QUARTERLY REPORT OF NLB KOMERCIJALNA BANKA AD BEOGRAD FOR Q1 2022

Belgrade, April 2022

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NLB Komercijalna banka

NLB GRUPA

THE BANK’S BUSINESS RESULTS FOR Q1 2022

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OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 01.01.2022 TO 31.03.2022

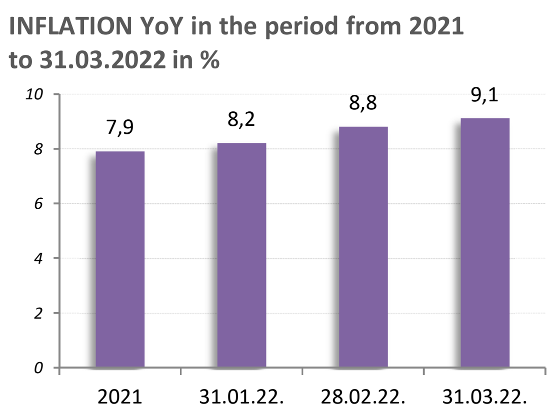
	31.03.2022.	28.02.2022.	31.01.2022.	2021.	2020.
KEY PERFORMANCE INDICATORS					
ROA	1,51%	1,61%	1,60%	0,73%	0,84%
ROE	9,77%	10,33%	10,34%	4,59%	5,06%
Net interest margin on total assets	2,54%	2,47%	2,55%	2,55%	2,67%
CIR	62,76%	66,55%	67,33%	66,62%	67,70%
Operating cash flow (000 RSD)	4.682.102	3.985.638	2.969.835	9.577.934	7.119.498
Assets per employee (000 EUR)	1.688	1.716	1.757	1.755	1.466
Assets per employee (000 RSD)	198.797	201.938	206.576	206.341	172.350
P&L (in 000 RSD)					
Profit/loss before tax	1.842.869	1.315.436	655.470	3.463.384	3.798.519
Profit/loss after tax	1.673.399	1.315.436	655.470	3.645.699	2.534.434
Net interest income	3.097.335	2.012.374	1.042.455	12.145.109	12.069.290
Net fee income	1.664.769	999.967	493.772	5.737.364	4.875.408
Operating expenses	2.988.906	2.004.707	1.034.312	11.913.487	11.472.051
Net income/cost of impairment of financial assets not measured at fair value through the P&L	71.594	187.723	91.809	15.772	(1.072.032)
BALANCE SHEET (in 000 RSD)					
Balance-sheet assets	482.479.610	486.469.089	492.684.168	489.440.405	460.001.399
Off-balance-sheet operations	537.929.925	542.175.663	532.852.108	532.084.315	489.305.071
RETAIL					
Loans	124.247.207	120.079.787	118.962.711	118.286.619	108.585.889
Deposits	325.500.061	341.292.156	340.825.296	342.469.159	309.268.562
CORPORATE					
Loans	100.716.538	95.866.376	95.183.306	89.221.890	78.833.152
Deposits	46.938.217	45.866.052	52.568.043	48.646.021	47.765.467
RATIO LOANS/DEPOSITS					
Gross loans/deposits	62,52%	58,85%	57,15%	55,55%	53,37%
Net loans/deposits	60,71%	57,13%	55,45%	53,71%	51,04%
CAPITAL	73.472.374	76.275.846	76.531.310	75.642.722	74.660.539
Capital adequacy	26,64%	27,72%	27,17%	28,55%	32,50%
Number of employees	2.427	2.409	2.385	2.372	2.669

Table 1: Overview of the key performance indicators (Source: NLB Komercijalna banka ad Beograd)

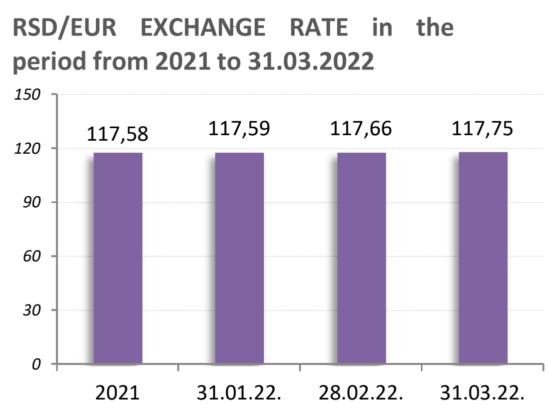
Data in the Bank's Business Report for Q1 2022 refer to the Komercijalna banka ad Beograd before integration with NLB Banka ad Beograd.

MACROECONOMIC OPERATING ENVIRONMENT IN THE PERIOD FROM 01.01.2022 TO 31.03.2022

Consumer prices in March 2022 increased 9.1% YoY, while on the monthly level in March there was an increase in consumer prices of 0.8% on average. Due to the ongoing conflict in Ukraine, additional inflationary pressures are expected, in the short-term, in the prices of energy products, food and industrial products, due to the increase in production costs.

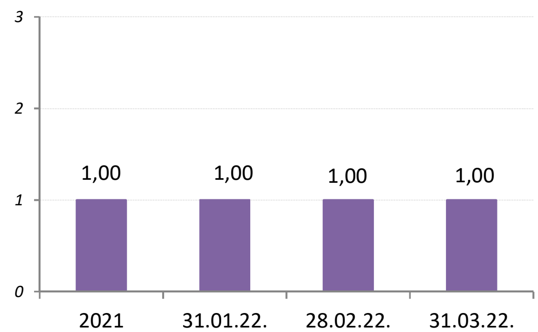


At the end of Q1 of the current year, compared to the end of 2021, the dinar depreciated against the euro by 0.1% and against the US dollar by 1.5%. The dinar exchange rate was around 117.7 dinars to the euro. From the start of the year, in the interbank FX market, (MTD), the National Bank of Serbia intervened by selling a net amount of EUR 2,115 million in order to maintain relative stability of the dinar exchange rate to the euro. In March this year only, the National Bank of Serbia sold on the MDT greatest amount thus far i.e. EUR 1,170 million. At the end of March of the current year the gross FX reserves amounted to EUR 14,296 million and decreased compared to the previous month by EUR 1,265 million, decrease in FX reserves is the result of the activities of the National Bank of Serbia in MDT (EUR 1,160 million) that were necessary in order to preserve stability in the local market.



Until early April 2022 the National Bank of Serbia maintained the key-policy rate at the level of 1.00%. At the session of April 7th 2022, the Executive Board of the National Bank of Serbia decided to increase the key-policy rate from 50 basis points to 1.50%. The decision was made bearing in mind that inflationary pressures from the world and local market are stronger and more stable in character than initially expected. This new situation requires additional tightening of monetary conditions in order to limit the secondary effects and inflationary expectations. The National Bank of Serbia took in to consideration also the fact that insecurity on the global level may have an adverse effect on the flow of capital in countries whose economy is on the rise, including Serbia, given that the FED has initiated the cycle of increasing the key-policy interest rate in March this year. Similarly, in March, the ECB decided to additionally decrease "the volume of quantitative easing" during the second quarter, in the environment of more significant inflationary pressures than planned.

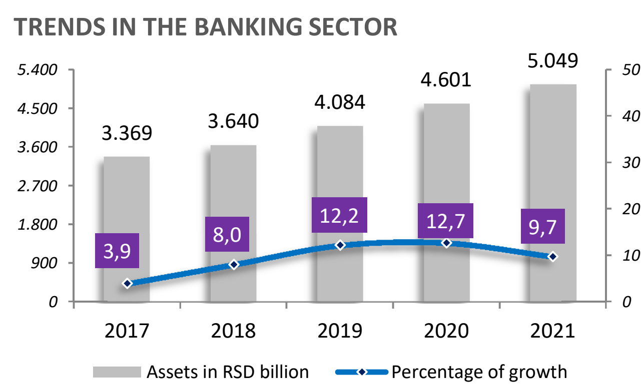
NBS KEY-POLICY RATE in the period from 2021 to 31.03.2022 in %

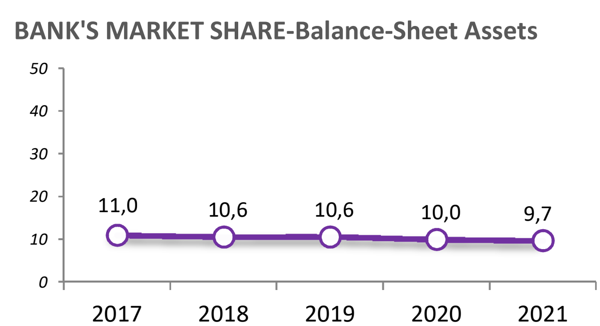


BANKING SECTOR AND THE BANK'S FINANCIAL POSITION

At the end of December 2021 the banking sector of the Republic of Serbia consisted of a total of 23 banks, which is 3 banks fewer than at the end of 2020. At the end of 2021, 22,550[1] employees were employed in the banking sector, which is 273 employees fewer than at the end of 2020.

Total assets of the sector reached 42,943[2] million euros and, compared to the end of the previous year, increased by 3,766 million euros or 9.7%. The total capital of the banking sector at the end of December 2021 was 6.128[3], and, compared to the start of the year, increased by 30 million euros or 0.5%. The Bank's share in the assets of the sector, at the end of December 2021, was 9.7% (on the basis of the available data).

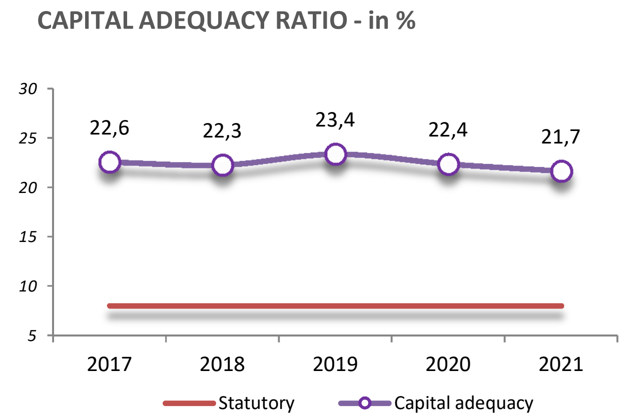




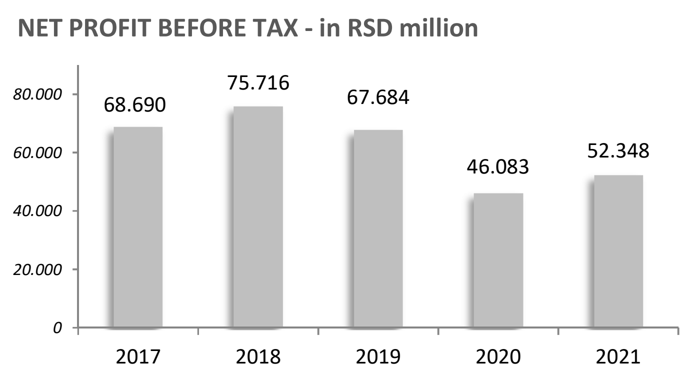
The average value of the capital adequacy ratio of the banking sector, as of 31.12.2021, was 21.7%. The realized value of 21.7%, compared to the new prescribed minimum ratio of 8.0%, shows that the banking sector is adequately capitalized.

Apart from adequate capitalization, the banking sector is also characterized by further decline in the share of NPLs in total loans. As of 31.12.2021, gross NPLs in total loans account for 3.5% (on 31.12.2020 this share was 3.7%).

[1] NBS, Macroeconomic Trends in Serbia, March 2022
[2] NBS, Macroeconomic Trends in Serbia, March 2022
[3] NBS, Macroeconomic Trends in Serbia, March 2022



During 2021 the banking sector recorded an increase in profitability, compared to 2020. During the twelve months of 2021 profit before tax was realized in the amount of 445,2[4] million euros, while in the same period 2020, realized profit was 391,9 million euros.
On the level of the banking sector, the return on equity (ROE), at the end of December 2021, was 7.3%, while the return on assets (ROA) was 1.1%.



[4] NBS, Macroeconomic Trends in Serbia, March 2022

ORGANIZATION STRUCTURE AND THE BANK'S BODIES

The Bank's Board of Directors is established in accordance with the Law on Banks, the Banks' Articles of Association and consists of at least 5 (five) members, including the chairperson, and at least one third of the members must be persons independent of the bank. Members of the Bank's Board of Directors are appointed by the General Meeting of the Bank's Shareholders to a period of four years. The draft decision on appointing the chairperson and members of the Board of Directors is formulated by the bank's Board of Directors, at the proposal of the shareholders.

Responsibilities of the Board of Directors are defined in Article 73 of the Law on Banks and Article 27 of the bank's Articles of Association. Members of the Bank's Board of Directors, as of march 31st 2022, are:

NAME AND SURNAME	SHAREHOLDER / MEMBER INDEPENDENT OF THE BANK	FUNCTION
Archibald Kremser	*NLB dd Ljubljana*	*Chairperson*
Blaž Brodnjak	*NLB dd Ljubljana*	*Member*
Uršula Kovačič Košak	*NLB dd Ljubljana*	*Member*
Igor Zalar	*NLB dd Ljubljana*	*Member*
Marko Jerič	*NLB dd Ljubljana*	*Member*
Vesna Vodopivec	*NLB dd Ljubljana*	*Member*
Nenad Filipović	*Member independent of the Bank*	*Member*
Prof. Dragan Đuričin	*Member independent of the Bank*	*Member*
Veljko Kuštrov	*Member independent of the Bank*	*Member*

There is a quorum for work and decision-making by the Board of Directors if the session is attended by the majority of the total number of members of the Banks' Board of Directors. The chairperson and each member are entitled to one vote each.
The Executive Board consists of at least three members, one of whom is the President of the Executive Board and another one is the Deputy President of the Executive Board. The term of office of members of the Executive Board, including the President and the Deputy President is four years from the date of appointment.

The responsibilities of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Articles of Association of the Bank.
Members of the Bank's Executive Board, as of March 31st 2022, are:

NAME AND SURNAME	FUNCTION
Vlastimir Vuković	*President*
Dejan Janjatović	*Deputy President*
Dragiša Stanojević	*Member*
Dubravka Đedović Negre	*Member*

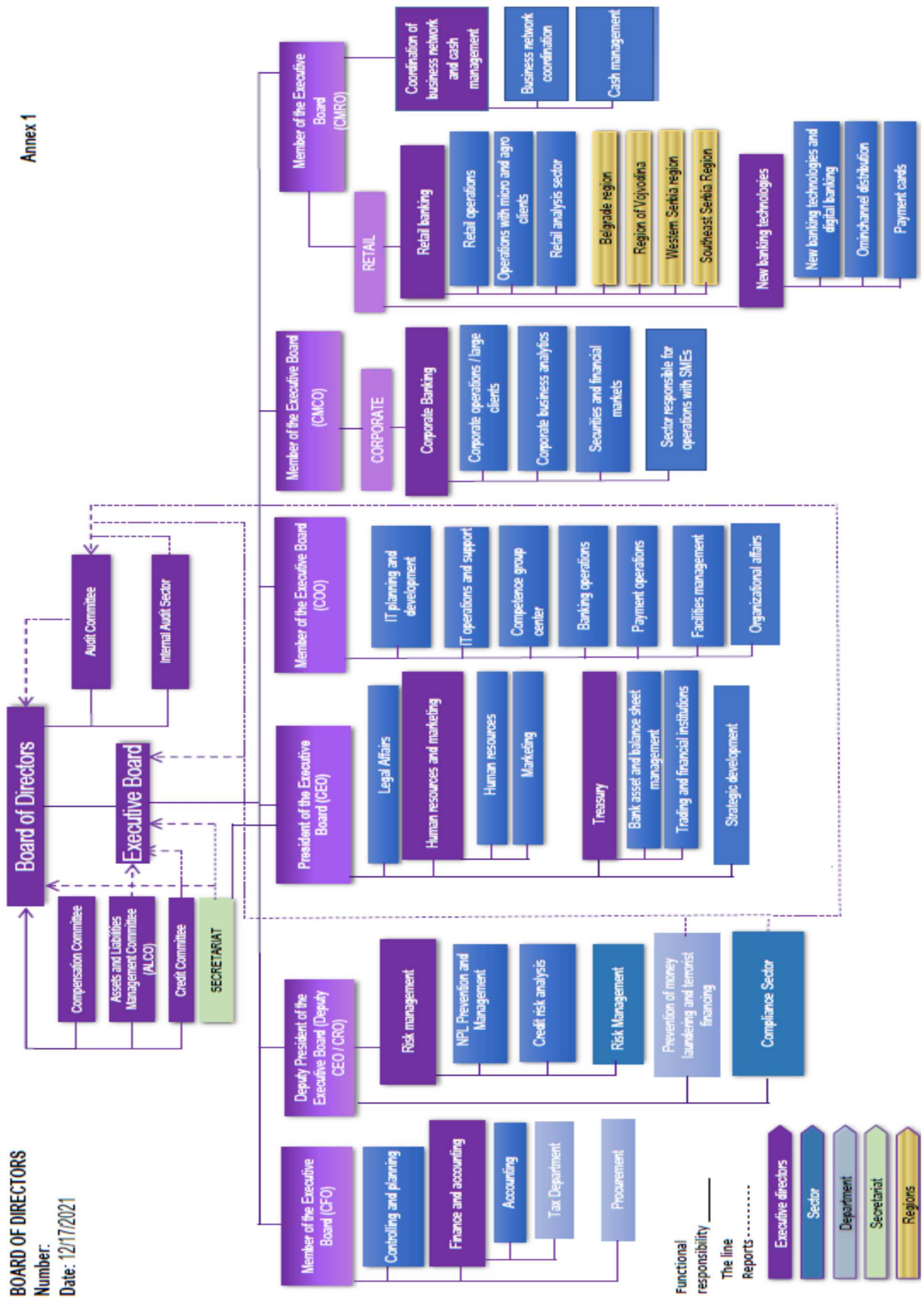
There is a quorum for work and decision-making of the Executive Board if the session is attended by the majority of the total number of members of the Executive Board. The Executive Board passes decisions with the majority of votes of the total number of members.

The Bank's Audit Committee consists of at least three members, at least two of whom are members of the Bank's Board of Directors who have the appropriate experience in the area of finance. At least one member of the Audit Committee is a person independent of the Bank. Members of the Audit Committee are appointed to a period of four years. Duties of the Audit Committee are defined in Article 80 of the Law on Banks and Article 34 of the Bank's Articles of Association.

As of March 31st 2022 the members of the Audit Committee are:

NAME AND SURNAME	FUNCTION
Prof. Dragan Đuričin	*Chairperson*
Marko Jerič	*Member*
Igor Zalar	*Member*
Polona Kurtevski	*Member*
Barbara Deželak	*Member*

There is a quorum for work and decision-making of the Audit Committee if the session is attended by a majority of the total number of members of the Audit Committee.



Note: Organization chart of the Bank as of 31.03.2022

THE BANK'S FINANCIAL POSITION AND BUSINESS RESULT IN THE PERIOD FROM 01.01.2022 TO 31.03.2022

BALANCE-SHEET (in 000 RSD)	31.03.22.	28.02.22.	31.01.22.	2021.	2020.
Balance-sheet assets	482.479.610	486.469.089	492.684.168	489.440.405	460.001.399
Off-balance-sheet operations	537.929.925	542.175.663	532.852.108	532.084.315	489.305.071
RETAIL					
Loans	124.247.207	120.079.787	118.962.711	118.286.619	108.585.889
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Loans	100.716.538	95.866.376	95.183.306	89.221.890	78.833.152
Deposits	46.938.217	45.866.052	52.568.043	48.646.021	47.765.467

As of 31.03.2022 the Bank's balance-sheet assets were RSD 482.479,6 million and decreased by RSD 6.960,8 million compared to the end of the previous year.

In Q1 2022, off-balance-sheet assets increased 1.1% or RSD 5.845,6 million and at the end of March this year it amounts to RSD 537,929.9 million. The increase is the result of growth in the item assumed future liabilities.

At the end of March 2022, corporate and retail deposits amounted to RSD 372,438.3 million and decreased, compared to the start of the year, by RSD 18,676.9 million or 4.8%. On the other hand, corporate and retail loans at the end of March 2022 amounted to RSD 224,963.7 million and, compared to the start of the year, increased by RSD 17,455.2 million or 8.4%.

These changes contain also the effect of dinar depreciation against the euro (0.1%), Swiss franc (0.4%) and depreciation against the US dollar (1.5%). The dinar appreciated from the start of the year until the end of Q1 2022 against the British pound (1.4%).

P&L (in 000 RSD)	31.03.22.	28.02.22.	31.01.22.	2021.	2020.
Profit/loss before tax	1.842.869	1.315.436	655.470	3.463.384	3.798.519
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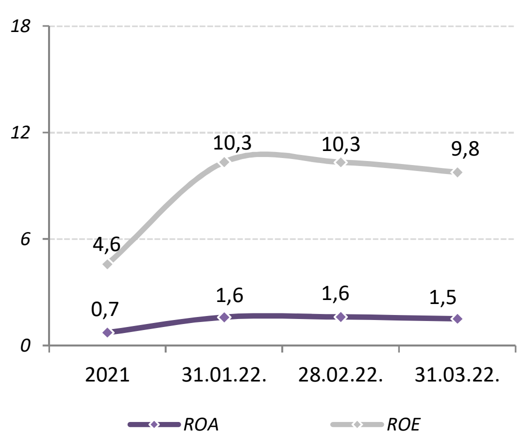
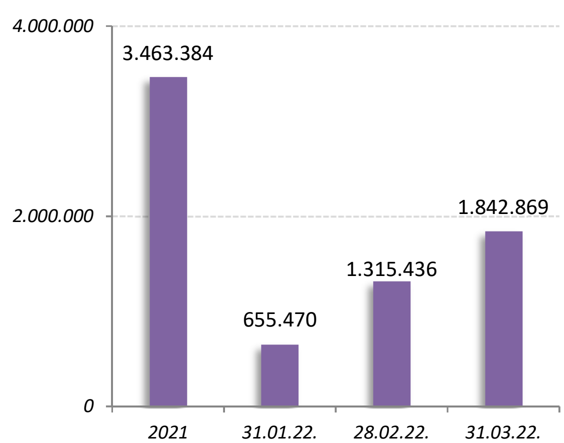
Operating expenses	2.988.906	2.004.707	1.034.312	11.913.487	11.472.051
Net income/cost of impairment of financial assets not measured at fair value through P&L	71.594	187.723	91.809	15.772	(1.072.032)

KEY PERFORMANCE INDICATORS	31.03.22.	28.02.22.	31.01.22.	2021.	2020.
ROA	1,51%	1,61%	1,60%	0,73%	0,84%
ROE	9,77%	10,33%	10,34%	4,59%	5,06%
Net interest margin on total assets	2,54%	2,47%	2,55%	2,55%	2,67%
CIR	62,76%	66,55%	67,33%	66,62%	67,70%
Operating cash flow (000 RSD)	4.682.102	3.985.638	2.969.835	9.577.934	7.119.498
Assets per employee (000 EUR)	1.688	1.716	1.757	1.755	1.466
Assets per employee (000 RSD)	198.797	201.938	206.576	206.341	172.350

PROFITABILITY RATIOS in %



OPERATING PROFIT in 000 RSD



In the first three months of 2022 the Bank realized an operating profit. The profit the Bank realized in the period from January 1st 2022 to March 31st 2022 is RSD 1,842.9 million, which is a YoY increase of RSD 1,650.4 million. The realized profit enabled the Bank, in Q1 2022, return on total equity of 9.8% and return on balance-sheet assets of 1.5%.

Net interest income at the end of Q1 2022 was RSD 3,097.3 million, which is 4.9% more YoY. Net fee income is RSD 1,664.8 million and is RSD 458.7 million higher than YoY.

In the first three months 2022 the Bank recorded net income from indirect write-off of loans and provisions in the amount of RSD 71.6 million unlike in the same period last year. During Q1 this year, operating expenses were realized in the amount of RSD 2,988.9 million, which is RSD 286.3 million or 10.6% more YoY. What affected the trends in profit in Q1 2022, YoY, was also the increase in the amount of other income that was realized in Q1 this year in the amount of RSD 149.5 million, while in the same period the previous year they were realized in the amount of RSD 67.4 million. Net profit from discontinuation of recognition of financial instruments measured at amortized value was also recorded, in the amount of RSD 86.2 million. At the same time, there was an increase in the cost of salary, salary allowance and other personnel expenses, the cost of depreciation and other expenses from RSD 3,014.8 million, in Q1 the previous year, to RSD 3,250.0 million in Q1 2022.

Due to the decrease in the volume of operations and an increase in the number of employees in the first three months 2022, the assets per employee in the Bank decreased from RSD 206.3 million (31.12.2021), to the amount of RSD 198.8 million at the end of Q1 2022.

At the end of Q1 of the current year the Cost income ratio (CIR) was 62.8%, while at the end of 2021 ti was 66.6%.

Retail operations

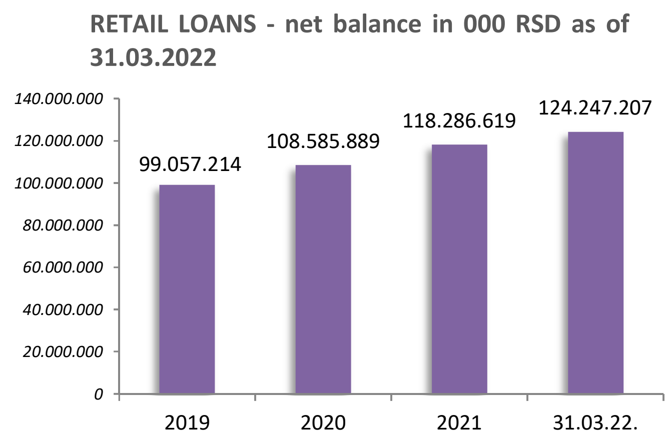
In Q1 2022 retail operations continued its rising trend and archived, according to most indicators, significant results. The most important business target was the increase in lending in all segments and creation of the basis for even greater increase in the upcoming period.

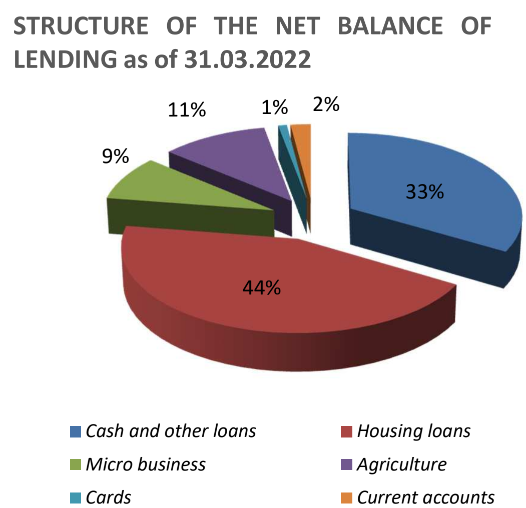
Loans

In all of its segments (private individuals, agriculture, micro business) the Bank adjusted the offer of loan products whereby it significantly boosted the attractiveness and competitiveness of its offer. Apart from the change in products, technological solutions were also updated, which resulted in faster and easier loan approval.

All this resulted in an increase in disbursement by 63% YoY.
In March 2022 retail operations achieved the greatest loan disbursement in the Bank's history.

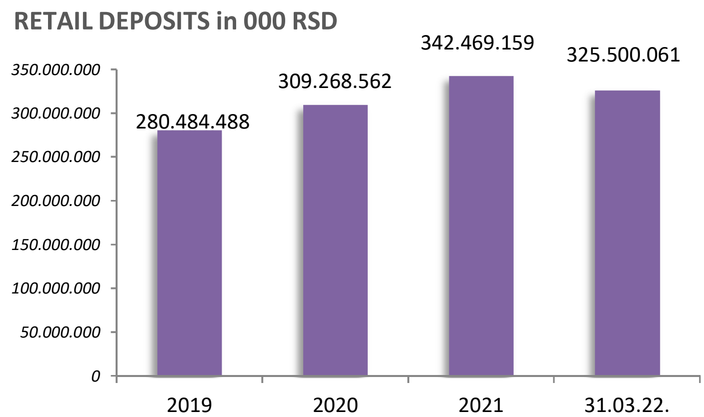
As the result of the growth in disbursement, net balance of retail lending increased by RSD 5,961 million in Q1 2022. In the structure of net balance as of 31.03.2022, the share of housing loans was 44% and the share of other products 56%.


RETAIL LOANS - net balance in 000 RSD as of 31.03.2022
140.000.000
120.000.000
100.000.000
80.000.000
60.000.000
40.000.000
20.000.000
0
99.057.214
108.585.889
118.286.619
124.247.207
2019
2020
2021
31.03.22.


STRUCTURE OF THE NET BALANCE OF LENDING as of 31.03.2022
11%
1%
2%
9%
33%
44%
Cash and other loans
Housing loans
Micro business
Agriculture
Cards
Current accounts

Deposits[5]

Retail deposits are among the highest in the market and amount to RSD 325,500 million at the end of Q1.



Other products

In the Retail segment the Bank has a respectable base of a total of 1.4 million customers. In the most important segment, private individuals with regular salaries and pensions, the Bank has 420,000 customers, which forms a good-quality basis for further dynamic growth of business. The number of customers using "sets", as the best-quality product compared to the basic current account, is rising. Out of a total of 360,000 "sets", 48,000 are "Start sets" intended to the youngest customers, which allows for the long-term development of the Bank's customer base.

In micro business segment there was also an increase in the number of the users of "set accounts". A total of 20,500 micro clients use set accounts and about 18,000 micro clients regularly use the Bank's electronic banking services.

The number of payment cards increased slightly. The Bank's customers have about a million cards, half of which is used regularly.

Electronic banking for private individuals

Through its electronic channels, at the end of Q1 2022, the Bank provided services for private individuals to more than 276,000 customers. A constant increase in the number of users continued also in 2022 where the number of "mBank" users grew by 30% YoY, and the number of "eBank" users by 13%. There was an increase in the number of transaction on "mBank" by 30% YoY.

The rise in the number of users of electronic channels is the result of intensive activities of the business network on getting the client to use these services, given the many benefits that "eBank" and "mBank" allow.

5 The item "deposits" does not include other liabilities and funds received through credit lines.

Branch network

Operations in the retail segment are carried out in 180 branches and this makes the Bank one of the market leaders. Clients have 325 ATM and 13,200 POS terminals at their disposals, which also makes the Bank one of the market leaders in this aspect. Bearing in mind customer needs, the Bank continued with the activities on enhancing customer experience by improving the design of the branches, adjusting working hours, etc.

Profitability

Retail operations in Q1 2022 generated total net interest and fee income in the amount of RSD 3,000 million, which is 20% higher YoY.

Conditions were created to generate even higher net income in the future.

Corporate operations

Market – key trends

According to the data available so far, COVID-19 and the global slow-down have had less effect on Serbia than on most European countries due to the achieved macroeconomic and financial stability, prior growth rate, accumulated fiscal space, timely and comprehensive package of measures, as well as the structure of the economy.

In March 2022 the key-policy rate was kept at the level of 1.0% with further increase in the average repo rate, to 0.90%.

Relaxing of the monetary policy fully reflected in the interest rates on new dinar loans, as from the start of the cycle of reducing the key-policy rate (May 2013), they recorded a strong decline, and in January 2022 amounted to 2.7% on corporate loans (decrease of 13.7 pp).

Decrease in interest rates on loans indexed in euros, in he observed period, was also contributed by a strong decrease in the risk premium, improvement of the country's credit rating, as well as relaxation of the ECB's monetary policy.[6]

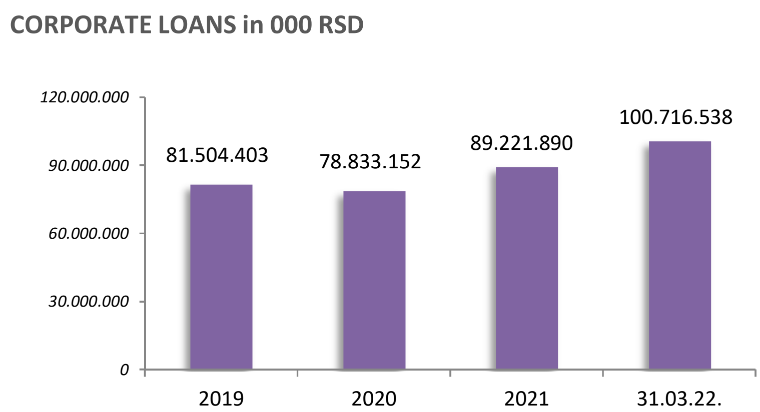
In 2022 there was a slight increase in the level of corporate lending. On the level of the banking sector, the level of loans is higher compared to the end of 2021 (total companies, state-owned enterprises and local level of government recorded a rise of 1.0% or RSD 16.6 billion)[7]. Compared to the banking sector, from the start of the year, the Bank has recorded a manifold higher growth in total loans to companies, state-owned enterprises and local levels of government – a growth of 5.5%.

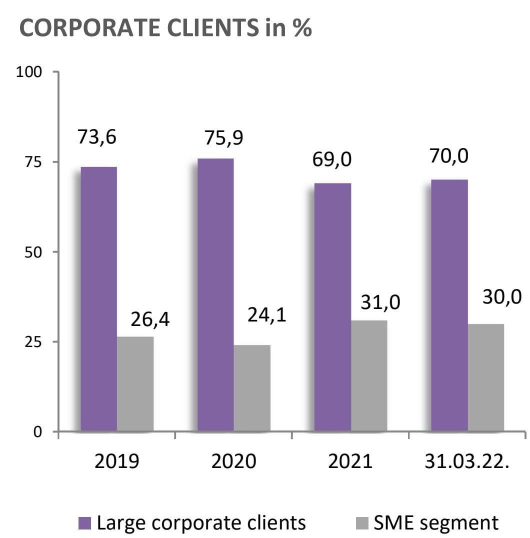
6 NBS, Macroeconomic Trends in Serbia, March 2022
7 NBS, Consolidated Balance-Shet of the Bankign Sector, February 2022

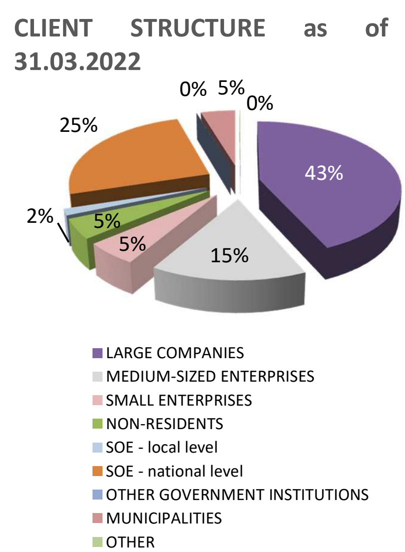
Comparing the levels of loans for the same period previous year and this year YoY (Feb. 2022/2021), the banking sector grew by 9.9%, while the Bank recorded a growth of 14.8%. The result of the faster growth in the level of loans is also the growth in the Bank's market share from 6.2% to 6.5%.

Loans[8]

Disbursement of newly-approved loans, in Q1 2022, was higher 171% YoY. In the segment of large corporate clients and in the SME segment there was significantly greater disbursement YoY. Balance-sheet portfolio increased by 13% from the start of the year and the YoY growth is 33%.







8 The item "Loans" does not include other loans.

Average weighted interest rates on disbursed loans in the Bank in RSD (3.32%) and in EUR (2.30%) in Q1 2022 were at a higher level compared to the loans disbursed in the Bank in 2021 in RSD and at an approximate level for loans with a currency clause (RSD 2.85%; EUR 2.33%).

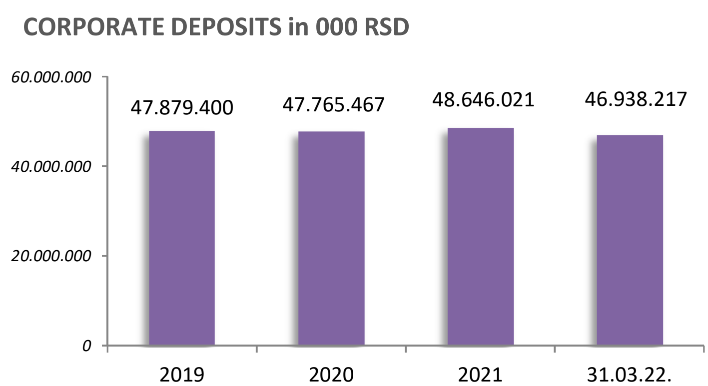
Average interest rates on disbursed loans in the market[9] in RSD (2.76%) and in EUR (2.45%) in 2022, while the interest rates in 2021 (RSD 2.88%; EUR 2.31%) i.e. there is a noticeable trend of increasing dinar interest rates and decreasing interest rates in foreign currency.

Interest rate on loans indexed in EUR is still lower compared to the loans in dinars which, in the environment of a stable exchange rate, was a determining factor of the market, with greater demand for loans indexed in foreign currency compared to the dinar loans. Out of the total amount of disbursed loans in 2022, 11% was disbursed in dinars, while 89% was disbursed through loans indexed in a foreign currency in EUR. Accordingly, in 2022 there was a slight decrease in the share of dinar loans in the total portfolio from 10.8% in 2021 to 10.1%.

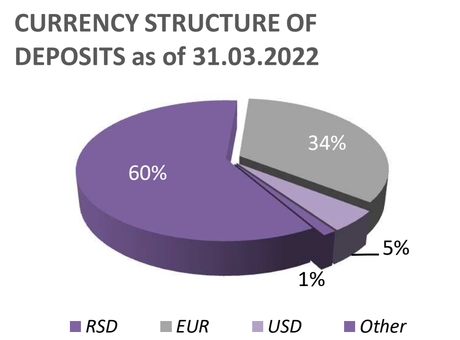
Regarding competition, during 2022, the most active banks were Banca Intesa a.d. Beograd, UniCredit banka Srbija a.d. Beograd, Raiffeisen banka a.d. Beograd, OTP banka a.d. Beograd.

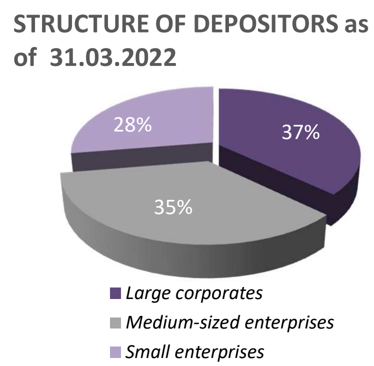
Deposits[10]

High share of transaction deposits, of 88% of the total corporate deposits, resulted in lower interest expenses and had a positive effect on the Bank's business result.

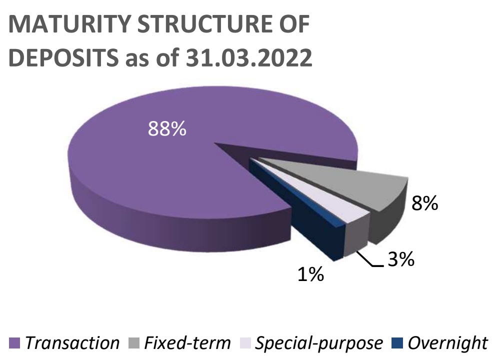


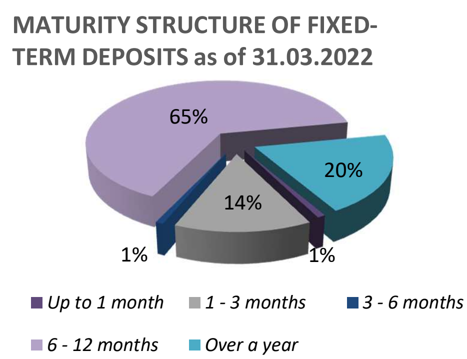
9 NBS, Overview of interest rates of banks on loans approved to the non-financial sector, February 2022
10 The item „deposits" does not include other liabilities and funds received from credit lines.





Note: An overview of the structure of depositors was given on the basis of the internal customer segmentation.





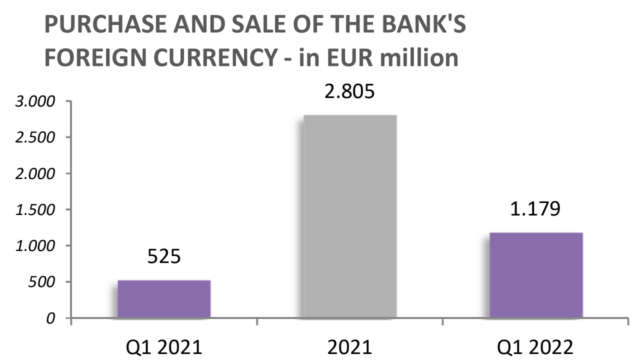
Treasury

Starting from the Bank’s strategic orientation, the activity of the Treasury business function is focused on actively managing assets and liquidity while ensuring unhindered operation of the Bank and satisfying the customer's business needs.

Operation in Q1 2022 is characterized by two very different periods, the period before and after the Russia-Ukraine crisis. The start of the saw further interventions by the NBS on the FX market on the side of sales, a slight increase in interest rates in the financial market, but also stable deposits as the funding sources. After the start of the crisis, there was a withdrawal of retail deposits from banks, conversion of dinar deposits into foreign currency without depositing those funds on the FX accounts and a significant pressure on the exchange rate, which resulted in an increase in the volume of NBS interventions aimed at preserving the stability of the exchange rate. Decreased liquidity results in the increase in interest rates and the expected change in the key-policy rate of the NBS that came at the very start of Q2.

The Treasury business function responded to all the challenges by securing the necessary funds for the payout of deposits, fulfilment of all regulatory requirements and for enhanced lending activity of the Corporate and Retail business function.

In the total operation with the clients, licensed exchange offices and other banks in the interbank FX market, a significantly higher volume of FX purchase and sale was realized.



BALANCE-SHEET AS OF 31.03.2022

Bank's assets as of 31.03.2022

Item	31.03.22. amount	31.12.21. amount	change in %	index
	in 000 RSD			
ASSETS				
Cash and cash equivalents with the central bank	77.714.530	82.055.481	(5,3)	94,7
Pledged financial assets	9.180.999	-	-	-
Receivables from derivatives	-	-	-	-
Securities	127.182.467	149.588.755	(15,0)	85,0
Loans and receivables from banks and other financial organizations	21.756.247	29.114.381	(25,3)	74,7
Loans and receivables from customers	226.410.884	209.044.942	8,3	108,3
Changes in the fair value of risk-hedged items	-	-	-	-
Receivables from derivatives intended for risk hedging	-	-	-	-
Investment in affiliations and joint ventures	1.488.063	1.488.063	-	100,0
Investment in subsidiaries	140.000	140.000	-	100,0
Intangible assets	540.254	582.101	(7,2)	92,8
Plant, property and equipment	8.664.798	8.755.659	(1,0)	99,0
Investment property	2.614.294	2.610.531	0,1	100,1
Current tax assets	-	18.911	(100,0)	-
Deferred tax assets	698.973	509.242	37,3	137,3
Fixed assets intended for sale and assets from discontinued operations	101.614	101.614	-	100,0
Other assets	5.986.487	5.430.725	10,2	110,2
TOTAL ASSETS	**482.479.610**	**489.440.405**	(1,4)	98,6

At the end of Q1 2022 the Bank's balance-sheet assets amounted to RSD 482,479.6 million and, compared to the start of the year, they decreased by RSD 6,960.8 million or 1.4%.

During the first three months of the current year, the item "Cash and funds with the central bank" decreased in the amount of RSD 4,341.0 million, or 5.3%.

Investment in securities, at the end of Q1 2022, amounted to RSD 127,182.5 million. Compared to the start of the year, investment in securities decreased by RSD 22,406.3 million or 15.0%. At the end of March of the current year, the investment in securities accounts for 26.4% of the total Bank's balance-sheet assets.

Loans and receivables from customers amount to RSD 226,410.9 million and, compared to the situation from 31.12.2021, increased by RSD 17,365.9 million. Loans and receivables from customers as of 31.03.2022 account for 46.9% of the balance-sheet assets.
Loans and receivables from banks and other financial organizations decreased y RSD 7,358.1 million.

Total loans and advances from customers and banks, as of 31.03.2022, amount to RSD 248,167.1 million, which accounts for 51.4% of the Bank's total balance-sheet assets.

Compared to 31.12.2021 (balance-sheet date) when deferred tax assets are netted against the deferred tax liabilities, during the business year, the deferred tax assets and deferred tax liabilities are expressed in gross value in the designated items within assets and liabilities.

As of 31.03.2022, deferred tax assets amount to RSD 699.0 million and increased by RSD 189.7 million compared to the end of 2021. This item of assets is explained in more detail in item 3.19. Note to financial statements for Q1 2022.

The Bank's liabilities as of 31.03.2022

Item	in 000 RSD 31.03.22. amount	31.12.21. amount	change in %	index
LIABILITIES				
Liabilities from derivatives	-	-	-	-
Deposits and other financial liabilities to banks, other financial organizations and the central bank	14.478.409	2.134.969	578,2	678,2
Deposits and other financial liabilities to other customers	384.582.549	403.286.418	(4,6)	95,4
Liabilities from derivatives intended for risk hedging	-	-	-	-
Changes in the fair value of risk-hedged items	-	-	-	-
Liabilities from securities	-	-	-	-
Subordinated liabilities	-	-	-	-
Provisioning	3.999.459	4.233.853	(5,5)	94,5
Liabilities from assets intended for sale and assets from discontinued operations	-	-	-	-
Current tax liabilities	56.411	-	-	-
Deferred tax liabilities	-	-	-	-
Other liabilities	5.890.408	4.142.443	42,2	142,2
Total liabilities	**409.007.236**	**413.797.683**	(1,2)	98,8
Equity				
Share equity	40.034.550	40.034.550	-	100,0
Treasury shares	487.054	-	-	-
Profit	9.498.978	9.573.620	(0,8)	99,2
Loss	-	-	-	-
Reserves	24.425.900	26.034.552	(6,2)	93,8
Unrealized losses	-	-	-	-
Non-controlling equities	-	-	-	-
TOTAL CAPITAL	**73.472.374**	**75.642.722**	(2,9)	97,1
TOTAL LIABILITIES	**482.479.610**	**489.440.405**	(1,4)	98,6

The Bank's total liabilities at the end Q1 2022 amount to RSD 409,007.2 million and account for 84.8% of total liabilities (as of 31.12.2021 the total liabilities accounted for 84.5% of liabilities). At the same time, total capital amounted to RSD 73,472.4 million and accounts for 15.2% of total liabilities (as of 31.12.2021 it accounted for 15.5%). Total liabilities decreased from the end of the previous year by RSD 4,790.4 million or 1.2%, while total capital decreased by RSD 2,170.3 million or 2.9%.

At the end of Q1, total deposits and other financial liabilities to banks and customers amounted to RSD 399,061.0 million, which accounts for 82.7% of total balance-sheet liabilities. Total deposits and other financial liabilities recorded a decrease compared to the end of the previous year of RSD 6,360.4 million dinars or 1.6%.

The item "Deposits and other financial liabilities to customers" decreased in the reporting period by RSD 18,703.9 million or 4.6%, while the item "Deposits and other financial liabilities to banks" increased from the end of the previous year by RSD 12,343.4 million or 578.2%.

The item "Other liabilities" increased RSD 1,748.0 million or 42.2%. During Q1 the item "Provisioning" decreased by RSD 234.4 million due to a decrease in provisioning for liabilities. The change in the item "Provisioning" is explained in more detail in item 3.21. Notes to financial statements.

Liabilities from foreign credit lines, at the end of March 2022, amount to RSD 602.4 million and decreased by RSD 13.6 million from the start of the year.

The change in the item "Deferred tax liabilities" is explained in more detail in Item 3.22 Notes to financial statements.

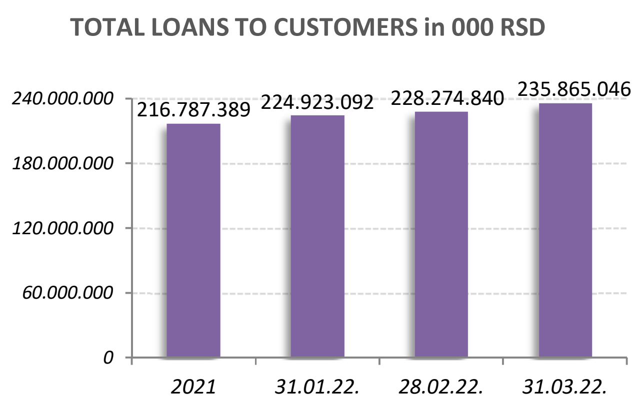
Loans to customers and deposits from customers as of 31.03.2022

At the end of Q1 2022 the bank disbursed loans to its customers (corporate, retail, banks and financial organizations) in the total amount of RSD 235,865.0 million, while deposits from customers reached an amount of RSD 388,495.0 million.

Item	in 000 RSD		
	31.03.22.	31.12.21.	
	amount	amount	change in %
LOANS TO CUSTOMERS	**235.865.046**	**216.787.389**	8,8
Corporate	100.716.538	89.221.890	12,9
Retail	124.247.207	118.286.619	5,0
Banks and financial organizations	10.901.301	9.278.880	17,5
DEPOSITS RECEIVED FROM CUSTOMERS	**388.494.978**	**403.653.908**	(3,8)
Corporate	46.938.217	48.646.021	(3,5)
Retail	325.500.061	342.469.159	(5,0)
Banks and financial organizations	16.056.700	12.538.729	28,1

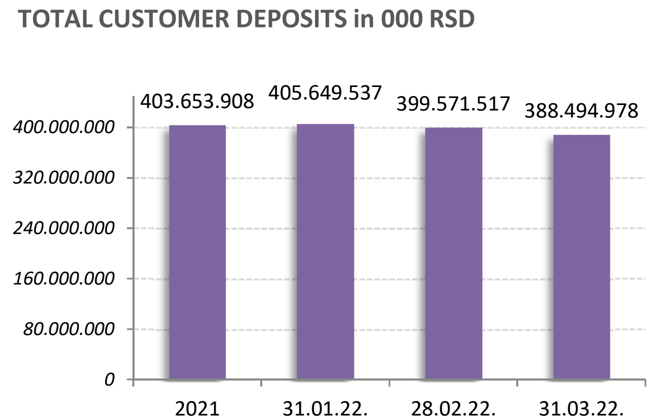
NOTE: Loans without other investments and receivables, received deposits without other liabilities and received funds in the form of credit lines

The most significant individual category of balance-sheet assets "Loans to customers" increased, compared to the start of the year, by RSD 19,077.7 million or 8.8%. In total assets, Loans to customers account for 48.9%.

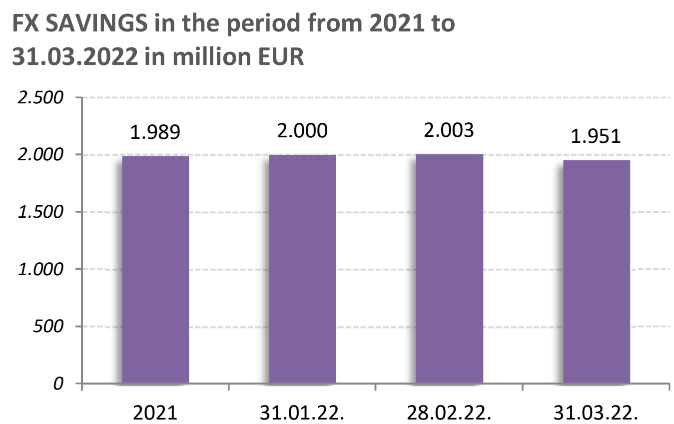


At the end of the first quarter of 2022, placements to business clients reached the amount of RSD 100.716,5 million, which is an increase of 12.9% compared to the end of 2021. Placements to households amounted to RSD 124.247,2 million and increased by 5.0% compared to the end of the previous year. Compared to the beginning of the year, a significant increase is recorded in placements to banks and financial organizations, and at the end of the first quarter of 2022, they reached the amount of RSD 10.901,3 million, which is an increase of 17.5%.

At the end of the first quarter of 2022, total customer deposits amounted to RSD 388.495,0 million and accounted for 80.5% of total liabilities, i.e., 95.0% of the Bank's total liabilities.



Compared to the beginning of the year, total customer deposits decreased by RSD 15.158,9 million or 3.8%.
The structure of deposits is dominated by retail deposits, which reached RSD 325.500,1 million and account for 83.8% of total customer deposits, while corporate deposits amount to RSD 46.938,2 million and account for 12.1% of total deposits. Compared to the beginning of the year, deposits of banks and financial organizations increased by RSD 3.518,0 million dinars or 28.1%. The share of deposits of banks and financial organizations in total deposits amounted to 4.1% as of March 31, 2022.



Despite the reduction of debit interest rates of both the banking sector and the Bank, foreign currency savings of the Bank's clients were preserved and at the end of the first quarter of 2022 amounted to EUR 1.950,6 million, which is a decrease of 1.9% since the beginning of the year.

The trust of depositors enabled the Bank to maintain its leading position in the banking sector of the Republic of Serbia in terms of the volume of collected foreign currency savings, image and recognition.

Off-Balance Sheet Items in 2022

Item	in 000 RSD 31.03.22. amount	31.12.21. amount	change in %
TRANSACTIONS IN THE NAME AND ON ACCOUNT OF THIRD PARTIES	4.045.168	4.047.859	(0,1)
FUTURE COMMITMENTS	76.315.112	62.616.255	21,9
RECEIVED SURETIES FOR FUTURE LIABILITIES	0	0	-
DERIVATIVES	0	0	-
OTHER OFF-BALANCE SHEET ITEMS	457.569.645	465.420.201	(1,7)
TOTAL	**537.929.925**	**532.084.315**	1,1

The total off-balance sheet assets of the Bank, during the first quarter of 2022, increased by RSD 5.845,6 million compared to the end of 2021.

On 31.03.2022 future commitments, including guarantees and other sureties, amount to a total of RSD 76.315,1 million, which compared to the end of the previous year represents an increase of RSD 13.698,9 million or 21.9% mainly due to increased financial assets to secure liabilities, increase in irrevocable commitments for non-withdrawn loans and placements and increases in given guarantees and other sureties.

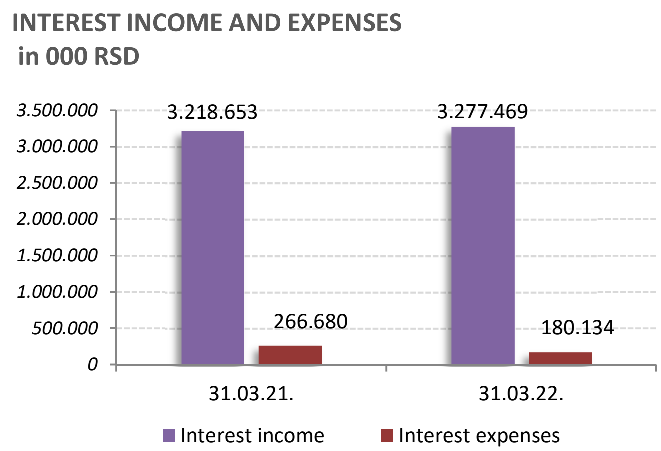
Transactions on behalf and for the account of third parties, as of March 31, 2022, amounted to RSD 4.045,2 million and decreased by RSD 2,7 million or 0.1% compared to the end of 2021.

Other off-balance sheet items decreased by RSD 7.850,6 million or 1.7% compared to the end of the previous year, as a result of changes in other off-balance sheet assets.

INCOME STATEMENT FOR THE PERIOD FROM 01.01. TO 31.03.2022

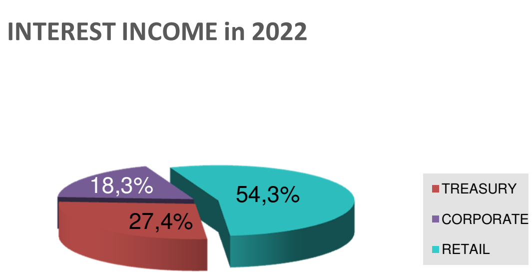
Item	in 000 RSD 31.03.22. amount	31.03.21. amount	change in %	index
Interest income	3.277.469	3.218.653	1,8	101,8
Interest expenses	(180.134)	(266.680)	(32,5)	67,5
Net interest income/expenses	**3.097.335**	**2.951.973**	4,9	104,9
Fee and commission income	2.211.876	1.620.557	36,5	136,5
Fee and commission expenses	(547.107)	(414.448)	32,0	132,0
Net fee and commission income /expenses	**1.664.769**	**1.206.109**	38,0	138,0
Net gain/loss from change in fair value of FI	1.334	52.635	(97,5)	2,5
Net gain /loss from reclassification of FI	-	-	-	-
Net gain /loss from derecognition of Fi measured at fair value	(60.113)	107.088	-	-
Net gain /loss from hedging	-	-	-	-
Net income/expense from exchange differences and the effects of agreed currency clause	(20.130)	11.505	-	-
Net income/expense from impairment of financial assets that are not measured at fair value through IS	71.594	(1.252.837)	-	-
Net gain /loss from derecognition of FI measured at amortized cost	86.194	-	-	-
Net gain /loss from derecognition of investments in associates and joint ventures	-	-	-	-
Other operating income	102.408	63.401	61,5	161,5
TOTAL NET OPERATING INCOME I	**4.943.391**	**3.139.874**	57,4	157,4
TOTAL NET OPERATING EXPENSES	-	-	-	-
Cost of salaries, compensation and other personal expenses	(1.254.159)	(1.178.238)	6,4	106,4
Depreciation costs	(253.606)	(231.338)	9,6	109,6
Other income	149.484	67.353	121,9	221,9
Other expenses	(1.742.241)	(1.605.218)	8,5	108,5
PROFIT BEFORE TAX	**1.842.869**	**192.433**	857,7	957,7
LOSS BEFORE TAX	-	-	-	-
Income tax	75.322	-	-	-
Profit from deferred taxes	1.004	13.610	(92,6)	7,4
Loss from deferred taxes	95.152	-		
PROFIT AFTER TAX	**1.673.399**	**206.043**	712,2	812,2
LOSS AFTER TAX	-	-	-	-
Net profit from discontinued operations	-	-	-	-
Net loss from discontinued operations	-	-	-	-
RESULT OF THE PERIOD – PROFIT	**1.673.399**	**206.043**	712,2	812,2
RESULT OF THE PERIOD - LOSS	-	-	-	-
Profit attributable to the parent entity u	-	-	-	-
Profit attributable to non-controlling owner	-	-	-	-
Loss attributable to parent entity	-	-	-	-
Loss attributable to non-controlling owners	-	-	-	-
Earnings per share				
Basic earnings per share	-	-	-	-
Reduced (diluted) earnings per share	-	-	-	-

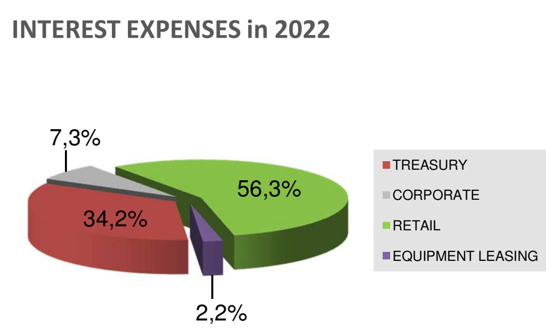
Interest income and expenses



During the first quarter of 2022, net interest income was realized in the amount of RSD 3.097,3 million, which compared to the same period last year represents an increase of 4.9%.

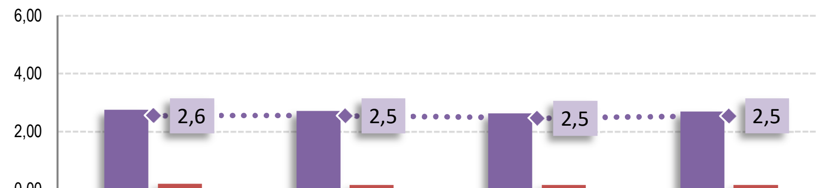
Compared to the first quarter of last year, interest income increased by RSD 58,8 million or 1.8%, while interest expenses decreased by RSD 86,5 million or 32.5%.





Within interest income, the largest share belongs to interest income from retail banking (RSD 1.781,2 million or 54.3%). Within interest expenses the interest on retail deposits also prevail (RSD 101,4 million or 56.3%) which is mostly a result from interest expenses attributable to collected FX savings.

MOVEMENT OF INTEREST
MARGIN ON TOTAL ASSETS in %



	2021	January	February	March
Average lending interest rate	*2,75*	*2,70*	*2,62*	*2,69*
Average debit interest rate	*0,20*	*0,16*	*0,15*	*0,15*
Average interest margin	*2,55*	*2,55*	*2,47*	*2,54*

Average lending interest rate at the end of the first quarter 2022 was 2.69%, and average debit interest rate 0.15%, so that the average interest margin of the Bank in the first quarter of 2022 was 2.54%.

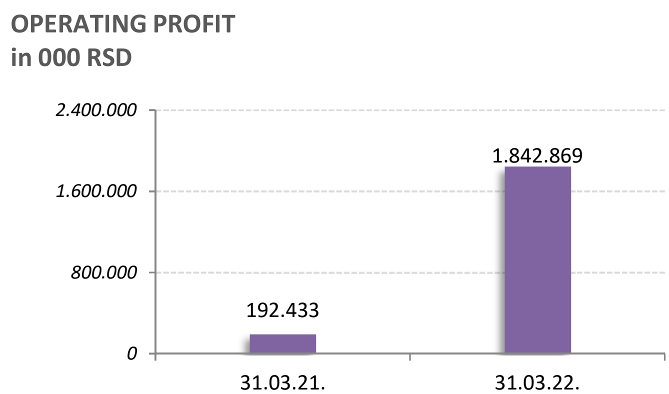
Fee income and expenses

FEE INCOME AND EXPENSES in 000 RSD

During the first quarter of 2022, compared to the same period last year, the fee and commission income for banking services increased by RSD 591,3 million or 36.5%. At the same time, fee and commission expenses are higher by RSD 132,7 million, i.e., by 32.0%

Fee and commission gain for the first quarter 2022 amounts to RSD 1.664,8 million and is higher by RSD 458,7 million compared to the same period of previous year.

Realized operating profit



In the period from January 1 to March 31, 2022, operating profit was realized in the amount of RSD 1.842,9 million, which is an increase compared to the same period last year.

The realized operating profit provided the Bank, in the first quarter of 2022, with a return on total capital of 9.77%, i.e., a return on average assets of 1.51%.

Performance indicators prescribed by the Law on Banks

	Prescribed	31.03.2022.	2021.
CAPITAL ADEQUACY RATIO (CAPITAL / NPL); *PART ACCORDING TO NBS DECISION	MIN 8,0%+drs*	26,64%	28,55%
RATIO OF INVESTMENT IN ENTITIES OUTSIDE FINANCIAL SECTOR AND IN FIXED ASSETS	MAX 60%	17,81%	17,40%
RATIO OF BANK'S LARGE EXPOSURE	MAX 400%	35,02%	17,14%
FX RISK RATIO	MAX 20%	1,64%	2,00%
LIQUIDITY RATIO (monthly, last day in the month)	MIN 0,8	3,30	3,88

Note: Pursuant to NBS regulations, the Bank calculates capital conservation buffer, capital buffer for systemically important banks and structural systemic risk capital buffer.

The realized capital adequacy ratio is above the regulatory limit established by the National Bank of Serbia.

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

A detailed description of the main risks and threats to which the Bank is exposed in the forthcoming period is presented in Chapter 5. Risk Management, Notes to the Financial Statements for the first quarter of 2022.

ALL SIGNIFICANT EVENTS WITH RELATED PERSONS

As of 31.03.2022, the persons related to the Bank are:

1. Nova Ljubljanska Banka dd Ljubljana
2. NLB Banka ad Beograd
3. NLB Banka ad Podgorica, Montenegro,
4. NLB Banka ad Banja Luka, Bosnia and Herzegovina,
5. KomBank Invest ad Beograd,
6. Five legal entities and a larger number of natural persons, according to the provisions of Article 2 of the Law on Banks in the part which regulates the term "persons related to the bank".

Total exposure to persons related to the Bank as at 31.03.2022, amounted to RSD 11,117.3 million, which in relation to the regulatory capital[11] of RSD 63,352.0 million represented 17.55% (the maximum value of total loans and advances to all persons related to the Bank is 25% of capital according to the Law on Banks).

Maximum individual exposure to persons related to the Bank (in accordance with the NBS methodology for presenting exposures to persons related to the Bank), is an exposure in the amount of RSD 8,650.5 million or 13.65% of the Bank's regulatory capital as at 31.3.2022.

In accordance with Article 37 of the Law on Banks, the Bank did not approve loans to persons related to the Bank on better terms than prescribed for granting loans to other persons not related to the Bank.

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

DESCRIPTION OF ALL MAJOR EVENTS AFTER THE END OF THE BUSINESS YEAR

At the end of 2021, and during the first quarter of 2022 of the most important business events, we highlight that an extraordinary session of the Bank's General Meeting of Shareholders was held on 02.02.2022.
At the Extraordinary General Meeting of Shareholders of the Bank on February 2, 2022, the following decisions were made:

1. Decision on Amendments to the Memorandum of Association;
2. Decision on Adoption of the Articles of Association of NLB Komercijalna Banka ad Beograd
3. Decision on Accepting the Merger of NLB Banka ad Beograd with Komercijalna Banka ad Beograd.

A new extraordinary session of the Bank's General Meeting of Shareholders was held on 25.02.2022. The following decisions were made at the Extraordinary General Meeting of Shareholders of the Bank:

1. Decision on Amendments to the Decision on Acquisition of the Bank's Treasury Shares by Dissenting Shareholders.

A new extraordinary session of the Bank's General Meeting of Shareholders was scheduled and held on April 13, 2022. The following decisions were made at the session of the Bank's General Meeting of Shareholders:

1. Decision on Amendments to the Decision on Amendments to the Memorandum of Association.

The new regular session of the Bank's General Meeting of Shareholders was scheduled and held on April 18, 2022.
The following decisions were made at the session of the Bank's General Meeting of Shareholders:

1. Decision on Adoption of the Annual Business Report and Regular Financial Statements of Komercijalna Banka ad Belgrade for 2021 with the opinion of the external auditor;
2. Decision on Adoption of the Annual Business Report of the Group and Consolidated Financial Statements of Komercijalna Banka ad Beograd Group for 2021 with the opinion of the external auditor;
3. Decision on the Distribution of Profits from 2021 as well as Undistributed Profits From Previous Years;
4. Decision on Sale (alienation) of Komercijalna Banka ad Beograd Treasury Shares;
5. Decision on Adoption of the Strategy and Business Plan of Komercijalna Banka ad Beograd for 2022-2026.

Serbia, like other countries in Europe, is still facing a pandemic caused by the coronavirus COVID-19 during the first quarter of 2022.
In accordance with legal regulations and recommendations of public health institutions, the Bank continues to take all necessary measures to ensure that business activities in the changed conditions are unhindered with the full protection of the Bank's employees and clients.

The description of events after the balance sheet is presented in item 6. Note to the financial statements for the first quarter of 2022.

BASIC DATA ON THE IMPLEMENTATION OF THE BUSINESS PLAN FOR 2022

The business year 2021 and the first quarter of 2022 were marked by the still present pandemic of the COVID-19 virus crown and achieved macroeconomic and financial stability[12], which is in line with the Bank's expectations when drafting the Business Plan for 2022.

According to the SBS, Serbia achieved real GDP growth of 7.4% in 2021[13]. GDP growth was driven by the recovery of the service sectors as well as the growth of construction and industry[14]. As a result of macroeconomic and financial stability, a strong inflow of foreign direct investment, the National Bank of Serbia has projected GDP growth in 2022 in the range of 4.0 to 5.0%[15]. This year's growth is expected to be driven by further activities in the service sectors, construction and industrial production.

Inflation during the second half of 2021 tended to rise and was driven by rising food and oil prices on the world market. Average inflation in 2021 was 4.0%, in December 2021 year-on-year inflation was 7.9%[16]. Year-on-year inflation at the end of March 2022 is 9.1%[17], and according to the projection in the coming period, it should be in a downward trajectory during 2022[18]. Due to the current conflict in Ukraine, additional inflationary pressures on energy prices, food and industrial products are expected in the short term due to rising cost pressures.

Observed on an annual basis, the National Bank of Serbia bought EUR 645.0 million net on the interbank foreign exchange market (MDT) in 2021[19], which contributed to maintaining the relative stability of the dinar exchange rate against the euro. Since the beginning of 2022, the National Bank of Serbia has sold a net EUR 2,115 million on MDT due to the preservation of the relative stability of the dinar exchange rate against the euro.[20]

Confirmation of Serbia's good economic perspective can be found in the assessments of the three leading rating agencies. In March 2021, Moody's upgraded Serbia's credit rating from Ba3 to Ba2 with a stable outlook for further rating growth. In February 2022, the Fitch rating agency maintained Serbia's credit rating at BB +, in conditions of intensified geopolitical tensions, which confirms the correctness of Serbia's economic policy. In December 2021, the S&P Agency reaffirmed Serbia's credit rating at BB +.[21]

12 National Bank of Serbia, Macroeconomic Trends in Serbia, March 2022
13 National Bank of Serbia, Macroeconomic Trends in Serbia, March 2022
14 National Bank of Serbia, Macroeconomic Trends in Serbia, March 2022
15 National Bank of Serbia, Macroeconomic Trends in Serbia, March 2022
16 SBS, Press Release , December 2021
17 SBS, Press Release, March 2022
18 National Bank of Serbia, Macroeconomic Trends in Serbia, March 2022
19 National Bank of Serbia , Inflation Report, February 2022
20 National Bank of Serbia, State of foreign exchange reserves and movements on the interbank foreign exchange market in March, April 12, 2022
21 National Bank of Serbia, Macroeconomic Trends in Serbia, March 2022

Planned and generated Balance Sheet values for the first quarter of 2022

At the end of the first quarter of 2022, the total balance sheet assets of the Bank amounted to 482,480 million dinars and compared to the planned value for the end of the year it was lower by 21,383 million dinars or 4.2%.

Investment in securities was 136,363 million dinars on March 31, 2022, i.e. 9,274 million dinars or 6.4% below the planned amount for the whole year.

At the end of the first quarter of 2022, loans to customers amounted to 235,865 million dinars, which is below the annual plan. In order to achieve the planned annual level of loans to customers, it is necessary for the Bank to place funds in the amount of 12,692 million dinars in the next three quarters, i.e. to achieve a growth of 5.1%.

At the end of the first quarter of 2022, total deposits reached the value of 388,495 million dinars. In order to achieve the annual planned amounts during the next three quarters of the current year, it is necessary to generate growth of total deposits in the amount of 21,257 million dinars or 5.2%. The most significant growth is expected on retail deposits, an increase of 24,881 million dinars or 7.1% and corporate deposits, an expected increase of 5,654 million dinars or 10.8%.

As of 31.03.2022, other liabilities are above the level of annual planned values.

Realized and planned positions of assets and liabilities in the balance sheet as of March 31, 2022 have the following values:

	ASSETS	**Plan 03/31/22**	**Achieved 03/31/22**	**Index**
1.	Cash and cash equivalents	79,824	77,715	97.4
2.	Securities	145,638	136,363	93.6
3.	**Loans given (3.1. + 3.2. + 3.3.)**	**248,557**	**235,865**	94.9
3.1.	Corporate	99,968	100,717	100.7
3.2.	Retail	133,852	124,247	92.8
3.3.	Banks and financial organizations	14,737	10,901	74.0
4.	Other assets	29,845	32,537	109.0
5.	**TOTAL ASSETS (1. + 2. + 3. + 4.)**	**503,863**	**482,480**	95.8

	LIABILITIES	**Plan 03/31/22**	**Achieved 03/31/22**	**Index**
1.	**Deposits (1.1. + 1.2. + 1.3.)**	**409,752**	**388,495**	94.8
1.1.	Corporate	52,592	46,938	89.2
1.2.	Retail	350,381	325,500	92.9
1.3.	Banks and financial organizations	6,779	16,057	236.9
2.	Other obligations	13,961	20,512	146.9
3.	**Total liabilities (1. + 2.)**	**423,713**	**409.007**	96.5
4.	**Total capital**	80,149	73,472	91.7
5.	**TOTAL LIABILITIES (3. + 4.)**	**503,863**	**482,480**	95.8

Planned and generated values of the P&L Statement for the period from 01.01 to 31.03.2022

		Plan 01.01.-31.03.22.	Achieved 01.01.-31.03.22.	Index
1.1.	Interest income	3,184	3,277	102.9
1.2.	Interest expenses	(202)	(180)	89.0
1.	**Interest income (1.1. + 1.2.)**	**2,982**	**3,097**	103.9
2.1.	Fee and commission income	2,172	2,212	101.8
2.2.	Fee and commission expenses	(467)	(547)	117.1
2.	**Profit on fees and commissions (2.1. +2.2.)**	**1,705**	**1,665**	97.6
3.	Net exchange differences and changes in value (foreign exchange clause)	0	(20)	-
4.	Net other operating income/expenses	176	18	10.3
5.	Net expenses/income from impairment of financial assets. which are not measured at fair value through profit or loss	36	72	199.2
6.	Operating expenses	(3,100)	(2,989)	96.4
7.	**PROFIT FROM REGULAR OPERATIONS (1 + 2 + 3 + 4 + 5 + 6)**	**1,799**	**1,843**	102.5

In the period 01.01-31.03.2022 the bank made a profit before tax in the amount of 1,843 million dinars, which is 44 million dinars or 2.5% above the planned value.

Realized net interest income is higher than planned by 3.9%, while net income from fees and commissions was realized with 97.6% of the planned amount. The lower realization of net fee income is crucially influenced by slightly higher recorded fee and commission expenses compared to the planned value.

In three months of 2022, the Bank realized operating expenses in the amount of 2,989 million dinars, which is 111 million dinars or 3.6% below the planned amount for the same period.

Net income from impairment of financial assets that are not measured at fair value through profit or loss was realized in the amount of 72 million dinars, i.e. higher than the planned amount by 36 million dinars or 99.2%.

The amount of net other operating income is lower than the planned amount by 158 million dinars for the first quarter of the current year.

Signed on behalf of NLB Komercijalna banka ad Beograd

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Svetlana Todorović
Director of Financial Reporting Department

Dejan Janjatović
Deputy Chief Executive Officer

BALANCE SHEET

on 31.03.2022.

(in RSD thousand)

POSITION	ADP code	Amount: Current year ammount	Amount: Previous year ammount
1	2	3	4
ASSETS			
ASSETS Cash and assets held with central bank	0001	77.714.530	82.055.481
Pledged financial assets	0002	9.180.999	-
Receivables under derivatives	0003	-	-
Securities	0004	127.182.467	149.588.755
Loans and receivables from banks and other financial organisations	0005	21.756.247	29.114.381
Loans and receivables from clients	0006	226.410.884	209.044.942
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	1.488.063	1.488.063
Investments into subsidiaries	0010	140.000	140.000
Intangible investments	0011	540.254	582.101
Property, plant and equipment	0012	8.664.798	8.755.659
Investment property	0013	2.614.294	2.610.531
Current tax assets	0014	-	18.911
Deferred tax assets	0015	698.973	509.242
Non-current assets held for sale and discontinued operations	0016	101.614	101.614
Other assets	0017	5.986.487	5.430.725
TOTAL ASSETS (from 0001 to 0017)	0018	482.479.610	489.440.405
LIABILITIES			
LIABILITIES Liabilities under derivatives	0401	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	14.478.409	2.134.969
Deposits and other financial liabilities to clients	0403	384.582.549	403.286.418
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	3.999.459	4.233.853
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	56.411	-
Deferred tax liabilities	0411	-	-
Other liabilities	0412	5.890.408	4.142.443
TOTAL LIABILITIES (from 0401 to 0412)	0413	409.007.236	413.797.683
CAPITAL			
CAPITAL Share capital	0414	40.034.550	40.034.550
Own shares	0415	487.054	-
Profit	0416	9.498.978	9.573.620
Loss	0417	-	-
Reserves	0418	24.425.900	26.034.552
Unrealized losses	0419	-	-
Non-controlling participation	0420	-	-
TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	73.472.374	75.642.722
TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	-	-
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	482.479.610	489.440.405

INCOME STATEMENT

from 01.01.2022. to 31.03.2022.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03.	01.01.-31.03.	01.01.- 31.03
1	2	3*	4**	5*	6*
Interest income	1001	3.277.469	3.277.469	3.218.653	3.218.653
Interest expenses	1002	180.134	180.134	266.680	266.680
Net interest gains (1001-1002)	1003	3.097.335	3.097.335	2.951.973	2.951.973
Net interest losses (1002-1001)	1004	-	-	-	-
Income from fees and commissions	1005	2.211.876	2.211.876	1.620.557	1.620.557
Expenses on fees and commissions	1006	547.107	547.107	414.448	414.448
Net gains from fees and commissions (1005 - 1006)	1007	1.664.769	1.664.769	1.206.109	1.206.109
Net losses on fees and commissions (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009	1.334	1.334	52.635	52.635
Net losses from changes in fair value of financial instruments	1010	-	-	-	-
Net gains on reclassification of financial instruments	1011	-	-	-	-
Net losses on reclassification of financial instruments	1012	-	-	-	-
Net gains from derecognition of the financial instruments measured at fair value	1013	-	-	107.088	107.088
Net losses on derecognition of the financial instruments measured at fair value	1014	60.113	60.113	-	-
Net gains from hedging	1015	-	-	-	-
Net losses on hedging	1016	-	-	-	-
Net exchange rate gains and gains from agreed currency clause	1017	-	-	11.505	11.505
Net exchange rate losses and losses on agreed currency clause	1018	20.130	20.130	-	-
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	71.594	71.594	-	-
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	-	-	1.252.837	1.252.837
Net gains from derecognition of the financial instruments measured at amortised cost	1021	86.194	86.194	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	-	-	-
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-	-	-
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-	-	-
Other operating income	1025	102.408	102.408	63.401	63.401
TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1026	4.943.391	4.943.391	3.139.874	3.139.874
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-	-	-
Salaries, salary compensations and other personal expenses	1028	1.254.159	1.254.159	1.178.238	1.178.238
Depreciation costs	1029	253.606	253.606	231.338	231.338
Other income	1030	149.484	149.484	67.353	67.353
Other expenses	1031	1.742.241	1.742.241	1.605.218	1.605.218
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	1.842.869	1.842.869	192.433	192.433
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Profit tax	1034	75.322	75.322	-	-
Gains from deferred taxes	1035	1.004	1.004	13.610	13.610
Losses on deferred taxes	1036	95.152	95.152	-	-
PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	1.673.399	1.673.399	206.043	206.043
LOSSES AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) < 0	1038	-	-	-	-
Net profit from discontinued operations	1039	-	-	-	-
Net losses on discontinued operations	1040	-	-	-	-
RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	1.673.399	1.673.399	206.043	206.043
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-	-	-
Profit belonging to a parent entity	1043	-	-	-	-
Profit belonging to non-controlling owners	1044	-	-	-	-
Losses belonging to a parent entity	1045	-	-	-	-
Losses belonging to non-controlling owners	1046	-	-	-	-
EARNINGS PER SHARE					
Basic earnings per share (in dinars, without paras)	1047	-	-	-	-
Diluted earnings per share (in dinars, without paras)	1048	-	-	-	-

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

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

STATEMENT OF OTHER COMPREHENSIVE RESULT

from 01.01.2022. to 31.03.2022.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03.	01.01.-31.03.	01.01.-31.03.
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	1.673.399	1.673.399	206.043	206.043
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	82.990	82.990	69.108	69.108
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	-	-	-	-
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	1.975.521	1.975.521	96.027	96.027
Gains from cash flow hedges	2017	-	-	-	-
Losses from cash flow hedges	2018	-	-	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	-	-	-	-
Unrealised gains from hedge of net investments in foreign operations	2021	-	-	-	-
Unrealised losses from hedge of net investments in foreign operations	2022	-	-	-	-
Unrealised gains from other hedging instruments	2023	-	-	-	-
Unrealised losses from other hedging instruments	2024	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026	-	-	-	-
Tax gains relating to other comprehensive income for the period	2027	296.328	296.328	14.404	14.404
Tax losses relating to other comprehensive income for the period	2028	12.448	12.448	10.366	10.366
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) ≥ 0	2029	-	-	-	-
Total negative comprehensive income 2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) < 0	2030	1.608.651	1.608.651	22.881	22.881
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	64.748	64.748	183.162	183.162
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	-	-	-	-
Total positive comprehensive income for the period attributable to non-controlling owners	2034	-	-	-	-
Total negative comprehensive income for the period attributable to the parent entity	2035				
Total negative comprehensive income for the period attributable to non-controlling owners	2036				

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

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

CASH FLOW STATEMENT

from 01.01.2022. to 31.03.2022.

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-31.03.2022.	Amount 01.01.-31.03.2021.
	1	2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities (from 3002 to 3005)**	3001	8.178.56	7.725.28
1.	Interest	3002	5.487.91	5.772.62
2.	Fees	3003	2.260.39	1.631.26
3.	Other operating income	3004	427.75	321.03
4.	Dividends and profit sharing	3005	2.507	36
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	3.496.46	2.857.39
5.	Interest	3007	179.84	289.34
6.	Fees	3008	547.32	413.90
7.	Gross salaries, salary compensations and other personal expenses	3009	802.33	764.18
8.	Taxes, contributions and other duties charged to income	3010	178.05	173.33
9.	Other operating expenses	3011	1.788.90	1.216.63
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	4.682.10	4.867.89
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	2.073	6.020.67
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	-
11.	Decrease in receivables under securities and other financial assets not intended for investment	3016	2.073	1.831.96
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	-	4.188.71
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	30.977.79	6.686.68
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	14.577.65	6.686.68
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	-	-
18.	Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	16.400.13	-
20.	Decrease in other financial liabilities	3026	-	-
21.	Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3028	-	4.201.88
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	26.293.61	-
22.	Profit tax paid	3030	-	3.33
23.	Dividends paid	3031	1.230	6.80
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	-	4.191.74
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	26.294.84	-
B.	**CASH FLOWS FROM INVESTMENT ACTIVITIES**			
I.	**Cash inflow from investing activities (from 3035 to 3039)**	3034	25.970.08	8.461.63
1.	Investment in investment securities	3035	25.970.08	8.461.63
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	-	-
4.	Sale of investment property	3038	-	-
5.	Other inflow from investing activities	3039	-	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	17.137.89	40.77
6.	Investment into investment securities	3041	16.776.31	1.37
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	361.57	39.39
9.	Purchase of investment property	3044	-	-
10.	Other outflow from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	8.832.19	8.420.86
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	-	-
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities (from 3049 to 3054)**	3048	112.465.752	99.682.12
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	112.465.752	99.682.12
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	104.029.089	99.707.5
7.	Purchase of own shares	3056	2.235.09	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	101.701.17	99.597.0
10.	Issuance of securities	3059	-	-
11.	Other outflow from financing activities	3060	92.820	110.53
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	8.436.66	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	-	25.45
D.	**TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	146.616.47	121.889.7
E.	**TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	155.642.46	109.302.5
F.	**NET INCREASE IN CASH (3063 - 3064)**	3065	-	12.587.1
G.	**NET DECREASE IN CASH (3064 - 3063)**	3066	9.025.99	-
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	60.638.03	51.637.2
I.	**EXCHANGE RATE GAINS**	3068	195.53	256.43
J.	**EXCHANGE RATE LOSSES**	3069	120.70	233.49
K.	**CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	51.686.87	64.247.3

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

STATEMENT OF CHANGES IN EQUITY

from 01.01.2022. to 31.03.2022.

(in RSD thousand)

ITEM	ADP code	Share capital and other equity (accounts 800, 801,803, 809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Non-controlling participation	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)<0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as at 1 January of the previous year	4001	17.191.466	4033	0	4065	22.843.084	4097	22.147.207	4129	6.585.755	4147	0	4165	5.893.027	4203		4241		4285	74.660.539	4291	
Effects of the first implementation of new IFRS - increase	4002		4034		4066		4098		4130		4148		4166		4204		4242			x		x
Effects of the first implementation of new IFRS – decrease	4003		4035		4067		4099		4131		4149		4167		4205		4243			x		x
Changes in accounting policies and correction of prior period error – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244			x		x
Changes in accounting policies and correction of prior period error – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245			x		x
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4006	17.191.466	4038	0	4070	22.843.084	4102	22.147.207	4134	6.585.755	4152	0	4170	5.893.027	4208	0	4246		4286	74.660.539		
Total positive other comprehensive income for the period		x		x		x		x	4135		4153			x	x	x	4247			x		x
Total negative other comprehensive income for the period		x		x		x		x	4136	2.698.410	4154			x	x	x	4248			x		x
Profit for the current year		x		x		x		x		x		x	4171	3.645.699	x	x	4249			x		x
Loss for the current year		x		x		x		x		x		x		x	4209		4250			x		x
Transfer from provisions to retained earnings due to provisions reversal – increase		x		x		x		x		x		x	4172		4210		4251			x		x
Transfer from provisions to retained earnings due to provisions reversal – decrease		x		x		x		x		x		x	4173		4211		4252			x		x
Transactions with owners recognized directly in equity – increase	4007		4039		4071		4103			x		x	4174		4212		4253			x		x
Transactions with owners recognized directly in equity – decrease	4008		4040		4072		4104			x		x	4175		4213		4254			x		x
Distribution of profit – increase	4009		4041		4073		4105			x		x	4176		4214		4255			x		x
Distribution of profit and/or coverage of losses – decrease	4010		4042		4074		4106			x		x	4177		4215		4256			x		x
Dividend payments	4011		4043		4075		4107			x		x	4178		4216		4257			x		x
Other – increase	4012		4044		4076		4108			x		x	4179	34.894	4217		4258			x		x
Other – decrease	4013		4045		4077		4109			x		x	4180		4218		4259			x		x
Total transactions with owners (No 11-12+13-14-15+16-17)≥ 0	4014		4046		4078	0	4110	0		x		x	4181	34.894	4219	0	4260			x		x
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4015		4047		4079	0	4111	0		x		x	4182	0	4220	0	4261			x		x
Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	4016	17.191.466	4048	0	4080	22.843.084	4112	22.147.207	4137	3.887.345	4155	0	4183	9.573.620	4221	0	4262		4287	75.642.722	4293	
Opening balance as at 1 January of the current year	4017	17.191.466	4049	0	4081	22.843.084	4113	22.147.207	4138	3.887.345	4156	0	4184	9.573.620	4222	0	4263		4288	75.642.722	4294	
Effects of the first implementation of new IFRS - decrease	4018		4050		4082		4114		4139		4157		4185		4223		4264			x		x
Effects of the first implementation of new IFRS - decrease	4019		4051		4083		4115		4140		4158		4186		4224		4265			x		x
Changes in accounting policies and correction of prior period error – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266			x		x
Changes in accounting policies and correction of prior period error – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267			x		x
Adjusted opening balance as at 1 January of the current year (No 21+22-23)	4022	17.191.466	4054		4086	22.843.084	4118	22.147.207	4143	3.887.345	4161	0	4189	9.573.620	4227		4268		4289	75.642.722	4295	
Total positive other comprehensive income for the perio		x		x		x		x	4144		4162			x	x	x	4269			x		x
Total negative other comprehensive income for the period		x		x		x		x	4145	1.608.652	4163			x	x	x	4270			x		x
Profit for the current year		x		x		x		x		x		x	4190	1.673.399	x	x	4271			x		x
Loss for the current year		x		x		x		x		x		x		x	4228		4272			x		x
Transfer from provisions to retained earnings due to provisions reversal – increase		x		x		x		x		x		x	4191		4229		4273			x		x
Transfer from provisions to retained earnings due to provisions reversal – decrease		x		x		x		x		x		x	4192		4230		4274			x		x
Transactions with owners recognized directly in equity – increase	4023		4055		4087		4119			x		x	4193		4231		4275			x		x
Transactions with owners recognized directly in equity – decrease	4024		4056	487.054	4088		4120			x		x	4194	1.748.041	4232		4276			x		x
Distribution of profit – increase	4025		4057		4089		4121			x		x	4195		4233		4277			x		x
Distribution of profit and/or coverage of losses – decrease	4026		4058		4090		4122			x		x	4196		4234		4278			x		x
Dividend payments	4027		4059		4091		4123			x		x	4197		4235		4279			x		x
Other – increase	4028		4060		4092		4124			x		x	4198		4236		4280			x		x
Other – decrease	4029		4061		4093		4125			x		x	4199		4237		4281			x		x
Total transactions with owners (No 31-32+33-34-35+36- 37)≥ 0	4030	0	4062	0	4094	0	4126	0		x		x	4200		4238	0	4282			0		x
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4031	0	4063	487.054	4095	0	4127	0		x		x	4201	1.748.041	4239	0	4283			0		x
Balance as at 31 March of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4032	17.191.466	4064	487.054	4096	22.843.084	4128	22.147.207	4146	2.278.693	4164	0	4202	9.498.978	4240	0	4284		4290	73.472.374	4296	

NLB Komercijalna banka

NOTES

WITH THE FINANCIAL STATEMENTS FOR THE FIRST QUARTER 2022

Belgrade, April 2022

1. INCORPORATION AND OPERATION OF THE BANK

Komercijalna Banka a.d., Beograd (hereinafter referred to as "Bank") was incorporated on 1st December 1970, and transformed into a joint-stock company on 6th May 1992. The Bank was registered at the Commercial Court in Belgrade on July 10th, 1991 and was legally reregistered at the Business Registers Agency on April 14th, 2006. The Bank was granted a license for banking activity by the National Bank of Yugoslavia on July 3rd, 1991.

The largest stake in the Bank's controlling shares is owned by 88.28 %

Status change - merger of NLB banka a.d. Belgrade with Komercijalna banka ad Belgrade is planned to be conducted on April 29, 2022. year and the National Bank of Serbia submitted the necessary consent.

The Bank has one dependent legal entity with participation in the ownership of:

- 100% - UCITS Fund Management Company KomBank INVEST ad, Belgrade, Serbia

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

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

As of March 31st, 2022, the Bank consists of the headquarters in Belgrade in the street St. Sava no. 14, 4 regions , 1 branch and 180 branches .

As of March 31st, 2022 the Bank had 2,427 employees, and on December 31st, 2021 had 2,372 employees. The Bank's tax identification number is 100001931.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Declaration of Conformity

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

In accordance with the Law on Accounting, legal entities and entrepreneurs in the Republic of Serbia compile and present financial statements in accordance with legal, professional and internal regulations, where professional regulations include the applicable Framework for the preparation and presentation of financial statements ("Framework"), International accounting standards ("IAS"), International Financial Reporting Standards ("IFRS") and interpretations that are an integral part of the standard, i.e. the text of IAS and IFRS, which is applied, does not include the basis for conclusions, illustrative examples, guidelines, comments, contrary opinions, elaborated examples and other additional material.

At the end of 2021, the Bank changed its accounting policies for the subsequent measurement of investment property in such a way that instead of the previously used cost method, the new accounting policy defines the fair value method for measurement after initial recognition. The new policy applies to all investment property of the Bank.

The Bank's management has voluntarily changed the accounting policy in order to comply with the accounting policies of the NLB Group, as well as compiling financial statements that will result in providing more reliable and relevant information on the effects of transactions on the financial position and financial performance of the Bank.

When compiling quarterly financial statements for 2021, the Bank has implemented Accounting Policies in the area of financial instruments and enables it the allocation of credit h loses such for all accounting periods in which the benefits come from the funds, which is a prerequisite for determining the correct result.

The Bank prepares and presents regular financial statements for the current business year ending on December 31 of the current year as well as reports in a shorter period of time for its own needs, at the request of the competent authority of the Bank or competent government agencies.

The attached financial statements are prepared in the format prescribed by the Rulebook on the content, form and manner of publishing annual, semi-annual and quarterly reports of public companies ("Official Gazette of RS", No. 5/2015, 14/2015 and 24/2017), based on which public companies and individual companies related to it submit information to the Securities Commission according to the Law on Capital Market ("Official Gazette of RS", No. 31/2011, 112/2015 , 108/2016 and 9/2020). The prescribed set of quarterly financial statements consists of: Balance Sheet, Income Statement, Statement of Other Results, Statement of Cash Flows, Statement of Changes in Equity and Notes to quarterly financial statements.

2.2. Rules for valuing financial instruments

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

IFRS 16 regulates that on the commencement date of a lease, the lessee recognizes a lease payment obligation (i.e. a lease obligation) and an asset that represents the right to use the asset in question for the duration of the lease (i.e. the right to use the asset). The lessee is required to recognize separately the cost of interest on the lease obligation and the cost of depreciation based on the right to use the asset.

Subsequent valuation of lease asset and liability:

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

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

Subsequently, recognized purchase value is reduced by:

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

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

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

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

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

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

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

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

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

2.2.1. Financial assets

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

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

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

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

Financial assets may be classified into the following categories:

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

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

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

2.2.2. Financial liabilities

Financial liability is any contracted liability of the Bank:

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

2.3. Functional and Reporting Currency

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

3. STRUCTURE OF BALANCE SHEET AND P&L, OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ASSESSMENTS AND ASSUMPTIONS

BALANCE SHEET

The structure of the Bank's balance sheet as of March 31st 2022, with comparative data for 2020, prepared in the format prescribed by the Decision on Forms and the Contents of Items in the Forms for Financial Statements of Banks (RS Official Gazette 101/2017, 38/2018 and 103/2018), apples from 1st January 2018 and can be seen in more detail from the following overview:

In thousands of RSD

	31.03.2022.		31.12.2021.	
ASSETS	Amount	%	Amount	%
Cash and funds at price. Banks	77,714,530	16.11	82,055,481	16.77
Pledged funds	9,180,999	1.90	-	
Securities	127,182,467	26.36	149,588,755	30.56
Loans and receivables from banks and other financial organizations	21,756,247	4.51	29,114,381	5.95
Loans and receivables from customers	226,410,884	46.93	209,044,942	42.71
Investments in associates and joint ventures	1,488,063	0.31	1,488,063	0.31
Investments in subsidiaries	140,000	0.03	140,000	0.03
Intangible assets	540,254	0.11	582,101	0.12
Property, plant and equipment	8,664,798	1.80	8,755,659	1.79
Investment real estate	2,614,294	0.54	2,610,531	0.53
Current tax assets	-	-	18,911	-
Deferred tax assets	698,973	0.14	509,242	0.10
Fixed assets intended for sale and assets of business that are suspended	101,614	0.02	101,614	0.02
Other funds	5,986,487	1.24	5,430,725	1.11
TOTAL ASSETS	**482,479,610**	**100.00**	**489,440,405**	**100.00**

LIABILITIES	Amount	%	Amount	%
Deposits and other fin. liabilities to banks, other financial organizations and the central bank	14,478,409	3.00	2,134,969	0.44
Deposits and other fin. liabilities to other clients	384,582,549	79.71	403,286,418	82.40
Reservations	3,999,459	0 .83	4,233,853	0.86
Current tax liabilities	56,411	0.01	-	-
Other obligations	5,890,408	1.22	4,142,443	0.85
Total liabilities	**409,007,236**	**84.77**	**413,797,683**	**84.55**
Capital				
Share capital	40,034,550	8.30	40, 0 34,550	8.18
Own actions	(487,054)	(0.10)	-	-
Profit	9,498,978	1. 97	9,573,620	1.95
Reserves	24,425,900	5.06	26,034,552	5.32
Total capital _	**73,472,374**	**15.23**	**75,642,722**	**15.45**
TOTAL LIABILITIES	**482,479,610**	**100.00**	**489,440,405**	**100.00**

INCOME STATEMENT

Structure of revenues and expenditures for 2022 is as set forth below:

In thousands of RSD

	31.03.2022. Total	31.03.2021. Total
Interest income	3,277,469	3,218,653
Interest expenses	(180,134)	(266,680)
Net interest income	**3,097,335**	**2,951,973**
Fee and commission income	2,211,876	1,620,557
Fee and commission expenses	(547,107)	(414,448)
Net income according to fee and commission	**1,664,769**	**1,206,109**
Net profit from change in fair value of financial instruments	1,334	52,635
Net gain on derecognition of financial instruments measured at fair value	-	107,088
Net loss on derecognition of financial instruments measured at fair value	(60,113)	-
Net income from exchange rate differences and the effects of the contracted currency clause	-	11,505
Net expense from exchange rate differences and the effects of the agreed currency clause	(20,130)	-
Net income from impairment of financial assets not measured at fair value through profit or loss	71,594	-
Net expense on impairment of financial assets not measured at fair value through profit or loss	-	(1,252,837)
Net gain on derecognition of financial instruments measured at amortized cost	86,194	-
Other operating income	102,408	63,401
Total net operating income	**4,940,991**	**3,139,874**
Wage costs, wage compensation and other personal expenses	(1,254,159)	(1,178,238)
Depreciation costs	(253,606)	(231,338)
Other income	149,484	67,353
Other expenses	(1,742,241)	(1,605,218)
Profit / loss before taxes	**1,842,869**	**192,433**
Income tax	**(75,322)**	**-**
Profit from deferred taxes	**1,004**	**13,610**
Deferred tax loss	**(95,152)**	-
Period result (gain / loss)	**1,673,399**	**206,043**

CASH FLOW STATEMENT

Cash flows realized in 2022 are shown in the following table:

In thousands of RSD

	31.03.2022 .	31.03.2021.
Position	Total	Total
Cash inflows from operating activities Interest inflows	**8,178,563**	**7,725,289**
Fee inflows	5,487,913	5,772,626
Inflows from other business activities	2,260,391	1,631,264
Dividend inflows and profit sharing	427,752	321,038
	2,507	361
Cash outflows from operating activities		
Interest outflows	**(3,496,461)**	**(2,857,397)**
Fee outflows	(179,845)	(289,344)
Outflows based on gross earnings, salary compensation and	(547,326)	(413,908)
other personal expenses	(802,334)	(764,181)
Outflows from taxes, contributions and others duty on expenses	(178,054)	(173,331)
Outflows from other operating expenses	(1,788,902)	(1,216,633)
Net cash inflow from operating activities before increasing or decreasing financial assets and financial liabilities	**4,682,102**	**4,867,892**
Decrease in financial resources and increase in financial liabilities	**(2,073)**	**(6,020,675)**
Reduction of receivables from securities and other financial assets not intended for investment	(2,073)	(1,831,960)
Increase in deposits and other financial liabilities to banks and other fin. organizations, the central bank and clients	-	(4,188,715)
Increasing financial resources and reducing financial liabilities	**30,977,793**	**6,686,686**
Increase in loans and receivables from banks, other financial organizations, central banks and customers	14,577,655	6,686,686
Reduction of deposits and other financial liabilities to banks and other financial organizations, central banks and customers	16,400,138	-

Position	31.03.2022 In total	31.03.2021. In total
Net cash inflow from operating activities before income tax	**-**	**4,201,881**
Net cash outflow from operating activities before income tax	**26,293,618**	**-**
Paid income taxes	-	(3,337)
Dividends paid	(1,230)	(6,801)
Net cash inflow from operating activities	**-**	**4,191,743**
Net cash outflow from operating activities	**(26,294,848)**	**-**
Cash inflows from investing activities	**25,970,083**	**8,461,636**
Inflows from investments in investment securities	25,970,083	8,461,636
Cash outflows from investing activities	**(17,137,892)**	**(40,770)**
Outflows from investments in investment securities	(16,776,318)	(1,371)
Outflows for the purchase of intangible assets, real estate, plant and equipment	(361,574)	(39,399)
Net cash inflow from investing activities	**8,832,191**	**-**
Net cash outflows from investing activities	**-**	**(8,420,866)**
Cash inflows from financing activities	**112,465,752**	**99,682,124**
Inflows based on loans taken	112,465,752	99,682,124
Cash outflows from financing activities	**(104,029,089)**	**(99,707,578)**
Cash outflows based on repurchase of own shares	(2,235,096)	-
Cash outflows based on Borrowings	(101,701,173)	(99,597,046)
Other outflows from financing activities	(92,820)	(110,532)
Net cash inflow from financing activities	**8,436,663**	**-**
Net cash outflow from financing activities	**-**	**(25,424)**
All cash inflows	**146,616,471**	**121,889,724**
Just cash outflows	**(155,642,465)**	**(109,302,569)**
Net increase in cash	**-**	**12,587,155**
Net reduction in cash	**(9,025,994)**	**-**
Cash and cash equivalents at the beginning of the year	**60,638,037**	**51,637,298**
Positive exchange rate differences Negative exchange rate differences	195,535 (120,705)	256,437 (233,491)
Cash and cash equivalents at the end of the period	**51,686,873**	**64,247,399**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

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

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

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

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

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

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

Net interest income in the period January - March 2022 amount to 3,097,335 thousand dinars and are higher by 145,362 thousand dinars or 4.92 % compared to the same period last year.

Realized net interest income is higher than determined by the business plan for the first three months of 2022, for 115,590 thousand dinars.

3.2. Fee and commission income and expenses

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

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

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

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

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

Net income from fees and commissions in the period January - March 2022 amount to 1,664,769 thousand dinars and are higher compared to the same period in 2021 by 38.03 % or 458,660 thousand dinars.

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

Realized or unrealized gains and losses based on the change in the market value of trading securities and which are measured at fair value through the P&L are recognized within this item, while unrealized profit and loss from the change in the value of debentures and proprietary securities measured at fair value through other comprehensive income are recognized within revaluation reserves included in the Bank's capital.

In the observed period 2022 the Bank reported a net profit from the change in the fair value of financial instruments held for trading in the amount of 1,334 thousand dinars (investment units of Kombank money fund).

Upon derecognition of securities at fair value through profit or loss, the corresponding amounts of previously formed revaluation reserves are recognized in the income statement as gains or losses on derecognition, while on derecognition of securities at fair value through profit or loss previously formed amounts related to changes in value are also recognized in the income statement as gains or losses on derecognition.

Based on the derecognition of financial instruments measured at fair value through profit or loss and through other results, a net loss of 60,113 thousand dinars was recorded (bonds of the Republic of Serbia , bonds of foreign banks and investment units of the Kombank Monetary Fund).

Gains / losses on the contractual currency clause and changes in the exchange rate of securities as well as interest income on securities other than securities at fair value through profit or loss are recognized in the income statement.

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

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

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

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

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

Net expenses according to exchange rate differences in the reporting period January - March 2022 amount to 20,130 thousand dinars. The reported net income is mostly under the direct influence of the dinar exchange rate against the basket of currencies (EUR, USD and CHF) between the two observed reporting periods as a form of risk protection and management of the Bank's foreign exchange position - balanced foreign exchange position.

Commitments and contingent liabilities denominated in foreign currencies are translated into dinars at the middle exchange rate determined on the interbank foreign exchange market valid on the balance sheet date.

3. 5 . Net income/expenses from impairment of financial assets not measured at fair value through profit and loss account

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

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

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

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

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

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

In the period January - March 2022 the Bank reported net income based on impairment of financial assets and credit risk off-balance sheet items that are not measured at fair value through profit or loss in the amount of 71,594 thousand dinars, while in the same period of 2021, net expenses on this basis amounted to 1,252,837 thousand dinars.

In the current reporting period 2022, the most significant effects are given below.

Net negative effect of group and individual calculation of impairment for loans, other receivables and off - balance sheet items in the period January - March 2022 is 209,940 thousand dinars.

Net income from impairment of debt securities at fair value through profit or loss in the period January - March 2022 is 26,982 thousand dinars.

The positive effect refers to the collection of written-off receivables in the amount of RSD 254,552 thousand. Of the total amount of collected written-off receivables, the most significant part refers to the collection of loans to legal entities in the amount of 186,402 thousand dinars.

3.6. Net gain on derecognition of financial instruments measured at amortized cost

In the period January - March 2022, net profits were recorded on the basis derecognition of financial instruments measured at amortized cost in the amount of 86,194 thousand dinars. The amount relates entirely to the effects of the sale of receivables from the client.

3.7. Other operating income

In the total other operating income in the amount of 102,408 thousand dinars, the most significant share of 96.50 % have operating income (the same period in the previous year 99.19 %), which mostly relate to income generated by leasing real estate in the amount of 71,974 thousand dinars. Other operating income was generated according to reimbursement of expenses according to: utility and court costs, income from long-term insurance, income from the charged costs of official mobile phones authorized by employees, as well as income from the use of official vehicles for private purposes.

Dividend income is part of the position of other operating income. Dividends received according to investments in shares of other legal entities in the amount of 3,582 thousand and dinars are presented as dividend income at the time of their collection. The total amount of collected dividends of 3,582 thousand dinars refers to dividends received from VISA Inc USA in the amount of 2,974 thousand dinars and MasterCard USA in the amount of 608 thousand dinars.

3.8. Costs of Salaries, Allowances and other Personnel Expenses

Costs of salaries, allowances and other personnel expenses in amount of 1,254,159 thousand dinars are lower by 75,921 thousand and dinars or 6.44 % compared to the same period last year.

3.9. Depreciation costs

Depreciation costs amounting to RSD 253,606 thousand are higher than in January - March 2021 by 26,298 thousand dinars or 9.63 %.

3.10. Other income

In the total other income in the amount of 149,484 thousand dinars, the most significant share of 56.01 % has the income from the abolition of unused provisions for litigation in the amount of 83,722 thousand dinars (reference note 3.21). Other revenues have a share of 43.99 % or 65,762 thousand dinars, of which amount the most important item relates to other income from the sale of funds acquired through the collection of receivables in the amount of 44,467 thousand dinars.

3.11. Other expenses

Other expenses are stated in the amount of 1,742,241 thousand dinars and are higher compared to the same period last year by 137,023 thousand dinars or 8.54 %. Other expenses comprise:

a) operating expenses in the amount from 1,487,834 thousand dinars ,
b) expenses on provisions for court obligations in the amount of 137,561 thousands of dinars ,
c) losses from disposal and write-off of fixed assets and intangible assets in amount of 3,089 thousand dinars
d) other expenses in the amount of 113,757 thousand dinars

The following items account for the largest share of other expenses

a) Operating expenses in the total amount of RSD 1,487,834 thousand, as follows:

Intangible costs in the amount of RSD 760,142 thousand with the largest individual item of deposit insurance costs in the amount of RSD 424,040 thousand. The structure of other costs in the position of operating expenses includes: costs of materials in the amount of 75,624 thousand dinars, costs of advertising and propaganda in the country in the amount of 73,381 thousand dinars, costs of maintenance of IT equipment and software in the amount of 67,108 thousand dinars , costs of SMS services in the amount of 43,939 thousand dinars , costs of management and maintenance of ATM for payment cards in the amount of 41,779 thousand dinars, costs of management and maintenance of POS network and other equipment for payment cards in the amount of 40,316 thousand dinars, costs of current maintenance of business premises and other equipment in the amount of 37,862 thousand dinars, heating costs in the amount of 23,587 thousand dinars, costs of maintenance of electronic banking equipment in the amount of RSD 19,611 thousand , tax expenses in the amount of RSD 40,221 thousand, contribution costs in the amount of RSD 175,128 thousand and other expenses in the amount of RSD 4,389 thousand.

Operating expenses of the current period are higher compared to the same period last year by 797,066 thousand dinars (mostly due to higher costs of advertising and promotion in the country, costs of intellectual services and costs of deposit insurance premiums).

b) Expenses on provisions for court liabilities in the amount of 137,561 thousands of dinars related to the increase in provisions for the Bank 's legal obligations in 2022 (reference note 3.21),

c) Losses on disposal and write-off of fixed assets and intangible assets in the amount of 3,089 thousand dinars in accordance with the report of the competent commission and the decision of the Bank's bodies.

e) Other expenses in the amount of 113,757 thousand dinars

From the total amount of other expenditures for the period January - March 2022 in the amount *of RSD 113,757* thousand, the largest part relates to the costs of the loan beneficiary's insurance policy in the amount of RSD 71,438 thousand. Other expenses on this basis in the same period 2021 amounted to 49,866 thousand dinars.

In relation to the same period 2021, other expenses are higher by 31,036 thousand dinars primarily as a result of one increase costs under the insurance policy of receivables from loan beneficiaries (increase by RSD 21,572 thousand), costs of expenses on lost litigation (increase by RSD 9,854 thousand) and increase of expenses on sale of funds acquired through collection of receivables (increase by RSD 2,354 thousand) and on the other hand reduction of other expenses according to interest on court disputes (reduction by 2,098 thousand dinars).

3.12 . Profit/loss from deferred tax

In the income statement as of March 31, 2022 the Bank reported a net loss based on the effects of deferred taxes in the amount of RSD 94,148 thousand.

Balance Sheet

Overall balance sheet total as of 31.032022 amounts to 482,479,610 thousand dinars, which in relation to 31.12.2021 represents decrease by RSD 6,960,795 thousand or 1.42 %.

ASSETS

The dominant share in the total assets of the Bank is that of the loans and deposits to customers and banks of 51.44 % (2021: 48.66 %), securities with a share of 26.36 % (2021: 30.56 %), cash and funds with the central bank with a share of 16.11 % (2021:16.77 %), pledged financial assets with a share of 1.90% (2021: 0.00%), real estate, plant and equipment with a share of 1.80 % (2021: 1.79 %), other assets with a share of 1.24 % (2021:: 1.11 %) and investment property 0.54 % (2021: 0.53 %).

3.13 . Cash and Balances with the Central Bank

Cash and balances with the central bank on 31.03.2022 amount to RSD 77,714,530 thousand and represent 16.11% of the Bank's total assets (16.77 % as at 31 December 2021). In relation to 31.12. 2021, the position is lower by 4,340,951 thousand dinars.

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

3.14. Pledged funds

The pledged financial assets of the Bank in the amount of RSD 9,180,999 thousand relate to securities in dinars at fair value through other results sold by the Bank to the National Bank of Serbia, with a contractual obligation to repurchase them on the agreed repurchase date of May 9, 2022, in order to provide conditions for approval and receipt of loans from the National Bank of Serbia under the subject repo transaction for sold securities (reference note 3.20). Pledged financial assets make up 1.90% of total assets.

During the repo transaction, the ownership of the securities in question is changed, while the income from interest on securities subject to the repo transaction, as well as all payments of part of the nominal value during the transaction, belong to the Bank - as the seller, and the National Bank of Serbia - as a buyer is obliged to pay the entire amount of that income, i.e. the entire amount paid by the issuer of securities during the repo transaction , to the Bank's cash account - as a seller.

3.15. Securities

Investments in securities in the amount of 127,182,467 thousand dinars make up the percentage of participation of 26.36 % in relation to total assets (20 21: 30.56 %) and consist of securities valued at fair value through profit or loss in the amount of 514,337 thousand dinars, securities valued at fair value through other results in the amount of 123,843,351 thousand dinars and securities valued at amortized cost in the amount of 2,824,779 thousand dinars.

There was a decrease in the placement of securities in relation to 2021 by 22,406,288 thousand dinars or 14.98 %. The decrease is the result on the one hand of a decrease in securities valued at fair value through other results by RSD 24,298,097 thousand, and on the other hand increases in securities valued at amortized cost in the amount of RSD 1,890,294 thousand, as well as increases in securities valued at fair value through profit or loss by RSD 1,515 thousand.

The largest share in the securities structure in RSD is that of the Republic of Serbia bonds (98.04 %), corporate bonds of public enterprises (1.14 %), investment units of KomBank Money Fund, Beograd (0.73 %) and discounted corporate bills (0.09 %). When it comes to securities in foreign currency, they consist of bonds of the Republic of Serbia (72.74 %), bonds of foreign bank and investmentt bonds (16.44 %), T-bills of foreign countries (10.46 %), and bonds based on earlier FX savings (0.36 %).

3.16. Loans and Receivables from Banks and Other Financial Organizations and Loans and Receivables from customers

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

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

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

As at 31.03.2022, loans and receivables from banks and other financial organizations amount to RSD 21,756,247 thousand and a share of 4.51 % of total assets (2021 : 29,114,381 thousand dinars) and lower are for 7,358,134 thousand dinars. Decrease compared to 31.12.2021 is mostly the result on the one hand reduction of funds in regular foreign currency current accounts abroad by 8,835,275 thousand dinars, non-purpose time deposits with banks in dinars by RSD 700,000 thousand, custodian bank accounts with foreign banks by RSD 239,340 thousand, and on the other hand increases in time deposits with foreign banks in foreign currency by RSD 1,383,676 thousand, non-purpose deposits with banks in foreign currency by RSD 942,344 other financial placements with CBAK in foreign currency for RSD 40,761 thousand and covered guarantees for card transactions (Visa and Master) for RSD 15,930 thousand.

Loans and receivables from customers on 31.03.2022 amount to 226,410,884 thousand dinars and with a percentage of 46.93 % of total assets (20 21: 209,044,942 thousand dinars) have a dominant share in the structure of assets. Total placements to customers are higher by 8.31. % in relation to 2021, i.e. by 17,365,942 thousand dinars, as a result of the net increase in newly approved loans on the one hand, and the reduction of placements due to early and regular repayments on the other hand , as well as the impact of the net effects of the calculation of these and recognized impairment provision. The stated net increase in newly approved loans mostly refers to two new placements to legal entities in the amount of RSD 8,231,617 thousand.

In the period January - March 2022 in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank did a permanent write-off by transferring the balance-sheet assets to off-balance-sheet records in the amount of 20 thousand dinars. The permanent write-off did not result in a decrease in balance-sheet assets, given that the write-off was done for the receivables that had been 100% impaired i.e. in full gross amount of carrying value. According to the NBS decision, balance-sheet assets include NPLs that fit the description in the Decision on the classification of balance-sheet assets and off-balance-sheet items.

3.17. Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures amount to 1,488,063 thousand dinars and account for 0.31 % of total assets.
Investments in subsidiaries as of March 31, 2022 amount to 2,366,273 thousand dinars (gross amount without valuation impairment):

	In thousands of dinars
NLB Banka ad, Podgorica	2,366,273
Value adjustment	(878,210)
Total	**1,488,063**

In November 2021, in a business combination within the NLB Group, the Bank acquired a 23.97% stake in the capital of NLB Banka ad Podgorica on behalf of its participation in Komercijalna Banka Podgorica.
The Bank hired an independent appraiser to assess the share after the status change of the merger with the merger of Komercijalna Banka ad Podgorica to NLB Banka ad Podgorica on 30.11.2021. .

3.18 . Investments in subsidiaries

Investments in subsidiaries amount to RSD 140,000 thousand or 0.03% of total assets and are entirely related to UCITS Fund Management Company KomBank INVEST ad, Beograd.
During 2021, the Bank disposed of its share in Komercijalna Banka ad Banja Luka, while Komercijalna Banka ad Podgorica was merged with NLB Banka ad Podgorica, and the Bank thus lost control in Komercijalna Banka ad Podgorica and gained significant influence in NLB ad Podgorica with a share of 23.97%.

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

All of the above items account for 3.85 % of total assets, of which the largest percentage relates to real estate plant and equipment in the amount of 1.80 %, other assets in the amount of 1.24 % and investment property in the amount of 0.54 %.

Investments in equity of banks, foreign and local legal entities as of March 31, 2022 amount to 2,139,069 thousand dinars at fair value through other results. The largest amount relates to participation in the capital of foreign persons in the amount of 2,022,415 thousand dinars and represents participations in the companies MASTER Card International and VISA INC.

As at 31.03.2022 the netting of deferred tax assets and deferred tax liabilities was carried out on March 31.2022. Deferred tax assets amount to 698,973 thousand dinars. Observed on a gross basis (before netting), deferred tax assets amount to 1,308,137 thousand dinars, and are mostly deferred tax assets based on temporarily unrecognized expenses based on impairment of assets in the amount of 357,279 thousand dinars according to provisions for litigation in the amount of 355,543 thousand dinars and according to revaluation of securities in the amount of 349,913 thousand dinars

As of 31.12.2021, a tax loss in the amount of 198,215 thousand dinars was realized, so the previously transferred tax losses remained unused. With this date, a new tax asset in the amount of 29,732 thousand dinars was registered, which was cancelled under 31.03.2022.

Deferred tax assets according to transferred tax losses

In thousands of dinars

Year	Increase (forming)	Reduction (use)	Condition
2017	1,235,813	(368,667)	867,146
2018	641,193	(630,339)	878,000
2019.	1,107,438	(726,088)	1,259,350
2020.	1,654	(1,261,004)	0
2021.	29,732	-	29,732
31.03.2022.		(29,732)	0

Based on the submitted tax return and tax balance for 2019, the Bank pays in advance the income tax for 2020, until the submission of the tax balance for 2020, i.e.to 06/18/2021 Bank for 2020 and 2021 has no obligation to pay income tax for the year, so it will use the stated overpayment for income tax in the amount of 18,911 thousand dinars for the following periods. Bearing in mind that the Bank stated the liability according to current income tax as of 31.03.2022, and that it is partially covered by the claim for overpaid income tax, on the account of the claim for overpaid income tax, zero was declared as of 31.03.2022.

LIABILITIES

In the period January - March 2022 in the structure of liabilities, deposits and other financial liabilities to banks and customers still have a dominant share with a total percentage of 82.71 % (2021: 82.84 %) of total liabilities. The share of capital in total liabilities is 15.23 % (2021:15.45 %).

Other positions account for 2.06 % of total liabilities, with the largest share related to other liabilities with a percentage of 1.22 %.

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

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

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

The most significant share in the structure of liabilities have deposits and other financial liabilities to customers in the amount of 384,582,549 thousand dinars representing 79.71 % of total liabilities (2021: 82.40 %) and deposits and other financial liabilities to banks, other financial organizations and the central bank in the amount of 14,478,709 thousands of dinars with a share of 3.00 % (2021:0.44 %).

Total deposits with customers, banks, other financial organizations and the central bank amount to 399,060,958 thousand dinars and in relation to 2021 are lower by 6,360,429 thousand dinars: transaction deposits are lower by 11,443,161 thousand dinars, while other deposits are higher by 5,082,732 thousand.

Net decrease in transaction deposits is the result of a decrease in dinar transaction deposits by RSD 12,471,134 thousand, while on the other hand transaction deposits in foreign currency increased by RSD 1,027,973 thousand compared to December 31, 2021. The structure of transaction deposits is still dominated by deposits in domestic currency with a share of 68.05 %, while the remaining 31.95 % refers to deposits in foreign currency.

The net increase in other deposits is a result of one increase in other deposits in dinars in the amount of 10,236,797 thousand dinars, while on the other hand other deposits in foreign currency decreased by 5,154,065 thousand dinars.

In other deposits, foreign currency deposits have a dominant share with a share of 88.43 %, while dinar deposits have a share of 11.57 %. Foreign currency savings are lower by cc and 38.07 million euros.

Borrowings

Borrowings, as part of the position of deposits and other liabilities to banks and other customers, in the first quarter of 2022 realized the following trends:

- Borrowings in dinars were increased by the amount of realized loan on repo business of 8,820,000 thousand dinars from the National Bank of Serbia, based on the contract on sale of securities to the National Bank of Serbia, with the agreed obligation to repurchase them (reference note 3.14). Borrowings in dinars in repo operations account for 1.80% of total liabilities.
- Borrowings in foreign currency amount to 602,380 thousand dinars with a percentage of share in total liabilities of 0.12 % and relate to received credit lines in foreign currency. The overall position is lower than in 2021 by 13,573 thousand dinars, mostly as a result of regular repayments of foreign credit lines in foreign currency, as follows:
  - EIB in the amount of EUR 111 thousand and
  - The Government of the Italian Republic in the amount of 12 thousand EUR.

  As of 31.03.2022, the most significant share in the structure of received loans refers to the obligation to:

  - European Investment Bank (EIB) with a share ratio of 99.77 %

  Other credit lines have a share of 0.23 % and are entirely related to the credit line of the Government of the Republic of Italy.

3.21. Provisions

Provisions in the amount of 3,999,459 thousand dinars consist of provisions for:

- litigation in the amount of 2,370,284 thousand dinars,
- long-term employee benefits in the amount of 416,169 thousand dinars ,
- provisions for losses on off-balance sheet assets in the amount of 218,917 thousand dinars and
- other provisions in the amount of RSD 994,089 thousand,

In the observed period in relation to 2021 there was a net decrease in provisions in the amount of 234,394 thousand dinars, as a result of a net decrease in provisions based on litigation by 233,499 thousand dinars, net reductions in other provisions in the amount of 17,685 thousand dinars, on the one hand, as well as an increase in provisions for losses on off-balance sheet assets in the amount of RSD 10,098 thousand and increase in provisions for long-term employee benefits in the amount of RSD 6,692 thousand on the other hand.

Provisions for litigation

Provisions were recognized based on an estimate of future outflows in the amount of the claims, including interest and costs.

For twenty-four thousand thirty court disputes as of March 31, 2022 the total provision amounts to 2,370,284 thousand dinars.

In relation to 31.12.2021 there was a change in the total level of provisions in the net amount of 233,499 thousand dinars. Of that, the change related to the net cost of provisions for court liabilities amounts to 137,561 thousand dinars recognized within the income statement items (reference notes 3.10 and 3.11) while the reduction of provisions in the amount of 371,060 thousand dinars refers to the use of provisions for payments and the abolition of provisions for judgments. The decrease in provisions for court hearings is largely the result of fewer lawsuits received compared to 2021, withdrawals and waivers of client lawsuits for cases related to loan processing and NMIC, as well as the use of previously formed provisions.

In connection with the court disputes/litigation initiated on the ground of fees the Bank has charged when approving the loan, in the meantime, at the session of the Civil Department of the Supreme Court of Cassation held on September 16, 2021, the Legal Position on the Admissibility of Contracting Loan Costs (adopted on May 22, 2018) was amended by the provision that the bank is not obliged to prove the structure and amount of costs that are included in the total amount of loan costs, specified in the offer accepted by the borrower upon concluding the loan agreement.

At the same session on September 16, 2021, the position on the admissibility of contracting insurance premiums, as an obligation of the borrower to NMIC, was taken, so that it was said that the legally valid provision of the loan agreement obliges the borrower to pay the bank the insurance premium to NMIC, provided that this obligation has been clearly presented to the borrower in the pre-contractual phase by stating this type of loan cost and its percentage and nominal amount in the offer. The bank is not obliged to acquaint the borrower with the structure and method of calculating the loan insurance premium.

In the presented financial statements, the estimate of provisions for litigation according to lawsuits filed against the Bank until 20.09.2021 relating to fees charged by the Bank to borrowers was made without taking into account the position of the Supreme Court of Cassation of 16 September 2021 due to the Bank's determination to wait for the unification of case law based on the position of the Supreme Court of Cassation.

Other provisions

Recognition of provisions for costs of restructuring was made based on adopted Program of voluntary redundancy of Bank’s employees, estimated expected number of employees who would be interested in voluntary leaving the Bank, as well as estimated approximate cost, in order to reduce the number of full time employees and to optimize the Bank’s operations.

As of March 31, 2022, the formed provisions amounted to 790,141 thousand dinars, while according to the Program of voluntary departure of employees in the first quarter, a total of 17,685 thousand dinars was paid.

Provisions for other short-term employee benefits (provisions for unused annual leave) amount to RSD 203,948 thousand.

3.22. Current and deferred tax liabilities

As of 31.03.2022 the Bank has a current tax liability in the amount of RSD 56,411 thousand, calculated according to data for the first quarter of the current year.

The netting of deferred tax assets and deferred tax liabilities was performed on March 31, 2022 and after the netting in the liabilities of the balance sheet, the deferred tax liabilities are zero dinars. Observed according to the gross principle (before netting), deferred tax liabilities amount to RSD 609,164 thousand, which are mostly deferred tax liabilities based on the revaluation of securities in the amount of RSD 583,036 thousand.

3.23. Other liabilities

Other liabilities amount to RSD 5,890,408 thousand and in relation to 2021 they are higher by 1,747,965 thousand dinars. The percentage share of other liabilities in total liabilities is 1.22 % (2021: 0.85 %). The most significant positions of other liabilities are: transitory account in foreign currency according to inflow from sale or maturity of securities in the amount of 1,181,512 thousand dinars, liabilities according to leasing in the amount of 802,287 thousand dinars, calculated liabilities for personal income in the amount of 546,690 thousand dinars, liabilities in the calculation in dinars in the amount of 539,315 thousand dinars, liabilities for subscriptions on loans to households in RSD in the amount of 501,068 thousand dinars, liabilities in foreign currency settlement in the amount of 340,523 thousand dinars, liabilities for net salaries at the expense of expenses in the amount of 298,115 thousand dinars and accrued liabilities on suppliers' invoices in the amount of 277,911 thousand dinars.

The increase in other liabilities by RSD 1,747,965 thousand mainly relates to the increase in the foreign currency transit account based on inflows from sales or maturity of securities in the amount of RSD 1,181,512 thousand, liabilities for retail loans in RSD in the amount of RSD 180,184 thousand and liabilities for net earnings in the amount of 253,059 thousand.

3.24. Capital

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

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

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

As of 31 .03 .2022, Capital of the Bank consists of::

In thousands of RSD	2022	2021
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Profit reserves	22,147,207	22,147,207
Revaluation reserves	2,886,531	2,815,990
Gains / losses on changes in the value of debt and equity instruments	(606,476)	1,072,717
Actuarial gains / losses	(1,362)	(1,362)
Reserves	24,425,900	26,034,552
Treasury shares	(487,054)	-
Accumulated profit	7,825,579	5,927,921
Profit	1,673,399	3,645,699
Balance as at date	**77,282,905**	**75,642,722**

In the process of integration of the Bank with the bank NLB ad Belgrade, based on the request to exercise the right to repurchase shares of 39 dissenting shareholders with the decision of the Bank's Bank's General Meeting of Shareholders on status change, in accordance with Articles 51, 259 and 474 of the Company Law. In the first half of March 2022, it repurchased 487,054 own shares from non-compliant shareholders, at a market value of RSD 4,589.01 per share, in the total amount of RSD 2,235,096 thousand.

Capital adequacy ratio of the Bank, as of March 31, 2022 calculated according to financial statements by applying the valid decisions of the National Bank of Serbia is 26.64% .

In addition, the Bank is required to maintain the cash part of the capital at the level of EUR 10,000 thousand. As at 31.03.2022 the monetary part of the capital is above the prescribed level.

Share capital structure - ordinary shares as of March 31, 2022 is as follows:

Name of shareholder	% share
NLB dd Ljubljana	88.28
KOMERCIJALNA BANKA AD	2.90
OTP BANKA SERBIA (custody account)	2.52
Kompanija Dunav osiguranje ad Beograd	1.95
Jugobanka ad, Beograd in bankruptcy	1.91
OTP BANKA SERBIA (custody account)	0.51
TEZORO BROKER AD	0.35
KRIMINALISTIČKO-POLICIJSKA AKADEMIJA	0. 20
DUNAV RE AD	0.10
MERA INVEST DOO BELGRADE	0. 10
TEZORO BROKER AD	0.07
TANDEM FINANCIAL ad Novi Sad	0. 07
ERSTE BANK CUSTODY	0.06
KRUNA KOMERC doo	0.06
ELEKTRODISTRIBUCIJA SRBIJE DOO	0.05
ROBNE KUĆE BEOGRAD DOO BEOGRAD	0.03
The others	0.84
	100.00

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4. RELATIONS WITH SUBSIDIARIES

RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

Balance as of March 31, 2022

RECEIVABLES

In thousands of dinars

Subsidiaries	Advances and loans	Interest and fees	Other funds	Impairment provision	Net	Off-balance sheet	Total
1. KomBank INVEST	-	233	-	-	233	-	233
TOTAL:	**-**	**233**	**-**	**-**	**233**	**-**	**233**

LIABILITIES

In thousands of dinars

Subsidiaries	Deposits and loans	Interest and fees	Other obligations	Total
1. KomBank INVEST	37	-	-	37
TOTAL:	**37**	**-**	**-**	**37**

INCOME AND EXPENSES for the period 01.01 - 31.03.2022

In thousands of dinars

Subsidiaries	Interest income	Fee and commission income and other income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. KomBank INVEST	-	714	-	-	714
TOTAL:	**-**	**714**	**-**	**-**	**714**

Balance as of 31.12.2021

RECEIVABLES

In thousands of dinars

Subsidiaries	Advances and loans	Interest and fees	Other funds	Impairment provision	Net	Off-balance sheet	Total
1. KomBank INVEST	-	311	-	-	311	-	311
TOTAL:	**-**	**311**	**-**	**-**	**311**	**-**	**311**

LIABILITIES

In thousands of dinars

Subsidiaries	Deposits and loans	Interest and fees	Other obligations	Total
1. KomBank INVEST	53	-	-	53
TOTAL:	**53**	**-**	**-**	**53**

INCOME AND EXPENSES for the period 01.01 - 31.03.2021

In thousands of dinars

Subsidiaries	Interest income	Fee and commission income and other income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. Kom. Banka AD Podgorica	2,806	550	(280)	-	3,076
2. Kom.bank AD Banja Luka	1,287	804	-	(127)	1,964
3. KomBank INVEST	-	395	-	-	395
TOTAL:	**4,093**	**1,749**	**(280)**	**(127)**	**5,435**

Komercijalna Banka AD Beograd realized net negative exchange rate differences in the amount of 40,280 according to transactions with dependent members a thousand dinars.

5. RISK MANAGEMENT

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

The Bank 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 Bank is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment. Since the Bank became a member of the NLB Group during 2021, , complied with the Banking Group's risk management system. Also during the first quarter of 2022, the Bank continued with the process of harmonizing the risk management system in accordance with the methodologies at the level of the NLB Group.

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

With the risk management strategy, the Bank has set the following key objectives in risk management: regular identification, assessment and review of risks within the ICAAP and ILAAP processes; managing, monitoring, controlling and reporting on the risks to which it is exposed; defining limits in the Bank's risk appetite and their inclusion in the risk management strategy, ICAAP, ILAAP, Recovery Plan and business strategy; continuous development and improvement of risk management models and methodologies, including stress testing and early warning system (EWS system); assessing and measuring individual risks; establishing an appropriate decision-making system; managing the activities of restructuring and resolving disputed claims in a professional, efficient manner.

Recognizing the need to harmonize processes and risk management system of the Bank with the appropriate systems, processes and practices of the parent bank NLB dd, and the need for continuous improvement of risk management recommendations of the external auditor, the Bank has made appropriate changes of internal acts regulating risk management in 2022.

Risk Management System

The risk management system is defined by the following acts:

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

With it’s Risk Management Framework, the Bank defines the basic principles of the risk management, as well as a set of indicators that best represent the Bank's exposure to material risks (credit risk, liquidity risk, interest rate risk, foreign exchange risk, operational risk and adequacy capital). The Risk Management Framework defines a set of limits and targets for the listed risk exposure indicators. The Bank's risk management is harmonized with the Risk Management of NLB dd, and in accordance with the defined plan.

The risk management strategy defines the basic risks to which the Bank is exposed or may be exposed, as well as the basic principles of identification, monitoring, measurement, control and management of these risks, as well as the tendency to take a risk (Risk appetite). The Strategy establishes a comprehensive and reliable risk management system, which is included in all activities of the Bank and which ensures that the risk appetite and profile are always in line with the already established risk appetite. The risk management system is proportional to the nature, scope and complexity of the Bank's operations, ie its risk profile.

Also, the Risk Management Strategy defines the criteria for determining, as well as the basic principles of bas asset management and the highest acceptable level of bad assets for the Bank, as well as the basic principles of risk management arising from exposure in dinars with foreign currency clause and exposure in foreign currency.

The key principles related to risk-taking, which are an integral part of business decision-making, are expressed using the following criteria:

- determination of target business activities and activities that are not acceptable for the Bank, in terms of assumed risks,
- determining the maximum amount of risk taken,
- monitoring the profitability of individual transactions in relation to the risks taken.

The Bank's risk management strategy is based on:

- strategic goals defined in the Business Strategy of NLB Komercijalna banka AD Belgrade,
- guidelines on risk readiness to be defined in the Risk Appetite of NLB Komercijalna banka AD Belgrade,
- regular annual review of strategic goals, business planning and capital planning process,
- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP),
- activities and measures in case of activation of the Recovery Plan,
- other internal stress tests and risk analyzes,
- regulatory and internal reports,
- Risk appetite and Risk Management Strategy at the level of the NLB Group.

The Bank is guided by the main principles of risk management by:

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

The Bank has established basic principles of risk management in order to meet its long-term goals:

- Taking over and managing risks is adjusted to the realization of the Bank's business strategy and plans;
- Risk assumption and management is based on a risk management system that is in accordance with the legislation in the Republic of Serbia, standards in the NLB Group and good business practice in this area;
- Taking over and managing risks is one of the key management functions in the Bank. This function is integrated into all business activities of the Bank, so that the phases of identifying, measuring and monitoring risks, on the one hand, and taking and managing risks, on the other hand, are clearly separated, while respecting the principle of independence;
- Risk assumption and management is based on the Risk Management Strategy and Policies. It is a documented process with clearly defined goals, activities, powers and responsibilities;
- Assumption and management of risks is determined according to the set legal and internally prescribed limits by risk categories, with clearly defined procedures in case of exceeding the limits;
- Taking and managing risks implies the establishment and implementation of an appropriate system of internal controls. These controls are a set of processes and procedures that include continuous verification, reporting and changes in order to develop or improve risk management systems.

Within the management of exposure to default, depending on the assessment of the potential repayment capacity and business viability of clients, the Bank has the following options:

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

The principles of risk management arising from RSD exposures with a foreign currency clause and foreign currency exposures include:

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

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

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

With the Risk Management Procedures the Bank defines the risk management process and the responsibilities and responsibilities of all organizational parts of the Bank in the risk management system.

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

Jurisdiction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.1. Credit risk

Credit risk is the risk of possible negative effects on the financial result and capital of the Bank due to non-fulfillment of obligations of debtors to members of the Bank.

During the first quarter of 2022 , a special challenge from the aspect of credit risk management represents the Russian-Ukrainian crisis, as well as the increase of reference interest rates of Central Banks in the world and in Serbia.

The Bank has defined criteria for granting loans, changing conditions, extending the deadline and restructuring the receivables, which are prescribed by procedures and methodologies for placement approval and risk management.

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

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

When making decisions, the principle of double control (the so-called "four-eye principle") is respected, which ensures that there is always a side which proposes and a side which approves a particular placement.

For placements contracted in foreign currency or in dinars with a currency clause, the Bank assesses the impact of changes in the dinar exchange rate on the financial condition and creditworthiness of the debtor, and in particular analyzes the adequacy of the debtor's cash flows in relation to the changed level of credit obligations due to changes in exchange rates.

Since the Bank became a member of the NLB Group at the end of 2020, in the upcoming period, loan origination and approval process will be additionaly aligned with the established system at the level of the Banking Group.

The organizational model of the Bank'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 hand. The Bank has established an adequate information system that includes full information of persons involved in the credit risk management system.

Credit risk management

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

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

The basic principles of credit risk management are:

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

With the aim of credit risk management, the Bank strives to deal with clients with good creditworthiness and obtain appropriate collaterals. The Bank assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

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

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement. As part of the process of harmonization of the Bank's risk management system with the appropriate system at the level of the NLB Group, during 2021 and in the first quarter of 2022 the process of harmonization of the internal rating system began, which will be subject to additional improvements in the future.

In the credit risk analysis, in addition to the internal rating system, the Bank uses the principles prescribed by the regulations of the National Bank of Serbia, which require the classification of each placement based on the prescribed criteria and the calculation of the reserve for estimated losses. In December 2018, the National Bank of Serbia adopted an amendment to the regulations which, as of January 1, 2019 confirms the abolition of the calculation of reserves for estimated losses and required reserves.

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

The basic techniques of credit risk mitigation are:

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

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

The concentration risk includes: large exposures (exposure to one person or Bank of related persons and persons associated with the Bank), exposure Banks with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, and collaterals.

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

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

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

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

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

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

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

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

IFRS 9 Financial instruments

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

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

Considering that the Bank became a member of the NLB Group at the end of the year, during the 2021, the process of harmonizing impairment methodologies with the established rules at the level of the Banking Group began. In the 2021, the values of the hair cut for individual impairment of placements were adjusted, the material significance threshold for the impairment of NPE clients of individuals was changed (the threshold was increased from RSD 2.5 million to EUR 50,000), the calculation of impairment for placements that have a guarantee of the Republic of Serbia has been changed, and the PD for the calculation of impairment of securities of the Republic of Serbia has also been changed and the formula for the application of LGD has been changed. Also, the use of monthly PD instead of annual, using exposure to monthly amortization plans, included the effects of macroeconomic variables on the value of LGD secured and LGD unsecured, tested the value of hair cut with the historical realization of Bank collateral and adjusted hair cut these where there were deviations. The mentioned process of harmonization of the Impairment Methodology will continue in 2022.

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

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

Also, by applying IFRS 9, the Bank calculates impairment for credit placements given to the countries and Central Banks of the Bank's members (for assets not available on demand) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

Identification of problematic and restructured receivables

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

In accordance with the application of IFRS 9, starting from January 1, 2018, the Bank also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients ranked 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. Impairment allowances for Stage 1 and Stage 2 clients are calculated on collective basis, while for Stage 3 clients, with the fulfilment of the criteria of material significance, impairment is calculated on individual basis. NPL clients at stage 3, with less material exposure, are impaired on a Bank basis, while respecting the requirements of IFRS 9 for at least two collection scenarios.

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

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

Problematic receivables include all receivables that have more than 90 past due days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the debtor will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. In the last quarter of 2021, the Bank introduced two new criteria for individuals (deceased and lost their jobs) for default status (stage 3 and NPL status), for placements that are not over 90 days late. Problematic receivables are all receivables from the debtor, if one receivable is classified as problematic receivable.

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

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

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

Modifications that result in the derecognition of the old financial asset and 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 Bank 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 indicates that in the event of a significant modification of a financial instrument, derecognition of old financial asset and recognition of the new one should be made 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.

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

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

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

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

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

Risk of asset quality change

During the 2021, the process of harmonizing the internal rating system with the appropriate system at the level of the NLB Group began, which will be subject to additional improvements in 2022.. The quality of the Bank's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the debtor. The rating scale contains five risk categories, divided into 19 sub-categories. Different exposures to the same debtor define the same rating category, regardless of the specificity of the different types of loans.

The Bank uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities. A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Bank (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitored (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4D, 4DD, and 5). Risk Category 4 is divided into three sub-categories: 4+, 4 and 4- - Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

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

Risk of asset quality change – impairment of assets

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

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

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

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that, realistically, the loan will be settled from these assets. The Bank assesses the impairment of receivables on a group and individual basis.

Individual and Group Assessment at Stage 3

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

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

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

Individual assessment

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

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

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

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

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

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

Group assessment

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

Group estimates are carried out by the Bank 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 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 Bank calculates the impairment charge based on the 12-month expected credit losses;
- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the expected credit losses for the lifetime 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 Bank's members and other exposures with a credit risk weight of zero, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses tend to zero.

All financial instruments in which significant increase in credit risk has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the lifetime of the instrument. In addition to qualitative and quantitative criteria for the classification to Stage 2, due to the conditions caused by the COVID-19 pandemic, the Bank has transferred a significant number of clients from industries which are affected by the COVID-19 virus pandemic the most (catering, tourism, transport ...) to Stage 2 for the purpose of preventive action and a realistic view of impairment, given the possible negative consequences of the COVID-19 pandemic on the mentioned clients' operations. This was conducted through an structural analysis of portfolio per industry, as well as by the analysis of individual clients.

An analysis was carried out for all clients with the exposure above the defined threshold which are operating in industries exposed the most to negative effects caused by the COVID-19 pandemic. All clients that are deemed to be exposed to, or may be exposed to the effects of the COVID-19 virus pandemic, although they do not have previously defined criteria for transfer to Stage 2, in accordance with the IFRS 9, are immediately classified as Stage 2. Also, an analysis was conducted for clients in the retail segment who are employed in non-state-owned companies and non-public sectors and who are not pensioners. If the absence of earnings has been identified for these clients, or is reduced by an amount above the defined threshold, such clients have been transferred to Stage 2. Consequently, lifetime expected credit losses have been calculated for the specified clients.

During the 2021 and in the first quarter of 2022, the Bank continued to grant benefits to clients affected by the COVID 19 pandemic in accordance with the NBS Decision (moratorium 3) and in accordance with the Decision of the Government of the Republic of Serbia (Guarantee Schemes 1 and 2).

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

The Bank calculates the 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 Bank calculates the expected credit losses (impairment) in the following way:

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

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

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

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

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

For the calculation of EAD for stage 1, the Bank assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For stage 2, exposure to non-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 Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...).

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

For the purpose of including the forward looking component, the Bank includes three scenarios of the movement of macroeconomic variables (optimistic, realistic and pessimistic) when calculating the Beta factor value, after which the annulment is performed with the probability of the anticipated realization of the above scenarios, in order to obtain the final Beta Factor that contains all three scenarios (optimistic, realistic, pessimistic).

Macroeconomic factors used in the impairment process

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

In 2021 and in the first quarter of 2022, the recovery of the economy is noticeable. Real growth of gross domestic product, according to preliminary estimates of the Republic Bureau of Statistics in 2021 was 7.5%. Observed by activities, compared to the previous year, the highest real growth and significant recovery was recorded in the sectors most affected in 2020 due to the Covid virus pandemic:

- tourist nights (29.7% compared to minus 38.4% in 2020)
- wholesale (22.0% compared to minus 4.9% in 2020)
- traffic (39.9% compared to minus 36.0% in 2020)
- catering (74.2% compared to minus 25.8% in 2020)

Industrial production in the Republic of Serbia in 2021 is higher by 6.3% compared to 2020, with:

- growth in 22 areas (participation in the structure of industrial production - 89%),

- decline in 7 areas (participation in the structure of industrial production - 11%).

Observed by sectors, the biggest impact on the increase in industrial production in 2021, compared to 2020, had the manufacturing industry - growth of 5.5%, thanks to growth in the branches: Production of coke and petroleum products, Manufacture of other transport equipment, Electricity equipment and Manufacture of other machinery and equipment nec. In addition to the mentioned branches of the processing industry, the largest contribution to the growth of total industrial production was made in the mining sector - growth of 27.6% in the branch of metal ore exploitation. During the first two months of 2022, there was a year-on-year decrease in industrial production by 1.4% compared to the same period last year, which is largely due to reduced activity in the energy sector.

Based on the projection of the National Bank of Serbia, in 2022, economic activity is expected to grow by 4-5% according to the latest available data, which will be significantly driven by economic recovery, ie. private sector investment, government investment, but also private consumption growth, which is in line with the projections of real GDP growth used by the Bank.

According to the data of the National Employment Service, the number of unemployed persons during the first two quarters of 2021 increased compared to the same period last year, unlike the second half of the year when unemployment began to decline. In December 2021, compared to December 2020, the number of unemployed persons decreased by 13,783, or 2.8%. The downward trend continued in the first quarter of 2022 (a decrease in the number of unemployed by 60,854 or 11.4%). The unemployment rate, according to the Labor Force Survey, was9.8% in the fourth quarter of 2021, which is 0.9 percentage points. below compared to the same period last year. During 2022, the labor market is expected to continue to recover.

Year-on-year inflation in March 2022 was9.1% compared to the same month last year, in 2021. Stronger growth of year-on-year inflation during 2021 is the result of the dominantly low base from the previous year and a significant increase in oil prices due to the recovery from the pandemic, but also partly due to the growth of the price of primary agricultural products. Although during the first quarter, there was an increase in year-on-year inflation, it was driven by slower food price growth than during the fourth quarter, which contributed to the government's measures to limit food prices. By the end of 2022, the growth of year-on-year inflation is expected to slow down.

BELIBOR (BELIBOR - Belgrade Interbank Offered Rate) is the reference interest rate determined on the Panel of Banks, on the Serbian interbank market. The National Bank of Serbia did not change the reference interest rate during 2021. On the other hand, the National Bank of Serbia reduces the degree of expansion of monetary policy from October 2021, by increasing the weighted average interest rate on reverse repo auctions which withdraw excess liquidity from the banking system for a week, as well as the percentage of dinar excess liquidity withdrawn by banks. The cycle of tightening monetary policy with the growth of the reference interest rate began in April with its increase by 0.5 percentage points. from 1% to 1.5%.

More restrictive monetary policy has had an impact on the movement of the BELIBOR rate, which has been showing continuous growth since October. Further tightening of monetary conditions is expected, ie continued growth of BELIBOR rates.

The EURIBOR (EuroIBOR - Euro Interbank Offered Rate) rate in 2021 recorded significantly lower volatility compared to 2020. In 2021, the European Central Bank did not change the reference interest rate (0.00%), as well as the rates on credit (0.25%) and deposit facilities (-0.50%). The future movement of EURIBOR will largely depend on the policy of the European Central Bank in the coming period, ie from the normalization of interest rates of the European Central Bank.

The European Central Bank completed the Net Bond Purchase Program (PEPP) at the end of March 2022,with the reinvestment period continuing at least until the end of 2024. According to market participants, the EURIBOR rate is expected to grow in 2022, while leaving the negative rate zone is expected in 2023 .

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

Calculation of credit risk impairment for stages 1 and 2

For impairment calculation for Stage 1 clients the Bank uses one-year PDs recalculated on a monthly basis for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Bank uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year which are reduced to a monthly level. 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 once a year 31.05. and more often if necessary.

LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument.

In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

Starting from 31.12.2021 as in the first quarter of 2022. In the calculation of LGD unsecured and LGD secured, the Bank included the influence of macroeconomic factors in the next three years, inventing three scenarios (optimistic, realistic and pessimistic).

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

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions.

When assessing the impairment and default risk exposure 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.

Determining the probable loss on off-balance sheet items

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

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

Means of protection against credit risk (collateral)

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

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

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

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

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

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

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

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

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

5.1.1. Total exposure to credit risk

The total exposure to credit risk as at March 31, 2022 and December 31, 2021 is shown in the table below, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total credit risk exposure

In thousands of RSD

	31.03.2022.		31.12.2021.	
	Gross	Net	Gross	Net
I. Assets	**502,718,793**	**482,479,610**	**509,774,490**	**489,440,405**
Cash and balances with the central bank	77,714,530	77,714,530	82,055,481	82,055,481
Loans and advances to banks and other financial institutions	21,775,712	21,756,247	29,135,282	29,114,381
Loans and receivables from customers	235,130,602	226,410,884	218,173,938	209,044,942
Financial assets (securities and derivatives)	136,412,610	136,363,466	149,596,997	149,588,755
Other assets	7,185,010	5,986,486	6,584,298	5,430,725
Non monetary assets	24,500,329	14,247,997	24,228,494	14,206,121
II. Off-balance sheet items	**65,980,535**	**65,761,618**	**61,730,331**	**61,521,512**
Payable guarantees	9,212,179	9,119,355	7,400,757	7,331,131
Performance guarantees	12,611,607	12,566,176	10,882,641	10,832,350
Irrevocable liabilities	44,120,963	44,057,987	43,413,347	43,344,379
Other	35,786	18,101	33,586	13,652
Total (I+II)	**568,699,328**	**548,241,228**	**571,504,821**	**550,961,917**

Loans and receivables from customers, banks and other financial organizations by level of risk

31.03.2022.	Stage 1	Stage 2	Stage 3	Total	Impairment of Stage 1	Impairment of Stage 2	Impairment of Stage 3	Total impairment	Net
Housing Loans	54.361.824	315.160	837.955	55.514.939	46.146	1.124	565.502	612.771	54.902.168
Cash Loans	41.455.728	295.476	659.910	42.411.114	238.064	12.273	524.022	774.359	41.636.756
Agricultural Loans	13.597.241	167.103	286.536	14.050.881	179.175	6.007	177.544	362.726	13.688.155
Oher Loans	4.021.870	54.581	201.922	4.278.372	24.419	1.906	184.993	211.318	4.067.054
Micro business	9.697.671	1.110.247	377.073	11.184.991	141.028	16.814	205.210	363.052	10.821.938
Total Retail	**123.134.334**	**1.942.567**	**2.363.396**	**127.440.297**	**628.832**	**38.124**	**1.657.271**	**2.324.227**	**125.116.070**
Large corporate clients	39.902.828	3.473.465	3.406.231	46.782.524	467.819	294.646	2.130.098	2.892.564	43.889.960
Middle corporate clients	15.031.225	447.174	240.016	15.718.415	105.291	2.207	159.049	266.547	15.451.868
Small corporate clients	4.969.466	194.163	464.727	5.628.356	59.867	1.962	141.216	203.045	5.425.311
State owned clients	29.878.498	518.984	2.769.130	33.166.612	351.624	46.010	1.030.725	1.428.358	31.738.253
Other	4.869.111	0	1.525.287	6.394.399	86.382	0	1.518.595	1.604.977	4.789.422
Total Corporate	**94.651.129**	**4.633.786**	**8.405.391**	**107.690.305**	**1.070.983**	**344.825**	**4.979.683**	**6.395.491**	**101.294.814**
Total	**217.785.462**	**6.576.353**	**10.768.787**	**235.130.602**	**1.699.815**	**382.949**	**6.636.954**	**8.719.718**	**226.410.884**
Due from Banks	**21.775.712**	**-**	**-**	**21.775.712**	**19.465**	**-**	**-**	**19.465**	**21.756.247**

Loans and receivables from customers, banks and other financial organizations by level of risk

31.12.2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Impairment allowance Stage 1**	**Impairment allowance Stage 2**	**Impairment allowance Stage 3**	**Impairment allowance**	**Net**
Housing Loans	51,717,845	281,167	882,434	52,881,446	39,662	1,980	551,661	593,303	52,288,142
Cash Loans	39,752,894	307,923	556,759	40,617,576	227,845	16,431	440,670	684,946	39,932,630
Agricultural Loans	12,152,637	157,646	263,810	12,574,093	124,004	5,718	171,468	301,190	12,272,903
Other Loans	3,939,523	50,199	199,853	4,189,575	24,832	2,541	180,864	208,237	3,981,338
Micro Business	9,305,709	1,379,944	418,004	11,103,657	138,159	24,767	201,411	364,337	10,739,320
Total retail	**116,868,608**	**2,176,879**	**2,320,860**	**121,366,347**	**554,502**	**51,437**	**1,546,074**	**2,152,013**	**119,214,334**
Large corporate clients	38,090,634	2,686,374	4,173,753	44,950,761	479,645	181,813	2,746,853	3,408,311	41,542,450
Middle corporate clients	12,840,354	587,428	249,519	13,677,301	99,912	3,927	160,001	263,840	13,413,461
Small corporate clients	4,083,048	357,777	498,639	4,939,464	46,513	3,879	160,267	210,659	4,728,805
State owned clients	22,630,517	605,124	3,053,533	26,289,174	300,909	54,809	1,123,741	1,479,459	24,809,715
Other	5,433,373	0	1,517,518	6,950,891	104,640	0	1,510,073	1,614,713	5,336,178
Total corporate	**83,077,926**	**4,236,703**	**9,492,962**	**96,807,591**	**1,031,619**	**244,428**	**5,700,935**	**6,976,982**	**89,830,609**
Total	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**	**209,044,943**
Due from banks	**29,135,282**	**-**	**-**	**29,135,282**	**20,901**	**-**	**-**	**20,901**	**29,114,381**

5.1.2 Problematic receivables

Participation of problematic receivables, Stage 3 in total loan

In thousands of RSD

31.03.2022.	Gross Exposure	Gross Value Adjustment	Stage 3	Stage 3 - Restructured Loans	Impairment of Stage 3	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**127.440.297**	**2.324.227**	**2.363.396**	**146.698**	**1.657.271**	**1,85%**	**1.787.310**
Housing Loans	55.514.939	612.771	837.955	63.522	565.502	1,51%	837.662
Cash Loans	42.411.114	774.359	659.910	10.772	524.022	1,56%	202.730
Agricultural Loans	14.050.881	362.726	286.536	39.579	177.544	2,04%	274.559
Oher Loans	4.278.372	211.318	201.922	11.981	184.993	4,72%	18.531
Micro business	11.184.991	363.052	377.073	20.844	205.210	3,37%	453.828
Corporate	**107.690.305**	**6.395.491**	**8.405.391**	**5.644.564**	**4.979.683**	**7,81%**	**6.758.308**
Agricultural Loans	2.773.156	17.864	15.242	-	3.597	0,55%	30.484
Manufacturing Industry	20.047.055	1.618.774	2.098.739	2.028.460	1.215.079	10,47%	2.098.190
Electricity	17.196.804	147.939	-	-	-	0,00%	-
Construction Loans	14.164.555	135.858	65.770	43.801	47.881	0,46%	69.853
Wholesale and Retal	20.593.183	282.143	82.056	14.902	31.383	0,40%	81.645
Services Loans	13.210.243	1.599.488	3.110.352	2.551.266	1.314.165	23,55%	3.110.141
Real Estate Loans	7.386.020	125.774	623.313	314.579	97.265	8,44%	620.983
Other	12.319.289	2.467.651	2.409.918	691.556	2.270.312	19,56%	747.013
Total	**235.130.602**	**8.719.718**	**10.768.787**	**5.791.262**	**6.636.954**	**4,58%**	**8.545.618**
Due from Banks	**21.775.712**	**19.465**	**-**	**-**	**-**	**0,00%**	**-**

Participation of problematic receivables, Stage 3 in total loan

In thousands of RSD

31.12.2021	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**121,366,347**	**2,152,013**	**2,320,860**	**165,776**	**1,546,074**	**1,91%**	**1,836,069**
Housing Loans	52,881,446	593,303	882,434	80,414	551,661	1,67%	882,104
Cash Loans	40,617,576	684,946	556,759	9,077	440,670	1,37%	187,051
Agricultural Loans	12,574,093	301,190	263,810	44,479	171,468	2,10%	253,643
Other	4,189,575	208,237	199,853	10,962	180,864	4,77%	16,532
Micro Businesses	11,103,657	364,337	418,004	20,844	201,411	3,76%	496,739
Corporate clients	**96,807,591**	**6,976,982**	**9,492,962**	**6,011,762**	**5,700,935**	**9,81%**	**7,844,168**
Agriculture	3,163,493	18,747	15,144	-	2,926	0,48%	30,248
Manufacturing Industry	16,822,078	1,555,048	2,183,388	2,108,437	1,271,793	12,98%	2,182,839
Electric Energy	5,144,496	67,359	-	-	-	0,00%	-
Construction	15,551,101	693,521	733,092	43,801	613,374	4,71%	738,069
Wholesale and Retail	19,363,305	293,294	83,137	15,912	32,894	0,43%	83,682
Service Activities	15,953,991	1,718,269	3,397,515	2,826,685	1,402,480	21,30%	3,407,376
Real Estate Activities	8,184,243	653,950	1,283,501	963,962	629,126	15,68%	1,295,817
Other	12,624,884	1,976,794	1,797,185	52,965	1,748,342	14,24%	106,137
Total	**218,173,938**	**9,128,995**	**11,813,822**	**6,177,538**	**7,247,009**	**5,41%**	**9,680,237**
Due from banks	**29,135,282**	**20,901**	**-**	**-**	**-**	**0,00%**	**-**

5.1.3. Nonproblematic receivables (Stage 1 and Stage 2)

In thousands of RSD

	31.03.2022.				31.12.2021.			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	54,664,613	12,371	54,676,984	53,635,626	51,980,174	18,838	51,999,012	51,005,399
Cash Loans	41,701,828	49,376	41,751,204	9,788,138	39,991,948	68,870	40,060,818	9,549,530
Agricultural Loans	13,727,127	37,218	13,764,345	13,352,025	12,277,055	33,228	12,310,283	11,877,066
Other Loans	4,070,555	5,895	4,076,450	194,556	3,982,438	7,283	3,989,721	196,778
Micro Businesses	10,189,548	618,370	10,807,918	17,299,942	10,101,387	584,266	10,685,653	10,606,918
Retail	**124,353,670**	**723,231**	**125,076,901**	**94,270,288**	**118,333,002**	**712,485**	**119,045,487**	**83,235,691**
Large corporate clients	39,141,384	4,234,909	43,376,293	40,748,353	36,644,209	4,132,799	40,777,008	40,842,438
Middle corporate clients	15,437,262	41,137	15,478,399	18,827,521	13,410,160	17,623	13,427,783	13,414,845
Small corporate clients	5,034,398	129,230	5,163,629	7,112,617	4,341,002	99,823	4,440,825	4,421,677
State owned clients	23,257,267	7,140,215	30,397,482	28,893,830	18,090,465	5,145,176	23,235,641	21,739,089
Other	3,306,337	1,562,774	4,869,111	3,871,823	3,523,808	1,909,564	5,433,372	4,222,590
Corporate	**86,176,649**	**13,108,265**	**99,284,914**	**99,454,145**	**76,009,644**	**11,304,985**	**87,314,629**	**84,640,639**
Total	**210,530,319**	**13,831,496**	**224,361,815**	**193,724,432**	**194,342,646**	**12,017,470**	**206,360,116**	**167,876,330**
Due from banks	**21,775,712**	**-**	**21,775,712**	**-**	**29,135,282**	**-**	**29,135,282**	

5.1.4. Restructured receivables

Measures that the Bank implements in the restructuring of receivables

The bank implements different restructuring measures depending on the needs of clients, respecting the Bank's interest in taking into account the complete business, financial and collateral position of clients.

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

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

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

5.1.5. Risk of concentration

The Bank manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio. Bank on an annual basis depending on market trends, appetite for risk, business policy Bank and the annual business plan, reviewed and, if necessary, changes internally set limits.

5.2. Liquidity risk

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

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

In order to adequately manage liquidity risk, the Bank established Internal Liquidity Adequacy Assessment Process (ILAAP), which is conducted at least once a year. Internal Liquidity Adequacy Assessment Process provides comprehensive liquidity risk management and the establishment of a comprehensive internal assessment taking into account qualitative and quantitative elements. Qualitative elements describe strategies, procedures, methodologies, the established system of limits used in the Bank to manage and control liquidity risk, as well as liquidity management in crisis situations. Quantitative aspects of ILAAP are related to qualitative elements including insight into the fulfillment of prescribed limits, stress tests, gap analysis, liquidity ratios and other tools in order to successfully assess the liquidity position of the Bank.

The Bank adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month.

During the first quarter of 2022 the Bank has aligned its operations with a liquidity coverage ratio in all currencies, which maintains at a level not lower than 100%.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity Coverage Ratio	
	31.03.2022	31.12.2021	31.03.2022	31.12.2021	31.03.2022	31.12.2021
On the day	3.30	3.88	3.65	3.65	306%	454%
Average for the period	3.71	4.18	3.94	3.94	381%	601%
Maximum for the period	3.95	4.68	4.42	4.42	427%	757%
Minimum for the period	3.30	3.51	3.37	3.37	306%	425%

During the first quarter of the 2022 the liquidity ratio, rigid liquidity indicator and the liquidity coverage ratio ranged above the defined limits, as well as within the defined risk tolerance.

The Bank has established a system of internal limits and the Risk Appetite Framework, in accordance with the Group's standards for structural liquidity indicators, as well as with the nature of the Bank's operations.

The Bank maintains a stable liquidity position and a sufficient and adequate level of liquidity reserves. Liquidity reserves are mostly in the form of cash and highly liquid debt government securities, which can be redeemed in a relatively short period of time. At the same time, the minimum amount of unsecured liquidity reserves to cover potential outflows in the event of stress is continuously monitored and maintained. In addition, the Bank complies with the limits of structural liquidity indicators, which are set in accordance with the Standards in the field of risk management in the NLB Group, and relate to the minimum level of available and unsecured liquidity reserves. The Bank also actively manages daily liquidity, in order to ensure timely settlement of due liabilities, taking into account the normal course of business and the emergency liquidity situation.

In addition, the Bank limits and harmonizes operations with limits defined in terms of maturity by major currencies, as well as defined targets for diversification of funding sources.

Compliance with internally defined liquidity limits on the last day:

	Limits	Mar 31, 2022	Dec 31, 2021
NSFR	Min 110%	196%	221%
Unsecured liquidity reserves	Min 15%	32%	39%
Self-financing indicator - LTD ratio	Max 105%	59%	52%
Share of non-banking sector deposits in total liabilities (excluding capital)	Min 65%	94%	97%
Strong stress test - 3 months	Min 100%	118%	186%

The Bank collects deposits from legal entities and individuals, which usually have shorter maturities and can be withdrawn upon request. The short-term nature of these deposits increases the Bank's liquidity risk and requires active management of this risk, as well as constant monitoring of market trends.

In the short term, the Bank manages liquidity risk by monitoring and controlling positions in all major currencies, in order to assess the need for additional sources of financing in case of maturity of appropriate positions, ie plans long-term structure of its sources and placements to provide sufficient stable sources and liquidity reserves.

The Bank's management believes that the appropriate diversification of the deposit portfolio by number and type of depositors, as well as the Bank's previous experience provide a good precondition for a stable and long-term deposit base, ie no significant outflows are expected.

The Bank regularly conducts a liquidity risk stress testing process as well as a reverse liquidity stress test.

The results of the stress test show how long the Bank is ready to "survive" the given assumptions of the stress scenario. Based on the results of the stress test, it is determined whether the Bank has sufficient liquid assets to survive three months of severe stress.

The reverse stress test provides additional insight into the Bank's risk position by finding scenarios that could potentially lead to the Bank's problems and on the basis of which the Bank can identify its weaknesses. It may also influence future business decisions of the Bank.

The Bank regularly tests the Liquidity Management Plan in crisis situations and checks the survival period and solvency of the Bank, the availability of sources to cover liabilities that may arise, ie evaluates support in the assumed conditions of the crisis.

5.3 Market risks

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

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

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

5.3.1. Interest rate risk

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

The Bank manages the following types of interest rate risk:

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

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

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

The Bank processes the impact that could have a standardized interest rate shock (parallel positive and negative interest rate pops on the reference crisis yield by 200 basis points) for each significant value individually and for all other values individually

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

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

- GAP analysis and duration;
- Sensitivity analysis;
- Base risk analysis;
- Credit risk analysis - the impact of the sensitivity of credit spread changes on the securities portfolio.

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

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

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Bank's members on interest rate risk management. Internal limits are set within the risk appetite and refer to the indicator of the economic value of capital, the indicator of the credit spread on the portfolio of securities and the indicator of interest income.

During first quarter of 2022, interest rate risk indicators were within internally defined limits.

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

	Limits	Mar 31, 2022	Dec 31, 2021
Credit spread indicator on the securities portfolio	7%	4.83%	4.47%
Interest income indicator	3.5%	1.1%	1.24%

Compliance with internally defined limits of economic value of capital:

	Mar 31, 2022	Dec 31, 2021
As of	3.42%	2.69%
Average for period	2.99%	2.77%
Maximum for period	3.42%	3.13%
Minimum for period	2.55%	1.44%
Limit	**8%**	**8%**

Risk of interest rate changes

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

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

Baseline scenarios for stress testing of economic value indicators of capital include: standard shock - parallel shift of the yield curve by +/- 400 bps for RSD and +/- 200 bps for other currencies, rotation of the curve as well as growth / decline of the short-term curve.

The modeling scenarios for stress testing of interest income indicators use assumptions in the part of yield curve change based on historical series of averages of quarterly differences between market and applied interest rates as well as the scenario of parallel shift of yield curve by 100 basis points for RSD currency and 50 basis points for currencies EUR, USD, CHF and other currencies collectively, observed in the period up to one year

The analysis of the Bank's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100/50 b.p.	Parallel reduction of 100/50 b.p.
2022		
As at March 31,	736,830	(736,830)
2021		
As at December 31,	812,124	(812,124)

5.3.2. Foreign exchange risk

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

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

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

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

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

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

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

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

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at March 31, 2022:

	March 31, 2022	December 31, 2021
Total risk foreign exchange position	1,038,027	1,306,182
Foreign exchange risk indicator	1.64%	2.00%
Regulatory limit	20%	20%

5.4. Operational risk

Operational risk is the risk of possible negative effects on the Bank's financial result and capital due to omissions (intentional and unintentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as unforeseen external events. Operational risk includes legal risk, but not strategic and reputational risk. However, due to its importance, reputational risk is taken into account in operational risk management. Operational risk is defined as an event that occurs as a result of inappropriate or failed internal processes, actions of employees and systems or systemic and other external events, internal and external fraud, employment and workplace safety practices, customer claims, product distribution, fines and penalties for injuries, damage to tangible assets, business disruptions and systemic failures and process management.The Bank also monitors operational risk events along the following lines of business: financing of economic entities, trade and sales, brokerage operations with individuals, banking operations with companies, banking operations with individuals, payment operations, client account services and asset management.

The operational risk management process is an integral part of the Bank's activities implemented at all levels and enables identification, measurement, mitigation, monitoring and control and reporting of operational risks in accordance with regulatory requirements and deadlines. The existing process relies on reliable methods of measuring operational risk exposure , operational losses database, up - to - date control and reporting system.

The Bank monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database. The organizational part of the Bank in charge of risk management monitors and reports on operational risks to the Bank's Board of Directors, the Bank's Executive Board, the Audit Committee, the Assets and Liabilities Committee and Operational Risks Committee.

The Bank performs measurement and / or assessment of operational risk through a quantitative and /or qualitative assessment of the identified operational risk. The Bank conduct measurement of operational risk exposure through event logging, and self-evaluation. Key risk indicators are an early warning to signal changes in the Bank's risk profile. They relate to a specific operational risk and show greater exposure in the occurrence of operational risk events. Their purpose is to help reduce losses and operational risks through proactive consideration of risk factors.

The Bank's operational risk profile represents the Bank's exposure to operational risk and serves as a basis for making additional decisions, which would improve the existing operational risk profile and bring it closer to the target profile. The existing profile of identified operational risks is the result of the identification and assessment of operational risks within certain processes by organizational forms, which is carried out at least once a year. The existing operational risk profile includes operational risks that operational risk custodians (persons responsible for monitoring operational risks, as well as other employees) see within their organizational forms or outside them.

During the first quarter of 2022, the Bank regularly complied with the standards of the NLB Group in the area of internal acts that define a comprehensive process of operational risk management.

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

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

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

5.5. Risks of investment

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

5.6. Risk of exposure

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

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

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

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

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

5.7. Country risk

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

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

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

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

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

The Bank's placements approved to debtors domiciled outside the Republic of Serbia for financing operations in the Republic of Serbia, whose financial obligations to the Bank are expected to be settled from the source of operations realized in the Republic of Serbia, represent the Bank's receivables.

5.8. Capital management

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

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

The main goals of managing the capital are:

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

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

Capital adequacy ratios		*In thousands of RSD*
	March31, 2022	**December 31, 2021**
Tier 1 capital	64,460,450	66,069,102
Common Equity Tier 1 capital	64,086,940	65,695,592
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(1,108,485)	(713,172)
Capital	**65,351,965**	**65,355,930**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	202,503,541	194,363,632
Risk exposure amount for operational risk	35,311,222	34,534,805
Risk exposure amount for market isks	-	-
Capital adequacy ratio	**26.64%**	**28.55%**
Tier 1 capital adequacy ratio	**26.64%**	**28.55%**
Common Equity Tier 1 capital adequacy ratio	**26.48%**	**28.39%**

During first quarter 2022, all prescribed capital adequacy ratios were above regulatory limits.

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

During first quarter 2022, the Bank calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

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

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

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

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

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

The stages of the internal capital adequacy assessment process at the Bank include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining the total internal capital requirement;
- Comparison of the following elements:
  a. capital and available internal capital;
  b. minimum capital requirements and internal capital requirements for individual risks;
  c. the sum of minimum capital requirements and total internal capital requirements

6. EVENTS AFTER THE BALANCE SHEET DATE

At the extraordinary session of the Bank’s General Meeting of Shareholders held on April 13, 2022, the Decision on Amendments to the Memorandum of Association was made.

The regular Annual Session of the Bank's Bank’s General Meeting of Shareholders was held on18.04.2022, at which decisions were made on:

- Adoption of the annual report on the Bank's operations and regular financial reports of Komercijalna Banka AD Belgrade for 2021 with the external opinion of the auditor
- Adoption of the annual report on the operations of the Group and the regular financial statements of the Group of Komercijalna Banka AD Belgrade for 2021 with the opinion of the external auditor
- Distributions of profits from 2021 and undistributed profits from previous
- Decision on sale (alienation) of own shares of Komercijalna Banka AD Belgrade
- Decision on the adoption of the Strategy and Business Plan of Komercijalna Banka AD Belgrade for the period 2022-2026. .

On April 19, 2022, the Bank published an offer for the alienation of its own shares that the bank recently acquired from dissenting shareholders. 487,054 own shares are for sale, i.e. 2.9% of the total number, and the price per share is 4,176.5 dinars. The offer is open from April 20 to May 20, and shareholders who were entered in the shareholders' book on April 18 of the current year have the right to subscribe and pay for shares.

Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would need to be disclosed in the Notes to the financial statements for the first quarter of 2022.

7. FOREIGN EXCHANGE RATES

Exchange rates determined at the interbank meeting of the foreign exchange market applied for the conversion of balance sheet items into dinars (RSD) on March 31, 2022 and 31 December 2021 for some major currencies are:

Currencies	Official NBS course	
	2022	2021
USD	105.5020	103.9262
EUR	117. 7508	117.5821
CHF	114.0444	113.6388

In Belgrade,

On 27.04.2022

Persons responsible for drafting the financial statements

Sanja Đeković
Executive Director for Finance and Accounting

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Deputy Chief Executive Officer

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S T A T E M E N T

In our opinion, quarterly financial statements for the period 01.01.2022. to 31.03.2022. present fairly, in all material respects, the financial position of NLB Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the International Accounting Standards and International Financial Reporting Standards (IAS and IFRS).

Persons responsible for drafting the financial statements

________________	________________
Sanja Đeković	Dejan Janjatović
Executive Director for Finance and Accounting	Deputy Chief Executive Officer

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S T A T E M E N T

Individual financial statements of NLB Komercijalna banka AD Beograd for the period 01.01.2022. until 31.03.2022. published in accordance with Law on Capital Market have not been audited.

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

Persons responsible for drafting the financial statements

____________________	____________________
Sanja Đeković	Dejan Janjatović
Executive Director for Finance and Accounting	Deputy Chief Executive Officer