



KOMERCIJALNA BANKA AD BEOGRAD

COMPLIANCE POLICY



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1. Compliance principles of Komercijalna Banka a.d. Beograd

Compliance policy of Komercijalna Banka a.d. Beograd (further in text named: the Compliance Policy) is based on the following principles :

Integrity and reputation of Komercijalna Banka a.d. Beograd give the most important grounds for an efficient Compliance control

In order to preserve the integrity of its organization and the reputation for professional and ethical conduct that Komercijalna Banka a.d. Beograd (further in text named : the Bank) has in the environment – the management of the Bank, all employees, the legal entities wherein the Bank is majority founder or shareholder (further on referred to as Subsidiaries), and the Bank representatives in the bodies of the Subsidiaries all they are responsible for:

1. good understanding of and strict compliance with the applicable laws, regulations and standards in whatever market and or jurisdiction the operations are being performed;
2. acceptance of this Policy and adherence thereto

Management is the proponent of the compliance in the Bank

The Management is the bearer of Compliance and holds ultimate responsibility for the implementation of and adherence to this Compliance Policy supported and advised by its Director of Compliance Division..

The Management must take all appropriate measures to ensure that employees conduct their business activities in an ethical manner, consistent with fiduciary and legal/regulatory obligations and with the Bank's basic business principles and Code of Conduct.

Compliance

The Compliance officer shall ensure the effectiveness and integrity of the compliance process of their business with appropriate and detailed monitoring of the adherence to the Compliance Policy and its minimum standards and applicable legal and regulatory standards.

The Compliance framework is the set of compliance risk management processes and tools which shall be used for managing of that risk.

The Subsidiaries of the Bank have commitment to implement and respect the Compliance Policy

The content of this Policy is mandatory and represents minimum standards which are to be applied throughout the Bank, all the subsidiaries, and the majority owned businesses of the Bank.



The Management of the Subsidiaries is responsible for implementing of this Policy and establishing an effective Compliance function within the unit they are responsible for.

Additional responsibility to the Management of Subsidiaries is their obligation to :

1. fully respect the regulations and standards of the country where they perform operations and to report to the Bank and to the National Bank of Serbia on the differences related with Serbian standards and regulations
2. quarterly, or more frequently if needed, to report to the Compliance of the Bank in accordance with this Policy as of the regulations of the country where they perform operations

2. Compliance risk of the Bank

2.1 Definition of compliance risk

Compliance risk is defined as the risk of impairment of Bank's integrity, leading to damage of the Bank's reputation, to legal or regulatory sanctions, or financial loss, as a result of a failure to comply with applicable laws, regulations and standards.

Compliance risk is also often referred to as integrity risk, as the integrity risk is the key focus of Compliance, and also as reputation risk. However, it shall be noted that reputation damage is only one of the possible effects of compliance risk, in addition to sanctions and financial loss. Compliance risk is therefore a broader concept than just reputation risk. Reputation damage or risk is a secondary effect or consequence of compliance risk.

Reputation damage can however be much more costly than (direct) financial loss of new / future business, of existing clients and / or of trust in the Bank's integrity as a whole.

2.2 Scope of Compliance function

The Scope of Compliance functions in the Bank includes identification, assessment, monitoring and management of compliance risk mainly risk of legal or regulatory sanctions, or financial loss and also as reputation risk which are specific to the banking and financial services regulation and market requirements.

2.3 Inside the scope of Compliance function

Direct competence of Compliance Division related to abovementioned risks is:

- (1) Client related integrity risk:
 - a. Money laundering
 - b. Terrorist financing
 - c. Other external crime and fraud
 - d. Customer due diligence
 - e. Clients risk assessment
 - f. Banking confidence



- (2) Personal conduct related integrity risk:
 - a. Market abuse and personal insider trading
 - b. Code of conduct
 - c. Outside positions by bank officers
 - d. Internal fraud
 - e. Inducements
- (3) Financial services conduct related integrity risk:
 - a. Marketing, sales and trading conduct
 - b. Conduct of advisory business
 - c. Transparency in product offerings
 - d. Customer interest and protection
 - e. Complaints management
 - f. Data protection / privacy
- (4) Organizational conduct related integrity risk:
 - a. Conflict of interests
 - market abuse and personal insider trading
 - management and supervisory functions at clients and
 - other related to legal regulations
 - b. Data protection/ anti trust
 - c. Internal standards related to a new products approval and product development
 - d. Regulatory registration requirements

Indirect competence: –In relation to regulatory requirements some of the risks are in direct competence and primary responsibility of other Bank’s Divisions and having that in view only in indirect competence of the Compliance Division (outside the scope of Compliance) and they are as follows:

- ü Risks that the Bank will fail to fulfill or will overstep the prescribed conditions or when there is an indication that the Bank might run such risks.
- ü Risk that the Bank will fail to follow regulations and internal provisions in classifying the assets and the off-balance sheet items and/or fail to form reserves for estimated losses which might arise from the assets and off-balance sheet items.
- ü Risks from disobedience of the Work Law.
- ü Risks from disobedience of the Tax Law.
- ü Risks from the Bank’s failure to compute its reserves for estimated risks in accordance with the regulatory criteria and the internal regulations.
- ü Risks from an inadequate structure of liabilities.
- ü Risks from uncoordinated timing between the assets and liabilities maturities.
- ü Risks arising from up growing tendency of Bank liabilities due to new indebtedness or agreed fluctuating payable interest rates, exchange rate ratios, or due to other reasons.
- ü Risks when interests and other expenditures show an uprising tendency.



- ü When contracts between the Bank and the client are legally deficient or unclear.
- ü Risks with inadequately constructed instruments to secure investments that have been placed or are to be placed.
- ü Risks from inadequate functioning of foreign and domestic payment operations.

3. Management

3.1. Management Board

The Management Board of the Bank instructs the business units to undertake ultimate responsibility for compliance with applicable laws, regulations and ethical standards, thereby having overall responsibility for the management of compliance risk. It establishes this Policy and reviews its implementation throughout the Bank, thereby assessing the extent to which the Bank is managing its compliance risk effectively.

3.2. Executive Board and Management

The Executive Board and the Management are responsible for implementation and adherence to the Compliance Policy and its minimum standards together with the appropriate Compliance Division support and assistance.

3.3 Management duties

In order to manage the compliance risks the Management shall:

- ü Promote and enforce high standards of integrity by setting a good example
- ü Ensure that Compliance Policy is implemented and adhered to, that its minimum of standards are enforced, and that compliance is implemented as continuous mode of performing bank activities.
- ü Ensure that employees are aware of, understand and adhere to compliance standards relevant to them, and are trained periodically on usage of these standards
- ü React promptly and effectively to compliance issues that arise.
- ü Encourage and facilitate active cooperation and feedback from all employees, without reprisal, down to most local levels, by creating open lines of communication, both to report compliance concerns and to ask questions about compliance issues
- ü Create an open and receptive attitude towards compliance
- ü Not merely to evaluate employees on production measures, but also reward their ability to proactively manage compliance risk
- ü Provide compliance staff with sufficient resources and access they need to detect compliance risk and ensure that all employees respect the work they do
- ü Involve/ contact its Compliance division always when necessary or as soon as possible whenever a potential compliance issue is detected or suspected.



- ü Make enough on-going inspection or audit capacity (in-or outside Compliance) available to inspect or audit compliance risk.
- ü Actively follow-up recommendations from Compliance so as to ensure that all issues are promptly and effectively resolved
- ü Include in employee's job description that each employee is responsible to compliance his/her area of responsibility with internal policies, procedures, working instructions or manuals approved by the Bank.

4. Compliance function and organization

4.1. Compliance function (activities and framework)

The responsibility of the Compliance function is to proactively:

- (1) Identify, assess, and monitor the compliance risks (as defined in chapter 2) faced by the Bank
- (2) Assist, support and advise the Management in fulfilling its compliance responsibilities
- (3) Advise any employee with respect to their personal compliance obligations

Thereby helping so the Bank to carry on business successfully and this in conformity with external and internal standards and regulations.

In situation requiring Compliance input, the task of Compliance Division is not limited to analyzing the situation, identifying a solution and giving the advice to management. The Compliance Division must continue to pursue the matter until a satisfactory solution has been fully implemented. If necessary the actions taken should include escalating the issue to a higher level.

In order to accomplish the function Compliance Division developed system of compliance represents a set of management processes and tools used through execution of business activities, management and controlling in order of compliance risk mitigation

The Compliance activities and system consists of following components:

1. Compliance in accordance with Laws, other regulatory and standards
2. Compliance risk identification and assessment
3. Compliance Risk mitigation through standards, procedures and guidelines
4. Compliance risk monitoring
5. Incidents management
6. Training and education
7. Monitoring on activities
8. Reporting and advising
9. Implementation of Compliance Policy and minimum of its standard:

4.1.1 Compliance in accordance with Laws, other regulatory and standards

- § Development of a Compliance Chart and organization structure which describes and analyses in terms of compliance risk those laws, regulations and standards which are material and relevant to the business and fall within the generic scope of the Compliance function.



- § In cooperation with the Legal Department , to translate its inventory and analyses of new and proposed compliance risk related rules into internal Compliance standards, procedures and guidelines and to ensure that new regulatory requirements are duly incorporated into the procedures followed by the business unit.
- § The Compliance Division has to develop and maintains of the Compliance Chart, in coordination with the relevant business activities.

Key characteristic of Compliance Chart:

- ü Provides a management overview of key laws, regulations and standards
- ü Does not duplicate those rules and is not a pharagrph-by-pharagraph description of the rules
- ü Allocates clear priority-levels to the various rules
- ü Has substance over form as starting point
- ü Is as concise and brief as possible and proportional to the underlying compliance risks
- ü Specifies key compliance activities if and where implied or required.

4.1.2.Compliance risk identification and assessment

The Compliance Division is required toper form yearly compliance risks identification and assessment which shall aim to:

- ü Identification and prioritization of potential areas of compliance risk, leading to the Bank reputation, legal or regulatory sanctions, or financial loss
- ü Review, identify, and prioritize potential areas of compliance risks, and advise appropriate solutions

The Compliance Division works closely with the Legal Division. The Legal Division will generally have primary role in analyzing and considering the impact of new laws and regulations to the business activities (Contracts), where the Compliance Division generally have primary role to translate or ensure translation of these external rules into clear and workable internal rules.

4.1.3.Compliance Risk mitigation through standards, procedures and guidelines

Based on the risk identification and assessment, The Compliance Division shall mitigate risk through:

- ü Establishing appropriate risk mitigating measures for key risks, including clear standards, procedures and guidelines
- ü Advise, improve or assist with improving or implementing standards, procedures and guidelines, also by asking business participants for their input and requirements
- ü Preparing the ethical and professional code of conduct
- ü Develop timetables for current year of training, monitoring, regulatory reporting etc.



- ü Incorporate specific requirements of the local legislator or regulator which are not already covered by corporate requirements

Distinction shall be made between:

1. The ethical and professional code of conduct which sets the rules to be followed by all employees of the Bank (consisting of personal account dealing rules, reporting suspicious transactions to AML authorities, securities trading, no insider trading, activities out of the bank etc.)
2. The ethical and professional code of conduct consists of Compliance Division Procedures Manual (division organogram and responsibilities, training program, monitoring program, etc.)

Common for both documents is importance of them, but the audiences are very different.

4.1.4. Compliance risk monitoring

The Compliance Division is responsible for establishing and implementing an appropriate Monitoring Plan addressing key compliance risks. On-going monitoring of the adherence to the Compliance Policy and its minimum standards, and applicable legal and regulatory standards, and assisting in enforcement as needed.

In the form of the report the Executive Board and Audit Committee shall be informed of results of compliance risk monitoring.

The following monitoring activities are including:

- ü Key risk monitoring
- ü Key controls monitoring
- ü Transactions monitoring

4.1.5. Incidents management

Compliance incidents

The Compliance Division is responsible for reporting of and responding to compliance incidents, i.e. ensure appropriate information to the management of the bank.

Material compliance incidents

Material compliance incidents are defined as events which have impaired banks integrity, leading to material damage to banks reputation, legal or regulatory sanctions, or financial loss, as a result of a failure to comply with all applicable laws, regulations and standards

Periodic reporting

Material compliance incidents shall be immediately reported the Executive Board and Audit Committee in accordance with standards, procedures and guidelines of the Compliance Division



4.1.6. Training and education

- § Development, maintenance and conducting of an on-going Compliance training and education program, appropriate to the specific business unit, to promote an appropriate corporative culture, awareness and understanding of compliance policies, standards, procedures and guidelines and of compliance-relevant issues .
- § With the assistance of the Legal and Human resources departments , the Compliance Division is oblige to develop adequate on-going compliance training and education program in accordance with scope of division and compliance risks as are, but not limited, the anti money laundering, terrorism financing, ethical and professional code of conduct, complaints management, etc.
- § This program shall have standard training and education for all employees, which may include yearly refresher courses.

4.1.7. Action-tracking

- § Action-tracking of the resolution of all compliance-related audit or regulatory findings and related actions, management initiated actions, and actions initiated from the Compliance Division (e.g. Charts, Risk Assessment, etc.)

4.1.8. Reporting and advisory

- § Reporting and proactive advisory of the Executive Board, Audit Committee and the employees with respect to any compliance risk.

4.1.9. Implementation of Compliance Policy and minimum standards

This activities includes proactive assistance and support of management with driving day-to-day implementation of compliance program.

Compliance function has important responsibilities and duties, requiring the direct and full support from Executive Board, and allocation of proportional and qualified resources. Compliance function has obligation on careful annual activity planning, incl. prioritization of identified compliance risks, having full accordance and approval of the Executive Board and Audit Committee.

- § The Compliance Scorecard scores the extent of implementation of the Compliance framework and translates into a red/yellow/green indicator which informs about whether of actual risk exposure and further compliance actions required.

4.2. Organizational position of Compliance Division

Independence

To avoid potential conflicts of interests, *the* Compliance Division shall be independent of the business activities of business units of the Bank, with a direct reporting line to Executive Board and Audit Committee.

Functional reporting line

Employees engaged in compliance framework (risks from chapter 2.) at subsidiaries of the Bank are obliged to provide quarterly reports to the Director of the Compliance Division of



the parent Bank. Significant compliance information shall be reported to both hierarchical and functional line.

Reporting

The Director of the Compliance Division is obliged of monthly reporting to the Executive Board and Audit Committee of the Bank, considering the compliance activities, identified risks, special investigations in accordance with internal procedures, of the implementation level considering the recommendations of regulatory bodies or internal audit in order of mitigating compliance risks, education and professional development of compliance staff. The Director of Compliance Division is obliged to, at least once per year, report of assessment of compliance risks and draft of plan and methodology of the Compliance Division, as of annual budget of division directly to the Executive Board and Audit Committee of the Bank.

Appointment and effective organization of the Compliance Division

The Management Board of the Bank.¹ is responsible for appointing a Director of Compliance Division and establishing an effective compliance function within the Division it is responsible for.

Archiving the documentation

The Compliance Division is obliged to take care of archiving the documentation at least five years in accordance with law regulations.

¹ The employee of Subsidiary Compliance, by the proposal of Subsidiary Management, have to be appointed by Management Board, but only under previous approval given by Audit Committee / Director of Compliance Division of the Bank.