2019 SEMI-ANNUAL CONSOLIDATED REPORT OF KOMERCIJALNA BANKA GROUP

Belgrade, August 2019

CONTENTS

REPORT ON OPERATIONS OF KOMERCIJALNA BANKA AD BEOGRAD GROUP FOR THE PERIOD 01/01–30/06/2019

Belgrade, August 2019

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Consolidated financial statements of the Banking Group are presented in thousands of dinars. Dinar represents the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

Functional currencies, EUR from the financial statements of Komercijalna banka AD Podgorica[1] and BAM from the financial statements of Komercijalna banka AD Banja Luka, have been converted into the reporting currency of the Parent Bank - Dinar (RSD) on the basis of officially published exchange rates in the Republic of Serbia.

The Consolidated Income Statement and the Consolidated Cash Flow Statement for the period were calculated using the average official exchange rate in the Republic of Serbia for the first six months of 2019 in the amount of 118.0961 for one EUR and 60.3816 for one BAM, and other consolidated financial statements (balance sheet, statement of changes in equity and report on other results) applying the closing exchange rate on the balance sheet date in the amount of 117.9121 for one EUR and 60.2875 for one BAM.

Business changes made in foreign currency are converted into dinars at the middle exchange rate established on the interbank foreign exchange market, which is valid on the day of business change.

Assets and liabilities denominated in foreign currency on the date of the consolidated balance sheet are converted into dinars at the middle exchange rate established on the interbank foreign exchange market on that date.

1 On 4 July 2018 the name and the seat of Komercijalna banka ad Budva was changed to Komercijalna banka ad Podgorica

1. Key Performance Indicators of the Group

DESCRIPTION	30/06/2019	30/06/2018	INDICES 2019/2018	2017	2016	2015
(in thousands of RSD in percentages)						
Profit / loss before tax	3.625.744	3.785.924	95,8	7.316.383	-6.533.686	-6.893.558
Net interest income	6.888.643	6.774.684	101,7	13.517.238	14.456.333	14.839.373
Net fee income	2.778.591	2.708.014	102,6	5.413.601	5.093.523	5.190.282
PROFITABILITY PARAMETERS [2]						
ROA	1,6%	1,9%	-	1,8%	-1,5%	-1,6%
ROE (on total capital)	10,1%	11,3%	-	11,6%	-10,5%	-10,1%
Net interest margin on total assets	3,1%	3,3%	-	3,3%	3,4%	3,5%
Cost/income ratio	60,5%	61,5%	-	64,0%	63,2%	60,4%
Operating expenses	5.849.588	5.833.038	100,3	12.119.512	12.363.223	12.092.310
Net expense/income from impairment of financial assets that are not measured at fair value	819.507	24.658	-	36.342	-13.079.497	-13.807.580

DESCRIPTION	30/06/2019	2018	INDICES 2019/2018	2017	2016	2015
Consolidated balance sheet assets	453.482.818	441.586.959	102,7	400.108.316	428.827.608	416.461.558
Off-balance sheet business	483.112.140	496.783.044	97,2	507.345.996	551.970.548	621.827.674
Loans and receivables from banks, and other fin. org.	24.920.785	21.037.537	118,5	30.233.555	43.216.681	17.848.897
Loans and receivables from customers	198.579.076	191.448.642	103,7	174.242.139	166.401.008	179.422.656
Deposits and other liabilities towards banks, other fin. org. and the central bank	8.720.419	8.228.284	106,0	6.137.776	9.822.519	18.768.726
Deposits and other liabilities towards other customers	354.607.258	350.668.156	101,1	317.577.748	345.135.959	319.334.622
CAPITAL	72.251.738	71.522.051	101,0	67.100.116	59.292.420	64.694.402
Capital adequacy	26,4%	25,2%	-	24,6%	26,2%	23,1%
Number of employees	3.064	3.076	99,6	3.106	3.152	3.148
Assets per employee *(in thousands RSD)*	148.004	143.559	103,1	128.818	136.049	132.294
Assets per employee *(in thousands EUR)*	1.255	1.212	103,6	1.087	1.102	1.088

2 Profitability parameters are reported on an annual basis.

2. Operations and organisational structure of the Group

The Banking Group consists of three banks (the parent bank and two subsidiaries) and one investment fund management company.
The parent bank, Komercijalna banka AD Beograd, within the registered activities, performs the following tasks:

- Deposit operations (receiving and placing deposits),
- Lending operations (granting loans and borrowing),
- Foreign currency and money exchange operations,
- Payment transactions,
- Issuing payment cards,
- Securities operations (issuing of securities, custody bank operations, etc.),
- Broker-dealer operations,
- Issuing guarantees, guarantee of a bill and other forms of surety (guarantee operations),
- Purchase, sale and collection of receivables (factoring, forfeiting, etc.),
- Insurance agency operations, upon prior approval of the National Bank of Serbia,
- Operations it is authorised to conduct under the law.

The Parent Bank has been authorised to perform foreign payment operations since 2003, to perform the activities of the broker-dealer company since 2005, to perform the activities of the custodian bank since 2006 and to perform the activities of insurance agency since 2011.

Komercijalna banka AD Podgorica performs the following operations:

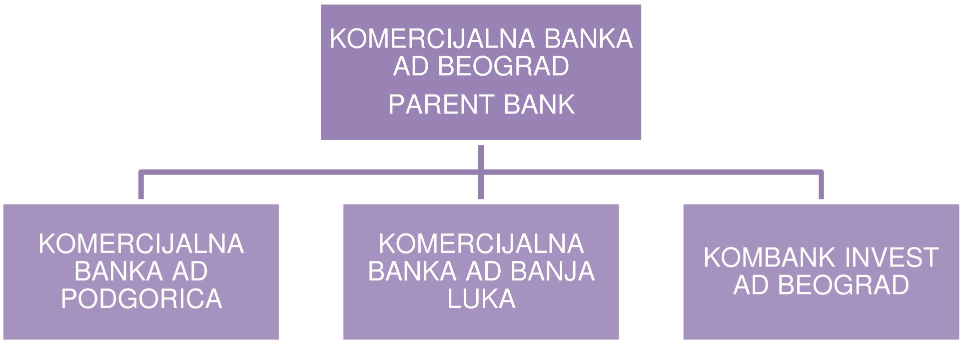
- Deposit operations (receiving and placing deposits),
- Lending operations (granting loans and borrowing),
- Issuing guarantees and assuming other obligations,
- Purchasing and collecting receivables,
- Issuing, processing and recording payment instruments,
- Payment transactions abroad,
- Financial leasing,
- Trading in foreign payment instruments on its own behalf and for its own account or on behalf and for the account of its clients,
- Collecting data, performing analyses and providing information and advice on the creditworthiness of companies and entrepreneurs,
- Depository operations,
- Safekeeping of assets and securities,
- Other ancillary activities within the Bank’s scope of operations.

Komercijalna Banka AD Banja Luka is registered in Bosnia and Herzegovina for conducting payment operations and credit and deposit operations in the country and abroad in accordance with the regulations of Republika Srpska.

IFMC KomBank INVEST AD Beograd is registered to perform the following activities:

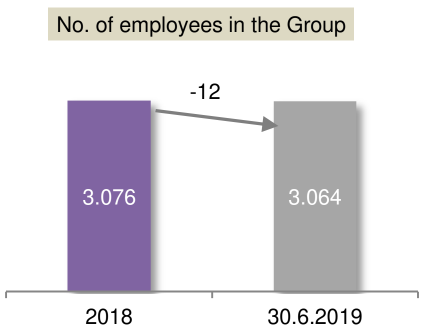
- Organising and managing an open-ended investment fund,
- Establishing and managing a closed-end investment fund,
- Managing a private investment fund.

Organisation chart of the Group



Group's human resources

On 30 June 2019, the Group had a total of 3,064 employees, 12 fewer than at the end of the previous year 2018. The decrease occurred in the Parent Bank (9) and KB Podgorica (3), while the Fund and KB Banja Luka retained the same number of employees.



Basic information about Group members

	KOMERCIJALNA BANKA AD PODGORICA*	KOMERCIJALNA BANKA AD BANJA LUKA	IFM KomBank INVEST AD BEOGRAD
ADDRESS	Cetinjska 11/floor VI/ tower PC 1	Jevrejska 69	Kralja Petra 19
COUNTRY	Montenegro	B&H, Republika Srpska	Serbia
PHONE NO.	+382-20-426-300	+387-51-244-700	+381-11-330-8160

* A change of the seat and name into Komercijalna banka ad Podgorica was registered in the Central Registry of the Tax Administration on 4 July 2018.

KOMERCIJALNA BANKA AD PODGORICA

100% owned by KB Beograd

Komercijalna banka AD Podgorica was established in November 2002 as an affiliate of Komercijalna banka AD Beograd and registered in the Central Registry of the Commercial Court in Podgorica on 6 March 2003. A change of seat and name into Komercijalna banka ad Podgorica was registered in the Central Registry of the Tax Administration on 4 July 2018. At the end of the first half of 2019 KB Podgorica had 143 employees and a business network consisting of 9 branch offices and 1 outlet.

KOMERCIJALNA BANKA AD BANJA LUKA

99,998% owned by KB Beograd

Komercijalna Banka AD Banja Luka was established in September 2006 and on 15 September 2006 it was entered in the court register by the Decision of the Basic Court in Banja Luka. At the end of the first half of 2019, KB Banja Luka had 159 employees and a business network consisting of the seat, 9 branch offices and 9 agencies.

KOMBANK INVEST AD BEOGRAD

100% owned by KB Beograd

Investment Fund Management Company (IFMC) **KomBankINVEST AD Beograd** is a business company registered in the Register of Business Entities of the Business Registers Agency on 5 February 2008.

The Company was established as a non-public join stock company operating in accordance with the Law on Investment Funds, the Regulations on Investment Funds and the Regulations on Licensing Requirements for IFM Operations.

On 30 June 2019, the Company managed three investment funds:

1. KomBank INFOND, o.i.f. balanced,
2. KomBank NOVČANI FOND, o.i.f. preserving property value,
3. KomBank DEVIZNI FOND, o.i.f. preserving property value.

At the end of the first half of 2019, the Company had five employees.

Basic information about the Parent Bank

Address/Central Office/ Divisions	Svetog Save 14	Svetogorska 42-44	Makedonska 29
PHONE NO.	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
FAX NO.	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*

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

48.6% owned by the Republic of Serbia
24.4% owned by EBRD, London

KOMERCIJALNA BANKA
Meni najbliža

Komercijalna banka AD Beograd, the Parent Bank, was established on 1 December 1970 and transformed into a joint stock company on 6 May 1992. The Bank was registered in the Commercial Court in Belgrade on 10 July 1991 and was legally re-registered in the Business Registers Agency on 14 April 2006. The parent bank received a banking license from the National Bank of Yugoslavia on 3 July 1991. As of 30 June 2019, the Parent Bank has 2,757 employees.

	BUSINESS CENTERS	SEAT
1.	BC Belgrade 1	Trg Politika 1, Belgrade
2.	BC Belgrade 2	Trg Politika 1, Belgrade
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Bulevar oslobođenja 88, Novi Sad
6.	BC Užice	Petra Đelovića 4, Užice
	BRANCH OFFICE	**SEAT**
1.	Kosovska Mitrovica	Čika Jovina 11

	DIVISIONS FOR WORK WITH SMALL AND MEDIUM CORPORATE CLIENTS	SEAT
1.	Division Belgrade	Svetogorska 42-44, Belgrade
2.	Division Central Serbia	Svetogorska 42-44, Belgrade
3.	Division Vojvodina	Bulevar oslobođenja 88, Novi Sad

Following changes from the end of the first quarter of 2018, the Parent Bank provides retail banking through the network of 203 outlets grouped into six Business Centers and Kosovska Mitrovica Branch Office. Activities with legal entities are carried out through three Divisions for work with small and medium corporate clients and Division for work with larger corporate clients.

3. Financial position and business performance of the Group

3.1. Macroeconomic Business Conditions

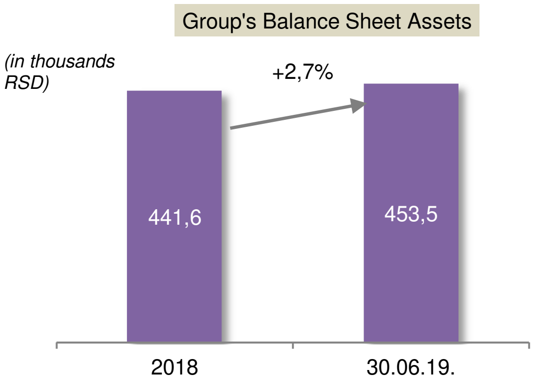
Macroeconomic indicators	SERBIA	MONTENEGRO[3]	REPUBLIKA SRPSKA
Gross domestic product	EUR 10,17 bln[4]	EUR 4,87 bln	EUR 5,5 bln[5]
GDP trends	+2,5%[6]	3,0%	+2,0%[7]
Consumer Price Index (June 2019 / June 2018)	+1,5%	-2,4%[8]	+0,7%[9]
Banking sector assets	+12,0%[10]	+0,5%	+9,0%[11]
Share of banking sector assets in GDP	74,6%[12]	88,3%	72%[13]
Industrial production (2019/2018)	+1,1%[14]	-15,5%	-14,7%[15]
NPL banking sector (non-performing assets)	5,4%[16]	3,2%	9,5%
Unemployment rate	12,1%[17]	16,0%	23,8%[18]

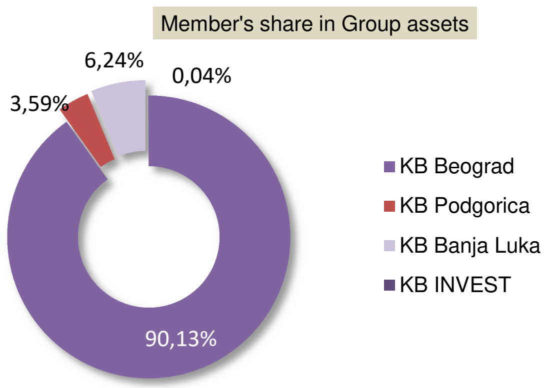
Note: Macroeconomic indicators according to available data from competent institutions.

3 Balance as of 31 May 2019
4 Press Release 31 May 2019, SORS, amount in EUR-NBS
5 Data refers to 2018
6 Quarterly GDP in the RS, first quarter 2019, announcement, 31 May 2019, SORS
7 Data refers to the third quarter of 2019 / third quarter of 2018
8 Date refers to the period May 2019 / May 2018
9 Data refers for the period April 2019 / April 2018
10 Assets Growth of the Serbian Banking Sector 2018/2017
11 Data refers to the period 2018/2017
12 Balance as of 31 December 2018
13 Data refers to 31 December 2018
14 Press release, 28 June 2019, for Serbia the figure is for May 2019 compared to the average for 2018, SORS
15 Data refers to the period Jan-Jun 2019 / Jan-Jun 2018
16 Macroeconomic Developments, July 2019, data related to May 2019 (NPL / total loans), NBS
17 Labour Force Survey, first quarter 2019, SORS
18 Unemployment Rate Survey, June 2019

3.2. Group's performance

DESCRIPTION	30/06/2019	2018	2017	2016	2015
(in thousands RSD)					
GROUP'S BALANCE SHEET ASSETS	453.482.818	441.586.959	400.108.316	428.827.608	416.461.558
Komercijalna banka a.d. Beograd	408.746.370	398.447.676	366.074.702	397.222.810	387.378.734
Komercijalna banka a.d. Podgorica	16.270.185	15.353.955	13.801.705	13.212.323	12.497.800
Komercijalna banka a.d. Banja Luka	28.302.402	27.624.178	20.075.186	18.385.992	16.469.869
KomBank INVEST a.d. Beograd	163.861	161.150	156.723	6.483	115.155

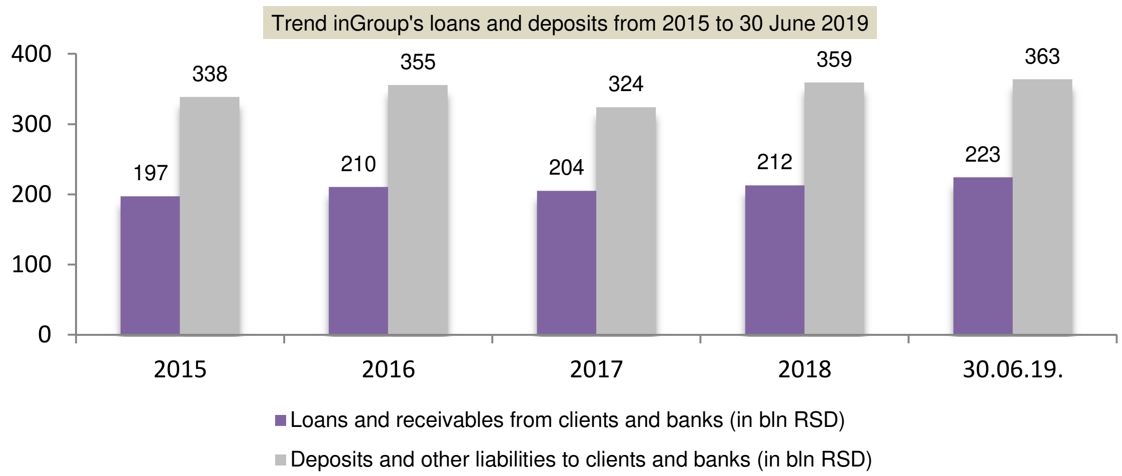




Group's balance sheet assets at the end of the first half of 2019 increased by RSD 11,895.9 million or 2.7% compared to the end of 2018. The share of the Parent Bank is still predominant (Group members account for 9.9% of total consolidated assets).

Loans and deposits of customers and banks as of 30/06/2019 by Group members

DESCRIPTION	30/06/2019	2018	2017	2016	2015
(in thousands RSD)					
LOANS AND RECEIVABLES FROM CUSTOMERS AND BANKS	223.499.861	212.486.179	204.475.694	209.617.689	197.271.553
Growth percentage	5,2%	3,9%	-2,5%	6,3%	-17,7%
Komercijalna banka a.d. Beograd	195.117.936	185.917.193	182.944.400	190.830.293	179.006.392
Komercijalna banka a.d. Podgorica	10.801.448	9.740.866	7.883.783	6.351.466	7.271.135
Komercijalna banka a.d. Banja Luka	17.564.370	16.811.744	13.647.511	12.435.930	10.994.026
KomBank INVEST a.d. Beograd	16.107	16.376	-	-	-
DEPOSITS AND LIABILITIES TO CUSTOMERS AND BANKS	363.327.677	358.896.440	323.715.524	354.958.478	338.103.348
Growth percentage	1,2%	10,9%	-8,8%	5,0%	-2,7%
Komercijalna banka a.d. Beograd	325.531.616	321.271.358	295.755.134	329.732.740	316.177.501
Komercijalna banka a.d. Podgorica	13.914.853	14.078.021	12.157.123	10.982.889	9.918.868
Komercijalna banka a.d. Banja Luka	23.881.208	23.547.061	15.803.267	14.242.849	12.006.979
KomBank INVEST a.d. Beograd	-	-	-	-	-



Parent Bank's share in loans and receivables from clients and banks of the entire Group was 87.3%, KB Podgorica 4.8% and KB Banja Luka 7.9%. parent bank's share in deposits and other liabilities to clients and banks of the entire Group is also dominant, with 89.6%, while KB Podgorica's share is 3.8% and KB Banja Luka's share is 6,6%.

3.3. Consolidated Balance Sheet

Group's consolidated assets as of 30 June 2019

NO.	DESCRIPTION	30/06/2019	2018	INDICES	SHARE 30/06/2019
1	2	3	4	5=(3:4)*100	6
	ASSETS (*in thousands RSD)*				
1.	Cash and assets held with the central bank	73.982.187	73.992.039	100,0	16,3%
2.	Pledged financial assets	-	-	-	
3.	Claims on derivatives	-	4.070	-	-
4.	Securities	136.451.960	137.514.720	99,2	30,1%
5.	Loans and receivables from banks and other financial organisations	24.920.785	21.037.537	118,5	5,5%
6.	Loans and receivables from customers	198.579.076	191.448.642	103,7	43,8%
7.	Changes in the fair value of items that are hedged	-	-	-	
8.	Claims on derivatives intended to hedge against risks	-	-	-	
9.	Investments in associates and joint ventures	-	-	-	
10.	Investments in subsidiaries	-	-	-	
11.	Intangible assets	759.684	627.468	121,1	0,2%
12.	Property, plant and equipment	7.344.141	6.047.384	121,4	1,6%
13.	Investment property	2.233.439	2.259.815	98,8	0,5%
14.	Current tax assets	9.011	1.650	-	-
15.	Deferred tax assets	1.453.705	840.967	172,9	0,3%
16.	Available-for-sale non-current assets and assets from discontinued operations	532.966	659.003	80,9	0,1%
17.	Other assets	7.215.864	7.153.664	100,9	1,6%
	TOTAL ASSETS	**453.482.818**	**441.586.959**	102,7	100,0%

In terms of certain balance sheet items, loans and receivables from clients (43.8%) accounted for the largest share in Group's balance sheet assets, with an upward trend in the first half of 2019 (an increase in 3.7% compared to the end of 2018). Securities also represent a significant position of consolidated assets (30.1%) and recorded a decline in the first half of 2019 (a decrease of 0.8% compared to the end of 2018). Cash and funds with the central bank accounted for 16.3% of total consolidated assets and were at the same level as in the previous reporting period. Loans and receivables from banks and other financial institutions account for 5.5% of consolidated balance sheet assets and are up 18.5% compared to the end of 2018.

Group's consolidated liabilities as of 30 June 2019

NO.	DESCRIPTION	30/06/2019	2018	INDICES	SHARE 30/06/2019
1	2	3	4	5=(3:4)*100	6
	LIABILITIES *(in thousands RSD)*				
1.	Liabilities arising for derivatives	-	-	-	
2.	Deposits and other liabilities to banks, other financial institutions and the central bank	8.720.419	8.228.284	106,0	1,9%
3.	Deposits and other liabilities to other customers	354.607.258	350.668.156	101,1	78,2%
4.	Liabilities arising for derivatives intended to hedge	-	-	-	-
5.	Changes in the fair value of items that are hedged	-	-	-	-
6.	Liabilities arising from securities	-	-	-	-
7.	Subordinated liabilities	-	-	-	-
8.	Provisions	2.511.567	1.808.853	138,8	0,6%
9.	Liabilities arising from assets held for sale and assets that are discontinued	-	-	-	-
10.	Current tax liabilities	-	11.044	-	-
11.	Deferred tax liabilities	788.288	14.677	-	0,2%
12.	Other liabilities	14.603.548	9.333.894	156,5	3,2%
13.	**TOTAL LIABILITIES**	**381.231.080**	**370.064.908**	103,0	84,1%
	CAPITAL				
14.	Share capital	40.034.550	40.034.550	100,0	8,8%
15.	Profit	4.656.890	9.277.755	50,2	1,0%
16.	Loss	1.374.053	1.481.701	92,7	0,3%
17.	Reserves	28.934.284	23.691.381	122,1	6,4%
18.	Non-controlling participation	67	66	101,5	-
	TOTAL CAPITAL	**72.251.738**	**71.522.051**	101,0	15,9%
	TOTAL LIABILITIES	**453.482.818**	**441.586.959**	102,7	100,0%

In terms of liabilities, deposits and other liabilities to other clients with a 78.2% share were dominant (in 2018 the share was 79.4%). Deposits and other liabilities to other clients have increased by 1,1% by the end of 2018.

The Group's total capital accounted for 15.9% of total consolidated liabilities (16.2% in 2018). Total capital increased by 1,0% compared to the end of 2018 by 1,0%.

Consolidated Balance Sheet as of 30/06/2019 - Member of the Banking Group

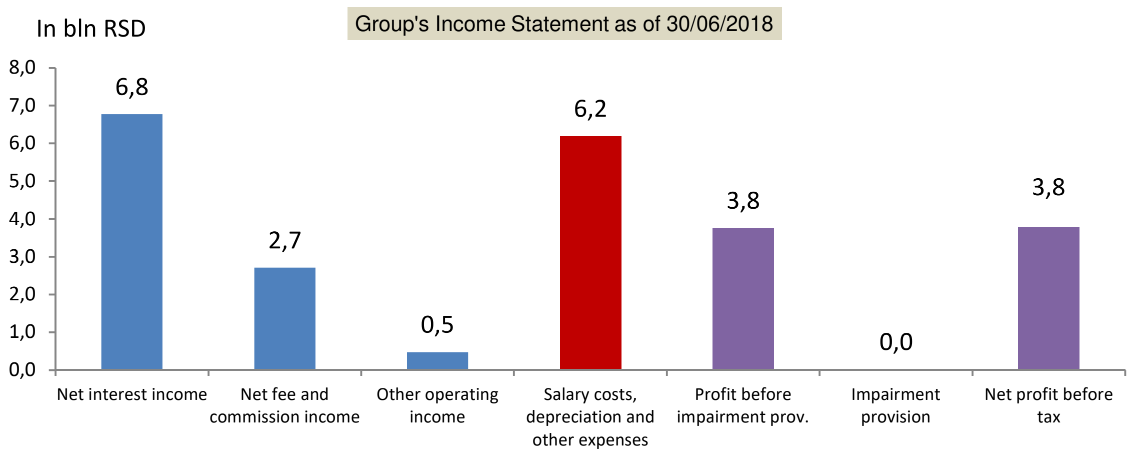
	DESCRIPTION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	Position / ASSETS *(in 000 RSD)*					
	Cash & assets held with the central bank	64.074.823	2.281.209	7.626.155	-	73.982.187
	Securities	132.061.405	2.013.933	2.231.196	145.426	136.451.960
	Loans and receivables from banks, and other fin. org.	22.623.930	740.665	1.540.083	16.107	24.920.785
	Loans and receivables from customers	172.494.006	10.060.783	16.024.287	-	198.579.076
	Intangible assets	690.342	21.257	48.085	-	759.684
	Property, plant and equipment	6.613.419	295.533	435.175	14	7.344.141
	Investment property	1.877.137	90.443	265.859	-	2.233.439
	Current tax assets	-	-	8.931	80	9.011
	Deferred tax assets	1.433.502	18.495	1.708	-	1.453.705
	Available- for-sale non-current assets and assets from discontinued operations	227.630	222.594	82.742	-	532.966
	Other assets	6.650.176	525.273	38.181	2.234	7.215.864
	TOTAL ASSETS	**408.746.370**	**16.270.185**	**28.302.402**	**163.861**	**453.482.818**
	Position / LIABILITIES					
	Deposits and other liabilities to banks and other fin. org.	3.774.406	209.066	4.736.947	-	8.720.419
	Deposits and other liabilities to other customers	321.757.210	13.705.787	19.144.261	-	354.607.258
	Provisions	2.334.520	140.965	26.946	9.136	2.511.567
	Deferred tax liabilities	752.901	28.313	7.074	-	788.288
	Other liabilities	14.059.042	76.161	466.788	1.557	14.603.548
	TOTAL LIABILITIES	**342.678.079**	**14.160.292**	**24.382.016**	**10.693**	**381.231.080**
	Share capital	40.034.550	-	-	-	40.034.550
	Profit	3.670.342	698.846	274.972	12.730	4.656.890
	Loss	-	1.374.053	-	-	1.374.053
	Reserves	28.230.309	600.895	102.776	304	28.934.284
	Non-controlling participation	-	-	67	-	67
	Total capital	**71.935.201**	**-**	**377.815**	**13.034**	**72.251.738**
	Total capital shortfall	-	74.312	-	-	-
	TOTAL LIABILITIES	**414.613.280**	**14.085.980**	**24.759.831**	**23.727**	**453.482.818**

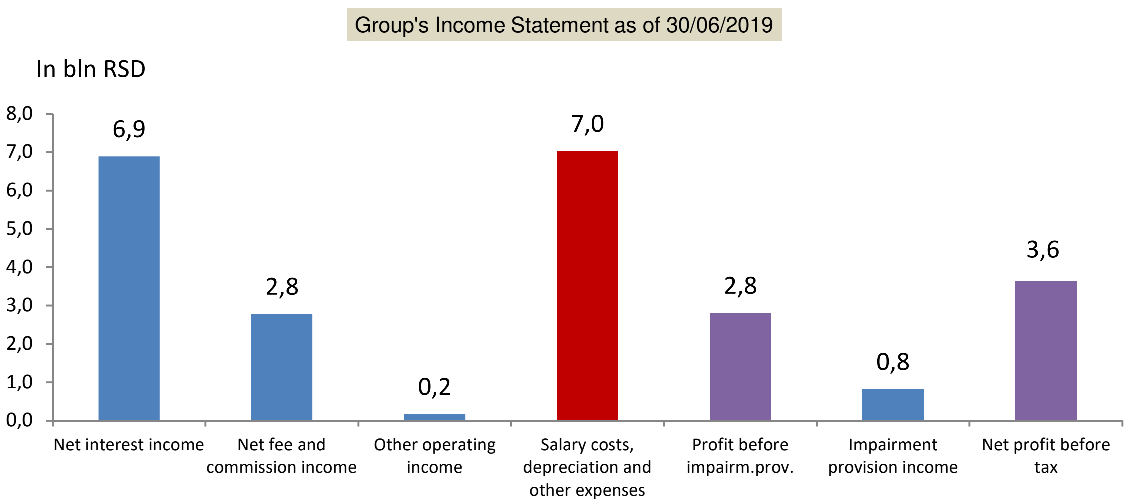
3.4. Consolidated income statement

In the consolidation process is required to exclude all positions on the individual income statements resulting from intra-group transactions: interest, fees, commissions and other income/expenses.

Consolidated income statement for the period 1 January – 30 June 2019

NO.	DESCRIPTION	30/06/2019	30/06/2018	INDICES
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES *(in thousands of RSD)*			
1.1.	Interest income	7.570.539	7.340.705	103,1
1.2.	Interest expenses	-681.896	-566.021	120,5
1.	**Net interest income**	**6.888.643**	**6.774.684**	101,7
2.1.	Fee and commission income	3.634.300	3.638.124	99,9
2.2.	Fee and commission expenses	-855.709	-930.110	92,0
2.	**Net fee and commission income**	**2.778.591**	**2.708.014**	102,6
3.	Net gains from change in the fair value of financial instruments (FI)	38.839	51.129	76,0
4.	Net gain on derecognition of FIs measured at fair value	201.323	95.130	-
5.	Net gains/losses from exchange rate differences and effects of agreed currency clause	11.917	482	-
6.	Net gain/loss from the reduction in impairment of financial assets not measured at fair value through income statement	819.507	24.658	-
7.	Net gain/loss on derecognition of FIs measured at depreciated value	-590.451	-	-
8.	Other operating income	74.779	87.794	85,2
9.	**TOTAL NET OPERATING INCOME**	**10.223.148**	**9.741.891**	104,9
10.	Costs of salaries, salary compensations and other personal expenses	-2.481.269	-2.500.641	99,2
11.	Depreciation costs	-575.773	-324.630	177,4
12.	Other income	434.243	242.023	179,4
13.	Other expenses	-3.974.605	-3.372.719	117,8
	PROFIT / LOSS (-) BEFORE TAX	**3.625.744**	**3.785.924**	95,8
14.	Profit tax	-	-	-
15.	Gains from deferred taxes	293	-	-
16.	Losses on deferred taxes	-147	-	-
	PROFIT / LOSS (-) AFTER TAX	**3.625.890**	**3.785.924**	95,8





Consolidated profit before tax of the KB Group, in the period from 01/01 to 30/06/2019 amounts to RSD 3,625.7 million and is lower than the profit made in the same period of the previous year. Consolidated profit before tax between the two observed periods decreased by RSD 160.2 million or by 4.2%.

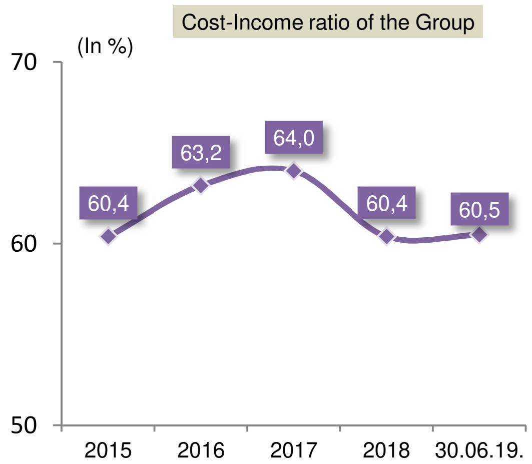
Interest income during the first half of 2019 increased by 3.1% compared to the same period in 2018, as did interest expenses, which increased by 20.5%. Net interest income increased by RSD 114.0 million or 1.7% during the first half of 2019 compared to the same period last year.

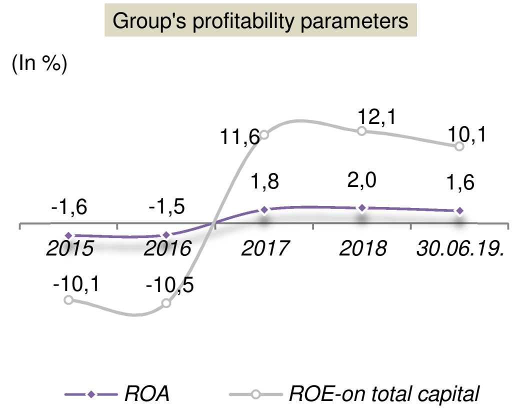
Consolidated fee and commission income during the first half of 2019 decreased slightly by 0.1% compared to the same period in 2018. Reduction of expenses from fees and commissions amounted to 8.0%, which made the KB Group's net fee and commission income higher by 2.6% during the first half of 2019.

Operating and other operating expenses increased by 13.5% compared to the previous year (RSD 833.7 million).

During the first half of 2019, KB Group recorded net income from impairment of financial assets not measured at fair value in the amount of RSD 819.5 million, while in the same period last year, net income was RSD 24.7 million (an increase in RSD 794.8 million).

As of 30 June 2019, the Group recorded a net loss on derecognition of financial instruments measured at depreciated value in the amount of RSD 590.5 million, unlike the same period of the previous year when they were not recorded.





Consolidated income statement per Group members for the period 01/01-30/06/2019

	DESCRIPTION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in thousands of RSD)					
1.	Interest income	6.839.769	322.772	407.703	295	7.570.539
2.	Interest expenses	-533.403	-47.882	-100.611	-	-681.896
3.	**Net interest income**	**6.306.366**	**274.890**	**307.092**	**295**	**6.888.643**
4.	Fee income	3.392.525	104.533	125.540	11.702	3.634.300
5.	Fee expenses	-793.572	-21.865	-40.141	-131	-855.709
6.	**Net fee income**	**2.598.953**	**82.668**	**85.399**	**11.571**	**2.778.591**
7.	Net gains from change in the fair value of financial instruments (FI)	36.998	-	-	1.841	38.839
8.	Net gains from derecognition of FIs measured at fair value	201.317	-	-	6	201.323
9.	Net gains/losses from exchange rate differences and effects of agreed currency clause	8.972	7.122	-4.177	-	11.917
10.	Net income/expense from the reduction in impairment of financial assets not measured at fair value through income statement	813.784*	-15.562	21.285	-	819.507
11.	Net gain/loss on derecognition of FIs measured at depreciated value	-590.451	-	-	-	-590.451
12.	Other operating income	68.323	2.597	3.859	-	74.779
I	**TOTAL NET OPERATING INCOME**	**9.444.262**	**351.715**	**413.458**	**13.713**	**10.223.148**
13.	Costs of salaries, salary compensations and other personal expenses	-2.177.607	-133.230	-162.950	-7.482	-2.481.269
14.	Depreciation costs	-496.957	-21.707	-57.104	-5	-575.773
15.	Other income	409.063	18.726	6.449	5	434.243
16.	Other expenses	-3.671.005	-162.461	-137.685	-3.454	-3.974.605
II	**PROFIT BEFORE TAX**	**3.507.756**	**53.043**	**62.168**	**2.777**	**3.625.744**

* NOTE: The biggest change in the income statement, observed by Group members, is with the Parent Bank as a result of determining the fair value of the equity interests of the subsidiary banks. Parent Bank hired independent appraiser and based on the results of the assessment, cancellation of a portion of previously recognized impairment of interests in subsidiaries amounting to a total of RSD 826,714 thousand was made in the individual financial statements of the Parent Bank. A detailed explanation of this change can be seen in Section 6.1. note to the consolidated financial statements.

4. Environmental investments

By adopting the Banking Group's Environmental and Social Risk Management Policy and Procedures, the Group defined standards for identification and management of the environmental and social protection risks in the process of approving and monitoring placements. This document is adequately applied at the level of the Group's members through incorporation of the bylaws at the level of each member in compliance with the local legislation and internal bylaws of the Group members in accordance with the Bank's internal bylaws. The Group is also developing the activities pertaining to environmental protection and also the protection of human and labour rights, by applying the best practices for sustainable financing. Internal bylaws also define the procedure for solving and providing answers to complaints in relation to direct or indirect impact of operating activities on environment and social surroundings.

By categorising placements according to the level of environmental and social risk, the Group assesses in which percentage the activities that could have adverse effects on the environment are financed. In addition, the Group continually monitors extraordinary events with their clients that may have an adverse effect on the environment, health or safety, or the community in general and regularly informs the management bodies and the Bank's shareholders.

In order to protect the environment and minimise the likelihood of events that could have adverse effects on the environment, health or safety, or the community in general, the Group does not finance the clients whose core business is associated with the manufacturing or trading in weapons and ammunition, radioactive materials and other technologies that may have an adverse environmental impact, thus ensuring compliance with the standards of good international practice in this field. Also, the Group operates in compliance with the defined limits of engagement pertaining to the activities: production and trade in alcohol, production and trade of tobacco and tobacco products and gambling activities.

The members of the Banking Group report on a monthly basis to the function Risk Management of the Parent Bank and other responsible business and operational functions on risk levels in terms of environmental and social impact. In case of exceeding the internal limits, the Banking Group members deliver an explanation with the proposal of measures and the plan of activities, and the function Risk Management reports to the Bank's Executive Board and international financial institutions (shareholders) on the stated limit exceedance. Every six months the function Risk Management reports to the Executive Board and the Board of Directors on environmental and social risk management on a consolidated basis and to the Republic of Serbia and International Financial Institutions (Shareholders) on the annual basis.

5. Significant events

At the end of 2018, and during the first half of 2019, important business events of the Parent Bank are the General Meeting of Shareholders, repeated session, held on 27 February 2019 and the regular General Meeting of Shareholders held on 24 April 2019.

Prior to the aforementioned dates, the regular General Meeting of Shareholders of the Parent Bank was scheduled for 28 January 2019 which was not held due to the absence of a quorum to hold the session. The following agenda was set for the session:

1. Decision on the adoption of the Strategy and Business Plan of Komercijalna banka AD Beograd for the period 2019-2021;
2. Decision on the correction of a technical error in the Bank's Assembly Decisions No. 19521/3c and No. 19521/3d dated 17 October 2018.

At the repeated General Meeting of Bank's Shareholders held on 27 February 2019, the following decisions were made:

1. Decision on the adoption of the Strategy and Business Plan of Komercijalna banka AD Beograd for the period 2019-2021.

2. Decision amending Decision No. 19521/3c dated 17 October 2018 - Alexei Germanovich.
3. Decision amending Decision No. 19521/3d dated 17 October 2018 - Oleksandr Danyliuk.

The new regular General Meeting of the Shareholders Assembly of the Parent Bank was held on 24 April 2019. The following decisions were made:

1. Decision on the adoption of the Annual Report on the operations of Komercijalna banka AD Beograd and Regular Financial Statements for 2018 with the Opinion of the External Auditor;
2. Decision on the adoption of the Annual Report on the Group's operations and Consolidated Financial Statements of Komercijalna banka AD Beograd for 2018 with the Opinion of an External Auditor;
3. Decision on profit distribution from 2018 and retained earnings from previous years;
4. Decision on the release from duty and appointment of the Chairperson of the Board of Directors of Komercijalna banka AD Beograd;
5. Decision on the dismissal and appointment of a member of the Board of Directors of Komercijalna banka AD Beograd;
6. Decision on the appointment of a member of the Board of Directors of Komercijalna banka AD Beograd.

As of 31 May 2019 the Ministry of Finance of the Republic of Serbia issued a public invitation for the collection of statements of interest in participating in the procedure for the sale of shares in Komercijalna banka AD Beograd in a tender. The privatisation procedure provides that the Ministry of Finance, after receiving the statements of interest, will decide on the type of a tender procedure, in accordance with the relevant regulation governing this matter.
As of 26 June 2019 a meeting of the Tender Commission was held at the Ministry of Finance, which monitors the implementation of the procedure for the sale of shares owned by the Republic of Serbia at Komercijalna banka AD Beograd, where the received statements of interest of potential buyers were discussed. The members of the said Commission confirmed that six statements of interest had been submitted in a timely manner and contained all the documentation envisaged by the public invitation.

Other significant events after the end of the business year in the KB Group or in Group members are disclosed in the Notes to the Consolidated Financial Statements - Events after the Balance Sheet Date.

6. The Group's future development plan

Operating strategies and plans for the future are defined and adopted at level of individual Group members[19].

Operations of the subsidiaries, Group members, as well as the Parent Bank in the next period will in general be primarily focused on maintaining but also on growth of the market share with an acceptable level of business risk, primarily credit risk. When it comes to the potential of lending the retail sector, as a more promising customer segment, in the next period the banks, Group's member will be focused on expanding their customer database. Also, the focus will be on attracting and financing creditworthy clients with a sound credit history, as well as financing micro clients.
In the upcoming period, a cautious loan approval policy will apply to corporate clients, with focus being primarily on the quality of the credit portfolio, with enhanced monitoring of clients' business operations, financed projects and received collaterals. The aim is to timely identify all the warning signals that may indicate the inability of clients to settle their liabilities, or that may indicate the difficulties in collecting receivables. Strategies of subsidiary banks, Group members for the coming period will still be oriented to placing the funds to small and medium-sized enterprises (SMEs) while speeding up the very process of granting loans. The scope of non-performing loans (NPLs) is not expected to increase in the future.

[19] This point of the report shows the parts taken from individual Strategies and business plans of the Group members

The main pillars of the development strategy of **Komercijalna banka ad Beograd**, the Parent Bank, in the next three-year period are the following[20]:

- Growth in loans to customers (as a key aspect of the future profitability),
- Control of operational risk in the future period to maintain the low level of net impairment expenses,
- Improvement - changing the structure of clients based on demographics and standards (taking into account the development of innovative products and services) so that, in addition to large companies, the Bank intends to further develop its business segment with local self-governments, small and medium-sized enterprises and with clients from neighbouring countries,
- Increase in the share of fee and commission income compared to interest income (the Bank will place more focus on fee and commission income given the tendency for falling interest rates and the implementation of digitisation and other development initiatives);
- Control of the amount of operating expenses and further improvement of the efficiency in business operations with a view of reducing operating expenses against income during the entire planning period (CIR),
- Preserving the adequate capital position, with payment of cumulative dividends from previous years (2014, 2017 and 2018[21]) and dividends arising from planned profit over the next three-year period (2019-2021).

The basic goals of the operation of **Komercijalna banka ad Podgorica** for the future plan period are as follows[22]:

- Stable and sustainable business development;
- Continuous solidification of market share;
- Further improvement and targeted diversification of portfolios (creation of new products, attracting new clients, greater efficiency in deciding on credit claims);
- Active solving of problems related to NPLs and acquired assets through direct communication with clients and third parties in order to collect positions, offer and sell acquired assets;
- Enhancing profitability (cross-selling activities, bank insurance business, further development of card business, digitalisation and application of new banking technologies in business);
- Increasing network efficiency through reorganisation of business operations;
- Brand strengthening.

Strategic goals for the future period of **Komercijalna banka ad Banja Luka** are defined[23] as follows**:**

- Better use of the existing customer database and increase in the number of clients who will use credit products with the better utilisation of the existing customer database (and a proactive approach to clients whose bank is not engaged by taking over from other banks);
- Introduction of new products and credit lines for legal entities (cross-border financing in cooperation with the parent bank, participation of the bank in syndicated lending for large projects in cooperation with other banks, financing of the energy sector, short-term working capital loans for small and medium-sized enterprises);
- Greater focus on cash, housing, consumer, agricultural and retirement loans;
- Increasing efficiency in the loan approval process;
- Growth of household savings in the long run as well as growth of retail deposits;
- Diversifying the deposit base and increasing the share of household deposits in total deposits, with an orientation towards a larger number of depositors with a smaller individual deposit amount;
- Withdrawal of new credit lines, credit lines from the parent bank, for a longer period and with a more favourable interest rate.

20 2019-2021 Strategy and Business Plan of Komercijalna banka ad Beograd
21At the General Meeting of Shareholders dated 24 April 2019 the Decision on the allocation of profit from 2018 and unallocated earnings from previous years was adopted.
22 Business plan of Komercijalna banka ad Podgorica for the period 2019-2021
23 2019-2021 Strategy and Business Plan. of the Komercijalna banka ad Banja Luka

The business goals of **KomBank INVEST ad Beograd** remain business growth, accompanied with the increase of investment funds and Company's operating income. In the next three-year period (2019-2021), the Company expects balance sheet assets to grow by RSD 31.2 million, i.e. a cumulative growth of 19.2% is planned, an average annual growth rate of 6,4%[24]. The majority of the Company's assets are invested in Mutual Fund investment units. No procurement of fixed assets is planned in the future planning period. Company's liabilities are expected to grow slightly. Expected and realised profit from future operations will be allocated to the capital of the Company (in accordance with the Assembly decision).

In the next three-year period, significant revenue growth is expected from managing Company's funds. Stable financial income of the Company is also expected. Operating expenses are maintained at the expected level. A significant increase in the annual net profit is expected in the next three-year period.

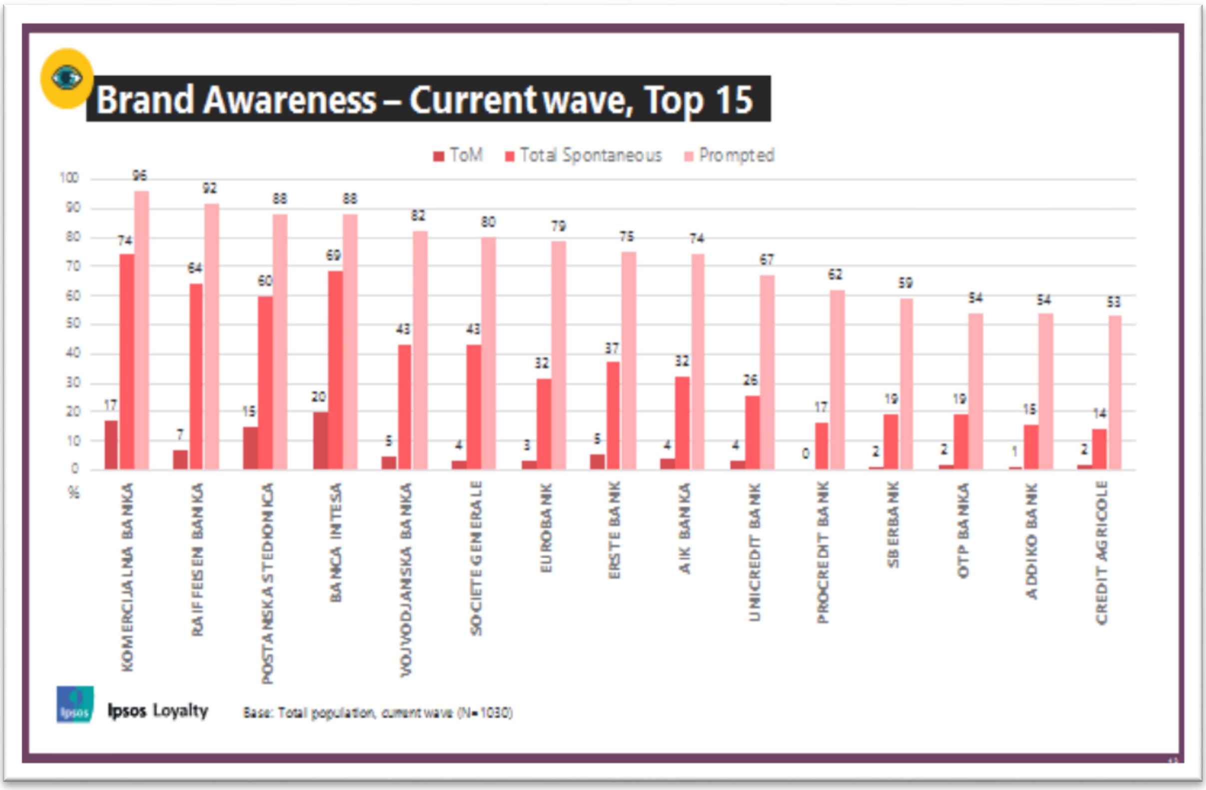
As a result of the growth in net profit in the future period, high return on assets and capital (ROA, ROE) are planned. Due to the expectation that the conditions for investing in investment funds will be difficult, a somewhat lower return on financial placements is expected. Due to the expected growth in profit of the Company, the profit margin is expected to increase.

24 Management Company Business Plan 2019-2021

7. Research and development

The Banking Group continuously monitors the activities in the banking product market, while using the available staff and also hiring the specialised, independent agencies for public opinion research.

Market research: IPSOS Strategic Marketing, Bankarski Omnibus, May 2019



The agencies provide customer satisfaction survey data and according to performed analyses, the Group has a leading position in terms of brand recognisability and service quality.

Survey results inform business decisions, in particular the important ones that relate to the development of new products and services and improvement and modification of the existing ones.

In the continuous process of monitoring market signals and the needs of customers and potential clients, in the previous period, the Group's business sectors have offered to their users new and/or upgraded types of retail and micro loans and developed a wide range of services, satisfactory for the local market conditions, in the segment of e-banking and payment and credit cards.

8. Branch offices performance before consolidation

Subsidiary banks: Komercijalna banka AD Podgorica and Komercijalna banka AD Banja Luka keep books of accounts and prepare financial statements in accordance with the accounting regulations of the Republic of Montenegro and Bosnia and Herzegovina (Republika Srpska). KomBankINVEST AD Beograd prepares financial statements in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of preparing consolidated financial statements, the individual financial statements of subsidiary banks and KomBank INVEST have been adapted to reflect the required presentation of financial statements under:

- Accounting regulations of the Republic of Serbia,
- Internal bylaws of the Parent Bank - Komercijalna banka AD Beograd and
- Relevant IASs and IFRSs.

Reclassified individual balance sheets of the Group members before consolidation on 30/06/2019

DESCRIPTION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST
(in thousands RSD)				
Cash and assets held with the central bank	64.074.823	2.283.980	7.631.576	46
Securities	132.061.405	2.013.933	2.231.196	145.426
Loans and receivables from banks and ofo	22.714.913	1.142.877	1.695.238	16.107
Loans and receivables from customers	172.494.006	10.060.783	16.024.287	-
Investments in subsidiaries	5.480.887	-	-	-
Intangible assets	690.342	21.257	48.085	-
Property, plant and equipment	6.613.419	295.533	435.175	14
Investment property	1.877.137	90.443	265.859	-
Current tax assets	-	-	8.931	80
Deferred tax assets	1.433.502	18.495	1.708	-
Available-for-sale non-current assets and assets from discontinued operations	227.630	222.594	82.742	-
Other assets	6.650.428	525.273	38.181	2.234
TOTAL ASSETS	**414.318.492**	**16.675.168**	**28.462.980**	**163.907**
Deposits and other financial liabilities to banks, ofo and the central bank	4.340.011	214.114	4.822.881	-
Deposits and other liabilities to other customers	321.757.210	13.705.787	19.144.261	-
Provisions	2.334.520	140.965	26.946	9.136
Current tax liabilities	-	-	-	-
Deferred tax liabilities	752.901	28.313	7.074	-
Other liabilities	14.059.042	76.211	466.813	1.736
TOTAL LIABILITIES	**343.243.684**	**14.165.389**	**24.467.975**	**10.872**
Total equity	71.074.808	2.509.779	3.995.005	153.034
TOTAL LIABILITIES	**414.318.492**	**16.675.168**	**28.462.980**	**163.907**

NOTE: For consolidation purposes, reclassification is carried out of the positions in the individual (statutory) financial statements of the Group members that affect the adjustment of the balance sheet total and the results presented in statutory financial statements. The adjusted (reclassified) financial statements are the initial balance sheet reports and positions that are further subject to consolidation.

Reclassified individual income statements of the Group members before consolidation for the period from 1 January to 30 June 2019

DESCRIPTION	KB Beograd	KB Podgorica	KB Banja Luka	KomBank INVEST
(in thousands RSD)				
Interest income	6.840.919	323.156	407.702	295
Interest expenses	-533.787	-47.882	-101.760	-
Net interest income	**6.307.132**	**275.275**	**305.941**	**295**
Fee and commission income	3.398.418	104.632	125.737	11.702
Fee and commission expenses	-793.868	-24.264	-42.751	-1.015
Net fee and commission income	**2.604.550**	**80.368**	**82.986**	**10.687**
Net gains from change in the fair value of financial instruments (FI)	36.998	-	-	1.841
Net gains from derecognition of FIs measured at fair value	201.317	-	-	6
Net gains/losses from exchange rate differences and effects of agreed currency clause	9.160	6.319	-1.451	-
Net income/expenses from impairment of financial assets not measured at fair value through income statement	813.784	-15.562	21.285	-
Net gain/loss on derecognition of FIs measured at depreciated value	-590.451	-	-	-
Other operating income	68.494	2.597	3.859	-
TOTAL NET OPERATING INCOME	**9.450.984**	**348.996**	**412.621**	**12.829**
Costs of salaries, salary compensations and other personal expenses	-2.177.607	-133.229	-162.950	-7.482
Depreciation costs	-496.957	-21.707	-57.104	-5
Other income	409.063	18.726	6.449	5
Other expenses	-3.671.005	-162.632	-137.685	-3.454
PROFIT / LOSS (-) BEFORE TAX	**3.514.478**	**50.153**	**61.332**	**1.892**

NOTE: For consolidation purposes, reclassification is carried out of the positions in the individual (statutory) financial statements of the Group members that affect the adjustment of the balance sheet total and the results presented in statutory financial statements. The adjusted (reclassified) financial statements are the initial balance sheet reports and positions that are further subject to consolidation.

9. Financial instruments relevant for assessment of Group's financial position

At the end of the first half of 2019, the following financial instruments (balance sheet positions) are crucial for the assessment of the Group's financial position: loans and receivables from customers, securities, deposits and liabilities to other customers and capital.

The position of loans and receivables from customers accounted for 43.8% of total consolidated assets and increased by RSD 7,130.4 million compared to the end of 2018. A detailed structure of the position of loans and receivables from customers is presented in the Notes to the Consolidated Financial Statements.

Securities accounted for 30.1% of total consolidated assets, but decreased by RSD 1,062.8 million compared to the end of 2018 and mostly relate to the placements or reduced placements of the

Parent Bank in securities of the Republic of Serbia (detailed structure is stated in the Notes to the Consolidated Financial Statements).

On the other hand, deposits and other liabilities to other customers accounted for 78.2% of consolidated liabilities and increased by RSD 3,939.1 million compared to the end of 2018. Deposits were the main source of financing for the subsidiary banks and the Parent Bank (the detailed structure is set out in the Notes to the Consolidated Financial Statements).

The Group's equity accounted for 15.9% of consolidated liabilities and increased by RSD 729.7 million compared to the end of 2018 as a result of the increase in the Parent Bank's equity.

The Group's members are well capitalised and the Group's capital adequacy ratio is 26.4% and well above the prescribed limit (8% + combined capital buffer requirement).

10. Risk management

The Group has recognised the risk management process as a key element of its operation management, since exposure to risks arises from all operational activities as an integral part of the banking operations, managed through the identification, measurement, assessment, monitoring, control and mitigation and reporting of risks, i.e. through establishing risk limits, as well as reporting in line with strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, methodologies for managing individual risks, appropriate organisational structure, effective and efficient process for managing all risks to which the Group is or may be exposed in its operations, adequate internal control system, adequate information system and adequate internal capital adequacy assessment process. Also, the Recovery Plan of the Group has been integrated into the risk management system, as a mechanism for early identification of a situation of severe financial disorder in which the Group can take measures, i.e. apply defined recovery options to prevent entry into the early intervention phase where the regulator is actively involved, or to improve already deteriorated financial condition.

With the Risk Management Strategy and the Capital Management Strategy, the Group has set the following goals within the risk management system: minimising the negative effects on the financial performance and capital while respecting the defined risk tolerance frameworks, maintaining the required level of capital adequacy, developing the Group's activities in line with business opportunities and market development to gain competitive advantage, diversifying the risks to which the Group is exposed, maintaining NPLs share in total loans up to acceptable level for the Group, maintaining a coverage ratio of liquid assets above the level prescribed by regulation and internal limits.

The Group constantly monitors all announcements and changes to the regulatory framework, analyses the impact on the level of risk and takes measures to timely align its operations with the new regulations. Through a clearly defined process for introducing new and significantly modified products, services and activities related to processes and systems, the Group analyses their impact on future exposure to risks in order to optimise its revenue and costs for estimated risk, as well as minimise any potentially negative effects on financial performance of the Group.

A detailed overview of the risk management objectives and policies of the Group is presented in item 4. Note to the consolidated financial statements.

Policy of protection against exposure to credit risk

In order to protect against exposure to credit risk, the Group applies credit risk mitigation techniques by acquiring acceptable collateral as a secondary source of placement collection. The Group strives to operate with clients of good credit standing by assessing it at the time of application and regular monitoring of debtors, placements and collateral, in order to undertake appropriate activities in the collection process in a timely manner.

The types of collateral for receivables depend on the assessment of the debtor's credit risk and are determined on a case-by-case basis, and their provision is made upon conclusion of the contract and before the placement is realised.

By internal acts the Group has regulated the valuation and management of credit protection instruments.

In assessing the value of collateral, the Group engages authorised assessors to minimise the potential risk of unrealistic assessment, and the real estate, goods, equipment and other movable property that are pledged must be insured with an insurance company acceptable to the Group with insurance policies endorsed in its favour.

In order to protect against changes in market values of collateral, the assessed value is adjusted by the defined impairment percentages, depending on the type of collateral and the location of the property, which are regularly reviewed and revised.

The Group pays special attention to collateral monitoring and undertakes activities to provide new value assessments, as well as to obtain additional collateral, primarily for clients with identified operational problems, but also for clients whose collateral exposure coverage is reduced due to a decline in the value of collateral provided.

For the purpose of proper risk management, the Group conducts activities of credit risk analysis in approving placements and establishing a system for monitoring, preventing and managing risky placements, including adequate identification of potentially risky clients (Watch List), mitigates credit risk with clients of the specified status, as well as by taking measures and actions to protect the interests of the Group and prevent adverse effects on its financial performance and capital.

During the first half of 2019, the Group continued to improve its risk management system. It revised the Risk Management Strategy and individual risk management policies, supplemented policies and procedures to align with changes to local and international regulations, with improved business practices and organisational changes. In accordance with the changed regulatory requirements, credit risk management has been improved. The Group continuously improves its risk management system which relies on the postulates of the independence of the risk management function from the risk assumption centers, the timeliness of information flows that support the decision-making process, and the transparency and correctness of the information provided.

In the first half of 2019, the Group focused on improving the quality of the loan portfolio by reducing the emergence of new non-performing loans and addressing clients that were already identified as problematic, and carried out activities to reduce bad placements (improved collection, sales/assignment, write-off by transferring all impaired receivables to off-balance sheet records, as well as permanent write-off of part of receivables on risky housing loans indexed in CHF with the Parent Bank). In accordance with the Law on Conversion of Housing Loans Indexed in CHF, adopted by the Republic of Serbia on 7 April 2019, in Q2 2019, the parent bank wrote off a part of the receivables (38%) on the basis of housing loans indexed in CHF (23% charged to the Bank and 15% charged to the Republic of Serbia). After the conversion, clients maintained the same Level, that is, the impairment category they had before the conversion, and no `POCI` (purchased or originated credit-impaired) placements were recorded.

Allowances for impairment (profit & loss account) at the Group level, in the first half of 2019, decreased and were lower than the planned for 2019 as a result of continued collection of risky placements, write-offs of a portion of housing loans indexed in CHF, and sales of funds obtained from the collection of receivables from the subsidiaries from Podgorica and Banja Luka. In addition to the real decrease, allowances for impairment in the balance sheet were also affected by the transfer of 100% of impaired placements from the balance sheet to off-balance sheet records with the parent bank, but to a much lesser extent than in 2018.

The Group is particularly exposed to the following risks in its operations:

- Credit and related risks.
- Liquidity risk.
- Market risk.
- Interest rate risk in the bank ledger.
- Operational risk.
- Investment risk.
- Exposure risk.
- Country risk as well as any other risks that may arise in the Group`s operations.

Exposure to credit risk

Credit risk is the risk of negative effects on the Group's financial performance and capital due to a debtor's failure to settle its liabilities towards the Group`s members. Credit risk is conditioned by the debtor's creditworthiness, its timeliness of performing obligations to the Group members, as well as the quality of the security instrument.

The acceptable level of exposure of the Bank to credit risk is in line with the defined Risk Management Strategy and depends on the structure of the Bank's portfolio on the basis of which limiting the negative effects on the Bank's financial performance and capital is possible, while minimising capital requirements for credit risk, the risk of settlement/delivery on the basis of free deliveries, counterparty risk, the risk of reduced value of the purchased receivables, and in order to maintain capital adequacy at an acceptable level. The Banks, members of the Group, manage the credit risk at the level of a client, the group of related parties and the entire loan portfolio. They also approve placements to clients (legal and natural persons) who are assessed to be creditworthy by performing an analysis, i.e. a quantitative and/or qualitative weighing and assessment of the credit risk and the financial status of the borrower. The process of weighing a credit risk is based on weighing the level of risk of individual placements by the internal rating system, as well as by applying the regulations. By monitoring and controlling the portfolios as a whole and by segments, the Group compares them with the previous periods, identifies movement trends and causes of changes in the level of credit risk. It also monitors asset quality indicators (NPL trends, NPL coverage level by allowances for impairment, etc.), as well as exposure to regulatory and internally defined limits. The process of monitoring the quality of a loan enables members of the Group to estimate potential losses as a result of the risks they are exposed to and to take appropriate corrective measures.

Exposure to liquidity risk

Liquidity risk is the risk of negative effects on the financial performance and capital of the Group due to the Group members' inability to meet their due obligations on maturity, as well as to provide liquid assets in the short term at no higher cost. Liquidity risk is manifested through the difficulties of the Group in settling its due liabilities in the event of insufficient liquidity reserves and the inability to cover unexpected outflows of other liabilities.

The Parent Bank as well as the members of the Banking Group in their business operations respect the basic principles of liquidity, by achieving sufficient level of liquid assets to cover short-term liabilities, i.e. respect the solvency principle by forming an optimum structure of own and borrowed sources of funds and by forming a sufficient level of liquidity reserves that do not jeopardise achieving the planned return on capital.

The liquidity risk is also reflected in the inability of the Group to transform some parts of assets into liquid funds in the short term. The Group analyses the risk of sources of funds and the market liquidity risk. The problem of liquidity from the aspect of the source of funds refers to the structure of the liabilities, i.e. obligations and is expressed through the possibly significant share of unstable sources, short-term sources or their concentration. The liquidity risk of the source of funds in fact is a risk that the Group will not be able to meet its obligations due to withdrawal of unstable sources of funds, or the inability to obtain new sources of funds. On the other hand, the liquidity risk is also manifested through the deficit of liquidity reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices. During the first half of 2019 the Group maintained a coverage ratio of liquid assets, which was not lower than the prescribed regulatory limit. At the same time, the Group and its members maintained liquidity ratios in accordance with internally defined limits. The Parent Bank, as well as members of the Banking Group, are actively taking preventative measures to minimise exposure to liquidity risk.

Exposure to market risks

Market risk is the risk of negative effects on the Group's financial performance and capital due to changes in market variables and includes foreign exchange risk for all business activities it performs and the price risk of book trading items.

The Group is exposed to the foreign exchange risk, manifested through the possibility of negative effects on the financial performance and capital due to the volatility of foreign exchange rates, i.e. change in the value of the domestic currency against foreign currencies or change in the value of gold and other precious metals. In order to minimise the exposure to the foreign exchange risk, the Group performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open items by individual currencies, respecting the principles of transformation of maturity of funds. During the first half of 2019 the Group complied with the regulatory foreign exchange risk indicator expressed as 20% of the regulatory capital.

Exposure to interest rate risk

Interest rate risk is the risk of negative effects on the financial performance and capital of the Group based on items in the banking book due to adverse changes in interest rates. The Parent Bank as well as the members of the Banking Group timely determine, in a comprehensive manner, the causes of the current exposure to interest rate risk and estimate the factors of the future exposure. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities.

The objective of the interest rate risk management is to maintain an acceptable level of exposure to the interest rate risk from the point of view of impact on the financial performance and the economic value of the capital, by conducting an appropriate policy of maturity matching in the repricing period and by matching the sources with placements according to the interest rate and maturity.

Exposure to operational risks

Operational risk is the risk of possible negative effects on the financial performance and capital of the Group due to the employees' failures, inadequate internal procedures and processes, inadequate management of information system and other systems in the banks – members of the Banking Group, and the occurrence of unpredictable external events. Operational risk also includes a legal risk which represents the risk of negative effects on the financial performance and capital of the Group based on judicial or extra-judicial procedures. The banks – members of the Banking Group conduct measurement of exposure to operational risks through records of events, monitoring of the key risk indicators, self-assessment and stress testing of operational risk.

The Group takes measures in order to mitigate operational risks and proactively responds to potential operational risk events through permanent monitoring of all activities, application of an adequate and reliable information system, the implementation of which improves the business practice and optimises the business processes of the Group. In order to minimise the legal risk and its impact on the financial performance, the Group continues to improve its business practices in the part of timely provisions for claims against the Group, and in accordance with the estimate of expected future loss on this basis.

Investment risk

Investment risk of the Group represents the risk of investing in other legal entities and in fixed assets and investment property. In accordance with the regulation, the level of permanent investments is monitored and the Group's Bodies and Committees are informed accordingly. This ensures that the Group's investment in an entity coming from a non-financial sector does not exceed 10% of the Group's capital and that the Group's investments in entities coming from a non-financial sector and in fixed assets and investment property of the Group do not exceed 60% of the Group's capital.

Large exposure

A large exposure of the Group to one person or a group of related persons, including persons related to the Group, represents an exposure amounting to at least 10% of the Group's capital. During the first half of 2019, the Parent Bank and members of the Banking Group complied with the regulatory and internally defined exposure limits.

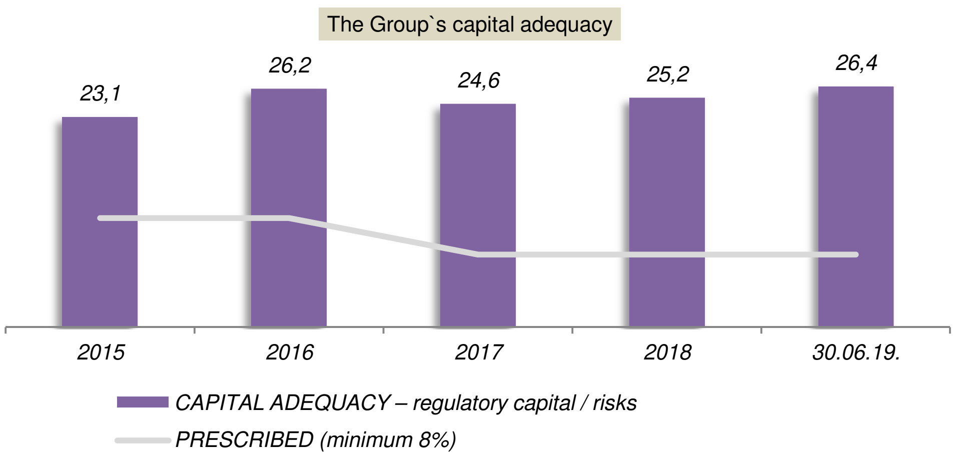
Exposure to country risk

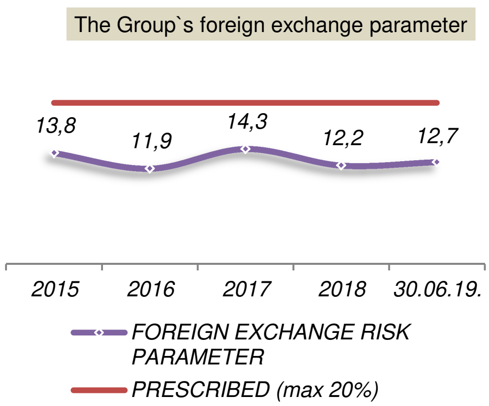
Country risk is a risk referring to the country of origin of the person to whom the members of the Banking Group are exposed, i.e. the risk of the possibility of negative effects on the financial performance and capital of the Group due to inability of the members of the Banking Group to collect receivables from a debtor resulting from political, economic or social conditions in the country of origin of the debtor. The Group's exposure to country risk is at the acceptable level.

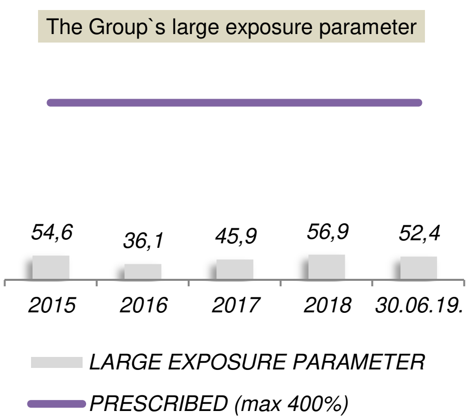
Regulatory requirements for KB Group

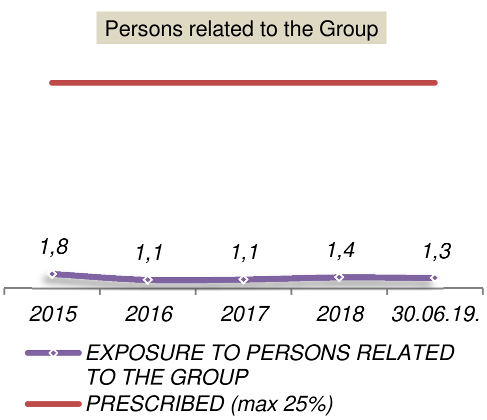
According to the regulation by the National Bank of Serbia, the following shall be determined for the Banking Group on consolidated basis:

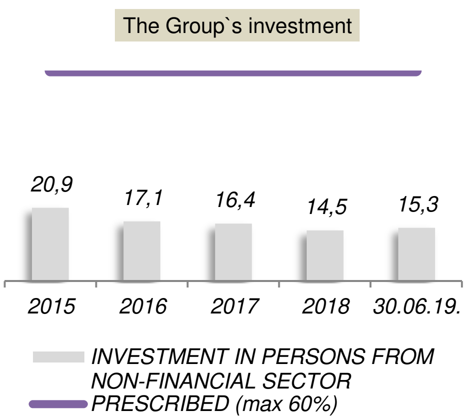
- capital adequacy ratio,
- large exposure,
- investment in other legal entities, fixed assets and investment property,
- Open net foreign currency item,
- Coverage indicator of liquid assets, etc.


The Group`s capital adequacy
23,1
26,2
24,6
25,2
26,4
2015
2016
2017
2018
30.06.19.
CAPITAL ADEQUACY – regulatory capital / risks
PRESCRIBED (minimum 8%)


The Group`s foreign exchange parameter
13,8
11,9
14,3
12,2
12,7
2015
2016
2017
2018
30.06.19.
FOREIGN EXCHANGE RISK PARAMETER
PRESCRIBED (max 20%)


The Group`s large exposure parameter
54,6
36,1
45,9
56,9
52,4
2015
2016
2017
2018
30.06.19.
LARGE EXPOSURE PARAMETER
PRESCRIBED (max 400%)


Persons related to the Group
1,8
1,1
1,1
1,4
1,3
2015
2016
2017
2018
30.06.19.
EXPOSURE TO PERSONS RELATED TO THE GROUP
PRESCRIBED (max 25%)


The Group`s investment
20,9
17,1
16,4
14,5
15,3
2015
2016
2017
2018
30.06.19.
INVESTMENT IN PERSONS FROM NON-FINANCIAL SECTOR
PRESCRIBED (max 60%)

11. Socially responsible operations of the Group

Komercijalna Banka AD Beograd, the Parent Bank, is aware that corporate social responsibility (CSR) is almost as important as providing financial services. CSR activities were carefully selected and the Group actively cooperated with their partners. In addition to building better relations with the community, CSR also has a major impact on client trust and corporate image.

In line with our longstanding determination, we have intensively invested in projects where priority has been given to young people and our shared future.

Support continued to *Privrednik* from Novi Sad, an organisation that finances education and training of talented children without parental care for work and earning. Departure of most talented youth for the Belt and Road Professional Skills Competition in China, organised by the Ministry of Labour, Employment, Veteran and Social Affairs, was supported.

This year Komercijalna Banka ad Beograd again has responded to the invitation to participate in the National Bank of Serbia's financial education programme. As part of financial education, a lecture was organised for students of the Secondary School of Economics in Užice on the topic Contemporary Banking.

We also assisted in cultural and sports events as well as the most successful individuals in the cultural and sports fields.

In consultation with regional organizational units, we assisted with cultural manifestations aimed at protecting the identity and traditions of our people. We helped with Comedy Days in Jagodina, First Voice of the Ibar Valley in Leposavić, Jazz Festival in Kosovska Mitrovica.

We continued our financial support and preparations for the Olympics of Ivana Španović and her coach, as well as the Taekwondo National Team of Serbia.

We continued cooperation with organisations that took care of vulnerable social groups and work to improve health conditions in the hospitals and health centers - action Plug for Handicap and the B92 Fund in action Together for the Babies. We also made a significant donation for the purchase of equipment for the General Hospital in Pančevo.

CSR activities of the Parent Bank are coordinated with the subsidiary banks in Montenegro and Republika Srpska.

Corporate social responsibility and striving to assist and support all projects that contribute to the wider community, are an essential part of the activities of Komercijalna Banka AD Podgorica. In 2019, the Bank supported the initiative of the Association of Banks to support the Clinical Center of Montenegro, and donated funds to assist in the purchase of a portable ultrasound device for the needs of the RTG Diagnostics Department.

At the beginning of June, the Bank met the request of the Secondary Economic and Catering School in Nikšić to enable professional practice for its students during the summer break. Several ten-day terms were agreed, in which the school would send two students for business practice at the Komercijalna Banka Branch in Nikšić. The professional practice programme was previously aligned with the school and was based on administrative operation and business communication.

In 2019, the Bank continued its activities on the implementation of the Cooperation Agreement with the Faculty of Economics in Podgorica, with the aim of improving students' knowledge and skills through joint activities within this cooperation in order to better prepare them for the labour market. The cooperation includes a wide range of activities such as the organisation of joint professional discussions and forums, visiting the Bank's representatives at the Faculty and vice versa, joint design and study, professional practices for students of the Faculty of Economics at the Bank, as well as the training of lecturers, instructors and employees on both sides.

In addition, Komercijalna Banka AD Podgorica continued its socially responsible activities in 2019, which it has continuously carried out for many years, and provided support to a number of sports clubs, as well as individuals who have achieved remarkable results in the fields of sports, science and art and a number of citizens who requested financial assistance for medical treatment purposes.

Komercijalna Banka AD Banja Luka has profiled itself as a socially responsible company that traditionally supports various segments of social activity in the community in which it operates.

In the first half of 2019, the Bank continued to promote family values and provided support in the fight to increase birth rates. In addition to the now-traditional, first-born baby gift, it also provided gifts in the form of savings deposits on the "child cricket savings" for five families with twins, thus supporting the "2019 Baby Conference" organised by the Ministry of Family, Youth and Sports of the Republika Srpska. The Bank also supported the organisation of the Children's Fair - the largest family event in Banja Luka, held on the occasion of the International Family Day.

In cooperation with educational institutions, Komercijalna Banka AD Banja Luka continuously supports the professional development and training of young people. As a partner of the Faculty of Economics in Banja Luka and East Sarajevo, the Bank helped organise the presentation of business ideas (canvas business model) of nine student teams to representatives of the private and public sectors, as well as academia, with the aim of supporting and implementing the best business ideas. In addition, professional practice for the best students was organised at the Bank, involving 6 months of intensive gaining practical experience, where students got an opportunity to acquire knowledge and skills that they would need in future jobs through specific situations and jobs. On the occasion of the Statehood Day of the Republic of Serbia, organised by the Consulate General of Serbia in Banja Luka, with cash prizes in the form of a savings deposit on a "cricket free savings", the Bank awarded three best literary works of secondary school students.

In this way, Komercijalna Banka AD Banja Luka, together with the institutions, strives to participate responsibly in creating and maintaining an environment that encourages the creation of conditions for quality staff to remain in our country and contribute to the community.

Corporate Governance Rules

Corporate governance rules are based on the relevant legal regulations (Law on Banks and Law on Companies). The Corporate Governance Code establishes the principles of corporate practice according to which, in business operations, corporate governance holders behave and adhere. The objective of the Code is to introduce good business practices and establish high standards in the field of corporate governance, which should ensure strengthening of trust of the shareholders, investors, clients and other interested parties. Good corporate governance practices basically allow for consistency of the control system, protection of shareholders' interests, timely submission of all relevant business information and complete transparency through public access to the financial statements of companies.
Komercijalna Banka AD Beograd, as the parent bank, in its operations, applies the Corporate Governance Code of the Serbian Chamber of Commerce and Industry, adopted by the Assembly of the Serbian Chamber of Commerce and Industry, in accordance with the Decision on the Implementation of the Corporate Governance Code of the Serbian Chamber of Commerce and Industry, adopted by the Executive Board of Komercijalna Banka AD Beograd on 9 April 2013. The text of the Corporate Governance Code is published on the website of Komercijalna Banka AD Beograd (http://newdev.kombank.com/corporate-governance) and on the website of the Serbian Chamber of Commerce and Industry.

Pursuant to the Company Law (Official Gazette of Montenegro No. 17/2007, 80/2008, 36/2011), Komercijalna Banka AD Podgorica acquired the status of a legal entity on the day of its registration as a joint stock company. As a joint stock company, Komercijalna Banka AD Podgorica regulates the mutual relations of all interested entities in accordance with its Memorandum of Association and Articles of Association. The bodies of the company are the General Meeting of the Bank, the Board of Directors, the Audit Committee and the Executive Directors. The roles of the Bank's bodies are defined in the Articles of Association and other acts of the Bank. In the part of governance, the Bank applies best international corporate governance practices. Corporate governance is established as follows:

- To respect the legal framework of Montenegro and good business practice in all segments of corporate governance.
- To set principles within this framework that are flexible and give room for the Board of Directors to best manage and govern the Bank and achieve set goals.
- That all interested parties relations in the Bank's functioning are clearly differentiated, that there are no overlaps or gaps in responsibilities and competencies, and that all interested parties have a balance of responsibilities and obligations, that is, rights and competencies.
- To establish relations among all interested parties so that the common interest, that is, the interest of the Bank prevails over their individual interests.
- To fully, efficiently and effectively perform all the functions of managing and governing the Bank, that is, to govern the Bank in a manner that leads to the achievement of the set goals and tasks.

In the application of corporate governance rules, the aforementioned acts, as well as other internal acts of the Bank have been implemented and there are no discrepancies in the implementation of the same.

Komercijalna Banka AD Banja Luka applies the Corporate Governance Standards adopted by the Securities Commission of the Republika Srpska in accordance with Article 309 of the Company Law (Official Gazette of the Republika Srpska, No. 127/08, 58/09, 100 / 11, 67/13 and 100/17) and Article 260 of the Law on the Securities Market (Official Gazette of the Republika Srpska, No. 92/06, 34/09, 30/12, 59/13, 108/13 and 4/17).

KomBank INVEST AD Beograd is organised in the form of a one-member joint stock company that is not public, with a two-tier board system. To ensure impartiality, transparency and accountability in corporate conduct, the Company applies the Rules of Procedure approved by the Securities Commission in accordance with Article 17 of the Law on Investment Funds (Official Gazette of the RS, No. 46/2006, 51/2009, 31/2011 and 115/2014), Rules of Conduct and Professional Ethics that are aligned with the parent company, Conflict of Interest and Personal Transactions Management Policy, etc.

The competences and powers of all bodies of the Group members are based on the relevant legal regulations and defined in internal acts. Corporate governance rules have been implemented through internal acts and there are no discrepancies in their implementation.

Signed on behalf of Komercijalna Banka a.d. Beograd

Igor Krsmanović	Miroslav Perić, PhD
Deputy Director of the Controlling and Planning Division	Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

BALANCE SHEET CONSOLIDATED

as at 30.06.2019.

in RSD thousand

ITEM	ADP code	Amount	
		30.06. Current year	31.12. Previous year
1	2	3	4
ASSETS			
Cash and assets held with the central bank	0001	73.982.187	73.992.039
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	-	4.070
Securities	0004	136.451.960	137.514.720
Loans and receivables from banks and other financial organisations	0005	24.920.785	21.037.537
Loans and receivables from clients	0006	198.579.076	191.448.642
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	-	-
Investments into subsidiaries	0010	-	-
Intangible investments	0011	759.684	627.468
Property, plant and equipment	0012	7.344.141	6.047.384
Investment property	0013	2.233.439	2.259.815
Current tax assets	0014	9.011	1.650
Deferred tax assets	0015	1.453.705	840.967
Non-current assets held for sale and discontinued operations	0016	532.966	659.003
Other assets	0017	7.215.864	7.153.664
TOTAL ASSETS (from 0001 to 0017)	0018	453.482.818	441.586.959
LIABILITIES			
LIABILITIES, Liabilities under derivatives	0401	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	8.720.419	8.228.284
Deposits and other financial liabilities to clients	0403	354.607.258	350.668.156
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	2.511.567	1.808.853
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	11.044
Deferred tax liabilities	0411	788.288	14.677
Other liabilities	0412	14.603.548	9.333.894
TOTAL LIABILITIES (from 0401 to 0412)	0413	381.231.080	370.064.908
CAPITAL			
Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	4.656.890	9.277.755
Loss	0417	1.374.053	1.481.701
Reserves	0418	28.934.284	23.691.381
Unrealized losses	0419	-	-
Non-controlling participation	0420	67	66
TOTAL CAPITAL (0414-0415+0416-0417+0418-0419+0420) ≥ 0	0421	72.251.738	71.522.051
TOTAL CAPITAL SHORTFALL (0414-0415+0416-0417+0418-0419+0420) < 0	0422	-	-
TOTAL LIABILITIES (0413+0421-0422)	0423	453.482.818	441.586.959

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД 4

6

INCOME STATEMENT - CONSOLIDATED

from 01.01.2019. to 30.06.2019.

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	7.570.539	7.340.705
Interest expenses	1002	681.896	566.021
Net interest gains (1001-1002)	1003	6.888.643	6.774.684
Net interest losses (1002-1001)	1004	-	-
Income from fees and commissions	1005	3.634.300	3.638.124
Expenses on fees and commissions	1006	855.709	930.110
Net gains from fees and commissions (1005 - 1006)	1007	2.778.591	2.708.014
Net losses on fees and commissions (1006 - 1005)	1008	-	-
Net gains from changes in fair value of financial instruments	1009	38.839	51.129
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	201.323	95.130
Net losses on derecognition of the financial instruments measured at fair value	1014	-	-
Net gains from hedging	1015	-	-
Net losses on hedging	1016	-	-
Net exchange rate gains and gains from agreed currency clause	1017	11.917	482
Net exchange rate losses and losses on agreed currency clause	1018	-	-
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	819.507	24.658
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	-	-
Net gains from derecognition of the financial instruments measured at amortised cost	1021	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	590.451	-
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	74.779	87.794
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	10.223.148	9.741.891
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	2.481.269	2.500.641
Depreciation costs	1029	575.773	324.630
Other income	1030	434.243	242.023
Other expenses	1031	3.974.605	3.372.719
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	3.625.744	3.785.924
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1033	-	-
Profit tax	1034	-	-
Gains from deferred taxes	1035	293	-
Losses on deferred taxes	1036	147	-
PROFIT AFTER TAX (1032-1033-1034+1035-1036) ≥ 0	1037	3.625.890	3.785.924
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	3.625.890	3.785.924
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-
Profit belonging to a parent entity	1043	3.625.889	3.785.923
Losses belonging to a parent entity	1044	1	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		

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 4

88

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

from 01.01.2019. to 30.06.2019.

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	3.625.890	3.785.924
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	458.739	218.132
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	-	-
Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010	-	-
Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011	-	-
Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014	-	-
Components of other comprehensive income that may be reclassified to profit or loss:			
Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015	616.216	99.972
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	3.275	106.478
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	14.462	19.928
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	-	13.371
Tax losses relating to other comprehensive income for the period	2028	160.512	40.791
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	896.706	164.278
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	-	-
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	4.522.596	3.950.202
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	4.522.595	3.950.201
Total positive comprehensive income for the period attributable to non-controlling owners	2034	1	1
Total negative comprehensive income for the period attributable to the parent entity	2035	-	-
Total negative comprehensive income for the period attributable to non-controlling owners	2036	-	-

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД 4

CASH FLOW STATEMENT - CONSOLIDATED

from 01.01.2019. to 30.06.2019.

in RSD thousand

ITEM	ADP code	Amount 01.01. - 30.06. Current year	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	13.361.918	12.114.303
1. Interest	3002	8.821.859	8.043.931
2. Fees	3003	3.676.415	3.661.825
3.Other operating income	3004	860.617	406.076
4. Dividends and profit sharing	3005	3.027	2.471
II. Cash outflow from operating activities (from 3007 to 3011)	3006	6.666.633	6.661.001
5. Interest	3007	545.113	524.844
6. Fees	3008	815.433	931.144
7. Gross salaries, salary compensations and other personal expenses	3009	2.112.949	2.114.768
8. Taxes, contributions and other duties charged to income	3010	432.895	416.551
9. Other operating expenses	3011	2.760.243	2.673.694
III. Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)	3012	6.695.285	5.453.302
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	4.215.320	18.351.758
10. Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	1.099.429
11. Decrease in receivables under securities and other financial assets not intended for investment	3016	-	-
12. Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13. Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	4.215.320	17.252.329
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	6.935.696	393.569
16. Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	4.894.238	-
17. Increase in receivables under securities and other financial assets not intended for investment	3023	2.041.458	386.504
18. Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19. Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	-	-
20. Decrease in other financial liabilities	3026	-	7.065
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	3.974.909	23.411.491
VIII. Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22. Profit tax paid	3030	18.233	3.220
23. Dividends paid	3031	-	-
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	3.956.676	23.408.271
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-
B. CASH FLOW FROM INVESTING ACTIVITIES			
I. Cash inflow from investing activities (from 3035 to 3039)	3034	38.295.787	28.731.742
1. Investment in investment securities	3035	38.289.869	28.731.742
2. Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3. Sale of intangible investments, property, plant and equipment	3037	5.918	-
4. Sale of investment property	3038	-	-
5. Other inflow from investing activities	3039	-	-
II. Cash outflow from investing activities (from 3041 to 3045)	3040	36.221.393	41.953.433
6. Investment into investment securities	3041	35.818.086	41.697.485
7. Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8. Purchase of intangible investments, property, plant and equipment	3043	403.307	252.640
9. Purchase of investment property	3044	-	-
10. Other outflow from investing activities	3045	-	3.308
III. Net cash inflow from investing activities (3034 - 3040)	3046	2.074.394	-
IV. Net cash outflow from investing activities (3040 - 3034)	3047	-	13.221.691
C. CASH FLOW FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (from 3049 to 3054))	3048	37.207.782	43.934.916
1. Capital increase	3049	-	-
2. Subordinated liabilities	3050	-	-
3.Loans taken	3051	37.207.782	43.934.916
4. Issuance of securities	3052	-	-
5. Sale of own shares	3053	-	-
6. Other inflow from financing activities	3054	-	-
II. Cash outflow from financing activities (from 3056 to 3060)	3055	36.819.633	46.806.342
7. Purchase of own shares	3056	-	-
8. Subordinated liabilities	3057	-	-
9. Loans taken	3058	36.603.747	46.806.342
10. Issuance of securities	3059	-	-
11. Other outflow from financing activities	3060	215.886	-
III. Net cash inflow from financing activities (3048 - 3055)	3061	388.149	-
IV. Net cash outflow from financing activities (3055 - 3048)	3062	-	2.871.426
D. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	93.080.807	103.132.719
E. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	86.661.588	95.817.565
F. NET INCREASE IN CASH (3063-3064)	3065	6.419.219	7.315.154
G. NET DECREASE IN CASH (3064-3063)	3066		-
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	44.530.135	28.957.649
I. EXCHANGE RATE GAINS	3068	630.009	518.380
J. EXCHANGE RATE LOSSES	3069	611.396	492.834
K. CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	3070	50.967.967	36.298.349

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from 01.01.2019. to 30.06.2019.

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED

In RSD thousand

DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 126)	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 columns 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	14.439.523	4129	6.043.758	4147	109.194	4165	8.357.092	4203	1.865.675	4241	65	4285	67.100.116	4291	-
Effects of the first implementation of new IFRS - increase	4002	-	4034	-	4066	-	4098	-	4130	222.611	4148	-	4166	-	4204	46.350	4242	-	x	x	x	x
Effects of the first implementation of new IFRS – decrease	4003	-	4035	-	4067	-	4099	100.823	4131	105.324	4149	108.862	4167	1.155.433	4205	-	4243	-	x	x	x	x
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	14.338.700	4134	6.161.045	4152	332	4170	7.201.659	4208	1.712.028	4246	65	4286	66.023.659	4292	-
Total positive other comprehensive income for the period	x	x		x	x	x	x	x	4135	26.749	4153	75	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	-	4154	-	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	8.380.332	x	x	4249	2	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	-	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	3.166.101	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	3.392.409	4215	226.308	4256	-	x	x	x	x
Dividend payments	4011	-	4043	-	4075	-	4107	-	x	x	x	x	4178	2.535.916	4216	-	4257	-	x	x	x	x
Other – increase	4012	-	4044	-	4076	-	4108	-	x	x	x	x	4179	23.509	4217	-	4258	-	x	x	x	x
Other – decrease	4013	-	4045	-	4077	-	4109	957	x	x	x	x	4180	399.420	4218	4.019	4259	1	x	x	x	x
Total transactions with owners (No. 13-14+15-16-17+18-19) ≥ 0	4014	-	4046	-	4078	-	4110	3.185.144	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	-	x	x	x	x	4182	6.304.236	4220	230.327	4261	1	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	17.503.844	4137	6.187.794	4155	257	4183	9.277.755	4221	1.481.701	4262	66	4287	71.522.051	4293	-
Opening balance as at 1 January of the current year	4017	17.191.466	4049	-	4081	22.843.084	4113	17.503.844	4138	6.187.794	4156	257	4184	9.277.755	4222	1.481.701	4263	66	4288	71.522.051	4294	-
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	17.503.844	4143	6.187.794	4161	257	4189	9.277.755	4227	1.481.701	4268	66	4289	71.522.051	4295	-
Total positive other comprehensive income for the period	x	x	x	x		x	x	x	4144	896.024	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	-	4163	-	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	3.625.889	x	x	4271	1	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	-	4055	-	4087	-	4119	-	x	x	x	x	4193	-	4231	-	4275	-	x	x	x	x
Transactions with owners recognized directly in equity – decrease	4024	-	4056	-	4088	-	4120	-	x	x	x	x	4194	-	4232	-	4276	-	x	x	x	x
Distribution of profit – increase	4025	-	4057	-	4089	-	4121	4.347.960	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	4.451.967	4234	104.107	4278	-	x	x	x	x
Dividend payments	4027	-	4059	-	4091	-	4123	-	x	x	x	x	4197	3.258.073	4235	-	4279	-	x	x	x	x
Other – increase	4028	-	4060	-	4092	-	4124	-	x	x	x	x	4198	178	4236	-	4280	-	x	x	x	x
Other – decrease	4029	-	4061	-	4093	-	4125	981	x	x	x	x	4199	538.892	4237	3.541	4281	-	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) ≥ 0	4030	-	4062	-	4094	-	4126	4.346.979	x	x	x	x	4200	-	4238	-	4282	-	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) < 0	4031	-	4063	-	4095	-	4127	-	x	x	x	x	4201	8.246.754	4239	107.648	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	17.191.466	4064	-	4096	22.843.084	4128	21.850.723	4146	7.083.818	4164	257	4202	4.656.890	4240	1.374.053	4284	67	4290	72.251.736	4296	-

KOMERCIJALNA BANKA AD BEOGRAD

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS AS OF

30.06.2019

Belgrade, August 2019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2019

1. ESTABLISHMENT AND 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 licence from the National Bank of Yugoslavia on 3rd July 1991. Tax identification number of the Parent Bank is 100001931.

The following shareholders have the greatest stake in the voting shares of the Parent Bank:

Republic of Serbia	48.65%
EBRD, London	24.43%

The Parent Bank has three subsidiaries with a share in their equity:

- 100% - Komercijalna Banka a.d. Podgorica, Montenegro
- 100% - Company for managing an investment fund KomBank INVEST a.d. Beograd, Serbia,
- 99.998% - Komercijalna Banka a.d. Banja Luka, Bosnia and Herzegovina.

Minority shareholder in Komercijalna Banka a.d. Banja Luka with 0.002% is the Export Credit and Insurance Agency of the Republic of Serbia.

Consolidated financial statements and notes to consolidated financial statements present date of the Parent Bank, Komercijalna Banka a.d. Podgorica, Komercijalna Banka a.d. Banja Luka and the Company for managing an investment fund KomBank Invest a.d. Beograd (hereinafter: the Group).

Komercijalna Banka a.d. Podgorica was founded in November 2002 as an affiliate of Komercijalna Banka a.d. Beograd and was registered in the central register of the Corporate court in Podgorica on 6th March 2003. Registration number of Komercijalna Banka a.d. Podgorica is 02373262. In july 2018 Komercijalna Banka a.d. Podgorica changed its name and headquarters from Komercijalna Banka a.d. Budva into Komercijalna Banka a.d. Podgorica with a headquarters in Podgorica.

Komercijalna Banka a.d. Banja Luka was founded in September 2006 and on 15th September 2006 it was registered in the court register with the Decision of the Basic Court in Banja Luka. Registration number of Komercijalna Banka a.d. Banja Luka is 11009778.

Company for managing an investment fund KomBank INVEST a.d. Beograd was founded in December 2007 and was registered on 5th February 2008. The Company's registration number is 20379758.

Activities of the Group include credit, deposit and guarantee operation and national and international payment transactions in accordance with the Law on Bank, 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 2019 the Group consisted of: headquarters and the seat of the Parent Bank in Belgrade, 14 Svetog Save Street; headquarters of Komercijalna Banka a.d. Podgorica in Podgorica – Cetinjska 11, Business Centre Capital Plaza; headquarters of Komercijalna Banka a.d. Banja Luka in Banja Luka – Jevrejska Street no. 69; headquarters of the Company for managing an investment fund KomBank INVEST a.d. Beograd in Belgrade, 19 Kralja Petra Street; 6 business centres, 3 divisions for small and medium-sized enterprises, 19 branches and 213 outlets on the territory of Serbia, Montenegro and Bosnia and Herzegovina (in 2018: 6 business centres, 19 branches and 211 outlets).

As of 30th June 2019 the Group had 3,064 employees and as of 31. December 2018 3,076 employees.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Bases for financial statements preparation and presentation

Consolidated financial statements for the Group as of 30.06.2019 have been prepared in accordance with International Financial Reporting Standards (IFRS).

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 and 24/2017) on the basis of the Law on Capital Market (RS Official Gazette 31/2011, 112/2015 and 108/2016). 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 are prepared in accordance with the principle of historical expense, except if stated differently in the accounting policies presented further in this document.

When preparing these financial statements the Parent Bank applied the accounting policies specified in Note 3.

When preparing the semi-annual financial statements for 2019 the Group applied new Accounting policies in the part that concerns the financial instruments and enabling the allocation of credit loss to all accounting periods when benefits from funds are derived, which is an assumption for determining the accurate result.

The Group has implemented the new IFRS 16 from its effective date 1st January 2019, and harmonized the Accounting Policies adopted by the Board of Directors of the Parent Bank in June 2019.

In addition to the amendments made according to the requirements of the accounting standard IFRS 16 - Leasing, the new Accounting Policies contain amendments in relation to the previous ones, specifying the fees that form the integral part of the EIR and the method of deferring fees, in accordance with the requirements of IFRS 9.

When preparing and presenting periodic financial statements for the period January – June 2019, implementation of IFRS 9 change the regulation of NBS, according to which the banks were obliged to apply new forms of financial statements valid as of 01.01.2018.
Banks were obliged to adjust the data from the sub-column specifying years to the new structure, without changing the financial data.

International Accounting Standard 16 Leasing is effective for annual periods beginning on or after the 1st of January 2019. IFRS 16 defines the principles for recognizing, measuring, presenting and disclosing the leases to both parties of a contract, that is, to the lessee and the lessor, and requires the lessee to account for all leases under a single balance sheet model similar to financial leasing in accordance with IAS 17. The standard includes two exemptions from recognition for the lessees - leases of “low value property” and short-term leases (i.e. leases with a lease term of 12 months or less). The Parent Bank has chosen to use the standard-enabled exemptions.

From the perspective of the lessee, the significant changes introduced by IFRS 16 relate to the following requirements:

- ❖ Accounting records
  - o As part of the balance sheet, the lessee recognizes the leased asset and the current value of the lease liability.
  - o The following items are recognized as an expense by the lessee:
    - Depreciation of the right-of-use asset,
    - Interest on leasing liabilities,
    - Variable lease payments that are not included in the lease obligation and
    - Impairment of assets.

  Therefore, in order to calculate the current value of the lease liability, if the discount rate is not explicitly stated in the lease agreements, the lessee applies an incremental borrowing rate, which is the interest rate that the lessee would have to pay in the similar period and with similar guarantees in order to borrow the funds necessary for the acquisition of an asset of similar value as an asset with a right of use, and in a similar economic environment.

- ❖ Assessment of eligibility for recognition of leases

  The contract is a lease or contains a lease if the following conditions are cumulatively fulfilled:
    - There is an identified tool,
    - The lessee determines the manner and purpose of using the identified asset and
    - The lessee receives all economic benefits from using the asset.

- ❖ Exemption from leasing viewed from the perspective of the lessee:
    - Short term leasing - leasing with a lease term of up to 12 months and
    - Leasing of low value assets.

- ❖ The lessee who chose this accounting policy with reference to the exceptions:
    - does not recoginze leasing of assets with a right of use and leasing liabilities in the balance sheet and
    - The leasing payments associated with that lease are recognized as an expense, on a straight-line basis over the life of the lease or by another more acceptable method.

The Group made the transition according to a modified retrospective approach. The comparative figures from the previous year were not adjusted.

During 2019, the Group members maintained the books of accounts and prepared separate 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 individual 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 separate 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.

Functional currencies EUR from the financial statements of Komercijalna Banka a.d. 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.

3. OVERVIEW OF KEY ACCOUNTING POLICIES

New accounting policies, specified below, are applied by Group members in the presented periodic financial statements.

(a) Consolidation

Parent Bank has control over the following legal entities, whose consolidation has been performed in these financial statements:

Legal entity	Share in equity
Komercijalna Banka a.d. Podgorica, Montenegro	100%
Komercijalna bank a.d. Banja Luka, Bosnia and Herzegovina	99.998%
Company for managing an investment fund KomBank INVEST a.d. Beograd	100%

When preparing consolidated profit&loss account and consolidated cash flow statement, for recalculation of reclassified forms of subsidiaries we used an average exchange rate of the National Bank of Serbia for 2019 of 118.0961 to the EUR and 60.3816 to the BAM and other reclassified financial statements (balance sheet, statement of other comprehensive income and statement of changes in equity) we used the closing exchange rate on the balance-sheet date of 117.9121 to the EUR or 60.2875 to the BAM.

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 final 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 have been presented within profit&loss account. 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 amounted to the following:

		In dinars
	30.06.2019	31.12.2018
USD	103.7685	103.3893
EUR	117.9121	118.1946
CHF	106.3613	104.9779
BAM	60.2875	60.4319

(в) 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 Bank, 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.

The Group's accounting policies define the specific fees that form an integral part of the EIR and the method of deferring them over the life of loans, as well as recording them within interest income, in accordance with IFRS 9.

Fees that are part of the effective interest rate of a financial instrument include the following types of fees, in accordance with IFRS 9:

1. The fee charged by the bank in connection with the issuance or acquisition of a financial asset. Such fees may include compensation for the assessment of the borrower's financial condition, assessing and recording guarantees, collateral and other security arrangements, negotiating the terms of the financial instrument, preparing and processing documents, and closing the transaction;
2. The fee the bank receives for granting a loan when it is likely that the loan arrangement will be realized;
3. Fees payable on the issue of financial liabilities that are valued at amortized cost.

When initially recognizing loans to physical persons and legal entities, members of the Group include, as a part of the effective interest rate that forms the amortized cost of the loan, loan application fees that are levied on clients, physical persons or legal entities, when granting loans, which are deferred using the EIR method over the life of the loan and recognized as interest income.

By way of derogation from the preceding paragraph, if the loan application fee is received on the basis of revolving loans or approved current account overdrafts, due to the fact that it is not possible to predict the amount and dynamics of utilization of approved funds, the fee is deferred by the pro rata method over the life of the loan and recognized as interest income.

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.

(g) 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.

In accordance with the Accounting Policies, if the loan application fee is received on the basis of guarantees, letters of credit, avals, discounts or factoring, it is accrued on a pro-rata basis over the life of the instrument and recognized as fee income.
In the case of a syndicated loan, it is important to distinguish the basis on which the fee was received, and if the fee was received:

- For arranger/agent service - it is recorded as fee income, does not form the part of the effective interest rate, and gets deferred over the life of the loan;
- For lender service - it is recorded as interest income, forms part of the effective interest rate and is deferred over the life of the loan using the EIR method.

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

(d) Net profit from termination of recognition of financial instruments that is valued at fair value

Net income from trading includes profit reduced by the loss arising from the trade in assets and liabilities, including also all realized and unrealized changes in fair value and exchange rate gains/loss.

(dj) Net profit from the change in fair value of financial instruments

Net income from other financial instruments at fair value through profit&loss relates to financial assets and liabilities presented at fair value through profit&loss and include all realized and unrealized changes in their fair value.

(e) Dividends

Income from dividends is recognized at the moment of receiving economic benefit from dividends. Dividends are shown as part of the item other income.

(ž) 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 profit tax

Current tax is the expected liability or receivables as a result of profit tax for the accounting period that has been determined in accordance with the tax return for profit 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.

Current and deferred taxes are recognized as income and expenses and are included in net profit/(loss) for the period.

(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.

During the business year the deferred tax assets and liabilities are recorded in separate balance-sheet items i.e. in the current business year they are recorded on gross principle.

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, Montenegro and Bosnia and Herzegovina, Group members pay different taxes and contributions, value added tax, capital gains tax and salary contributions. These expenses are included in “Other operating expenses”.

(3) 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

A financial asset is any asset that is:
- cash,
- equity instrument of another legal entity,
- contractual right to receive cash or some other 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 favourable,
- contract that will be or may be settled by equity instruments and which is not derivative and fro which the Group members are or can be obliged to receive a variable number of equity instruments,
- Contract that will be or can be settled by equity instruments and that is a derivative one and which will be or can be settled differently than by exchanging a fixed amount of cash or another financial asset for a fixed number of equity instruments.

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 unfavourable.

Valuation rules for financial instruments

From the aspect of classification and measurement, IFRS 9 introduces 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

Group members assess the targets of business models for managing financial assets on the level of portfolio, given that this assessment best reflects the manner of governing business activities and the manner of reporting to the management.

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 at amortized cost (AC)
- financial assets valued at fair value through profit&loss (FVTPL)
- financial assets valued at fair value through other comprehensive income, recorded in the profit&loss – “recycling” (FVOCI)
- financial assets valued at fair value through other comprehensive income, not recorded in the profit&loss (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 underivative 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 valued at fair value through profit&loss** that are 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 into dependent legal entities that ensure control i.e. over 50% of controlling rights and investments into affiliate legal entities that allow for 20% to 50% of controlling rights and
- **Financial derivatives** that include forward and swap transactions.

(i) Cash and cash equivalents

Cash posted in the Report on Cash Flow includes cash in the drawing account in dinars, cash in hand in dinars and foreign currency, other monetary assets if they can be recognized as cash equivalents and precious metals, if they are directly cashable within a short period.

Cash equivalents include short-term, highly liquid investments that are quickly converted into known amounts of cash and that are subject to insignificant effect of the risk of change in value.

(j) Property and equipment

(j1) Recognition and valuation

Property and equipment are tangible items that are held for use for business purpose in relation to which it future economic benefits are expected in the period longer than one accounting period.

Items in the property and equipment are recognized if the following conditions are met:

- probability that future economic benefit will be realized in the period longer than a year, and
- possibility of reliable measurement of the cost of obtaining.

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

Purchasing value includes outlays that can be directly attributed to the procurement of assets. Subsequent investment into property and equipment, that improve the balance of assets above its initially estimated useful life can be capitalized so to increase the purchasing value of property and 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.

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

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

(j.2) 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.

(j.3) 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.

Depreciation is calculated at rates that ensure compensation of the value of property and equipment during their useful life in accordance with the document that regulates this area.

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

Description	Estimated useful life (in years)	%
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70% - 50.00%
Investment in others' fixed assets	1 – 23.5	4.25% - 86.20%

The basis for depreciation consists of procurement or revaluation value of property and equipment, reduced by the estimated residual (remaining) value.

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

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

(j.4) Leased assets

In accordance with IFRS 16, as a lessee, the Group recognizes the leased asset with a right of use and leasing liability at the effective date of the lease. Lease commencement date is the date on which the leasing entity makes the underlying asset (i.e. the leased asset) available to the lessee.

As the lessees, the Group members initially (at the effective date of the lease) and subsequently, measure the value of the asset with a right of use at acquisition value, as follows:

The acquisition value is subsequently reduced by:

- Accumulated depreciation (whereby depreciation is calculated on a pro rata basis) and
- Accumulated impairment losses in accordance with IAS 36.

(к) Intangible assets

Intangible asset is an asset that can be identified as a non-monetary one, without physical essence and which meets certain criteria from the IAS when it is:

- separable, it is possible to separate it and sell it, rent it or exchange it,
- it originated as a result of contractual or other legal rights, regardless of whether those rights are negotiable or separable from the Group members or other rights and obligations.

Intangible assets are initially valued at purchase value or cost price that consists of the purchasing value increased by direct expenses necessary for using an asset.

After the initial recognition, intangible assets are measured at purchasing value reduced buy accumulated depreciation and all accumulated losses resulting from impairment.

Internal outlays connected to an intangible item, including also the outlays arising as a result of research and development are recognized as an expense in the period they occurred, unless they form a part of purchasing value of another property item that meets the conditions for recognition. In that case, internal outlays increase the purchase value of property.

Depreciation is shown in profit&loss in equal annual amounts during the estimated life of each 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.

(l) 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 outlays that can be directly attributed to the purchase of an asset.

For subsequent valuation of investment property, Group members use a purchase value model i.e. investment property is valued at purchase value reduced by accumulated depreciation and loss due to impairment.

Estimated life of investment property is 40 years and depreciation is calculated at the rate of 2.5%. depreciation is shown in the profit&loss in equal annual amounts during the estimated life of the property item, given that this best reflects the expected consumption of the useful economic value contained in the asset.

Investment property is converted into other types of property once its purpose changes, on the basis of an accounting document that proves this change.
Investment property is derecognized once it is disposed of or if no future economic benefit is expected of its use and disposal.

Difference between the carrying value and sale value of investment property that is being sold is recognized in the profit&loss in the period in which it occurred.

(lj) Assets acquired through collection of receivables and assets intended for sale

Assets whose carrying value can be regained through a sale transaction and not through continued use are classified as fixed assets intended for sale.

Valuation of fixed 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 fixed 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 fixed 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.

(m) Leasing liabilities

The Group has been applying the rules for classifying contracts according to IFRS 16 since January 2019. IFRS 16 defines the initial recognition, measurement and disclosure of leases to both parties to a contract, that is, the lessee and the lessor.

As the lessee, the Group should **combine two or more contracts** concluded at or near the same time with the same counterparty (or related parties of the counterparty), and settle the contracts as a single contract, if the contracts are negotiated as a package with a general commercial objective, which cannot be understood without their mutual consideration, the amount of compensation payable in one contract depends on the price or execution of another contract or the right of use of the fixed assets transferred by these contracts (or some rights of use of a fixed asset transferred by each individual contract) form an integral component of the lease.

The lessee, initially (at the commencement date of the lease) and subsequently, assesses the value of the leasing liability as follows:

Initially, by the current value of future lease payments that will be made during the leasing period, and includes:

- Current value of leasing instalments and
- Current value of expected payments at the end of the lease agreement

In calculating the current value of a lease payment, three parameters must be determined: the lease period, the lease payment and the applicable interest (discount) rate.

Accordingly, the lease liability is accumulated using an amount that gives a constant periodic discount rate to the remaining liability amount (i.e. the discount rate is set at the beginning of the lease period until revaluation that requires a change in the discount rate). Paying a lease reduces the leasing liability once it is paid up.

Subsequently, the Group measures the value of the lease liability, also at the current value of future lease payments that will be made during the lease term, as follows:

- Increasing the current value of future lease payments from the previous period by interest expense using the effective interest method, through applying the discount rate determined at the beginning of the leasing period (if it has not subsequently changed) and
- Reducing by lease payments that have already been made.

(n) Impairment of non-financial assets

Accounting value of non-financial assets, except for investment property and deferred tax assets is analysed 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 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.

(nj) 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.

(o) Provisions

Provision is a liability which is uncertain in terms of deadlines and amounts. Provision represents the best estimate of expenditures required to settle the current liability on the date of the balance.

Provisions are recognised when:
- There is a liability (legal or actual) which occurred as a result of a previous event,
- There is certainty of a disbursement of the funds which will follow the settlement of liabilities and
- The amount of the liability can be estimated with certainty.

Provisions are recognised 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 whose collection 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.

Members of the Group perform long-term provisions for:
- potential losses for undertaken potential losses,
- potential outflows for court disputes,
- payment of income of employees on the grounds of future liabilities and
- other potential liabilities which meet recognition terms, pursuant to the IAS/IFRS and internal acts of the members of the Group.

(p) 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 to pay by the specific debtor on the maturity of the liability and as per the terms of the debt instrument.
Liabilities as per financial guarantees are initially recognised according to the fair value which is depreciated for the duration of the financial guarantee. Liabilities on the grounds of guarantees are subsequently measured in the amount larger than the depreciated value and the current value of the expected future payments (when payment done as per the contract is probable). Financial guarantees are recorded in the off-balance sheet items.

(r) Capital and reserves

The total Capital of the Group included the share capital, emission premiums, reserves from profits and other reserves, revaluation reserves, accumulated results and the results of the current period.

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

The Capital of the Group is formed from the invested funds of the founder of the Parent Bank and the minor founder of the Komercijalna Banka a.d. Banja Luka. The founder may not withdraw funds invested in the Capital of the Group.

(s) Earnings per share

The Parent Bank presents the basic and the decreased earnings per share for own common stocks. The basic earnings per share is calculated by dividing the profits or losses which belong to the holders of common stock of the Parent Bank with the weighted average of the number of common stock circulating during the period.

Decreased earnings per share is calculated by dividing the corrected profits or losses which belong to the holders of common stock for effects of preferential, replaceable shares with the weighted average of the number of common stock circulating during the period.

(t) Segment information

The Business Operations segment is part of the Group - Member of the Group, which performs business operations independently which may generate income or costs, including income and costs generated from the transactions with other Members of the Group, whose business results are regularly controlled by the Management of the Parent Bank (as the main operating decision-maker) in order to make decisions on the allocation of resources per segments and value their results. For business operations segments of the Group separate financial statements are available.

4. RISK MANAGEMENT

The banking 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 strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate system of internal controls, adequate information system and adequate process of internal capital adequacy assessment.

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 strategies and policies.

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

In view of the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, adequate changes were made in the internal acts regulating risk management at the banking Group level during the first half of 2019. By amending the Strategy and the risk management policies, harmonization with the changes of domestic and international regulations has been made and credit risk management in the part of the comprehensiveness of non-performing receivables.

During 2019 the Group continued to calculate the impairment in accordance with the International Financial Reporting Standard 9 (IFRS 9).

Risk Management System

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

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

Risk Management Strategy defines:

- Long-term objectives, defined by the banking Group's business policy and strategy and its risk propensity and risk tolerance set in line with those objectives;
- Basic principles of risk transfer and management;
- Basic principles of the internal capital adequacy assessment process of the Group; and
- Overview and definitions of all types of risk the Group is exposed to or may be exposed to.

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.

The banking Group specified the basic principles of risk management for meeting its long-term objectives:

- Organizing operation of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular operating activities of the Group;
- Comprehensive risk management;
- Effective risk management;
- Cyclic risk management;
- Developing risk management as a strategic orientation; and
- Risk management as a part of corporate culture.

Principles of management of non-performing assets, i.e. risky placements include the following:

- Active management of risky placements;
- Preventive measures and activities with the aim of minimization of further deterioration of assets quality;
- Definition of non-performig assets management strategy – set of activities and measures with the aim of recovery of debtor's financial position or initiation of corresponding enforced collection procedures;
- Early identification of the debtors who face financial difficulties or are in arrears or in default (Watch list);
- Assessment of financial condition of the borrowers;
- Set of indicators for inclusion of the debtors within the scope of organizational unit which is responsible for management of non-performing assets;
- Segmentation of non-performing assets;
- Materiality principle for definition of possible measures;
- More frequent monitoring of collaterals value and property acquired through collection of receivables;
- Organizational separation of Sector for prevention and risky placements management;
- Transparent reporting.

Policies for managing certain risk types define the following:

- Manner of organizing risk management processes within the banking 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 banking 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 banking 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 banking Group;
- Principles of the system of internal controls functioning; and
- Framework and frequency for stress testing and procedure in instances of unfavorable test results.

Procedures for managing certain risk types define, in greater detail, the process of managing risks and competencies and responsibilities of all organizational units of the parent Bank and banking Group members in the risk management system.
Individual methodologies further and in more detail prescribe methods and approaches used in the risk management system.

Competencies

The Board of Directors is authorized and responsible for establishing a uniform risk management system and for monitoring such system, adopting policies and procedures for risk management and capital management strategy, establishment of internal control system, supervision of the work of the Executive Board and execution of the process of internal capital adequacy assessment.

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the parent Bank and the Group are exposed to. Also, the Executive Committee 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 parent Bank and 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 Group member’s 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 the parent Bank and the Group are exposed to. 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 banking Group’s bodies.

The parent 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 Steering Committee.

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

Risk Management Process

The banking 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 banking 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 banking 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 banking Group is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, market risk, operational risks, 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 negative effects on the Bank's financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank.

The Group members have defined criteria for loan approval and rescheduling and restructuring of receivables prescribed by its loan approval procedures and methodologies.

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

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, the Credit Committee, the Executive Board and the Board of Directors.

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

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

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 risk management strategy and depends on the Group's portfolio structure based on which is limited negative effects on the Bank's financial result and capital adequacy.

The basic principles of credit risk management are as follows:

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

In their effort to manage credit risk all Group members seek to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Group members assess 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.

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

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments; it is also a basis for portfolio analysis, support in loan approval and loan impairment procedure as well as in estimating provisions against losses per off-balance sheet items for the purpose of loan and investment ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

For adequate and efficient management of the risks they are exposed to, the parent Bank and Group members also comply with the principles prescribed by their respective central banks, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses.

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.

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 members continuously control 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 Business Plans of the banking Group members, 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.

As a hedge against counterparty default risk, the Group members undertake the following steps in respect to collection of due 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, the Group initiates write-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 members use the same control processes and procedures that are used for credit risk which arises from 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:

- the Group members report to the parent Bank on a monthly basis;
- the parent Bank reports on a consolidated basis, semi-annually and annually.

IFRS 9 Financial instruments

Starting from January 1, 2018, the Group applies IFRS 9 that replaced the IAS 39. In accordance with IFRS 9, the financial assets can be classified and measured as:

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

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

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

Also, by applying IFRS 9, the Group calculates impairment for credit placements given to the countries and central banks of the Group 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 claims

The Group members monitor the quality of the loan 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 claims).

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, 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 claims, 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 claims 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 claims.

Problematic claims include all the claims that are late in settling obligations over 90 days past due per any materially significant obligation towards the Bank, parent company or subsidiaries, claims for which based on assessed financial position is estmated that the borrower 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), claims for which the impairment loss is determined on an individual basis. Claims are also considered to be problematic if these fulfill the following: the bank puts interest income and commission and fees income owed by the borrower on non-accrued status in the income statement; the bank recognises a specific adjustment for credit risk resulting from a significant perceived decline in credit quality subsequent to the bank taking on the exposure; the material loss created by the sale of the obligation; restructuring of claims due to financial difficulties of the borrower; the bank has submitted a proposal for the obligor’s bankruptcy. Problematic receivables include all receivables from debtors, if one claim is classified in the group of problematic claims.

Restructuring of the claims is approval of concessions, due to financial difficulties of the debtor, regarding the repayment of the individual claims which would not be approved to the debtor if he was not in these difficulties, regardless of whether it has matured obligations, whether the claim is impaired or the default status has occurred. The restructuring is implemented in one of the following ways: by changing the conditions under which the claim arose, particularly if the subsequently agreed repayment terms are more favorable compared to those originally agreed (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 member has activated the contractual clauses on restructuring on which the repayment conditions are changing due to the occurrence of certain events (embedded clauses) against the debtor whose claim has been already classified in a group of problematic receivables, or would have been so classified that are not activated this clause,
- If the debtor has, at the same time a new claim was approved (or over a short period before or after the approval), made a payment on the basis of other claims of the 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 claims 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 deducted for the amount of expected credit losses recognized as impairment on a new financial asset.

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

- impairment amount of restructured claim has not been determined and the status of default has not occurred;
- during the past 12 months the payments were made on time or with a delay not 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

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 borrower 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 borrower type. Credit rating is calculated on monthly basis based on the qualitative and quantitative parameters and timely and regular liability settlement.

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

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 borrower'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

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

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

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

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

The Group members assess allowance for impairment of receivables on an individual and on a group basis.

Individual and Group Assessment in Stage 3

Each Group member assesses impairment of each individually significant loan with default status (risky placement, risk subcategories 4D, 4DD and risk category 5, according to internal rating system), that is loans that are classified into Stage 3 in accordance with IFRS 9. 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 scheduling of expected cash flows. In the event of new information coming to light that significantly alters the customer's creditworthiness, value of collateral and likelihood that liabilities toward the Group member will be settled, ad hoc assessment of loan impairment is performed.

The threshold of materiality, the Group members determine based on the analysis of value structure of their portfolios by customer and product.

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

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

- When the financial position of the borrower 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 a member of the Group, due to the financial difficulties of the borrower, significantly changes the repayment conditions in relation to initially contracted;
- The borrower 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 borrower) and similar.

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

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

When there 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, which is applicable from January 1, 2018. 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 probability of a certain scenario of a member of the Group is guided by the history of the realization and collection of problematic cases, the specifics of an individual client, as well as the forecasting of future possible outcomes and, accordingly, it assigns the appropriate weights to each scenario, which must be 100% in the sum of all scenarios.

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 information.

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.

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 approach to 0.

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

The Group considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, 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 retail and corporate sector, the Group calculates the expected credit losses (impairment) in the following way:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 borrower is classified at Stage 3. Also, for Stages 1 and 2, the Group establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for Stage 1 and Stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance 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 members use, in addition to regular monitoring of the borrower's business is the provision of security instruments (collateral), which ensure the collection of receivables and minimize credit risk. The amount and type of collateral depends on the assessment of counterparty credit risk.

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

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

When assessing property or pledges over movable property, the 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 members protect 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.

The Group members pay 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 (NPE) 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 loans.

Regular monitoring of real estate involves checking the value of real estate on the basis of available data and information, the comparison of the value of the real estate from 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 members conduct 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 members monitor and update 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 2019 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 2019 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 liabilities structure and 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 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. The 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;
- Ratio analysis;
- Duration;
- Economic value of equity; and
- Stress test.

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the 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 2019 the Group's interest rate risk ratios were within internally prescribed limits.

Interest rate risk GAP report of monetary sub-balance includes monetary balance items distributed according to the shorter of period of interest rate repricing and maturity outstanding. In accordance with the aforesaid, the conservative assumption is used that all transactions and demand deposits will be withdrawn within one month.

The Group's management believes that appropriate matching of items per interest rate type and interest rate repricing period constitutes a solid prerequisite for the interest rate risk GAP balancing with the required financial results achieved and maintenance of economic value of equity.

The Risk of Changes in Interest Rates

In addition to the GAP analysis, 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 standardized interest rate shocks (parallel positive and negative interest rates on the reference yield curve of 200 basis points) could have for each significant currency individually and for all other currencies together.

In 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 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. Ten-Day VaR

The Group also conducts foreign currency risk stress testing to estimate the potential effects of specific events and/or changes in more than one financial variable on the Group's financial result, capital and the currency risk ratio.

The VaR represents the highest possible loss in the Group's portfolio during a specified period with a predefined confidence interval. The Group calculates a one-day and a ten-day VaR parameter and stress VaR parameter, with a 99% confidence interval for foreign currency positions (currency VaR). In order to estimate the regulatory capital adequacy requirements regarding foreign currency risk, the Group calculates the VaR by using the generalized autoregressive-conditional heteroskedastic (GARCH) model for which it did not request approval from the National Bank of Serbia.

Currency VaR is calculated for foreign currency denominated positions, as well for foreign currency clause indexed positions, in the banking book and trading book.

4.6. Operational Risk

The banking Group members monitor operational risk events daily and manage operating risks. For the purpose of efficient operational risk monitoring, the banking Group members appoint 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. The organizational parts of the banking Group members, which are responsible for risk management, monitor and report 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. The banking Group members measure operational risk exposure through event records, monitoring of key risk indicators (KRI), self-assessment and stress testing. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several risk factors on the exposure to operational risk.

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 operational risks. The banking Group members assess 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 banking Group members adopted the business continuity plans, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations. The banking Group members adopted the Disaster Recovery plans.

4.7. Investment Risks

The Group's investment risk relates to the risk of investing in other entities, fixed assets and investment properties. The Group's investments in a non-financial sector entity cannot 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 cannot 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.

4.8. 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.

4.9. 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 borrower's country of origin. Country risk includes the following risks:

- Political and economic risk relates to the likelihood of losses due to the inability to collect the 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 borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

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 borrower's country of origin as defined by internationally recognized agencies, while measurement of portfolio exposure to country risk is based on setting limits to exposure in terms of a percentage of the 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 borrower countries of origin.

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

4.10. 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.

4.11. 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	30.06.2019.	(000) RSD 31.12.2018.
Tier 1 (T1) Capital	65,856,083	60,605,577
Common Equity Tier 1 (CET1) Capital	65,482,573	60,232,067
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	-	-
Deductible items	(3,060,942)	(3,469,604)
Capital	**62,795,141**	**57,135,973**
Credit risk-weighted assets	196,403,420	190,017,311
Operational risk exposure	35,269,629	33,733,114
Foreign currency risk exposure	5,920,182	2,833,830
Capital adequacy ratio (min. 13.98%)	**26.43%**	**25.22%**
Tier 1 capital adequacy ratio (min. 11.98%)	**26.43%**	**25.22%**
Common Equity Tier 1 capital adequacy ratio (min. 10.48%)	**26.27%**	**25.05%**

During the first half of 2019 all prescribed capital adequacy ratios at the Group level were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of the adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively).
Through its Capital Management Strategy and Capital Management Plan, the 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 H1 2019, 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 and capital management strategy.

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 VALUATION OF FINANCIAL INSTRUMENTS

All financial instruments (placements, deposits, loans and subordinated liabilities) are recognised in business records, including all derived financial instruments i.e. derivatives, at the moment the Member of the Group becomes a contractual party on the grounds of the financial instrument/liability occurred. All other remaining financial instruments and liabilities are initially recognised at the date of the balance in accordance with the terms of the given financial instrument.

Initial valuation of the financial instruments and financial liabilities is done according to the fair value, with differences in the manner of recognising of transaction cost depending on the choice of the categories of subsequent valuation in the following manner:

- *According to fair value through the income statement*, it is done in the amount of fair value of the given equivalents on the day of the initial recognition, where their costs are recognised immediately in the income balance,
- *According to value through other comprehensive income* is also founded according to 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,
- *According to depreciated value* it is done according to the purchase value increased by direct transaction costs.

Trade-allocated funds are initially recognised and subsequently measured according to the fair value in the balance sheet with transaction costs directly recognised in the income statement. All changes in the fair value are recognised in the income statement.

With initial recognition the Group may irrevocably allocate those financial funds which otherwise meet the criteria for valuation according to amortised costs (AC) or according to fair value according other comprehensive income (FVOCI) as recognised according to fair value through the income statement (FVTPL) if in that manner it eliminates or significantly decreases the accounting discrepancies which would otherwise occur. This classification is allowed only in 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 according to the procurement costs.
Financial derivatives are initially recognised according to purchase value and are subsequently calculated according to market value.

Deposits, debt securities emitted by the Group members, received loans and subordinated liabilities are initially valued according to fair value increased by direct transaction costs.

Subsequent valuation of the financial instruments

The accounting treatment of the subsequent valuation depends on the previously performed classification of financial instruments. The following overview shows the manner of valuating of individual elements of financial funds, depending on their classification and type of instrument.

Classification	Type of instrument	Valuation	Profits/Losses from the changes of the fair value	Interests and dividends	Impairment	Exchange differences
Financial funds and liabilities according to depreciated costs	Debt instruments	Depreciated cost	-	Income statement: use of EIR	Income statement, for financial funds	Income statement
Fair values through the income statement	Debt and ownership instruments or derivatives	Fair value	Income statement:	Income statement:	-	Income statement
Capital instruments according to fair value through other comprehensive income	Ownership instruments	Fair value	Other comprehensive income, without transfer to the IS	Income statement: Received dividends	-	Other total income
Debt financial funds according to fair value through other comprehensive income	Debt instruments	Fair value	Other total income, with the transfer to the BU in case of the termination of recognition	Income statement: use of EIR	Income statement	Income statement

5.2. Modification of financial funds

Change of the contracted cash flows due to the changes of contract terms which are not significant or modification of cash flows of financial funds, leading to the recognition of the income/expenditures from the modification of financial funds in the income statement by re-calculating gross book value of financial funds according to 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 fund which is modified.

The member of the Group calculates the profit/loss from modification as the first step which pre-dates the request for the change of expected credit loss of modified financial funds which are founded on changed contract terms.

5.3. Termination of recognition

The recognition of financial funds stops once the contractual entitlements over the cash flows related to the funds expire or when the member of the Group transfers the rights through a transaction pertaining to the ownership of the financial funds or if, through a transaction, the member of the Group does not either transfer nor keep all essential rights related to ownership but they do not maintain control over financial funds. All ownership over the transferred financial funds which meet the terms for the termination of recognition which the member of the Group created or kept is recognised as separate funds or liabilities in the balance sheet. During the termination of recognition of the financial funds, the difference between the book value (or the book value of the part the funds which was transferred) and the sum of the received compensation (including new funds which are procured, decreased by new undertaken liabilities) as well as collective profits or losses which were previously recognised in the income statement are recognised in the income statement for individual instruments.

6. SEGMENT REPORTING

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

Information on the results of each reporting segment are shown below.

The Group has a total of four member which represent strategic organisational parts:

Komercijalna Banka a.d., Beograd, Serbia, Parent Bank	It includes loan, deposit and guarantee affairs as well as affairs related to performing payment transactions within the country and abroad, affairs pertaining to securities and other financial instruments.
Komercijalna Banka a.d., Podgorica, Montenegro	It includes loan, deposit and guarantee affairs as well as affairs related to performing payment transactions within the country and abroad, affairs pertaining to securities and other financial instruments.
Komercijalna Banka a.d.,Banja Luka, Bosnia and Herzegovina	It includes loan, deposit and guarantee affairs as well as affairs related to performing payment transactions within the country and abroad, affairs pertaining to securities and other financial instruments.
KomaBank INVEST investment fund management company a.d. Beograd, Serbia	It includes investment fund management affairs

The Parent Bank monitors and discloses business operations according to strategic segments - member of the Group within its 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 individual financial statement of the Parent Bank.

The balance sheet sum of the Parent Bank amounts to 90.13% of the total balance amount in the consolidated balance sheet (in 2018: 90.23%).

The balance amount of Komercijalna Banka a.d. Podgorica is 3.59% of the total consolidated assets (in 2018: 3.48%), Komercijalna Banka a.d., Banja Luka 6.24% (in 2018: 6.26%) and KomBank INVEST 0.04% (in 2018: 0.03%).

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 on the local market.

6.1. Reclassification of positions in individual financial statements of the member of the Group prior to consolidation

For the needs of consolidation, and prior to the consolidation procedure, according to needs, the reclassification is performed pertaining to positions in individual financial statements of the member of the Group which affects the correction of the balance amount and results in the income statement shown in statutory statements.

Based on the clear indications with positive effects on the operations of the subsidiary banks, and in order to determine the fair value of the equity interests of the subsidiaries, the Parent Bank hired an independent appraiser. Based on the results of the assessment, cancellation of a portion of previously recognized impairment of interests in subsidiaries amounting to a total of RSD 826,714 thousand was made in the individual financial statements of the Parent Bank. In accordance with the prescribed elimination of all mutual relations, income and expenses of the Parent Bank and banking group members from the forms of banking group financial statements, during the consolidation process we have also eliminated from the Parent Bank's segment the permanent investments in subsidiaries, with their impairment provisions recognized in 2016, including the above mentioned positive effect of cancellation of a portion of interest impairment in 2019, on the one hand, and a portion of the subsidiaries' capital from the segment of subsidiaries, on the other.

Reclassified financial statements represent the opening balance sheet items that are subject to further consolidation.
As of 30.06.2019, the following reclassifications were made in the balance sheet and income statement positions by the banking group members, except for the member KomBank INVEST, which had no reclassification effect:

BALANCE SHEET in 000 RSD

Account balance of the Parent Bank	412,275,059
Reclassification for the impairment allowance which pertain to the decrease in the share of the subsidiary bank	2,042,314
Reclassification for the impairment allowance which pertain to placements to subsidiary members	1,119
Reclassified account balance of the Parent Bank	414,318,492

Statutory account balance of KB Banja Luka	28,521,136
Decrease for accrued revenues from receivables expressed according to the depreciation value by implementing EIR	-
Decrease for accrued expenses from receivables expressed according to the depreciation value by implementing EIR	(58,555)
Reclassification for impairment allowance pertaining to the Parent Bank	398
Reclassified account balance according to the Parent Bank model	28,462,980

Statutory account balance of KB Podgorica	16,674,203
Decrease for accrued expenses for liabilities expressed according to the depreciation value by implementing EIR	-
Reclassification for impairment allowance pertaining to the Parent Bank	965
Reclassified account balance according to the Parent Bank model	16,675,168

INCOME STATEMENT

in 000 RSD

Result of the Parent Bank	**4,338,792**
Reclassification for the effect of net value from reduction in impairment of placements which pertain to the subsidiary members (negative effect)	(826,915)
Reclassification The adjustment for the net value provisions for off-balance sheet items (positive effect)	2,747
Reclassified result of the Parent Bank before tax	3,514,478
Net positive tax effects	146
Reclassified result of the Parent Bank after tax effects	3,514,624

Statutory result of KB Banja Luka	61,379
Reclassification for the effect of net value from reduction in impairment of placements which pertain to the subsidiary members (negative effect)	(47)
Reclassified result of KB Banja Luka according to the Parent Bank model	61,332

Statutory result of KB Podgorica	52,617
Reclassification for the effect of net value from reduction in impairment of placements which pertain to the subsidiary members (negative effect)	(2,465)
Reclassified result of KB Podgorica according to the Parent Bank model	50,153

6.2. Consolidated of the balance sheet and the income statement

During the consolidation the elimination of all relations in the balance sheet was performed in the amount of 6,137,728 thousand dinars (in 2018: 7,209,128 thousand dinars). Elimination of revenue from the income statement was performed in the amount of 10,807 thousand dinars (30 June 2018: 16,030 thousand dinars) and expenditures in the amount of 8,696 thousand dinars (30 June 2018 12,120 thousand dinars).

Standalone reclassified Balance Sheets on 30 June 2019:

	in thousands of dinars
KB Beograd	414,318,492
KB Podgorica	16,675,168
KB Banja Luka	28,462,980
KomBank Invest	163,907
Total reclassified non-consolidated Balanse Sheet	**459,620,546**

Balance sheet on 30 June 2019

		In thousands of dinars
Total non-consolidated balance sheet	**Sum of consolidation of the balance sheet**	**Consolidated balance sheet**
459,620,546	**6,137,728**	**453,482,818**
cash/liabilities	8,237	
placements/liabilities	648,603	
shares/capital	5,480,888	

Standalone reclassified Income Statements (before tax) on 30 June 2019

	in thousand of dinars
KB Beograd	3,514,478
KB Podgorica	50,153
KB Banja Luka	61,332
KomBank INVEST	1,892
Total reclassified non-consolidated* Income Statement *(before tax)	***3,627,855***

Income statement on 30 June 2019

			In thousands of dinars
Total non-consolidated income in the Income statement (before tax)	**Sum of consolidation of the income statement**		**Consolidated income (before tax)**
	Income	**Expenses**	
3,627,855	**10,807**	**8,696**	**3,625,744**
Interest	1,534	1,534	
Fees	6,188	6,188	
Other income/expenses	171	171	
exchange differences (reclassified in the capital)	2,914	803	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2019

	In thousands of dinars
Consolidated profit before tax	**3,625,744**
Net income from deferred taxes	146
Consolidated profit after tax	**3,625,890**

Profit and loss from differed taxes

The net positive effect of deferred taxes in the amount of RSD 146 thousand as a whole relates to the Parent Bank. Deferred tax gain in the amount of RSD 293 thousand and deferred tax loss in the amount of RSD 147 thousand were recorded by the Parent Bank after the preparation and submission of the final tax balance forms for 2018.

Balance sheet in 2018

In thousands of dinars

Total non-consolidated balance sheet	Sum of consolidation of the balance sheet	Consolidated balance sheet
448,796,087	**7,209,128**	**441,586,959**
cash/liabilities	8,848	
placements/liabilities	1,719,392	
shares/ capital	5,480,888	

Income statement on 30 June 2018

In thousands of dinars

Total non-consolidated income in the Income statement (before tax)	Sum of consolidation of the income statement		Consolidated income (before tax)
	Income	Expenses	
3,789,834	**16,030**	**12,120**	**3,785,924**
Interest	2,026	2,026	
Fees	4,877	4,877	
Other income/expenses	66	66	
exchange differences (reclassified in the capital)	9,061	5,151	

The overview of the strategic segments from the consolidated balance sheet and consolidated income statement is shown below:

A. BALANCE SHEET - CONSOLIDATED on 30 June 2019

In thousands of dinars

	Komercijalna Banka a.d. Beograd	Komercijalna Banka a.d. Podgorica	Komercijalna Banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
ASSETS					
Cash and assets held with the central bank	64,074,823	2,281,209	7,626,155	-	73,982,187
Securities	132,061,405	2,013,933	2,231,196	145,426	136,451,960
Loans and receivables from banks and other financial organisations	22,623,930	740,665	1,540,083	16,107	24,920,785
Loans and receivables from clients	172,494,006	10,060,783	16,024,287	-	198,579,076
Intangible investments	690,342	21,257	48,085	-	759,684
Property, plant and equipment	6,613,419	295,533	453,175	14	7,344,141
Investment property	1,877,137	90,443	265,859	-	2,233,439
Current tax assets	-	-	8,931	80	9,011
Deferred tax assets	1,433,502	18,495	1,708	-	1,453,705
Non-current assets held for sale and discontinued operations	227,630	222,594	82,742	-	532,966
Other assets	6,650,176	525,273	38,181	2,234	7,215,864
TOTAL ASSETS	**408,746,370**	**16,270,185**	**28,302,402**	**163,861**	**453,482,818**

A. BALANCE SHEET - CONSOLIDATED on 30 June 2019

In thousands of dinars

LIABILITIES	Komercijalna Banka a.d. Beograd	Komercijalna Banka a.d. Podgorica	Komercijalna Banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Deposits and other liabilities to banks, other financial organisations and central bank	3,774,406	209,066	4,736,947	-	8,720,419
Deposits and other financial liabilities to clients	321,757,210	13,705,787	19,144,261	-	354,607,258
Provisions	2,334,520	140,965	26,946	9,136	2,511,567
Deferred tax liabilities	752,901	28,313	7,074	-	788,288
Other liabilities	14,059,042	76,162	466,788	1,557	14,603,549
TOTAL LIABILITIES	**342,678,079**	**14,160,293**	**24,382,016**	**10,693**	**381,231,081**
CAPITAL					
Share capital and emission premium	40,034,550	-	-	-	40,034,550
Accumulated result	3,670,342	(675,207)	274,972	12,730	3,282,837
Reserves	28,230,309	600,895	102,776	304	28,934,284
Non-controlling participation	-	-	67	-	67
TOTAL EQUITY	**71,935,201**	**(74,313)**	**377,815**	**13,034**	**72,251,737**
TOTAL LIABILITIES AND EQUITY	**414,613,280**	**14,085,980**	**24,759,831**	**23,727**	**453,482,818**

A. BALANCE SHEET - CONSOLIDATED on 31 December 2018

In thousands of dinars

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

A. BALANCE SHEET - CONSOLIDATED on 31 December 2018

In thousands of dinars

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

B. INCOME STATEMENT - CONSOLIDATED for 30 June 2019

In thousands of dinars

	Komercijalna Banka a.d. Beograd	Komercijalna Banka a.d. Podgorica	Komercijalna Banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	TOTAL
Interest income	6,839,769	322,772	407,703	295	7,570,539
Interest expenses	(533,403)	(47,882)	(100,611)	-	(681,896)
Net interest gains	**6,306,366**	**274,890**	**307,092**	**295**	**6,888,643**
Income from fees and commissions	3,392,525	104,533	125,540	11,702	3,634,300
Expenses on fees and commissions	(793,572)	(21,865)	(40,141)	(131)	(855,709)
Net gains from fees and commissions	**2,598,953**	**82,668**	**85,399**	**11,571**	**2,778,591**
Net gains from changes in fair value of financial instruments	36,998	-	-	1,841	38,839
Net gains from derecognition of the financial instruments measured at fair value	201,317	-	-	6	201,323
Net exchange rate gains and gains from agreed currency clause	8,972	7,122	(4,177)	-	11,917
Net income from reduction in impairment of financial assets not measured at fair value through income statement	813,784	(15,562)	21,285	-	819,507
Net losses on derecognition of the financial instruments measured at amortised cost *	(590,451)	-	-	-	(590,451)
Other operating income	68,323	2,597	3,859	-	74,779
TOTAL NET OPERATING INCOME	**9,444,262**	**351,715**	**413,458**	**13,713**	**10,223,148**
Salaries, salary compensations and other personal expenses	(2,177,607)	(133,230)	(162,950)	(7,482)	(2,481,269)
Depreciation costs	(496,957)	(21,707)	(57,104)	(5)	(575,773)
Other income	409,063	18,726	6,449	5	434,243
Other expenses	(3,671,005)	(162,461)	(137,685)	(3,454)	(3,974,605)
PROFIT BEFORE TAX	**3,507,756**	**55,043**	**62,168**	**2,777**	**3,625,744**
Net gains from deferred taxes	146	-	-	-	146
PROFIT AFTER TAX	**3,507,902**	**53,043**	**62,168**	**2,777**	**3,625,890**

In the expressed consolidated profits, the profit that belongs to owners without controlling rights amount to 1 thousand RSD.

*In the period January - June 2019, net losses from derecognition of financial instruments valued at amortized value in the amount of RSD 590,451 thousand. The amount is entirely related to the net effects of the implementation of the Law on Conversion of Housing Loans Indexed in Swiss Francs adopted by the Ministry of Finance of the Republic of Serbia (April 2019), under which banks are obliged to recognize the cost of conversion and reduction of residual debt in the income statement for the current period.

According to the Law, the amount obtained by converting the remaining debt indexed in Swiss francs into debt indexed in Euros at the conversion rate applicable to all clients who have signed a contract with the Parent Bank is reduced by 38%, with a 23% decrease being charged to the Parent Bank's income statement for the current period, and a receivable from the Republic of Serbia is formed at a 13% decrease. The net negative effect reported in the income statement of the Parent Bank relates to the recalculation of a 23% decrease in net receivables on the grounds of termination of recognition of Swiss franc indexed loans.

New decreased amount of loan receivables in euros with new repayment plan has been recorded by the Parent Bank in the position of receivables from customers.

B. INCOME STATEMENT - CONSOLIDATED for 30 June 2018

In thousands of dinars

	Komercijalna Banka a.d. Beograd	Komercijalna Banka a.d. Podgorica	Komercijalna Banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	TOTAL
Interest income	6,685,158	273,553	381,699	295	7,340,705
Interest expenses	(457,304)	(39,594)	(69,123)	-	(566,021)
Net interest gains	**6,227,854**	**233,959**	**312,576**	**295**	**6,774,684**
Income from fees and commissions	3,428,836	84,446	114,130	10,712	3,638,124
Expenses on fees and commissions	(879,962)	(17,626)	32,356	(166)	(930,110)
Net gains from fees and commissions	**2,548,874**	**66,820**	**81,774**	**10,546**	**2,708,014**
Net gains from changes in fair value of financial instruments	48,751	-	-	2,378	51,129
Net gains from derecognition of the financial instruments measured at fair value	94,325	795	-	10	95,130
Net exchange rate gains and gains from agreed currency clause	4,091	(3,915)	305	1	482
Net income from reduction in impairment of financial assets not measured at fair value through income statement	(28,724)	19,741	33,641	-	24,658
Other operating income	77,152	3,116	7,526	-	87,794
TOTAL NET OPERATING INCOME	**8,972,323**	**320,516**	**435,822**	**13,230**	**9,741,891**
Salaries, salary compensations and other personal expenses	(2,202,516)	(132,646)	(158,079)	(7,400)	(2,500,641)
Depreciation costs	(284,092)	(17,151)	(23,382)	(5)	(324,630)
Other income	206,115	34,025	1,881	2	242,023
Other expenses	(3,065,702)	(126,897)	(176,928)	(3,192)	(3,372,719)
PROFIT BEFORE TAX	**3,626,128**	**77,847**	**79,314**	**2,635**	**3,785,924**
PROFIT AFTER TAX	**3,626,128**	**77,847**	**79,314**	**2,635**	**3,785,924**

In the expressed consolidated profits, the profit that belongs to owners without controlling rights amount to 1 thousand RSD.

7. CAPITAL

7.1 Capital includes:

In thousands of dinars

	30 June 2019	31 December 2018
Share capital	17,191,526	17,191,526
Emission premium	22,843,084	22,843,084
Profit reserves and other reserves	21,850,728	17,503,846
Revaluation reserves	7,083,561	6,187,537
Profit	4,656,892	9,277,759
Loss	(1,374,053)	(1,481,701)
TOTAL	**72,251,738**	**71,522,051**

The Capital includes:

In thousands of dinars

Structure of the capital	30 June 2019			31 December 2018		
	Majority share	Share without controlling rights	Total	Majority share	Share without controlling rights	Total
Share capital	17,191,466	60	17,191,526	17,191,466	60	17,191,526
Emission premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**60**	**40,034,610**	**40,034,550**	**60**	**40,034,610**
Profit	**4,656,890**	**2**	**4,656,892**	**9,277,755**	**4**	**9,277,759**
Loss	**(1,374,053)**	**-**	**(1,374,053)**	**(1,481,701)**	**-**	**(1,481,701)**
Profit reserves and other reserves	21,850,723	2	21,850,725	17,503,844	2	17,503,846
Revaluation reserves (credit balance)	5,450,129	-	5,450,129	4,539,643	-	4,539,643
Revaluation reserves (debt balance)	(257)	-	(257)	(257)	-	(257)
Translation reserves (Note 7.2)	1,633,689	-	1,633,689	1,648,151	-	1,648,151
Reserves	**28,934,284**	**5**	**28,934,289**	**23,691,381**	**2**	**23,691,383**
Capital	**72,251,671**	**67**	**72,251,738**	**71,521,985**	**66**	**71,522,051**

The share capital of the Parent Bank is formed from the initial share of the shareholders and subsequent emissions of new shares. Shareholders have controlling rights over the Parent Bank, as well as rights of share in the distribution of profits. On 30 June 2019 the share capital of the Parent Bank is 17,191,466 thousand dinars and includes 17,191,466 shares with the nominal value of 1 thousand dinars per share.

Pursuant to the Decision on the Parent Bank's General Meeting of Shareholders 458/3 dated April 24 2019, the profit from 2018 and earlier years was distributed to payment of dividends to holders of ordinary and preference shares in the amount of RSD 3,258,073 thousand and the increase of profit reserves in the amount of RSD 4,341,672 thousand, which equals the increase of position compared to December 31 2018.

The structure of the Parent Bank is provided in the following table:

	Number of shares	
Types of shares	**30 June 2019**	**31 December 2018**
Common stock	16,817,956	16,817,956
Priority stocks	373,510	373,510
Total	**17,191,466**	**17,191,466**

Structure of the share capital of the Parent Bank - common stock on 30 June 2019 is the following:

Name of the shareholder	% of share
Republic of Serbia	48.65
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
Jugobanka AD Beograd - bankrupt	1.91
BDD M&V INVESTMENTS AD BEOGRAD	1.89
Kompanija Dunav osiguranje	1.73
EAST CAPITAL (lux) BALKAN FUND	1.26
GLOBAL MACRO CAPITAL OPPORTUNITIES	0.78
STANKOM CO DOO BEOGRAD	0.70
GLOBAL MACRO ABSOLUTE RETURN A	0.54
SOCIETE GENER. BANKA SRBIJA - Custody account	0.44
FRONT. MARK. OPPORTUN. MASTER	0.41
EAST CAPITAL (lux) EASTERN E	0.38
DEKA INZINJERING	0.36
Other	6.37
TOTAL	**100.00**

On June 26, 2019, the Ministry of Finance of the Republic of Serbia repurchased the ordinary shares held by the shareholders of DEG-DEUTSHE INVESTITIONS and SWEDFUND INTERNATIONAL in the total percentage of 6.90%, which increased the percentage of the Republic of Serbia's share to 48.65%. This started the process of repurchase of ordinary shares held by foreign shareholders, in accordance with the tender invitation for privatization of the Bank.

7.2. Cumulative exchange rate differences on the basis of foreign transactions

In thousands of dinars

	Cumulative foreign exchange differences on interests in subsidiaries	Exchange rate differences on intra-group transactions	Exchange rate differences from translating the income statement result from average to the closing rate	Total
Balance on 1 January the previous year	1,537,481	69,315	51,937	1,658,733
Increase	(16,147)	5,743	(178)	(10,582)
Balance on 31 December the previous year	1,521,335	75,058	51,758	1,648,151
Increase	(16,399)	2,111	(174)	(14,462)
Balance on 30 June 2019	**1,504,936**	**77,169**	**51,584**	**1,633,689**

8. POTENTIAL LIABILITIES AND OTHER OFF-BALANCE POSITIONS

In thousands of dinars

	30 June 2019	31 December 2018
Business operations in the name and for the account of third persons	4,229,908	4,278,176
Undertaken future liabilities	51,212,320	47,477,824
Derivatives intended for trade according to the contracted currency	-	1,772,919
Other off-balance positions	427,669,912	443,254,125
Total	**483,112,140**	**496,783,044**

Internal relationships with Komercijalna Banka a.d., Banja Luka were eliminated from undertaken future liabilities on the grounds on non-drawn loans amounting to RSD 2,004,506 thousand (EUR 17 million) and Komercijalna Banka a.d., Podgorica on the grounds on non-drawn loans amounting to 524,709 thousand (EUR 4.5 million) and unused part of the approved limit for KomBank INVEST cards in the amount of RSD 200 thousand.

Internal relationships which were eliminated from other off-balance positions are the relationships of Komercijalna Banka a.d. Banja Luka, Komercijalna Banka a.d. Podgorica and KomBank INVEST with the Komercijalna Banka a.d. Beograd.

8.1 Issued guarantees and letters of credit

Banks, Group members issue guarantees and letters of credit which guarantee settlement of liabilities by the clients to third persons. These contracts have a settled duration period which is most commonly a year.

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

In thousands of dinars

	30 June 2019	31 December 2018
Payable guarantees	4,726,601	3,897,871
Performance bonds	4,000,271	3,630,897
Letters of credit	314,559	214,361
Total	**9,041,431**	**7,743,129**

The aforesaid amounts represent the maximum amount of losses which the Banks, members of the Group would experience on the date of financial statements if none of the clients are able to settle the contracted liabilities.

8.2 Structure of the undertaken liabilities is as following

In thousands of dinars

	30 June 2019	31 December 2018
Unused part of the approved overdraft for payment and credit cards and overdrafts according to current accounts	10,884,944	11,082,318
Undertaken irrevocable liabilities for non-drawn loans	28,882,230	26,336,746
Other irrevocable liabilities	1,399,038	2,315,630
Other undertaken liabilities according to the contracted value of securities	1,004,677	-
Total	**42,170,889**	**39,734,694**

9. RELATED PARTY DISCLOSURES

The largest share in the controlling shares of the Parent bank belongs to the Republic of Serbia which owns 48.65% common stock of the Bank and EBRD, London which is the owner of the 24.43% common stocks of the Parent Bank. The Parent Bank has three affiliate legal entities: Komercijalna Banka a.d., Podgorica, Komercijalna Banka a.d., Banja Luka and KomBank INVEST a.d., Beograd.

Legal entities and individuals are regarded as related parties if one person has control, joint control or significant influence on the adoption of financial and business decisions of another legal entity. Related parties are also those persons who are under joint control of the same parent legal entity.

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

Consolidated transactions with subsidiaries are shown in Note 6.

10. EVENTS AFTER THE DATE OF THE BALANCE SHEET

Events after the date of the balance sheet of the Parent Bank:

The Board of Directors of Komercijalna banka AD Beograd, at its session held on 27 June 2019, passed the decision on forwarding the invitation for the extraordinary General Meeting of Bank's Shareholders, which is scheduled for 23 July 2019, with the draft agenda that included the change in the composition of the members of the Bank's Board of Directors.

Based on decision of the Supreme Court of Cassation, for one court dispute based on compensation for damage, previous judgements of the Commercial Court of Appeal and the Commercial Court in Belgrade have been revoked which were delivered in favour of the Bank and the case has been returned to the first instance court for retrial. According to the decision of the Supreme Court of Cassation, the Bank was obliged to return the funds to the payer. On this basis on 18.07.2019 the Bank returned the payment amounting to RSD 231,116 thousand.

Events after the date of the balance sheet of the Komercijalna Banka a.d. Podgorica:

There were no events after the balance sheet date, until the date these financial statements were issued, which would require possible corrections or additional disclosures by Komercijalna Banka a.d. Podgorica.

Events after the date of the balance sheet of the Komercijalna Banka a.d. Banja Luka:

There were no events after the balance sheet date, until the date of the issuance of the financial statements, which would require possible corrections or additional disclosures by the Komercijalna Banka a.d.Banja Luka

Events after the date of the balance sheet of the KOmBank INVEST a.d. Beograd, investment funds management company:

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

There were no events after the balance sheet date which would require disclosure in the Notes to consolidated financial statements for 30 June 2019.

11. EXCHANGE RATES

Exchange rates determined at the inter-bank meeting of the currency market implemented for the recalculation of the balance sheet position in dinars on 30 June 2019 and 2018 for specific major currencies are:

	The official rate of the National Bank of Serbia (NBS)		The average rate of the National Bank of Serbia (NBS)	
	30.06.2019	31.12.2018	30.06.2019	30.06.2018
USD	103.7685	103.3893	-	-
EUR	117.9121	118.1946	118.0961	118.3028
CHF	106.3613	104.9779	-	-
BAM	60.2875	60.4319	60.3816	60.4873

In Belgrade,

On 23 August 2019

Persons responsible for preparation of the financial statements

KOMERCIJALNA BANKA AD BEOGRAD

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Fax: +381 11 344 13 35
Registration number: 07737068
Tax Identification Number: SR 100001931
VAT number: 134968641
Activity code: 6419
Business Registers Agency: 10156/2005
Account number: 908-20501-70
SWIFT: KOBBCSBG
E-mail: posta@kombank.com

Pursuant to Article 52 of the Law on Capital Market
(RS Official Gazette No. 31/2011,112/15 i 108/16) it is stated the following:

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 30.06.2019 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, inclusive of its companies that are included in the consolidated financial statements.

Persons responsible for the preparation of consolidated financial statements

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

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KOMERCIJALNA BANKA AD BEOGRAD

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VAT number: 134968641
Activity code: 6419
Business Registers Agency: 10156/2005
Account number: 908-20501-70
SWIFT: KOBBCSBG
E-mail: posta@kombank.com

STATEMENT

Consolidated financial statements of Komercijalna banka AD Beograd for the period 01.01.2019. until 30.06.2019. have not been audited.

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

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

Persons responsible for the preparation of consolidated financial statements

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

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