	10-20%
Investment in others' fixed assets	4.58 -20	5 -21.83%
Fixed assets held under a lease	1.1 -14.11	6.70 – 92.31%

The method of depreciation, useful life and residual value are valued at the end of each reporting period and are corrected, when needed.

The costs of maintaining an asset is recognized in the profit&loss for the period in which it occurs.

(lj) Intangible assets

Intangible assets are valued at purchasing value or the cost price reduced for depreciation and los from impairment.

Subsequent expenses from investment into intangible assets can be capitalized only in case when increased future economic benefits can be expected from the assets the relate to. All other expenses are the expense for the period in which they arose.

Depreciation is shown in profit&loss in equal annual amounts during the estimated life of the given item of intangible investment, given that this best reflects the expected consumption of useful economic value contained in an asset. Estimated useful life of intangible assets is 3 to 10 years i.e. depreciation rates range between 10.00% and 33.34%.

Depreciation method, useful life and residual value are estimated at the end of each reporting period and are corrected when needed

(m) Investment property

Investment property is the property (land, building or a part of a building) that Group members hold with the aim of generating revenue from rent or increase in the value of capital or both, and not for sale in the regular course of business or for use for administrative purpose.

Initial valuation of investment property is done at purchase value i.e. the cost prices. Purchasing value of an investment property includes its sale price and all the expenses that can be directly attributed to the purchase of an asset.

After the initial recognition, subsequent measurement of investment property is done using the fair value method. Fair value is the price that would have been charged for the sale of assets or paid for the transfer of liabilities in the regular transaction between market participants on the measurement date.

Profit or loss arising from the change in the fair value of investment property is recognized as income or expense for the period in which it occurred.

In 2021 the Parent Bank voluntarily changed the accounting policies for subsequent measurement of investment property so that, instead of the previously used method of purchasing value, the fair value method is used.

(n) Assets acquired through collection of receivables and assets held for sale

Assets whose carrying value can be regained through a sale transaction and not through continued use are classified as non-current assets held for sale.

Valuation of non-current assets available for sale is performed at a lower of the following two values: carrying value or fair value reduced by the cost of sale. In case an asset is not sold within a year after the initial recognition, the carrying value is adjusted to the fair value of non-current assets intended for sale, and adjusted if the assets are impaired in the sense of a decline in recoverable value. Effects of these adjustments are recognized as cost of the period.

For non-current assets intended for sale depreciation is not calculated.

Collection of receivables by foreclosing on movable and immovable property, in case when receivables are secured by mortgage, trust deed, pledge of movables or some other type of security, is performed on the basis of a court decision and/or sale contract arising from an out-of-court settlement or an auction.

Movable and immovable foreclosed assets are recognized in the accounting books as stocks of foreclosed assets with the intention to sell them within a year.

They are initially valued at a value that is lower than:

- gross value of receivables on the basis of which property is acquired or
- estimated value of property (not older than a year) reduced by the cost of sale.

Exceptionally, when the property is acquired as a result of a court decision in the amount that tis lower than the gross value of receivables, the property is valued at the value from the court decision. Also, the acquired property is valued within the shortest possible period, no later than at the end of the current year.

In case the contracted value of property that is acquired in an out-of-court procedure is higher than the value of total receivables, the difference is recognized in books as a liability at the moment of sale. Terms and the manner of settlement of a liability are specified in the sale contract.

After the initial recognition, the carrying value is adjusted to fair value of foreclosed assets, as well as an adjustment if the assets are impaired in terms of a decline in recoverable value. Effects of these adjustments are recognized as expenses of a period. Adjustment of fair value of foreclosed assets is performed in the same manner as for assets intended for sale.

For foreclosed assets and assets intended for sale, Group members apply the procedures of obligatory valuation of fair value before the process of sale.

(o) Impairment of non-financial assets

Accounting value of non-financial assets, except for investment property and deferred tax assets is analyzed at the end of each reporting period in order to determine if there are indicators that point out to their impairment. In case it is determined that there are certain indicators of impairment, recoverable value of an asset is established. Loss from impairment is recognized if the book value of an asset exceeds its estimated recoverable value.

Recoverable value of an asset is determined as a value that is higher than the useful value of an asset and its fair value. For the purpose of establishing the useful value, the estimated future cash flows from the asset are discounted to their present value by applying a discount rate before tax that reflects the current market estimate of the time value of money as well as the risk specific for that asset.

Loss from impairment is recognized in case the book value of an asset is higher than its recoverable value. Loss from impairment is recognized in profit&loss.

Loss on the grounds of impairment from previous periods is estimated at the end of each reporting period, in order to define if there was a decrease in losses or if they still exist. Loss on the grounds of impairment is cancelled in cases where changes occur with regards assumptions used to determine the reimbursable values of the funds. Loss on the grounds of impairment is cancelled only in the amount of the value that does not exceed the book value which would be determined, decreased by the funds depreciation, in case there is no recognition of losses on the grounds of impairment.

(p) Deposits, loans and subordinated liabilities

Deposits, debt securities, loans and subordinated liabilities represent the basic funding sources for the members of the Group.

Members of the Group classify financing instruments as financial liabilities or as capital in accordance with the subject of the contracted terms for a concrete instrument.

Deposits, debt securities, loans and subordinated liabilities are initially measured at fair value increased by all the direct transaction expenses, while their subsequent measurement is done at amortized value by applying the effective interest rate method.

(r) Provisions

Provisions are recognized in cases when it is expected that the member of the Group, as a result of the previous events, will have the legal and performed liability which can be reliably determined and the settlement of which is expected to cause the disbursement of resources, which represent the economic gains for the Group member. Provisions are determined by discounting the expected future cash outflows, by using the discount rate before tax which reflect the current market assessment of the time value of money, and where appropriate, liability-specific risks.

On a daily basis, the Parent Bank monitors the number of received legal disputes on all grounds.

In relation to court cases related to the fees the Parent Bank charged when granting the loans, in the meantime, at the session of the Citizens' Department of the Supreme Court of Cassation, held on 16.09.2021, the legal view on the permissibility of contracting the loan expenses (adopted on 22.05.2018) was supplemented with a provision that the bank is not obliged to particularly prove the structure and level of expenses covered with the joint amount of the cost of loan, specified in the offer that the borrower accepted by signing the loan contract.

At the same session of 16.09.2021 a view was taken on the permissibility of contacting an insurance premium, as the borrower's obligation towards the NMIC and it was said that the provision of the loan contract where the borrower is obliged to pay to the bank an insurance premium for NMIC is legally valid, on condition that this obligation was clearly presented to the borrower in the precontractual phase by expressing this type of loan expense and its amount in percentage and in nominal value in the offer. The Bank is not obliged to inform the borrower of the structure and the manner of calculating the loan insurance premium.

In the presented financial statements, the estimate of provisioning for court cases for the lawsuits filed against the Parent Bank until 20.09.2021, which relate to the fees that the Parent Bank charged the borrowers was made without taking into consideration the view of the Supreme Court of Cassation of September 16th 2021, due to the Parent Bank's choice to wait for the court practice to level out on the basis of the view of the Supreme Court of Cassation.

(s) Financial guarantees

Financial guarantees represent contracts as per which the members of the Group are obligated to perform payments to their beneficiaries for losses which are incurred due to failure of fulfilment of payment obligation by the specific debtor on the maturity of the liability and pursuant to the terms of the debt instrument.

Liabilities as per financial guarantees are initially recognized at fair value which is depreciated over the duration of the financial guarantee. Liability under the guarantee is subsequently measured in the amount larger than the depreciated value and the current value of the expected future payments (when payment to be performed under the guarantee is probable). Financial guarantees are recorded in the Off-Balance Sheet items.

(t) Capital and reserves

The total Capital of the Group included the share capital, share premium, reserves from profit, and other reserves, revaluation reserves, accumulated results and the result of the current period.

The capital of the Group includes the share capital and the share premium of the Group. The share capital of the Group is formed from the initial deposits of the shareholders and subsequent issues of new shares.

The Capital of the Group is formed from the invested funds of the founder in money. The founder may not withdraw funds invested in the Capital of the Group.

(u) Earnings per share

The Parent Bank presents the basic and the reduced earnings per share for own ordinary shares. The basic earnings per share is calculated by dividing the profits or losses which belong to the holders of ordinary shares of the Parent Bank weighted by the average number of ordinary shares circulating during the period.

Reduced earnings per share is calculated by dividing the corrected profits or losses which belong to the holders of ordinary shares for effects of preference, convertible shares, weighted by the average number of ordinary shares circulating during the period.

4. RISK MANAGEMENT

The Group 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, evaluation, monitoring, control and mitigation, or the establishment of risk limits, including reporting in accordance with adopted strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management framework, strategies, policies and risk management procedures, methodologies for managing individual risks, an appropriate organizational structure, an effective and efficient management process for all risks to which the Group is exposed or may be exposed in to its operations, an adequate system of internal controls, an adequate information system and an adequate process of internal assessment of capital adequacy. Given that the parent bank became a member of the NLB Group, during 2021 and on 30.06. In 2022, it was harmonized with the banking Group's risk management system. The group is on June 30, 2022. continued with the process of harmonizing the risk management system in accordance with the methodologies at the level of the NLB Group.

Risk management process involves clear determining and documenting the risk profile and its adjusting to the Group's preference for risk and risk tolerance, in accordance with the adopted risk management framework, strategies and policies.

With the risk management strategy, the Group has set the following key goals in risk management: regular identification, assessment and consideration of risks within the ICAAP and ILAAP process; management, monitoring, control and reporting on risks to which it is exposed; defining limits in the Bank's risk appetite and their inclusion in the risk management strategy, ICAAP, ILAAP, Recovery Plan and business strategy; constant development and improvement of models and methodologies for risk management, including stress testing and early warning system (EWS system); assessing and measuring individual risks; establishing an appropriate decision-making system; management of restructuring activities and settlement of disputed receivables in a professional, efficient manner.
Acknowledging the need to align the Group's risk management processes and systems with the corresponding systems, processes and practices of the parent Bank NLB dd, as well as the need for continuous improvement of the risk management process, the recommendations of the external auditor, the Group made appropriate changes to the internal acts governing risk management in 2022.

Risk Management System

The risk management system is defined by the following internal acts:

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

The Group's Risk Appetite Framework – Statement defines the basic principles of managing the Group's risk appetite, as well the set of indicators which best represent the Group's exposure toward the materially significant risks (credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, as well as capital adequacy). The Risk Appetite Framework – Statement defines the set of limits and targets for the mentioned risk exposure indicators. The Group's risk appetite is harmonized with the risk appetite of NLB dd, in accordance with the defined plan.

Risk Management Strategy defines the key risks to which the Group is or may be exposed to, as well the basic principles of identification, monitoring, measurement, control and management of these risks, along with the propensity to risks (risk appetite). Risk Management Strategy establishes the comprehensive and realiable risk management system, which is included in all of the Group's activities and which ensures that the risk appetite and profile always remain aligned with the defined propensity to risks. Risk management system is proportional to the nature, scope and complexity of the Group's operations, i.e. its risk profile.

Additionally, Risk Management Strategy defines criteria for identification, as well as basic principles for management of non-performing assets and maximum acceptable level of non-performing assets for the Group as well as the basic principles of risk management arising from exposure in dinars with foreign currency clause and exposure in foreign currency.

Key principles that refer to risk taking, and are an integral part of business decision making, are expressed by the following criteria:

- establishment of targeted business activities and activities which are not acceptable for the Group, in terms of assumed risks,
- establishment of maximum level of the assumed risk,
- monitoring of profitability of individual transactions related with the assumed risks.

The Group's Risk management strategy is based on:

- strategic goals defined in the Business Strategy of the Group,
- guidelines on readiness for risk assumption defined in the Group's Risk Appetite,
- regular annual review of strategic goals, business planning process and capital planning,
- internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP),
- activities and measures in the situation of activation of Recovery plan,
- other internal stress tests and risk analyses,
- regulatory and internal reporting,
- risk appetite and risk management strategy of NLB Group.

The Group is guided by the main risk management principles in its operations by:

- considering the basic concept of the risk appetite and limits defined in the Group's risk appetite;
- inclusion of risks analyses in the decision making process, on strategic and operational level, in order to prevent the risks posed by volatile exposures with a potentially negative outcome;
- applies diversification to avoid concentration at the portfolio level;
- includes and optimally uses capital and manages its allocation through business segments;
- creates an adequately balanced risk-weighted (adjusted) price;
- ensures overall compliance of operations through internal acts / documents;
- provides an adequate system of internal controls based on the "three lines of defense" model.

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

- Risk assumption and management is adjusted to the realization of the business strategy and plans of the Group;
- Risk assumption and management is based on a risk management system that is in accordance with the legislation in the Republic of Serbia, standards in the NLB Group and good business practice in this area;
- Risk assumption and management is one of the key management functions in the Group. This function is integrated into all business activities of the Group, so that the phases of identifying, measuring and monitoring risks, on the one hand, and taking and managing risks, on the other hand, are clearly separated, while respecting the principle of independence;
- Risk assumption and management is based on the Risk Management Strategy and Policies. It is a documented process with clearly defined goals, activities, powers and responsibilities;
- Assumption and management of risks is determined in accordance with the defined legal and internally prescribed limits by risk categories, with clearly defined procedures in case of exceeding the limits;

- Risk assumption and management implies the establishment and implementation of an appropriate system of internal controls. These controls are a set of processes and procedures that include continuous verification, reporting and changes in order to develop or improve risk management systems.

Within the management of NPE (default exposures), depending on the assessment of the potential repayment capacity and business viability of clients, the Group has the following options available:

- agreement with the client on voluntary (out-of-court and court) payment of obligations;
- centralized collection before the court by the telephone;
- debt restructuring without discounts;
- discounted debt restructuring;
- debt collection (collateral liquidation – sale of real estate, movable property, securities, shares, receivables, etc.);
- taking over adequate assets (especially real estate - a solution based on the foundations of special purpose entities, whose goal is comprehensive management of mortgaged real estate);
- write-off of remaining receivables in case all legal possibilities have been exhausted;
- sale of receivables, if possible, in a package;
- active management of issued guarantees for construction companies in bankruptcy in cooperation with contractual partners;
- application of other measures to achieve maximum debt repayment.

The principles of risk management arising from exposure in dinars with currency clause in foreign currency and exposure in foreign currency include:

- The Group manages FX exposures by establishing limits,
- As a long-term goal, the Group strives to reduce the share of FX exposure,
- The Group establishes a limit in a way to optimize the risk that may arise from the level of FX exposure and the realization of the business strategy,
- FX exposure risk assessment is included in the credit process and clients are presented with risks that may arise based on changes in exchange rates, as well as a proposal for measures to reduce risk,
- When assessing the debtor's creditworthiness, the Group takes into account the risk of exchange rate changes in accordance with the defined rules,
- The level of risk arising from FX exposure is the subject of regular reporting to the competent Boards of the Group,
- The Group calculates the internal capital requirement for FX exposures.

Policies for managing certain risk types define the following:

- Manner of organizing risk management processes within the Group and clear division of personnel responsibilities in all stages of the process, including non-performing assets, i.e. risky placements management process;
- Manner of assessing the Group's risk profile and methodology for identifying, measuring and assessing risks;
- Manners of risk monitoring and control and establishing the system of limits, i.e. types of limits the Group uses as well as their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of exceeding is possible within the legal framework;
- Measures for risk mitigation and rules for implementation thereof;
- Manner and methodology for implementing the internal capital adequacy assessment process of the Group;
- Principles of the system of internal controls functioning; and
- Framework and frequency for stress testing and procedure in instances of unfavorable test results.

With the risk management procedures, the Group more closely defines the risk management process and the competencies and responsibilities of all organizational units of the Group in the risk management system.

The Individual methodologies of the Group members have prescribed in more detail the methods and approaches used in the risk management system.

Competencies

The Board of Directors is autorized and responsible for the adoption of the risk management strategy and policies and the capital management strategy, the establishment of the internal control system in the Group and supervises its effectiveness, the supervision of the work of the Executive Board, the adoption of quarterly reports on risk management, the adoption of the Recovery Plan, as well as implementation of the process of internal assessment of capital adequacy and others.

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, and the capital management strategy, adopting procedures for risk management, i.e. for identifying, measuring and assessing risks, and ensuring their application and reporting to the Board of Directors regarding these activities.. Also, the Executive Board analyzes the risk management system, and at least quarterly reports to the Board on the level of risk exposure and risk management and decide, with the prior approval of the Board of Directors, of any increase in the Group's exposure to an entity related to the Group and shall notify the Board of Directors.

The Audit Committee is authorized and responsible for continued monitoring of application and adequate implementation of risk management policies and procedures, and for implementing the internal control system of the Group. The Audit Committee at least monthly reports to the Board of Directors on its activities, irregularities, and propose how they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

The Asset and Liability Committee (ALCO) is authorized and responsible for monitoring the risk exposure resulting from the structure of the receivables, payables and off-balance sheet items, and proposes measures for managing interest and liquidity risks. Each Group member has its own Asset and Liability Committee.

The Credit Committee decides on loan requests, as well on treatment of non-performing loans, in accordance with the parent Bank's internal acts, it analyzes the parent Bank's exposure to credit, interest rate and currency risk, it analyzes the credit portfolio and also suggests adequate measures to the parent Bank's Executive Board. Each Group member has its own Credit Committee, which makes decisions within its remit and limits.

The Risk Management Function of the parent Bank defines and proposes for adoption the risk management strategy, policies, procedures and methodologies, identifies, measures, mitigates, monitors, controls and reports on the risks to which the Group is exposed in its operations.. It is also in charge of developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent Group's bodies.

The Bank's Asset Management Division is responsible for managing assets and liquidity, as well as assets and liabilities on the Group level. It also participates in the liquidity risk management and interest rate and currency risk management.

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

The Compliance Function is obligated to identify and assess the compliance risks of Group members at least once a year, and propose risk management plans, on which it prepares a report that it submits to the Executive Board and the Group Business Monitoring Committee.

Risk Management Process

The Group regularly measures and evaluates risks identified in its operations. Measurement entails applying qualitative and quantitative measurement methods and models that enable detection of changes in risk profile and assessment of new risks.

For all risks identified the Group determines their significance based on as comprehensive assessment of risks in the banking Group's particular operations, products, activities and processes.

Risk alleviation or mitigation involves risk diversification, transfer, minimization and or avoidance; the banking Group performs risk mitigation in accordance with its risk profile, risk appetite and risk tolerance.

Risk monitoring and control 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 Group, which depend on the business strategy and market environment, as well as on the level of risk that the Group is ready to accept.

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

Risk Types

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

4.1. Credit Risk

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

And on 30.06.2022, a special challenge from the aspect of credit risk management is the Russian-Ukrainian crisis, as well as the increase in inflation and the reference interest rates of Central Banks in the world and in Serbia.The Group have defined criteria for granting loans, changing conditions, extending the term and restructuring receivables, which are prescribed by the procedures and methodologies of placement approval and risk management.

Before approving the placement, the Group assess the debtor's creditworthiness as the primary source of repayment of the placement based on internally defined criteria and the offered collateral as a secondary source of collection. Based on the identified and measured level of credit risk (assessment of the debtor's financial condition and creditworthiness, as well as the value and legal certainty of credit protection and other relevant factors) and an independent opinion on risk, competent persons, boards and bodies of Group members, in accordance with the defined decision-making system, make a decision on the approval/changes of the placement.

The Group defined the decision on the exposure to credit risk through the decision-making system, depending on the type of clients and the level of exposure. Credit decision makers are: specially authorized personnel from the Risk Management function of the parent Bank, the Credit Committee, the Executive Board and the Board of Directors of the parent Bank, ie committees and bodies of the Group members.
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.

Since the parent Bank and its subsidiaries within the Komercijalna Banka Group became a members of the NLB Group at the end of the year 2020, in the upcoming period, additional adjustments of the placement approval process will be made with the established system at the level of the NLB Banking Group.

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

Credit risk management

According to the volume, type and complexity of its operations, the Group 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 Group is in line with the defined Framework for risk appetite management and the risk management strategy and depends on the Group's portfolio structure based on which is limited negative effects on the 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 Group's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the 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 their effort to manage credit risk the Group seeks to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Group assesses creditworthiness of each customer upon the submission of a loan application and regularly monitor their debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting their receivables.

The Group 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 an instrument for making individual decisions and assessing the risk level of individual placements. In addition to the above, the rating system is used to assess the risk level of the overall portfolio, and it is also used in the placement devaluation procedure in order to rank the level of risk and show the real value of receivables. The internal rating system is subject to regular revision and improvement. As part of the process of harmonizing the Group's risk management system with the corresponding system at the NLB Group level, during 2021 as well as on June 30, 2022. the process of harmonizing the internal rating system was started, which will be the subject of additional improvements in the following period as well.

In order to adequately and efficiently manage the risks to which they are exposed in their operations, the parent Bank and Group members also respect the principles prescribed by the regulations of their central banks, which require classification of each placement based on the prescribed framework and calculation of provisions for estimated losses. Considering that both the parent Bank and its subsidiaries within the Komercijalna Banka Group became members of the NLB Group in 2021, in the following period additional adjustments of the internal rating system will be made with the system at the level of the NLB Banking Group.

Credit risk mitigation entails maintaining the risk at the level acceptable to the Group's risk profile, i.e. maintaining acceptable quality level of the Group's loan portfolio.

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Basic credit risk mitigation techniques are:

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

The exposure limits per individual debtor are based on the assessment of the debtor's credit- worthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Group 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 Group's related parties), group exposures with the same or similar risk factors such as industry sectors, types of products, geographic areas and the like and credit risk hedges.

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

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

Monitoring loan 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, especially under conditions of large credit exposure approaching the upper risk profile limit, i.e. upon introduction of new products and business activities.

In order to protect against the risk of non-fulfillment of obligations in business with clients, the members of the Group undertake the following measures to regulate receivables: prolongation of repayment; loan rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; execution of agreements with interested third parties; and instigation of 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, a proposal is initiated for a permanentwrite-off of the remaining receivables or transfer from the balance sheet to off balance sheet.

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

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

IFRS 9 Financial instruments

The Group continuously applies IFRS 9. In accordance with IFRS 9, the financial assets can be classified and measured as:

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

Since the Group became a member of the NLB Group, during 2021 the process of farmonizing impairment methodologies with the established rules at the level of the Banking Group began. In 2021, , the values of haircuts for individual impairment of placements were adjusted, the material significance threshold for impairment of NPE clients of individuals was changed (the threshold was increased from RSD 2.5 million to EUR 50,000), the calculation was changed impairments for placements secured by the guarantee of the Republic of Serbia, the PD for the calculation of impairment of securities of the Republic of Serbia has been changed and the formula for the application of LGD has been changed. Also, monthly PD parameters are used instead of annual, taking into account the exposure according to monthly amortization plans, the impact of macroeconomic variables on the values of LGD secured and LGD unsecured is included, the hair cut value was tested with the historical realization of the Group's collateral and the hair cut was adjusted - those where there were deviations. The mentioned process of harmonizing the Methodology for impairment will continue in 2022.

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

Equity instruments, investments in non-affiliated entities that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income.

Also, by applying IFRS 9, the Group calculates impairment for credit placements given to the countries and central banks of the Group members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive income.

Identification of problematic and restructured receivables

The Group 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 category Standard, Potentially risky (Watch list) and NPL clients (clients with problematic receivables).

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

Restructured non-problematic customers are classified into the category of potentially risky customers, to Stage 2 of impairment, while restructured problematic clients are classified into the category of clients with problematic receivables, and are categorized into Stage 3 of 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 receivables without prior identification of clients as potentially risky and without implementation of preventive actions against becoming 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 receivables.

Problematic receivables include all the receivables that are late in settling obligations over 90 days past due per any materially significant obligation towards the Bank (parent company) or subsidiaries, receivables for which based on assessed financial position is estmated that the debtor will not be able to meet its obligations in full, without taking into account the possibility of realization of credit protection instruments (regardless of whether it is late in settlement of liabilities), receivables for which the impairment loss is determined on an individual basis.

Receivables are also considered to be problematic if these fulfill the following: cessation of recording interest income, commissions and fees in the income statement; specific adjustments for credit risk that were calculated due to a significant deterioration in credit quality that followed the exposure, a significant loss realized by assignment of receivables, restructuring of receivables made due to financial difficulties of the debtor, as well as the submission of a proposal to initiate bankruptcy proceedings against the debtor.receivables. In the last quarter of 2021, the Group introduced two new criteria for natural persons (deceased and unemployed) for default status (stage 3 and NPL status), for placements that are not overdue by more than 90 days. Problematic receivables include all receivables from debtors, if one claim is classified in the group of problematic receivables.

Restructuring of the receivables is approval of concessions, due to financial difficulties of the debtor, regarding the repayment of the individual receivables 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 (reduction of interest rates, 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 Group 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 receivables of the Group (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 receivables would be classified in the above group, i.e. fulfilled the requirements.

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

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

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

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

Derecognition leads to a permanent gain or loss recognized in the income statement and is equal to the difference between the amortized cost of an old financial asset and the fair value of a new financial asset.

With each change in credit conditions, for the clients' placements that are not designated as problematic (PL), as well as for bad (NPL) clients, the Group calculates a 10% test in order to determine whether it is a significant or less significant modification.
The Group records each asset modification in its system, whether it is a minor or significant modification, and whether the modification is due to a change in market conditions for good (PL) clients or due to problems in the business of bad (NPL) clients.

The Group regularly monitors the measures taken to restructure the risky placements and control the timeliness 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, monitoring of overall operations, strategies toward individual debtors, are the key points of above mentioned monitoring.

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

- impairment amount of restructured receivables 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 grater 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.

Risk of asset quality change

During 2021, the process of harmonizing the internal rating system with the appropriate system at the level of the NLB Group began, which will be subject to additional improvements in 2022 as well. The quality of the Group'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 debtor are grouped in the same credit rating category irrespective of the specificities of different loan types.

The Group uses varying credit rating models depending on the debtor type. Credit rating is calculated on monthly basis based on the qualitative and quantitative parameters and timely and regular liability settlement. A low level of risk implies doing business with clients of good creditworthiness and is acceptable for the Group, a high level of risk represents doing business with clients who have certain problems in their business, which can negatively affect the settlement of obligations and whose business is intensively monitored, and a high level of risk means clients with negative business results and bad credit history.

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

Risk of asset value change – asset delinquency

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

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

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

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

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

Individual and Group Assessment in Stage 3

The Group assesses impairment of each individually significant placements with default status (risky placement, according to internal rating system), i.e. placements that are classified into Stage 3 in accordance with IFRS 9 standard.

On this occasion , this assessment also includes consideration of 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 expected cash flows. If there is new information that, according to the assessment, significantly changes the creditworthiness of the client, the value of the collateral and the certainty of the fulfillment of the client's obligations towards the Group, a new assessment of the impairment of the placement is made.

The materiality threshold is determined by the Group based on the analysis of the value structure of the portfolio by types of clients and products.

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.

Individual assessment

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

- When the financial position of the debtor points to significant problems in its business;
- When there are information on default, frequent delay in repayment or non-fulfillment of other contractual clauses;
- When the Group, due to the financial difficulties of the debtor, significantly changes the repayment conditions in relation to initially contracted;
- The debtor can not settle its obligations in total without the realization of the collateral;
- Continuous account blockade over 60 days;
- When there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of the debtor) and similar.

Evidence can also be documented by analysis in the Watch process with information on the increased degree of risk of the debtor.

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

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

For a group of smaller material receivables that are classified as 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 data.

Group Assessment

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

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

During the integration, the previous behavior of clients in both banks was taken into account, and consequently the assessed level for certain clients was changed in some cases in relation to the level of risk they had in the previous period.

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

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

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the state and central banks of the banking Group members 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 reserve requirement and similar exposures, on the basis of which the expected credit losses tend to zero.

All financial instruments in which significant increase in credit risk has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected credit losses for the entire life of the instrument. In addition to qualitative and quantitative significant increase in credit risk criteria for classification in stege 2, due to the conditions caused by the COVID-19 pandemic, during 2020 the Group reclassified a certain number of clients from the activities which are most affected by the COVID-19 pandemic (catering, tourism, transport ...) for the purpose of preventive action and realistic consideration of impairment, having in mind the possible negative consequences of the COVID-19 virus pandemic on the business of clients from the listed activities. This was done through the analysis of the portfolio structure by activities, as well as the analysis of individual clients of legal entities.

All clients with exposure above the defined level, who operate in activities that are estimated to be most exposed to the negative effects of the COVID-19 pandemic, were analyzed. All clients that were estimated to be, or could be, exposed to the effects of the COVID-19 pandemic, although they did not meet the previously defined criteria for transfer to stege 2 in accordance with IFRS 9, were immediately classified in stege 2. Also, private individuals who are employed in the non-governmental and non-public sector and who are not pensioners were analysed. If the decrease or lack of earnings has been identified for those clients, the transfer of such clients to stege 2 has been performed. Consequently, impairment was calculated for these clients for the loan life time.

On 30.06.2022, the Group continued to grant benefits to clients affected by the COVID 19 pandemic in accordance with the NBS Decision (moratorium 3) and in accordance with the Decision of the Government of the Republic of Serbia (Guarantee Scheme 1 and 2).

The Group considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, delay of more than 30 days past due, and the like).

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

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

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

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 due to default (EAD) represents the gross book value of financial instruments that are subject to impairment, taking into account the client's ability to increase its default exposure.

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

PD represents an estimation of the probability of default in a given period of time. Failure to fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Group is still exposed. Based on historical data, the Group calculates the PD parameter, separately for 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...).

In the part of the portfolio of natural persons and agricultural clients, taking into account the different risk level of the portfolios of the two banks, before the merger, the risk level of both banks was included in the credit risk parameters, through historical migration matrices, so as not to underestimate the expected losses.

After calculating historical PDs, the Group includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production...) to the future PD. The Beta factor is calculated using statistical and econometric models.

For the purposes of inclusion of forward looking information (FLI), the Group includes three different macroeconomic variables' movements scenarios in the calculation of Beta factor (optimistic, realistic and pessimistic), with the subsequent weighting with the corresponding probabilities of realization of each scenario, in order to obtain the final Beta factor which comprises all of three scenarios (optimistic, realistic and pessimistic).

Macroeconomic factors used in the devaluation process

When defining macroeconomic assumptions, the Bank uses a set of various relevant external sources, as well as internal estimates. In order to determine the participation of each of the scenarios for the purposes of calculating the impairment, the positive and negative movements in the previous period (quarterly) of each of the variables that were determined to be statistically significant were considered.

On 30.06.2022. positive economic trends were achieved. The real growth of the quarterly gross domestic product, according to the preliminary estimates of the Republic Institute of Statistics in the first quarter of 2022 compared to the same quarter of the previous year, was 4.4%. Observed by activities, the highest real growth was recorded in the following sectors:

- arts, entertainment and recreation (14.6% compared to minus 12.6% in Q1 2021)
- trade, transport and accommodation and food services (11.0% compared to minus 5.7% in Q1 2021)

Based on the projection of the National Bank of Serbia, economic activity growth of 3.5-4.5% is expected in 2022, according to the latest available data, which will be predominantly driven by private sector investments and private consumption growth, which is in line with projections of real GDP growth used by the Bank. From the aspect of the production side, the biggest contribution to GDP growth is expected in the service sector.

Year-on-year inflation in June 2022, compared to the same month of the previous year, was 11.9%. The stronger growth of interannual inflation is the result of the dominant increase in energy prices, but also the increase in food prices due to cost pressures in production and transportation. From the second half of 2022, the year-on-year inflation growth is expected to slow down.

EURIBOR 6M (EURIBOR – Euro Interbank Offered Rate) came out of the negative zone in June 2022, which was largely contributed to by the announcement of the normalization of interest rates by the European Central Bank. In July 2022, the European Central Bank raised 3 key interest rates by 50 basis points each. Consequently, the interest rate on the main refinancing operations was increased to 0.5%, while the rates on credit and deposit facilities are 0.75% and 0.00%, respectively. The future movement of EURIBOR will largely depend on the policy of the European Central Bank in the coming period, that is, on the tightening of the monetary conditions of the European Central Bank.

The European Central Bank ended the net bond purchase program (PEPP) at the end of March 2022, with the reinvestment period continuing at least until the end of 2024. According to market participants, further growth of the EURIBOR rate is expected during 2022.

Macroeconomic factors that have shown statistically based relationships with default rates, and consequently with expected credit losses, are detailed with the projected values used in each of the three scenarios (realistic, pessimistic, and optimistic).

Impairment calculation for credit risk for level 1 and 2

For the calculation of level 1 impairment, the Group uses one-year PDs calculated on a monthly basis for the first 12 months, which represent the product of the historical PD and the Beta factor calculated for the first year.

When calculating impairment for level 2, where impairment is calculated for each year of the life of the financial asset, the Group uses the marginal PD which represents the difference of two cumulative PD, between t+1 and t, where t represents a time period of one year reduced to a monthly level. Cumulative PD refers to the probability of default that will occur as of period t. The probability that default will occur before or after the maturity date T corresponds to lifetime PD, that is, the probability of default for the entire life period of the financial instrument.

The values of the PD parameter are updated once a year, and more often if necessary.

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

Starting from 31.12.2021. and on June 30, 2022. In the calculation of LGD unsecured and LGD secured, the Group included the impact of macroeconomic factors in the next three years, taking into account three scenarios (optimistic, realistic and pessimistic).

In the part of the retail portfolio, taking into account the different risk level of the two banks' portfolios, before the merger, the credit risk parameters included the risk level of both banks, through historical migration matrices, so as not to underestimate the expected losses.

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

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Group uses a different method of calculating impairment. The Group does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure of financial instruments of the state, its bodies, central banks and financial institutions, it relies on defined assessments based on assessments by external rating agencies. 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 HOV 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 Probable Losses on Off-Balance Sheet Items

Determining the individual probable loss on off-balance sheet items (contingent liabilities – payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability and the debtor is classified at Stage 3. Also, for Stages 1 and 2, the Group establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for Stage 1 and Stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance sheet items, the Group reduces exposure for the Credit Conversion Factor (CCF).

In accordance with IFRS 9, the Group calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the Group uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the central banks of the Group members. For unused commitments for which the Group has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Group does not account for provisions based on unused commitments.

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

Means of protection against credit risk (collaterals)

In order to protect against credit risk exposure, a common practice that Group uses, in addition to regular monitoring of the debtor'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 counterparty credit risk.

As a standard collaterals Group 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 Group members provide 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 Group members, and the insurance policies must be endorsed in favor of the individual banking Group members.

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 Group protects themselves 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.

Means of protection against credit risk (collaterals)

The Group pays attention to regular assessment/valuation of collateral. For performing loans (standard clients) – classified as Stage 1 and clients on the Watch list – classified as Stage 2, mortgages on residential and commercial property are assessed at least once every three years by a licensed appraiser. For non-performing loans (NPL) classified as 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 placements.

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 portfolio with movements in the market value in the Group members country market (realized sales, supply and demand) by the regions listed in the catalog of collateral, the use of statistical models, etc. For all the commercial real estates, the Group conducts verification of value at least once a year, and for residential and other real estate at least once every three years.

The value of the collateral and the tendency of movement of it's value, the Group 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.

4.2. Liquidity Risk

Liquidity risk represents the risk of negative effects on the Group's financial result and equity resulting from the Group'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 Group 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 is manifest as the mismatch of the inflow of assets on one end and the maturities of liabilities on the other, including the possibility of delays in expected inflows as well as that of unexpected outflows. 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 Group 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 and Liquidity Committee have the most significant role therein as well as other competent boards/committees, whose decisions can impact the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

- Diversifies sources of assets in respect to their currencies and maturities;
- Forms and maintains 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; and
- 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.

Identifying liquidity risk 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 Group is performed through quantitative and/or qualitative assessment of identified liquidity risk by using the following techniques:

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

Minimizing liquidity risk consists of maintaining this risk at a level that is acceptable to the Group'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 above mentioned 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 Group'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 group'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 reporting system.

The Group's operations are reconciled daily with legally prescribed limits of 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, as well with limits of 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 0.7 as the average liquidity ratio for all working days in a month. During the first half of 2022. the Group maintained the liquidity coverage ratio (LCR) cumulatively in all currencies, at the level which is not below the regulatory prescribed limit of 100%.

During the first half of 2022 the Group's liquidity ratio, narrow liquidity ratio and liquidity coverage ratio were well above the prescribed limits.

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

As observed in short term, the Group 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 Group plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves. The Group'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 Group members regularly tests the Liquidity Contingency Plan (LCP), checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

Undiscounted cash flows arising from the items of monetary assets and monetary liabilities include future cash flows per balance sheet items and future interest. In the case of transaction deposits and demand deposits, which, observing the conservative approach, are categorized into deposits with maturities of up to a month, the undiscounted cash flows include only the cash flows from the debt principal outstanding.

Market Risks

Market risk represents the possibility of occurrence of negative effects on the Group'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 Group is exposed to price risk, interest rate risk, currency risk, counterparty risk and risk of settlement related to trading book items. The trading book contains balance sheet and off-balance sheet assets and liabilities related to financial instruments held for trading or to hedge other financial instruments that are maintained in the trading book.

The Group 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 (ALCO) has the most significant role therein as well as other competent boards/committees of the parent Bank, as well competent bodies of the banking Group members, whose decisions can impact the Group's exposure to this risk.

4.3. Interest Risk

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

The Group manages the following types of interest rate risk:

- Repricing risk of temporal mismatch between maturity and repricing;
- Yield curve risk – to which the Group is exposed due to changes in yield curve shape;
- Basis risk – to which the Group 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 Group is exposed due to contractually agreed optional terms – loans with an option of early repayment, deposits with an option of early withdrawal, etc.

The 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 Group manages the internal yield margin through the prices of loans and deposits, focusing on the interest rate margin.

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

- GAP analysis and duration;
- IRR sensivity analysis;
- Basis risk analysis;
- Credit spread analysis (the impact of the sensitivity of the change in the credit spread of the securities portfolio.)

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

During the first half of 2022 the Group's interest rate risk ratios were within internally prescribed limits. Indicators of interest rate risk remained within limits even after the integration with NLB a.d.Beograd.

The Risk of Changes in Interest Rates

Interest rate risk management also entails monitoring the sensitivity of the Group members assets and liabilities to different scenarios of changes in interest rates. The Group performs regular interest rate risk stress testing to assess the estimated impact of the changes in the key factors on the Group's interest rate risk.

The Group assesses the impact that interest rate shocks (positive and negative interest rates on the reference yield curves) could have for each significant currency individually and for all other currencies together.

In scenario modelling, in addition to the changes in interest rates, particular consideration is given to the impact of early deposit withdrawal and early loan repayment, which the Group members estimate based on historical trends and expert estimates. The Group estimated trends with regard to transaction deposits, demand deposits and savings deposits of retail customers using time series statistical modeling.

4.4. Foreign Currency Risk

The Group is exposed to the foreign currency risk which represents the possibility of negative effects on the Group'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 Group 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 Group 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 Group'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 Group 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 Group 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 Group'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 foreign currency risk includes internal and external reporting systems and is performed on a daily basis in accordance with the predefined dynamics, in line with the established reporting system.

The Group 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, on one side, relative to the Group's regulatory capital, on the other.

4.5. Operational Risk

Group monitors operational risk events daily and manages operational risks. For the purpose of efficient operational risk monitoring, Group appoints employees who are in charge of operational risk management 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. Group monitors and reports on operational risks.

Measurement and assessment of operational risk at the Group level is done through quantitative and/or qualitative assessment of identified operational risk. Group measures operational risk exposure through event records, monitoring of key risk indicators (KRI) and determination of the operational risk profile.

The operational risk profile represents exposure of the Group to operational risk and serves as a basis for making additional decisions, which would improve the existing operational risk profile and bring it closer to the targeted profile. The existing operational risk profile is the result of the identification and assessment of operational risks within the certain processes (performed at least once a year). The existing operational risk profile includes operational risks that operational risk custodians (persons responsible for monitoring operational risks, as well as other employees) see within or outside their organizational units.

The Group 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 Group 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 Group's business processes.

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Group has established a system for monitoring the activities undertaken by the Group's organizational parts in order to reduce arising of operational risks. Group assesses the risk of entrusting third parties with activities related to the Group'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 Group, and to limit losses that could be incurred in extraordinary circumstances, the Group 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. Also, Group adopted the Disaster Recovery plan.

4.6. Investment Risks

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

4.7. Exposure Risk

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

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

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

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

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

4.8. Country Risk

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

The Group management of country risk is made per individual loans and receivables and at the Group's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Group's debtor'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 Group's equity, depending on the internal country rating category. The Group measures and controls portfolio exposure to country risk by grouping receivables by default level of risk of the debtor countries of origin.

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

4.9. Fair Value of Financial Assets and Liabilities

Fair values of loans and receivables due from customers are estimated using the discounted cash flows model in instances of loans and receivables at fixed interest rates. Discounts rates are based on the current market interest rates applied to instruments offered under similar terms to borrowers with similar credit ratings. In addition, liabilities due to customers with defined maturities and contracted at fixed interest rates are discounted taking into account the prevailing terms according to the deposit types, terms and maturities.

Loans that are no longer approved and cannot be approved (loans indexed to CHF) are discounted at the same interest rates. In addition, loans approved at fixed interest rates subsidized by the Government were discounted at the same rate since the Group would not have approved loans at low interest rates had the Government not subsidized portion of the interest rate. All loans and receivables approved at variable interest rates were approved in accordance with the prevailing market terms and the banking Group members' business policies.

Fair values of investment securities held to maturity are estimated using market prices or the discounted cash flows model based on current market interest rates applied to similar product instruments offered. Investment securities held to maturity have all matured resulting in the carrying values being equal to their fair values.

Stage 1 includes financial instruments traded in the stock exchange, while Stage 2 includes securities whose fair values are estimated using the internally developed models based on the information from the auctions held in the secondary securities market (auctions).

Fair values of assets with no directly available trading data are classified into Stage 3.

4.10. Capital Management

The Group 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 Group's business policy goals.

The calculation of the amount of capital and capital adequacy ratio is reconciled with the Basel III Standard starting from June 30, 2017.

Basic goals of capital management are:

- Maintain the minimum regulatory capital requirement (EUR 10 million);
- Maintainance of the capital buffers;
- Comply with the prescribed capital adequacy ratios enlarged by capital buffers;
- Maintain customer trust in the safety and stability of 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 banking Group regulatory capital represents the sum of the Tier 1 capital (comprised of Common Equity Tier 1 Capital and Additional Tier 1 Capital) and Tier 2 capital, reduced for deductible items. The capital adequacy ratios represent the Group's capital (total, Tier 1 or Common Equity Tier 1 Capital) relative to the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries; risk exposure amount for settlement/delivery (except for free deliveries); risk exposure amount for market risks; risk exposure amount for operational risk; risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book.

Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries at the Group level are determined according to risk weights prescribed for all types of assets. Risk 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		**in thousand dinars**
	30.06.2022.	**31.12.2021.**
Tier 1 (T1) Capital	71,778,058	66,071,468
Common Equity Tier 1 (CET1) Capital	71,404,548	65,697,958
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	1,761,083	-
Deductible items	(698,184)	(713,172)
Capital	**72,840,957**	**65,358,296**
Credit risk-weighted assets	257,016,274	194,363,632
Operational risk exposure	41,635,311	34,534,805
Foreign currency risk exposure	3,131,719	-
Capital adequacy ratio	**24.14%**	**28.55%**
Tier 1 capital adequacy ratio	**23.35%**	**28.55%**
Common Equity Tier 1 capital adequacy ratio	**23.43%**	**28.39%**

Compared to the previous year, the change in the capital adequacy ratio is influenced by the integration, ie the merger of the portfolio of the two banks, the growth of lending activity and the like.

During the first half of 2022 all prescribed capital adequacy ratios at the Group level were above regulatory enlarged for the Srep's addition to the National Bank of Serbia.

Through its Capital Management Strategy and Capital Management Plan, the Group 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 the first half of 2022 , the Group 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; and
- the Business Continuity Plan in case of occurrence of unforeseen events.

The Group continuously implements processes of internal capital adequacy assessment 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,capital management strategy and capital management plan.

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

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

Stages of the internal capital adequacy assessment process include the following:

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

5. RECOGNITION AND INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

All financial instruments (investments, deposits, loans and subordinated liabilities) are recognized in business books of accounts, including all derived financial instruments i.e. derivatives, at the moment the Member of the Group becomes a contractual party on the grounds of which such financial asset/liability occurred. All other financial assets and liabilities are initially recognized at the date of the balance in accordance with the terms of the given financial instrument

Initial valuation and/or measurement of the financial assets and financial liabilities is done according at the fair value, with differences in the manner of recognizing of transaction costs depending on the choice of the categories of subsequent valuation in the following manner:

- *At fair value through the P&L*, it is done in the amount of fair value of the given equivalents on the day of the initial recognition, where their costs are recognized immediately in the Profit and Loss Statement;
- *At fair value through other comprehensive income* is also based on fair value adapted to all incremental transaction costs which may be directly attributed to acquiring or issuing of a financial instrument. The purchase value does not include transaction costs which may occur during the alienation;
- *At amortized cost,* it is carried at purchase value increased by direct transaction costs.

Assets held for trade are initially recognized and subsequently measured at fair value in the Balance Sheet with transaction costs directly recognized in the P&L t. All changes in the fair value are recognized in the Profit and Loss Statement

With initial recognition the Group may irrevocably allocate for those financial assets which otherwise meet the criteria for measurement at amortized costs (AC) or at fair value through other comprehensive income (FVOCI) to recognize at fair value through the P&L (FVTPL) if in that manner it eliminates or significantly decreases the accounting discrepancies which would otherwise occur. This classification is allowed only at the initial recognition and may not be subsequently revoked.

*Investments in subsidiaries and affiliate*s are included in the purchase value method which implies that these investments are expressed at the procurement costs.

Financial derivatives are initially recognized at purchase value and are subsequently calculated at to market value.

Deposits, debt securities issued by the Group members, received loans and subordinated liabilities are initially measured at fair value increased by direct transaction costs.

5.1. Subsequent measurement of the financial instruments

The accounting treatment of the subsequent measurement depends on the previously performed classification of financial instruments. The following overview shows the manner of valuating, and/or measuring the individual elements of financial assets, depending on their classification and type of instrument.

Classification	Type of instrument	Measurement	Gains/Losses from changes in the fair value	Interests and dividends	Impairment	Exchange differences
Financial assets and liabilities at amortized cost	Debt instruments	Amortized cost	-	P&L: use of EIR	P&L for financial assets	Profit and Loss Statement
Fair value through the P&L	Debt and equity instruments or derivatives	Fair value	Profit and Loss Statement	Profit and Loss Statement	-	Profit and Loss Statement
Capital instruments at fair value through other comprehensive income	Equity instruments	Fair value	Other comprehensive income, without transfer to the P&L	P&L: received dividends	-	Other comprehensive income
Debt financial assets at fair value through other comprehensive income	Debt instruments	Fair value	Other comprehensive income, with transfer to the P&L in case of derecognition	P&L: use of EIR	Profit and Loss Statement Other comprehensive income	Profit and Loss Statement

5.2. Modification of financial assets

Change of the agreed cash flows due to the changes of contract terms which are not significant or modification of agreed cash flows of financial asset, leading to the recognition of the income/expenditures from the modification of financial assets in the P&L by re-calculating gross book value of financial asset at the current value of changed or modified cash flows according to contracts, discounted by the initial effective interest rate. According to the aforesaid, the member of the Group continues to use the existing asset which is modified.

The member of the Group calculates the gains/losses from modification as the first step which precedes the request for the change of expected credit losses of modified financial assets which are based on changed contractual terms.

5.3. Derecognition

The recognition of financial asset ceases once the contractual entitlements over the cash flows related to the asset expire or when the member of the Group transfers the essential rights and benefits through a transaction pertaining to the ownership over the financial asset or if, through a transaction, the member of the Group does not either transfer or keep all essential rights related to ownership but fails to preserve control over financial asset. All ownership over the transferred financial asset which meets the conditions for derecognition which the member of the Group created or kept is recognized as standalone asset or liability in the Balance Sheet. When derecognizing the financial asset, the difference between the book value (or the book value of the part the asset which was transferred) and the sum of the received compensation (including new assets that are acquired, decreased by new undertaken commitments) as well as collective gains or losses which were previously recognized in the Balance Sheet are recognized in the profit and loss statement for individual instruments.

6. REPORTING BY SEGMENTS

The Parent Bank monitors and discloses business operations according to segments.

Information on the results of each reporting segment are shown below

As of 30.06.2022, the Group has two members which represent strategic organizational parts and an affiliate member NLB banka a.d. Podgorica:

NLB Komercijalna Banka a.d. Beograd, Serbia, Parent Bank	It includes loan, deposit and guarantee operations as well as operations related to performing national and international payment transactions, operations pertaining to securities and other financial instruments
KomBank INVEST UCITS Fund Management Company a.d. Beograd, Serbia	It includes investment fund management operations
NLB Komercijalna Banka a.d. Podgorica, Montenegro	It includes loan, deposit and guarantee operations as well as operations related to performing national and international payment transactions, operations pertaining to securities and other financial instruments

The Parent Bank monitors and discloses business operations according to strategic segments - members of the Group within their consolidated financial statements. The Group performs the largest portion of business operations on the territory of the Republic of Serbia. Subsidiaries are not of material significance for the standalone financial statement of the Parent Bank.

The Balance Sheet total of the Parent Bank amounts to 99.97% of the consolidated balance-sheet total (in 2021: 99.96%), and the balance sheet total of KomBank INVEST is 0.03% (in 2021: 0.04%).

The result of the strategic segment is used to measure the success of business operations, since the management of the Parent Bank believes that this information is most relevant to value results of a specific strategic segment in comparison to other legal entities which operate in the said activities in the local market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6.1. Consolidation of Balance Sheet and Profit and Loss Statement

During the consolidation the elimination of all interrelationships in the Balance Sheet was performed in the amount of RDS 140,435 thousand (2021 RSD 140,365 thousand). Elimination of income from P&L was performed in amount of RSD 1,280 thousand (30.06. 2021 RSD 38,880 thousand), and the expenses in the amount of RSD 1,280 thousand (30.06. 2021 RSD 40,288 thousand).

Standalone Balance Sheets on 30.06.2022:

	in thousand dinars
Parent Bank	543,596,528
Adjustment based on the share in the affiliation	54,532
KomBank INVEST a.d. Beograd	158,335
Total reclassified non-consolidated Balance Sheet	543,809,395

Balance Sheet on 30.06.2022

In thousand dinars

Total non-consolidated Balance Sheet	**Consolidation amount of Balance Sheet**	**Consolidated Balance Sheet**
543,809,395	**140,435**	**543,668,960**
cash/liabilities	221	
loans/ liabilities	214	
stakes /capital	140,000	

Standalone P&L (before tax) 30.06.2022

	In thousand dinars
Parent Bank	3,660,520
Adjustment based on the share in the affiliation	140,592
KomBank INVEST a.d. Beograd	(5,369)
Total reclassified non-consolidated P&L (before tax)	3,795,743

P&L 30.06.2022

In thousand dinars

Total non-consolidated profit in the P&L (before tax)	**Consolidation amount of P&L**		**Consolidated profit (before tax)**
	Income	**Expenses**	
3,795,743	**1,280**	**1,280**	**3,795,743**
Fees	1,280	1,280	

	In thousand dinars
Consolidated gain before tax	3,795,743
Profit tax	(204,648)
Net loss from deferred taxes	(57,408)
Consolidated gain after tax	3,533,687

Gain and Loss Based on Deferred Taxes

As of 30.06.2022, in the P&L the Group showed the net loss on the basis of effects of deferred taxes in the amount of RSD 57,408 thousand. The Parent Bank accounts for the whole amount (profit in the amount of 115,740 thousand dinars and a loss in the amount of 173,148 thousand dinars).

Profit Tax

The Parent Bank does not have the possibility to perform tax consolidation based on applicable regulations in the Republic of Serbia. Final amounts of liabilities arising from income tax the Group members determine by applying the tax rate on tax base stipulated by local tax regulations and they disclose them in standalone notes to their annual statutory financial statements.

Balance Sheet 2021

In thousand dinars

Total non-consolidated Balance Sheet	**Consolidation amount of Balance Sheet**	**Consolidated Balance Sheet**
489,608,587	**140,365**	**489,468,222**
Cash/liabilities	53	
Loans /liabilities	312	
Stakes /capital	140,000	

Profit and Loss Statement 30.06.2021

In thousand dinars

Total non-consolidated profit in the P&L (before tax)	**Consolidation amount of P&L**		**Consolidated profit (before tax)**
	Income	**Expenses**	
651,526	**38,880**	**40,288**	**652,934**
Interest	7,492	7,492	
Fees	9,037	9,037	
Other income / expenses	126	126	
Exchange differences (reclassified in capital)	22,225	23,633	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The overview of the strategic segments from the consolidated Balance Sheet and consolidated P&L is shown below:

A. BALANCE SHEET - CONSOLIDATED as of 30 June 2022

In thousand dinars

	NLB Komercijalna banka a.d. Beograd	KomBank INVEST a.d. Beograd	Total
ASSETS			
Cash and balances with the central bank	87,685,914	-	87,685,914
Receivables from derivatives	12,908	-	12,908
Securities	121,819,448	137,576	121,957,024
Loans and receivables from banks and other financial organizations	15,332,383	16,087	15,348,470
Loans and receivables from customers	297,521,736	-	297,521,736
Investment in affiliations and joint ventures	1,542,595	-	1,542,595
Intangible assets	603,817	-	603,817
Property, plant and equipment	9,609,009	57	9,609,066
Investment property	2,695,112	-	2,695,112
Current tax assets	-	74	74
Deferred tax assets	1,287,585	2,773	1,290,358
Non-current assets held for sale and assets from discontinued operations	342,063	-	342,063
Other assets	5,058,276	1,547	5,059,823
Total Assets	**543,510,846**	**158,114**	**543,668,960**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2022

A. BALANCE SHEET - CONSOLIDATED as of 30 June 2022

LIABILITIES	NLB Komercijalna banka a.d. Beograd	KomBank INVEST a.d. Beograd	Total
Liabilities from derivatives	3,358	-	3,358
Deposits and other liabilities to banks, other financial organizations and central bank	9,641,338	-	9,641,338
Deposits and other financial liabilities to other customers	437,461,325	-	437,461,325
Subordinated liabilities	1,766,439	-	1,766,439
Provisions	5,103,627	3,737	5,107,364
Current tax liabilities	185,737	-	185,737
Other liabilities	5,700,863	1,705	5,702,568
Total liabilities	**459,862,687**	**5,442**	**459,868,129**
Capital			
Share capital and share premium	45,859,620	-	45,859,620
Treasury shares	(31,994)	-	(31,994)
Profit	16,365,842	17,460	16,383,302
Loss	-	(5,369)	(5,369)
Reserves	21,594,684	588	21,595,272
Total capital	**83,788,152**	**12,679**	**83,800,831**
Total liabilities and equity	**543,650,839**	**18,121**	**543,668,960**

A. BALANCES SHEET – CONSOLIDATED as of 31 December 2021

In thousands dinars

	NLB Komercijalna banka a.d. Beograd	KomBank INVEST a.d. Beograd	Total
ASSETS			
Cash and assets held with central bank	82,055,481	-	82,055,481
Securities	149,588,755	155,264	149,744,019
Loans and receivables from banks and other financial organizations	29,114,381	16,320	29,130,701
Loans and receivables from customers	209,044,942	-	209,044,942
Investment in affiliations and joint ventures	1,479,000	-	1,479,000
Intangible assets	582,101	-	582,101
Property, plant and equipment	8,755,659	81	8,755,740
Investment property	2,610,531	-	2,610,531
Current tax assets	18,911	74	18,985
Deferred tax assets	509,242	2,773	512,015
Non-current assets held for sale and assets from discontinued operations	101,614	-	101,614
Other assets	5,430,413	2,680	5,433,093
Total assets	**489,291,030**	**177,192**	**489,468,222**

A. BALANCE SHEET – CONSOLIDATED as of 31 December 2021

In RSD thousand

LIABILITIES	NLB Komercijalna banka a.d. Beograd	KomBank INVEST a.d. Beograd	Total
Deposits and other liabilities to banks, other financial organizations and central bank	2,134,916	-	2,134,916
Deposits and other liabilities to other customers	403,286,418	-	403,286,418
Provisions	4,233,853	17,876	4,251,729
Other liabilities	4,142,442	1,010	4,143,452
Total liabilities	**413,797,629**	**18,886**	**413,816,515**
Capital			
Share capital and share premium	40,034,550	-	40,034,550
Profit	9,561,784	17,506	9,579,290
Reserves	26,037,325	542	26,037,867
Total capital	**75,633,659**	**18,048**	**75,651,707**
Total liabilities	**489,431,288**	**36,934**	**489,468,222**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2022

B. PROFIT AND LOSS STATEMENT – CONSOLIDATED as of 30 June 2022

In thousand dinars

	NLB Komercijalna banka a.d. Beograd	KomBank INVEST a.d. Beograd	Total
Interest income	7,240,228	251	7,240,479
Interest expenses	(384,674)	-	(384,674)
Net interest income	**6,855,554**	**251**	**6,855,805**
Fee and commission income	4,765,740	11,394	4,777,134
Fee and commission expenses	(1,077,524)	(147)	(1,077,671)
Net fee and commission income	**3,688,216**	**11,247**	**3,699,463**
Net gain from change in fair value of financial instruments	11,734	1,121	12,855
Net gain/loss from derecognition of financial instruments that are measured at fair value	(63,034)	21	(63,013)
Net expense from exchange differences and effects of agreed currency clause	(137,896)	(1)	(137,897)
Net income from reduction of impairment of financial assets that are not measured at fair value through P&L	279,200	-	279,200
Net profit from discontinued recognition of financial instruments measured at amortized value	86,194	-	86,194
Other operating income	317,896	-	317,896
Total net operating income	**11,037,864**	**12,639**	**11,050,503**
Cost of salaries, salary allowances and other personal expenses	(2,727,824)	(9,340)	(2,737,164)
Depreciation costs	(540,568)	(24)	(540,592)
Other income	352,191	4	352,195
Other expenses	(4,321,831)	(7,368)	(4,329,199)
Profit/loss before tax	**3,799,832**	**(4,089)**	**3,795,743**
Profit tax	204,648	-	204,648
Net loss from deferred tax	(57,408)	-	(57,408)
Profit/loss after tax	**3,537,776**	**(4,089)**	**3,533,687**

B. PROFIT AND LOSS STATEMENT – CONSOLIDATED as of 30 June 2021

In thousands of dinars

	NLB Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Interest income	6,486,649	344,850	399,077	248	7,230,824
Interest expenses	(515,191)	(57,973)	(106,999)	-	(680,163)
Net interest income	**5,971,458**	**286,877**	**292,078**	**248**	**6,550,661**
Fee and commission income	3,438,032	108,134	141,751	12,717	3,700,634
Fee and commission expenses	(856,582)	(30,456)	(35,906)	(130)	(923,074)
Net fee and commission income	**2,581,450**	**77,678**	**105,845**	**12,587**	**2,777,560**
Net gain from change in fair value of financial instruments	1,364	-	-	916	2,280
Net gain from derecognition of financial instruments that are measured at fair value	129,754	-	-	10	129,764
Net income from exchange differences and effects of agreed currency clause	54,419	(15,330)	725	(6)	39,808
Net expense from impairment of financial assets that are not measured at fair value through P&L	(854,970)	(167,848)	(92)	-	(1,022,910)
Other operating income	114,869	3,390	5,197	-	123,456
Total net operating income	**7,998,344**	**184,767**	**403,753**	**13,755**	**8,600,619**
Cost of salaries, salary allowances and other personal expenses	(2,372,498)	(165,585)	(168,442)	(7,713)	(2,714,238)
Depreciation costs	(447,903)	(44,168)	(56,469)	(31)	(548,571)
Other income	107,775	2,520	19,985	6	130,286
Other expenses	(4,472,087)	(171,984)	(147,854)	(3,588)	(4,795,513)
Profit before tax	**813,631**	**(194,450)**	**50,973**	**2,429**	**672,583**
Net profit from deferred taxes	136,775	-	-	-	136,775
Profit after tax	**950,406**	**(194,450)**	**50,973**	**2,429**	**809,358**

Within the stated consolidated profit, profit belonging to the owners without voting rights is RSD 1 thousand.

7. CAPITAL

7.1 Capital includes:

In thousand dinars

	30 June 2022	31 December 2021
Share capital	18,849,896	17,191,466
Share premium	27,009,724	22,843,084
Treasury shares	(31,994)	-
Reserves from profit and other reserves	22,148,117	22,148,071
Revaluation reserves	(552,845)	3,889,796
Profit	16,383,302	9,579,290
Loss	(5,369)	-
Balance as at	**83,800,831**	**75,651,707**

The share capital of the Parent Bank is formed from the initial deposits of the shareholders and subsequent issues of new shares. Shareholders have controlling rights over the Parent Bank (ordinary shareholders), as well as rights of share in the distribution of profits.

In the process of integrating the Parent Bank with NLB a.d. Beograd, on the basis of the request for exercising the right to the repurchase of shares from 39 dissenting shareholders, with the decision of the General Meeting of Shareholders of the Parent Bank on the status change, in accordance with the Company Law, in the first half of March 2022 the Parent Bank repurchased 487,054 treasury shares from dissenting shareholders, at the market value of RSD 4,589.01 dinars per share, in the total amount of 2,235,096 thousand dinars.

In the process of selling treasury shares that the Parent Bank had acquired from dissenting shareholders, in May 2022 NLB d.d. Ljubljana exercised its right to purchase these shares proportionately to its own stake and purchased additional 442,799 shares of the Parent Bank and, in that manner, increased its stake in the voting shares of the Parent Bank to 91.73% or 90.22% of the total share capital whereby it acquired the right, according to the local regulations, to perform compulsory repurchase of shares from the remaining minority shareholders.

At the request of the majority shareholder, NLB d.d. Ljubljana, an extraordinary General Meeting of Shareholders was held on 29.06.2022 where the key item of the agenda was the compulsory repurchase of the Parent Bank's shares.

Structure of Parent Bank's share capital – ordinary shares as of 30.06.2022 is as follows:

Shareholders' name	% of share
NLB d.d. Ljubljana	91.73
OTP BANKA SRBIJA (custody account)	2.29
Kompanija Dunav osiguranje a.d., Beograd	1.82
Jugobanka a.d., Beograd in bankruptcy	1.74
OTP BANKA SRBIJA (custody account)	0.46
TEZORO BROKER AD	0.33
ACADEMY OF CRIMINAL INVESTIGATION AND POLICE STUDIES	0.19
NLB KOMERCIJALNA BANKA AD	0.17
DUNAV RE AD	0.10
MERA INVEST DOO BEOGRAD	0.09
TEZORO BROKER AD	0.07
TANDEM FINANCIAL a.d. Novi Sad	0.06
ERSTE BANK CUSTODY	0.06
KRUNA KOMERC DOO	0.05
ELEKTRODISTRIBUCIJA SRBIJE DOO	0.04
PRIVATE INDIVIDUAL	0.03
Other	0.77
	100.00

8. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET POSITIONS

In thousand dinars

	30 June 2022	31 December 2021
Business operations in the name and for the account of third parties	4,115,104	4,047,859
Future commitments undertaken	83,571,559	62,616,254
Other off-balance sheet positions	588,346,839	465,420,201
Total	**690,605,108**	**532,084,314**

8.1 Issued guarantees and letters of credit

The Parent Bank issues guarantees and letters of credit which guarantee settlement of liabilities by their clients to third parties. These contracts have a settled duration period which is most commonly up to one year.

The contracted values of potential liabilities are shown in the following table

In thousand dinars

	30 June 2022	31 December 2021
Payment guarantees	12,920,675	7,400,757
Performance guarantees	21,986,304	10,882,641
Balance as of date	**34,906,979**	**18,283,398**

The aforesaid amounts represent the maximum amount of losses which the Parent Bank would incur on the date of financial statements if none of the clients are able to settle the contracted liabilities.

8.2 Structure of the commitments undertaken is as follows

In thousand dinars

	30 June 2022	31 December 2021
Unused part of the approved overdraft on payment and credit cards and overdrafts on current accounts	8,270,300	8,673,457
Irrevocable commitments undertaken for undrawn loans	29,790,541	29,867,267
Other irrevocable commitments	10,603,739	5,792,132
Balance as of date	**48,664,580**	**44,332,856**

9. RELATED PARTIES

Related parties are: the Parent Bank, subsidiaries and affiliations, entities that are members of the same group or under joint control, members of the Board of Directors and the Audit Committee, Executive Board and the managers who, as members of other committees, have the authority and responsibility for planning, directing and controlling the bank's activities ("key management"), immediate family members, as well as legal entities under the control or significant influence of the key management and their family members, in accordance with the IAS 24.

Within the Group's regular business operations, a number of banking transactions with related parties are performed. These include loans, deposits, investments in equity securities and derivative instruments, payment transactions and other banking transactions.

9.1. Parent bank and subsidiaries

NLB d.d. Ljubljana has the largest stake in the voting shares of the Parent Bank, which owns 91.73% of the Bank's ordinary shares. As of June 30th 2022 the Parent Bank has a single subsidiary, KomBank INVEST a.d. Beograd, and one affiliation, NLB banka a.d. Podgorica. During 2021 Komercijalna banka a.d. Podgorica and Komercijalna banka a.d. Banja Luka lost the status of subsidiaries.

Consolidated transactions with subsidiaries are shown in Note 6.

10. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date of the Parent Bank:

On 13. 07.2022 NLB d.d. Ljubljana performed a compulsory repurchase of the remaining ordinary and preferred shares of minority shareholders, in accordance with the Decision adopted at the extraordinary General Meeting of Shareholders, held on 29.06.2022. With this transaction, NLB d.d. Ljubljana became the only shareholder of NLB Komercijalna banka a.d. Beograd.

On 25.07.2022 a lawsuit was received from a private individual, dated 18.07.2022, with regard to ungrounded acquisition whereby the plaintiff claims the amount of 204,811 thousand dinars with statutory penalty interest for individual amounts.

Also, minority shareholders initiated court proceedings for reconsidering the value of shares in the process of compulsory repurchase, in accordance with Article 521 of the Company Law.

An extraordinary General Meeting of Shareholders of NLB Komercijalna banka a.d. Beograd has been scheduled for August 22nd, with the aim of adopting a decision that the Bank withdraws from the stock exchange. The only item of the agenda is the adoption of the Decision on withdrawing the Banks' shares from the regulated market and terminating its capacity as a public company.

Events after the Balance Sheet date of KomBank INVEST a.d. Beograd, UCITS Fund Management Company:

There were no events after the balance sheet date, until the date of the issuance of these financial statements, which would require possible corrections or additional disclosures by KomBank INVEST a.d., Beograd.

There were no other significant events after the reporting period date which would require disclosure in the Notes to consolidated financial statements for 30 June 2022.

11. FOREIGN EXCHANGE RATES

The exchange rates determined at the interbank meeting of the foreign exchange market applied for the conversion of balance sheet items into dinars on June 30, 2022 and 2021 for certain major currencies are as follows:

	Official exchange rate of the National Bank of Serbia		Average exchange rate of the National Bank of Serbia	
	30.06.2022.	31.12.2021.	30.06.2022.	30.06.2021.
USD	112.2638	103.9262	-	-
EUR	117.4055	117.5821	117.5960	117.5761
CHF	117.6290	113.6388	-	-
BAM	60.0285	60.1188	-	60.1150

In Belgrade,

On 17.08.2022

Persons responsible for preparation of the financial statements

Sanja Đeković Executive Director of the Accounting Management Department	Dejan Janjatović Deputy Chief Executive Officer

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S T A T E M E N T

We hereby state that, according to our best knowledge, the semi-annual consolidated financial statements as at 30.06.2022 have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company.

Persons responsible for the preparation of consolidated financial statements

Sanja Đeković	Dejan Janjatović
Executive Director of the Accounting Management Department	Deputy Chief Executive Officer

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S T A T E M E N T

Consolidated financial statements of NLB Komercijalna banka AD Beograd for the period 01.01.2022 until 30.06.2022 published in accordance with Law on Capital Market have not been audited.

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

Persons responsible for the preparation of consolidated financial statements

Sanja Đeković	Dejan Janjatović
Executive Director of the Accounting Management Department	Deputy Chief Executive Officer