



**2019 ANNUAL REPORT OF OPERATION OF
KOMERCIJALNA BANKA AD**

March 2020



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1. KEY PERFORMANCE RATIOS OF THE BANK

PROFIT AND LOSS STATEMENT (RSD 000)	2019.	2018.	Index 19/18	2017.	2016.	2015.
Profit / loss before tax	8.268.685	8.121.073	101,8	7.187.250	-8.377.636	-6.175.885
Profit / loss after tax	8.955.759	8.145.182	110,0	8.117.368	-8.063.183	-6.061.358
Net interest income	12.605.384	12.834.638	98,2	12.446.197	13.462.734	13.768.082
Net fee income	5.328.996	5.210.149	102,3	5.082.226	4.817.314	4.899.947
Operating expenses *	11.064.609	10.473.783	105,6	10.833.081	11.086.858	10.799.510
Net income / expense of indirect write-offs of loans and provisions	2.425.931	9.493		17.883	-14.907.539	-13.008.526

* Note: Operating expenses include earnings, tangible and intangible operating expenses

BALANCE SHEET (RSD 000)	2019.	2018.	Index 19/18	2017.	2016.	2015.
BALANCE SHEET ASSETS	432.380.443	401.165.980	107,8	369.183.538	400.017.469	393.439.874
RETAIL						
Loans **	99.057.214	92.033.605	107,6	81.712.222	75.522.465	70.784.957
Deposits ***	280.484.488	260.296.411	107,8	241.210.420	231.312.395	218.836.847
CORPORATE						
Loans	81.504.403	75.264.373	108,3	71.725.704	74.083.897	89.204.275
Deposits	47.879.400	49.879.580	96,0	41.371.592	78.300.568	55.503.896
Securities	138.469.551	133.177.598	104,0	117.288.767	136.366.773	129.607.464

*** Note: The loans item does not include other loans and receivables, the deposits item does not include other liabilities and funds received through credit lines. At the request of the auditor, a correction of the balance sheet for 2015 was made in 2017.

*** Note: At the end of 2017, RSD 11.2 billion of micro-customers' deposits were transferred from the corporate to retail, which is why the data was adjusted in relation to 2017 Annual Business Report

RATIOS	2019.	2018.	Index 19/18	2017.	2016.	2015.
LOANS TO DEPOSITS RATIO						
Gross loans / deposits	57,7%	58,4%		61,3%	58,7%	67,4%
Net loans / deposits	54,9%	54,8%		56,1%	50,7%	57,2%
CAPITAL (RSD 000)	75.852.173	67.560.513	112,3	63.260.055	55.424.302	62.838.046
Capital adequacy	30,83%	29,18%		27,89%	26,97%	22,70%
Number of employees	2.744	2.766	99,2	2.806	2.858	2.877
PROFITABILITY RATIOS						
ROA	2,00%	2,13%		1,89%	-2,05%	-1,56%
ROE-total equity	11,71%	12,57%		11,91%	-13,86%	-8,99%
Net interest margin on total assets	3,0%	3,4%		3,3%	3,3%	3,5%
Cost / income ratio	61,7%	58,0%		61,8%	60,7%	57,9%
Assets per employee (in 000 EUR)	1.340	1.227	109,2	1.111	1.134	1.124



During 2019, business entities operated in a relatively stable macroeconomic environment. Key macroeconomic indicators achieved positive values. The last year was marked by the growth of gross domestic product (GDP), a record high level of foreign direct investment (FDI), the republican budget surplus, a decrease in the public debt to GDP ratio, appreciation of the dinar against the euro and a fall in the unemployment rate.

In the previous year, the National Bank of Serbia (NBS), as part of its activities to further strengthen the overall stability of the banking sector, adopted the Decision on Amendments to the Decision on Risk Management by Banks, Decision on Amendments and Supplements of the Decision on Capital Adequacy of Banks, Decision on Amendments and Supplements of the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items, Decision on Amendments and Supplements of the Decision on Reporting Requirements for Banks, Decision on Amendments of the Decision on Reporting on Capital Adequacy of Banks, etc.

The Instant Payment System (IPS), introduced by NBS starting in October 2018, continued to operate successfully throughout 2019, as evidenced by the increase in the number and value of transactions performed. IPS NBS payment system works 24 hours a day, 7 days a week, 365 days a year (24/7/365).

As of May 2019, the Law on Conversion of Housing Loans Indexed in Swiss Francs has been implemented. In this way, the NBS intervened in the banking market in order to regulate the long-standing problem of individual retail clients indebted in Swiss francs based on housing loans granted by commercial banks.

The sector capital adequacy indicator is at a high and stable level during the first three quarters of 2019. Interest rates on new loans granted to businesses and retail clients are at a stable and low level.

Low inflationary pressures in 2019 caused the NBS to further relax its monetary policy by lowering its benchmark interest rate to a lowest level which amounted to 2.25%.

Serbia's risk premium was reduced to 64 b.p. in the third quarter of 2019¹, the largest decrease compared to other countries in the region. Serbia's risk premium, as measured by the EMBI

index, reached its lowest value since September 18, 2019, since this indicator has been monitored and came to 49 b.p.² This further demonstrates investors' confidence in the good macroeconomic prospects of the Serbian economy.

The Bank remains in the group of the system significant banks, with stable participation in the assets and capital in the sector. At the end of the third quarter of 2019, the Bank participates in the banking sector's assets with 10.5%, while in the share capital of the sector it participates with 10.4%. The Bank continues to stand out as a leader in the volume of retail foreign currency savings in the sector. At the end of 2019, retail savings deposits amounted to EUR 1,773.2 million.

As key goals set for the Bank's management in 2019, safe, stable and profitable operations have been achieved. The Bank achieved growth in balance sheet assets and operating profit with high liquidity and high capital adequacy. The total capital of the Bank, as one of the key indicators of business security, grew by 12.3% in 2019. At the end of 2019, the Bank had total capital in the amount of RSD 75,852.2 million or EUR 645.0 million. The Bank's capital adequacy ratio at the end of 2019 was 30.83% (minimum 8% + capital buffer required).

Following the changes made in 2018, at the end of 2019, the Bank provided retail services through a network of 203 branch offices grouped in six Business Centres and Kosovska Mitrovica Branch. Operations with legal entities were carried out through three Divisions in charge of working with small and medium business and Corporate Division - in charge of operations with large corporate clients.

The fact that the society we live in increasingly rests on the Internet and e-commerce has influenced the Bank to implement modern technologies in its operations. Fully aware of these changes and needs, the Bank set as one of its significant goals the continuation of business digitization throughout 2019. Today, the Bank provides, by the highest standards, almost all digital banking services to its customers in the same way that these services are available to customers in the most developed countries of the world. Digitization is also a process that the Bank uses, among other things, to improve existing

¹ NBS, Inflation Report, November 2019

² NBS, Inflation Report, November 2019



business processes, that is, to increase efficiency and quality of work.

In accordance with the NBS regulation, in order to further improve the risk management system, the Bank has taken all necessary measures for quality management of credit and other business risks. Credit risk remained the highest risk in the Bank's and banking sector's operations. As a result of the established risk management system, and the implementation of NBS regulations, the Bank significantly reduced the non-performing loan ratio (NPL ratio) in 2019. At the end of 2019, the NPL ratio was 7.2%, compared to 2018 when it was 9.5%.

The Bank ended 2019 with a pre-tax profit of RSD 8,268.7 million. The positive results achieved in the last three years and the high values of the

capital adequacy ratio have enabled the Bank to accumulate a significant amount of profit reserves. Profit reserves increased by RSD 6,913.5 million y.o.y.

In the next three-year period, according to the Strategy and Business Plan, the Bank's focus will be on:

- growth of lending;
- maintaining the quality of the loan portfolio;
- maintaining and improving the client structure;
- an increase in the share of fees and commissions;
- control of operating expenses;
- maintaining and strengthening the Bank's capital base.

Financial objectives of the Bank (in%)	Achieved in 2019	Plan for 2020	Plan for 2021	Plan for 2022
Asset growth	7,8	3,6	5,9	6,0
Profit / Loss before tax (RSD million)	8.269	8.446	8.878	9.365
ROA	2,0	1,9	1,9	1,9
ROE - total equity	11,7	11,0	11,1	11,3
Interest margin (net interest income / average assets)	3,0	3,0	2,9	2,7
Cost / Income ratio	61,7	58,1	57,1	55,1
NPL	7,2	4,8	4,0	3,3



2. MACRO-ECONOMIC OPERATING CONDITIONS

According to the International Monetary Fund (IMF) forecast of October 2019, the global economic growth projection for 2019 is 3.0%³. For developing countries, the year-on-year growth projection has been reduced to 1.7% for 2019.⁴ In the United States, investment dynamics slowed while employment rates and population spending were significant. Growth in 2019 is expected to be 2.4% to 2.1% in 2020⁵. For euro area countries, year-on-year growth is projected to be 1.2% in 2019 and 1.4% in 2020⁶. Japan's economy is projected to grow 0.9% in 2019. Growth in emerging markets and a group of developing countries will decline to 3.9% in 2019, while rising to 4.6% in 2020. The incentive policy is expected to continue in China, with growth expected to be 6.1% in 2019 and 5.8% in 2020. India should reach an annual growth rate of 6.1% in 2019 and a growth of 7.0% in 2020⁷. For Serbia, the GDP growth estimate for 2019, according to the IMF, is 3.5% for 2019 and 4.0% for 2020.⁸

In the international financial market and throughout 2019, there was a diversity of monetary policies of the leading central banks, the Federal Reserve (Fed, USA) and the European Central Bank (ECB). The Federal Reserve lowered its benchmark rate in October 2019 by 0.25 p.p. (1.50-1.75%), the European Central Bank lowered its benchmark rate by 0.10 p.p. (-0.5%), the Bank of England increased interest rate by 0.25 p.p. (0.75%) at the end of 2019, while the Swiss National Bank reduced its benchmark rate in 2019 by 0.50 p.p. to -0.75%⁹. The divergence of monetary policies of the leading central banks in the world makes global capital flows to developing countries, and thus Serbia, uncertain. At the end of September 2019, the ECB decided to renew the net asset purchase of EUR 20 billion per month from November 2019, which is to be completed shortly before the start of the interest rates increase.¹⁰ Long-term loans to banks under the TLTRO III program will be granted on even more favourable terms¹¹, and the decision on the so-called differentiation has been made according to which two levels of excess reserves of banks are

defined, and its implementation will start from 30 October 2019.

ECB estimates that euro area annual inflation, measured by the HICP standard, will be 1.2% in 2019, 1.1% in 2020 and 1.4% in 2021.¹² Looking at the future period, by the second quarter of 2020, overall inflation rates are expected to be moderate and somewhat volatile, mainly due to energy price developments (measured by the HICP standard)¹³.

The real growth rate of euro area GDP in the third quarter of 2019 was 0.2%.¹⁴ According to the ECB's December 2019 projections, the expected GDP growth rate is 1.2% in 2019, 1.1% in 2020, and slightly adjusted upwards or downwards (respectively) compared to the September estimate¹⁵.

In the commodity market, the fluctuation in the price of crude oil continued. The price of oil was also affected by trade tensions between the US and China at the end of the year. The price of Brent crude oil at the end of 2019 (from December 20 to January 3, 2020) was in the range of USD 66.26 to USD 68.96 per barrel¹⁶.

In the Republic of Serbia, after an initial growth projection of 3.6%, as a result of significant growth in the construction, services and investment sectors, a preliminary estimate of annual GDP growth of 4.0% was reached in 2019.¹⁷ GDP growth in 2020, as in the next two years, should remain at around 4.0%¹⁸. Year-on-year inflation is still under control, moving around 2.0% on average over the last six years. Year-on-year inflation at the end of December 2019 was 1.9%¹⁹. According to the NBS memorandum targeted inflation will remain within the target limits in the period 2020-2022 3.0%±1.5p.p. According to the Labour Force Survey (Q3 2019), the unemployment rate is 9.5%²⁰. In the period January-November 2019, the total value of foreign trade amounted to EUR 37.8 billion²¹. Foreign direct investment (FDI) net inflow for the first eleven months of 2019 was EUR 3.1 billion²². Central government public debt at the end of

3 Source: IMF, World Economic Outlook, October 2019

4 Source: IMF, World Economic Outlook, October 2019

5 Source: IMF, World Economic Outlook, October 2019

6 Source: IMF, World Economic Outlook, October 2019

7 Source: IMF, World Economic Outlook, October 2019

8 Source: IMF, World Economic Outlook, October 2019

9 NBS, World Financial Market Overview, 12/23/2019 - 01/03/2020

10 NBS, Inflation Report, November 2019

11 NBS, Inflation Report, November 2019

12 Source: ECB, economic and monetary developments, Dec 2019, tab 2

13 Source: ECB, economic and monetary developments, Dec 2019

14 Source: ECB, economic and monetary developments, Dec 2019

15 Source: ECB, economic and monetary developments, Dec 2019, tab 1

16 NBS, World Financial Market Overview, 12/23/2019 - 01/03/2020.

17 NBS, Macroeconomic Trends in Serbia, January 2020

18 MFIN, Revised Fiscal Strategy for 2020

19 SORS, Press Release, 1/13/2020.

20 SORS, Labor Force Survey, Third Quarter 2019

21 MFIN, Public Finance Bulletin, November 2019

22 NBS, Macroeconomic Trends in Serbia, January 2020



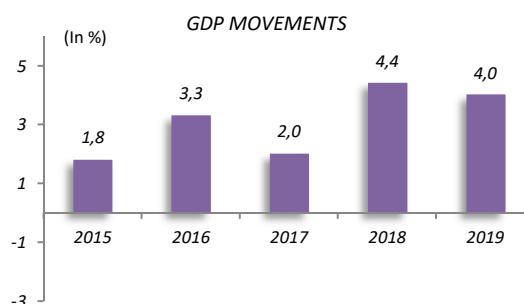
November 2019 amounted to EUR 24.1 billion, representing 52.4% of GDP²³.

Serbia's risk premium, as measured by the EMBI index (developing country bond index), has dropped to its lowest level as of mid-September 2019 since the data have been monitored (49 b.p.) and remains among the lowest risk premiums in the region²⁴.

The Belgrade Stock Exchange recorded a total turnover of RSD 91.9 billion or EUR 780.6 million in 2019. 31,115 transactions were completed and a market capitalization of RSD 569.6 billion was achieved²⁵. The Belex line index ended the year at 1,726.82 while the Belex15 index reached the value of 801,69.

GDP Movements

Realized economic growth of 4.4%²⁶ in 2018, which was at a record high and the highest in the previous decade. Economic activity continued its positive trends throughout 2019. According to preliminary estimates of the Ministry of Finance of the Republic of Serbia GDP growth was 4.0% in 2019²⁷ compared to the previous year. In the third quarter of 2019, GDP recorded a 4.8% y.o.y. growth²⁸, and in the fourth quarter an additional growth of over 5.0% was achieved²⁹. The largest contribution to GDP growth, from the production side, was the growth of the service and construction sector. Industrial production also contributes, while the effect of agricultural production has been slightly negative.³⁰ Growth in investment as well as private consumption was crucial for GDP growth. In November 2019, industrial production recorded a year-on-year growth of 1.1%.³¹ Retail trade turnover in November 2019 increased by 12.0% compared to the same month of the previous year (at current prices)³². In November 2019, nights spent in foreign tourists' accommodation increased by 17.8% (y.o.y)³³.



Employment / Unemployment

Throughout 2019 the labour market also continued to recover. The continuation of the positive trend of economic activity has also been reflected in the labour market with a further decrease in the number of unemployed since the beginning of 2019. According to data from the Labour Force Survey at the end of the third quarter of 2019, there was a decrease in unemployment compared to the same period in 2018. The unemployment rate at the end of the third quarter of 2019 was 9.5%, while in the same period of 2018 it was 11.3%.³⁴ In the third quarter of 2019 the number of employed persons increased by 22,200 and the number of unemployed persons decreased by 25,600³⁵. Within the growth of the number of employed persons (22,200), the number of formally employed persons increased by 34,300 in the sectors of agriculture, forestry and fisheries. The number of informally employed persons decreased by 12,100³⁶ compared to the same period of the previous year.

23 MFIN, Table-Public Debt of the Republic of Serbia, January 2020

24 NBS, Inflation Report, November 2019

25 Belgrade Stock Exchange, annual statistics

26 NBS, Macroeconomic Trends in Serbia, January 2020

27 NBS, Macroeconomic Trends in Serbia, January 2020

28 MFIN, Public Finance Bulletin, November 2019

29 NBS, Macroeconomic Trends in Serbia, January 2020

30 MFIN, Public Finance Bulletin, November 2019

31 MFIN, Public Finance Bulletin, November 2019

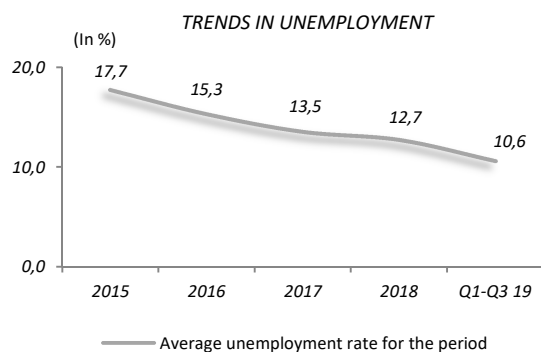
32 MFIN, Public Finance Bulletin, November 2019

33 MFIN, Public Finance Bulletin, November 2019

34 SORS, Labor Force Survey, Third Quarter 2019

35 SORS, Labor Force Survey, Third Quarter 2019

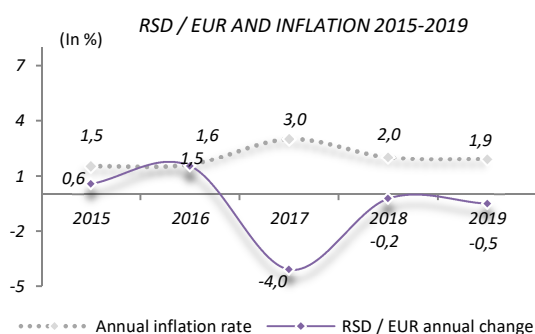
36 SORS, Labor Force Survey, Third Quarter 2019



Source: Republic Statistical Office, Labour Force Survey

Inflation

At year-end 2018, year-on-year inflation was 2.0%. At the beginning of 2019, year-on-year inflation was 2.1% in January, and at the end of December it was 1.9%³⁷. During 2019, inflation has stabilized at around 2.0%, which has been the average for the last 6 years. The strongest influence on inflation level in December 2019 came from the prices of fresh vegetables and electricity. According to the NBS projection, year-on-year inflation should be around the lower deviation target of the 3.0% ± 1.5p.p. by mid-2020.³⁸

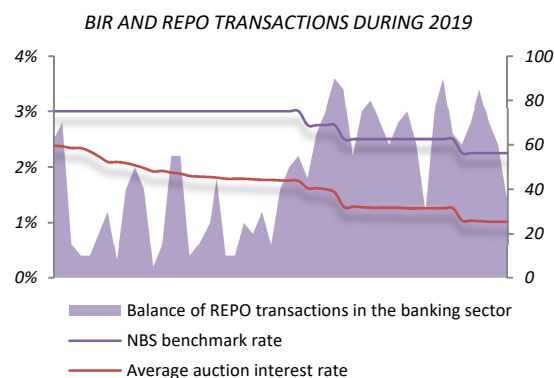


Benchmark Interest Rate

At the end of 2019, the National Bank of Serbia maintained the benchmark interest rate (BIR) at 2.25%, following three reductions during the year (in July, August and November). When making this decision, the National Bank of Serbia had in mind the expected inflation trends in the coming period and other macroeconomic indicators. Monetary policy prudence is still needed due to developments in the international environment. Since October 2019, the European Central Bank has been implementing a new monetary stimulus package. Uncertainty is present regarding the prices of crude oil and primary agricultural products. According to data from the Statistical Office of the Republic of Serbia, annual inflation in

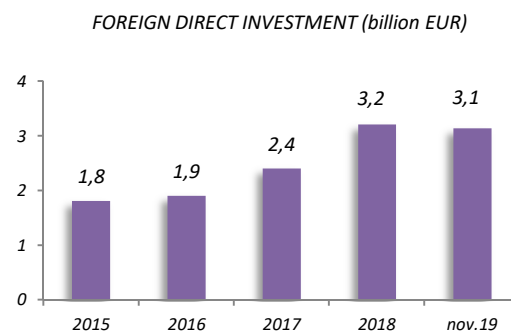
December 2019 was 1.9%, while GDP growth will be around 4.0%, year-on-year. With a further decrease in BIR, in the context of low and stable inflation, the National Bank of Serbia supported the growth of credit activity of both corporate and retail sector. Total domestic loans in November 2019 recorded a year-on-year growth of 10.4%.³⁹ Through reverse repurchase transactions, the National Bank of Serbia has enabled commercial banks to place excess liquid assets of the banking sector in treasury bills.

The average weighted repo rate was 1.02% at the end of 2019, compared to the end of 2018 when it was 2.39%.⁴⁰ The volume of REPO transactions ranged from a minimum of RSD 5.0 billion to a maximum volume of RSD 90.0 billion, to finally come to RSD 70.0 billion at the year-end.



Foreign Direct Investments

Foreign direct investment (FDI) reached EUR 3.2 billion in 2018⁴¹. For the eleven months of 2019, net FDI volume reaches a volume of EUR 3.1 billion⁴² while in the same period in 2018 it amounted to EUR 2.3 billion. Most of the FDI inflow was from the manufacturing industry, particularly in the automotive, metal, food and pharmaceutical industries.



37 SORS Public Release, Consumer Price Index, December 2019
38 NBS, Macroeconomic Trends in Serbia, January 2020

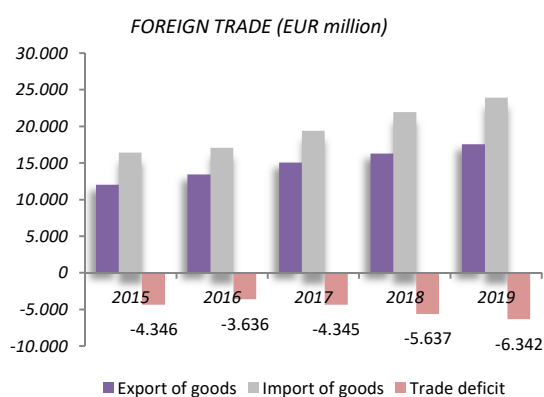
39 NBS, Macroeconomic Trends in Serbia, January 2020
40 NBS, open market transactions
41 NBS, Macroeconomic Trends in Serbia, January 2020
42 NBS, Macroeconomic Trends in Serbia, January 2020



These investments have, inter alia, contributed to the reduction of unemployment, the growth of production and exports of the manufacturing industry. The total current account deficit of the Republic amounted to EUR 2.2 billion in 2018, but was fully covered by FDI and retained a 5.2% share of GDP⁴³. In the period January-November 2019, the current account deficit amounted to EUR 2.8 billion.

Foreign Trade

Total foreign trade of the Republic of Serbia in January-December 2019 amounted to EUR 41.4 billion⁴⁴. Compared to the same period in 2018 (EUR 38.2 billion), this exchange volume represents an increase of 8.4%. Exports of goods in the twelve months of 2019 reached a value of EUR 17.5 billion, while imports amounted to EUR 23.9 billion. Foreign trade deficit amounted to EUR 6.3 billion, an increase of 12.5%⁴⁵ y.o.y.



The most important export products, in the period January-November, are electrical machines, appliances and appliances with a share of 11.8%⁴⁶. Road vehicles, iron and steel, rubber products and propulsion machines, which, together with electric machines, account for 31.0%⁴⁷ of exports.

The most important imported products are petroleum and petroleum products, electrical machinery and appliances, road vehicles, iron and general purpose industrial machinery with a share of 26.4%⁴⁸ in total imports.

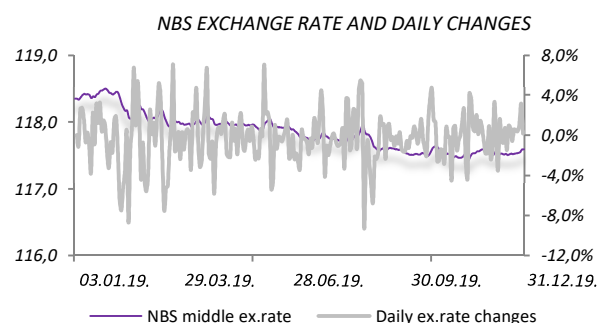
Looking at the structure of foreign trade by region, around 2/3 of foreign trade is still being done with EU countries. Imports from EU countries account for 58.9% of total imports and exports to EU countries 66.9% of total exports⁴⁹. The main EU

foreign trade partners in 2019 were Italy and Germany⁵⁰.

RSD to EUR Exchange Rate

The EUR / RSD exchange rate at the end of 2019 was 117.59 and is 0.5% lower than the exchange rate at the end of 2018 (118.19). During 2019, the EUR / RSD exchange rate ranged from RSD 117.43 to RSD 118.49 per EUR. The movement of the dinar exchange rate was influenced by favourable macroeconomic indicators, improved credit rating of the country (S&P and Fitch Agencies,⁵¹), and further decline in risk premiums and growth in foreign direct investments. During 2019, the dinar appreciated against the euro by 0.5% and against the dollar by 1.5%. During 2019, the National Bank of Serbia (NBS) intervened in the inter-change foreign exchange market (MDT) by buying and selling foreign currencies, thus preventing major daily fluctuations in the value of dinars. During 2019, the volume of NBS purchases at MDT was EUR 3,100 million, while the volume of sales was EUR 405 million.

NBS gross foreign exchange reserves at the end of December 2019 reached EUR 13.4 billion and increased by EUR 2.1 billion compared to December 2018⁵².



Budget Deficit/Surplus

Overall fiscal surplus of RSD 11.1 billion was recorded at the general state level in 2019⁵³. According to the budget execution plan for the mentioned period, a total fiscal deficit of RSD 27.1 billion was foreseen, which means that the budget realization was better than planned.

43 MFIN, Table 1, Basic Indicators of Macroeconomic Trends, February 4, 2020

44 MFIN, Table 1, Basic Indicators of Macroeconomic Trends, February 4, 2020

45 MFIN, Table 1 - Basic Macroeconomic Indicators, February 4, 2020

46 MFIN, Public Finance Bulletin, November 2019

47 MFIN, Public Finance Bulletin, November 2019

48 MFIN, Public Finance Bulletin, November 2019

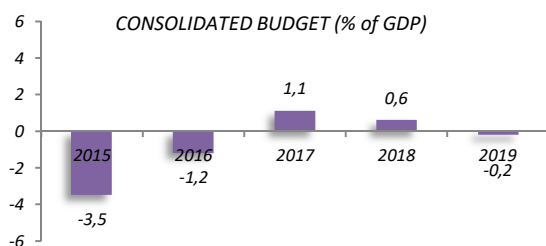
49 MFIN, Public Finance Bulletin, November 2019

50 MFIN, Public Finance Bulletin, November 2019

51 NBS, Macroeconomic Trends in Serbia, January 2020

52 NBS, table - Foreign reserves, 23 January 2020

53 MFIN, December 2019 press release



Source: MFIN (consolidated fiscal result)

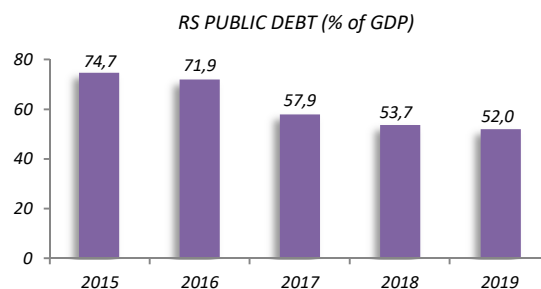
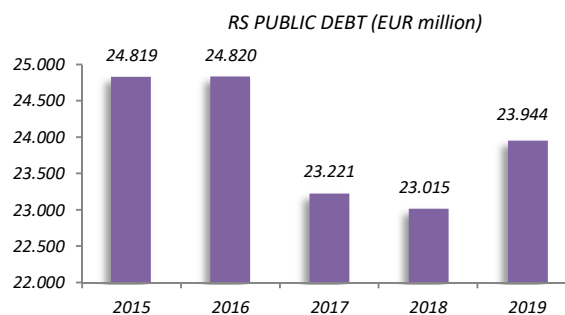
During 2019, a budget surplus of RSD 12.8 billion was achieved⁵⁴. In the aforementioned period, revenues in the amount of RSD 1,274.6 billion were collected, while expenditures amounted to RSD 1.261,8 billion. In December 2019, RSD 121.1 billion of budget revenues were collected and most of them were tax revenues (RSD 102.8 billion)⁵⁵. Tax revenue refers to the payment of VAT and excise taxes to the budget. Budget expenditures in the same month amounted to RSD 170.6 billion.⁵⁶

More favourable fiscal results in the last four years are the result, successful fiscal consolidation of budget expenditures as well as revenue growth due to faster GDP growth and better tax collection.

Public Debt

Public debt of the Republic of Serbia (central government), according to available data at the end of December 2019 amounted to EUR 23.9 billion⁵⁷ representing 52.0% of GDP. According to available data from the Ministry of Finance, compared to December 2018, the said amount of public debt represents an increase of EUR 929.4 million. The share of public debt in GDP has decreased compared to the same period of the previous year (53.7%) and is a result of lower government borrowing needs and faster GDP growth.

Looking at the currency structure of public debt (December 2019), about 44% of the public debt of the Republic of Serbia is in euros. According to the structure of interest rates, about 84% of the public debt of the Republic of Serbia is at fixed interest rates⁵⁸.



Public Debt Management of RS, during 2019 (until the end of December), increased the value of dinar government securities in the domestic financial market (around RSD 51.0 billion⁵⁹) as well as the value of Euro denominated securities (around EUR 216.4 million) compared to the end of 2018.

Foreign Debt

According to NBS data, total external debt of the public and private sector stood at EUR 28.6 billion at the end of September 2019⁶⁰, which is a y.o.y increase by EYP 2.1 billion. External debt of the private sector increased EUR 2,137.4 million in the observed period, while public sector external debt decreased EUR 7.9 million⁶¹. The external solvency indicator, presented as a ratio of the volume of external debt and the value of exports of goods and services, slightly improved at the end of September 2019, amounting to 124.4%, (beginning of the year 126.0%)⁶².

54 MFIN, December 2019 press release

55 MFIN, December 2019 press release

56 MFIN, December 2019 press release

57 MFIN, Table-Public Debt of the Republic of Serbia, February 2020

58 Public Debt Management RS, Monthly Report, December 2019

59 Public Debt Management RS, Monthly Report, December 2019

60 NBS, RS foreign debt to debtors as of December 30, 2019

61 NBS, RS foreign debt to debtors as of December 30, 2019

62 NBS, Serbia's External Position Ratios, February 10, 2020

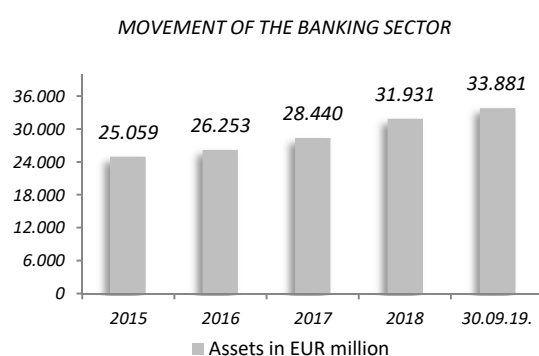
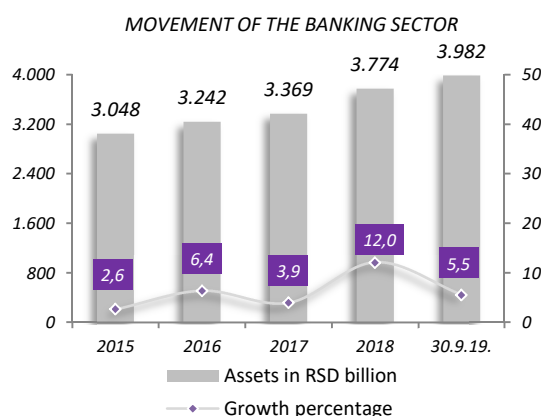


3. BANKING SECTOR OF THE REPUBLIC OF SERBIA AND THE FINANCIAL POSITION OF THE BANK

3.1. Banking Sector

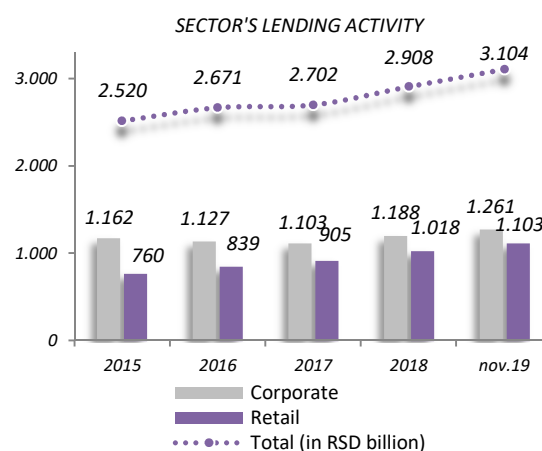
At the end of November 2019, the banking sector of the Republic of Serbia comprises a total of 26 banks with 23,114 employees⁶³. Total assets reached RSD 3,982.0 billion and total capital of RSD 696.6 billion at the end of September 2019. The ten largest banks by balance sheet assets account for 79.9% of total sector assets.

The balance sheet assets of the banking sector during the first nine months of 2019 increased by 5.5% compared to the end of 2018, while the total capital increased by 2.9%.



During the first three quarters of 2019, the downward trend in interest rates on RSD newly approved loans to corporate and retail customers continued. The interest rate on RSD corporate loans 2019 was 4.3% in November and the interest rate on retail loans was lowered to a new minimum of 9.1%.⁶⁴ This trend has contributed to

the growth of total domestic loans of 10.4% (y.o.y in November 2019), driven by the growth of both corporate and retail loans. During the analysed period, the banking sector had significant surpluses in liquid assets, bearing in mind liquidity benchmarks. The excess liquid assets of the banking sector are placed mainly in government securities and NBS repurchase operations. At the end of September 2019, banks' investments in repurchase transactions amounted to RSD 70.0⁶⁵ billion, while in June it was RSD 40.0 billion. The share of securities amounted to 16.9%, and of cash and assets with the Central Bank to 14.8% of banking sector assets (as of September 30, 2019).



The share of gross NPL loans in total gross loans stood at 4.7% at the end of September 2019 while at 5.7% at the end of December 2018.⁶⁶ Impairment provisions for NPL loans cover 60.1% of gross NPL loans⁶⁷.

During the observed 2019 also, *retail FX savings* tended to grow steadily. At the end of November 2019, it would reach EUR 10.4 billion⁶⁸, representing a 7.7% increase over the end of 2018. Total retail savings, over the same period, reach EUR 11.0 billion, an increase of 8.8% compared to the end of 2018.

The average value of *capital adequacy* ratio of the banking sector as of September 30, 2019 was 23.6%⁶⁹. Compared to the newly prescribed minimum ratio of 8.0%, the realized value of 23.6% indicates that the banking sector is adequately capitalized. At the end of September 2019, the banking sector's share capital was RSD 385.9 billion.

65 NBS, An Overview of Auction Trades through which NBS Performs Open Market Transactions for 2019.

66 NBS, Key Macroprudential Indicators of the Republic of Serbia, Table 1.1.

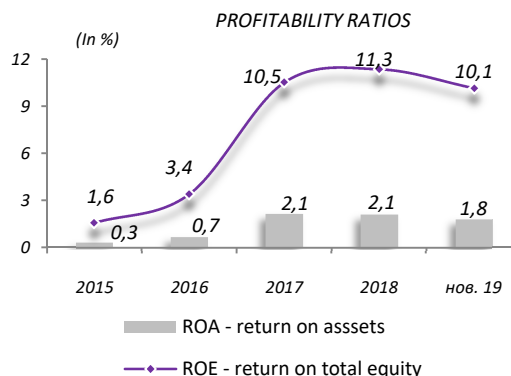
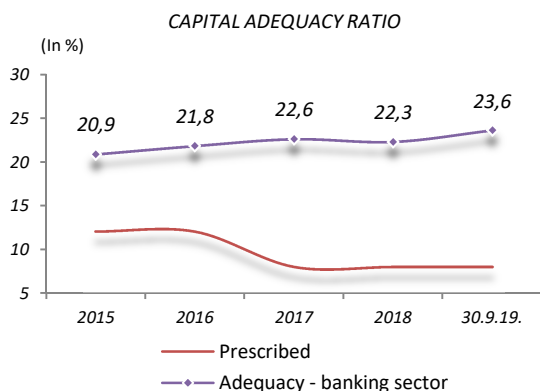
67 NBS, Key Macroprudential Indicators of the Republic of Serbia, Table 1.1.

68 NBS, table 1.1.20.-Savings deposited to banks by retail customers

69 NBS, Macroeconomic Trends in Serbia, January 2020

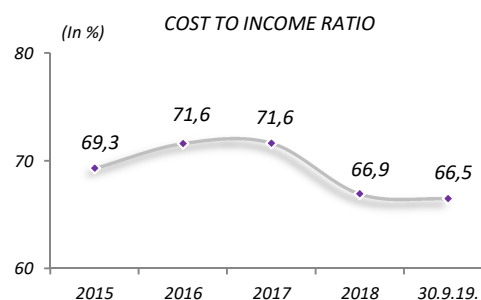
63 NBS, Macroeconomic Trends in Serbia, January 2020, account balance as of the end of November 2019

64 NBS, Macroeconomic Trends in Serbia, January 2020

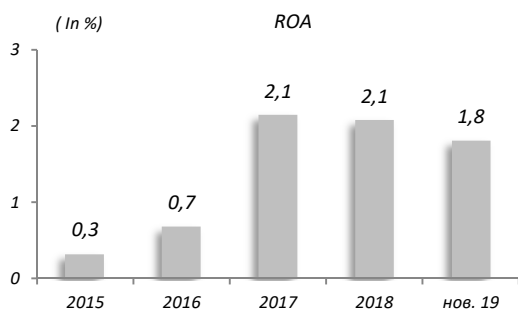


At end-September 2019, banks' borrowing from foreign lending (long-term and short-term loans) amounted to RSD 239.8 billion, up 15.0% from the same period last year⁷⁰.

During the first three quarters of 2019, the banking sector recorded a year-on-year increase in profitability. At the end of Q3 2019, a positive net pre-tax financial result of RSD 54.1 billion was generated. In the observed period, 18 banks operated positively with a total profit of RSD 55.8 billion, while 8 banks operated with a total loss of RSD 1.7 billion.

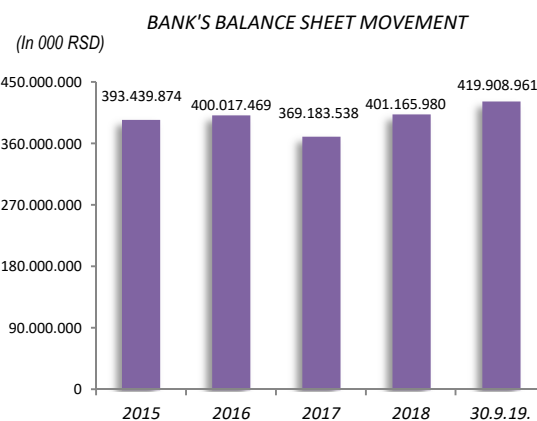
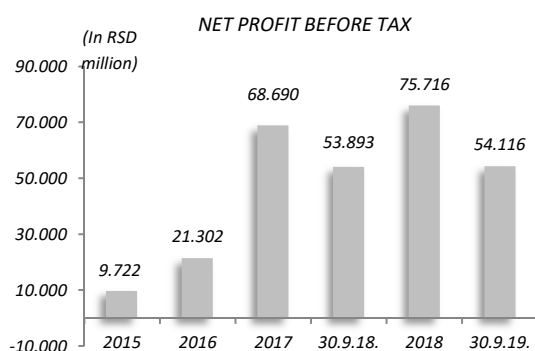


Cost / Income ratio continues its downward trend, after increasing in 2016 and 2017, amounting to 66.5% (on 09/30/2019).

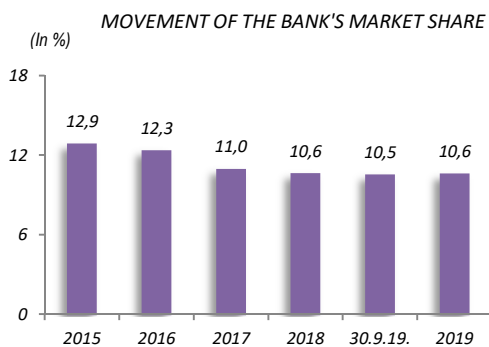


3.2. Financial Position of the Bank Compared to Banking Sector

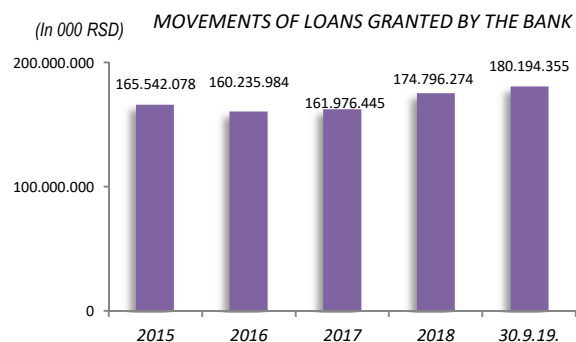
With the balance sheet assets amounting to RSD 419.909,0 million, Bank occupied 10.5% of the banking sector as of 30.09.2019, that is, it was ranked the third. According to available data on the NBS website, the Bank's share in the banking sector at the end of 2019 was 10.6%.



70 NBS, Foreign Banks' Liabilities, Table 2.5., 01/23/2020.

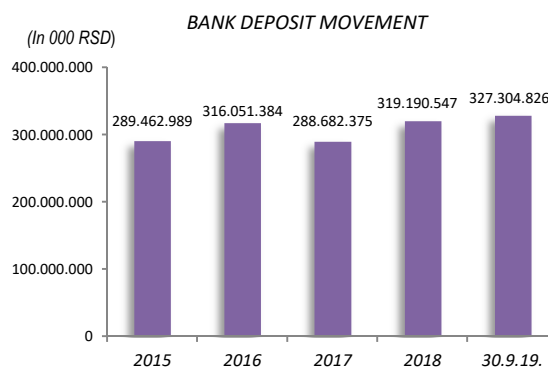


On 30.09.2019, loans and receivables granted by the Bank amounted to RSD 198,390.7 million representing 7.8% of market share. At the end of 2018, the Bank had a 7.9% share in the banking sector, with the amount generated in the above mentioned positions of RSD 186,023.4 million.



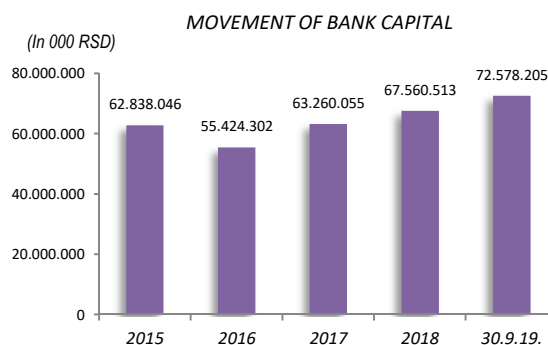
Note: For the sake of comparability with previous years, the chart shows the loans granted by the Bank excluding other investments and receivables

The share of deposits and other liabilities of the Bank in the total deposits of the banking sector amounted to 10.5% as at 30.09.2019 (RSD 329,966.3 million), or 10.7% at the end of 2018 (RSD 322,891.8 million).



Note: For the sake of comparability with previous years, the graph shows the Bank's deposits, excluding other liabilities and credit lines

Considering the position the total capital of the Bank as at 30.09.2019, KB accounted for 10.4% of the banking market (RSD 72,578.2 million), while at the end of 2018 this position accounted for 10.0% of the banking sector (RSD 67,560.5 million).





4. ORGANIZATIONAL STRUCTURE AND BANK'S BODIES

4.1. The Board of Directors

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

The powers of the Bank's Board of Directors are defined in Article 73 of the Law on Bank and Article 27 of the Bank's Articles of Association. Below are the members of the Board of Directors of the Bank as at 31 December 2019:

NAME AND SURNAME	SHAREHOLDER / MEMBER INDEPENDENT OF THE BANK	FUNCTION
Marija Sokic	Republic of Serbia	Chairperson
Danijel Pantic, PhD	Republic of Serbia	Member
Dejan Hadzic	Republic of Serbia	Member
Katarina Susic	Member independent of the Bank	Member
Goran Knezevic	Member independent of the Bank	Member
Prof.Dr. Zoran Jovic	Member independent of the Bank	Member

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

4.2. The Executive Board of the Bank

The Executive Board consists of the President of the Executive Board, the Vice-President of the Executive Board and at least three members. The

term of office of the members of the Bank's Executive Board including the President and the Vice-President is set to a four year term starting from the date of appointment.

The powers of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Bank's Articles of Association.

As of December 31, 2019, the members of the Bank's Executive Board are the following:

NAME AND SURNAME	FUNCTION
Vladimir Medan, PhD	President
Una Sikimic, PhD	Vice-President
Dragisa Stanojevic	Member
Miroslav Peric, PhD	Member
Pavao Marjanovic	Member

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

4.3. The Bank's Business Monitoring Committee (the Audit Committee)

The Bank's Business Monitoring Committee consists of three members, two of whom are members of the Bank's Management Board with relevant financial experience. One member of the Business Monitoring Committee is a person independent of the Bank. The members of this Committee are elected to a four-year term.

The 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 December 31, 2019, the members of the Audit Committee are the following:

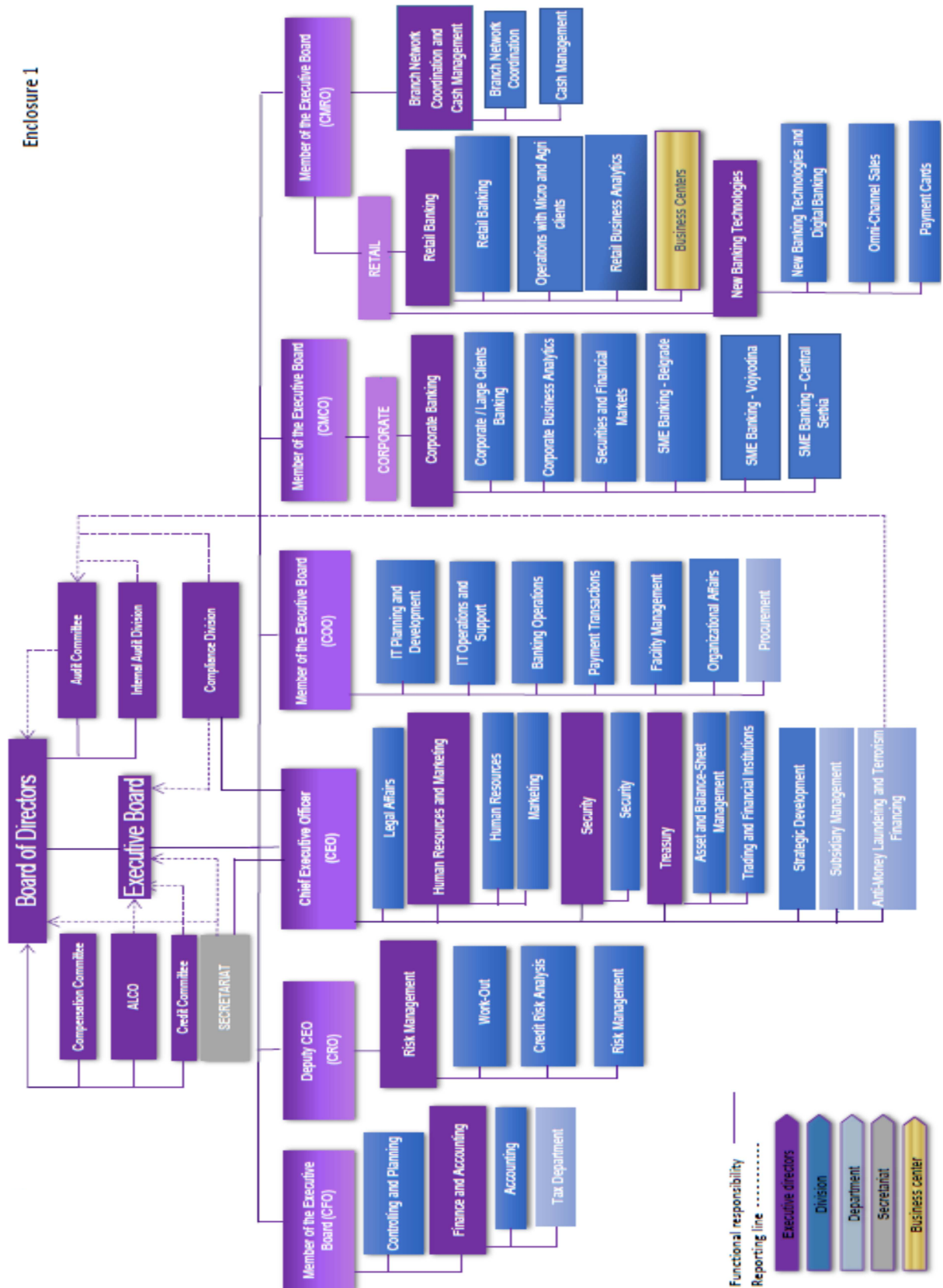
NAME AND SURNAME	FUNCTION
Danijel Pantic, PhD	Chairman
Dejan Hadzic	Member
Milena Kovacevic	Member

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



4.4. Organizational Structure of the Bank

Enclosure 1



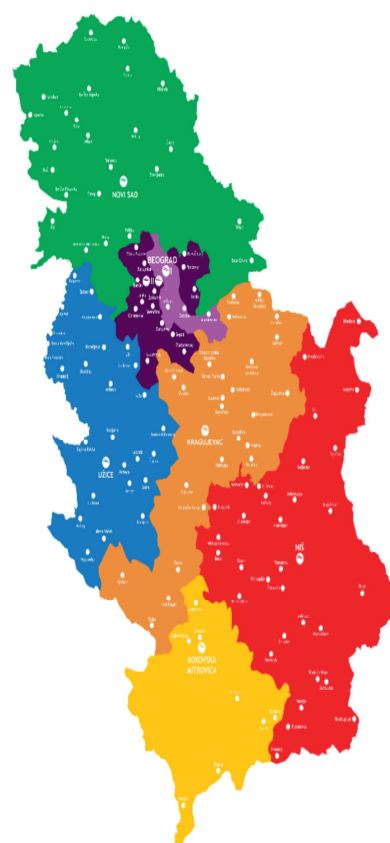
Note: Bank's organizational chart as at 31.12.2019



4.5. Regional Layout of the Bank's Business Network

BANK'S BUSINESS NETWORK

BUSINESS CENTERS		HEAD OFFICE
1.	BC Belgrade 1	1 Trg Politike, Belgrade
2.	BC Belgrade 2	1 Trg Politike, Belgrade
3.	BC Kragujevac	2 Mose Pijade, Pozarevac
4.	BC Nis	32 Episkopska, Nis
5.	BC Novi Sad	88 Bulevar oslobodjenja, Novi Sad
6.	BC Uzice	4 Petra Celovica, Uzice
BRANCH OFFICE		HEAD OFFICE
1.	Kosovska Mitrovica	Cika Jovina 11, Kosovska Mitrovica
BUSINESS DIVISIONS		HEAD OFFICE
1.	Corporate Division - Large Clients	42-44 Svetogorska st., Belgrade
2.	Business Division in Charge of Small and Medium-Sized Enterprises - Vojvodina	88 Bulevar oslobođenja, Novi Sad
3.	Business Division in Charge of Small and Medium-Sized Enterprises – Belgrade	42-44 Svetogorska st., Belgrade
4.	Business Division in Charge of Small and Medium-Sized Enterprises –Central Serbia	42-44 Svetogorska st., Belgrade



no organizational changes made in the corporate banking function.

Following 2017 and the first major reorganization of the business network, following an analysis of the effects of the implemented changes on the business, the Bank made additional changes in the business network in early 2018.

In March 2018, a new change was made to the organization within the Corporate Banking Business Function, when formally, instead of Business-Corporate Centres, Divisions in Charge of Small and Medium-Sized Enterprises were formed in Belgrade, Central Serbia and Vojvodina. The substantive change included the functional merger of sales and credit analysis within the same organizational form (Division in Charge of Small and Medium-Sized Enterprises in Belgrade, Central Serbia and Vojvodina). In 2019, there were

Due to the fact that a large number of the Bank's clients still want a traditional service, that is, a direct relationship with the Bank and its branch office employees, a branched business network was retained. During 2019, the Bank did business in the retail segment through 203 branch offices, which makes us the leader on the market. 286 ATMs and about 13,600 POS terminals are available to our customers, making us one of the market leaders. The Bank continued its activities to improve the customer experience by improving the appearance of its branch offices, by moving to new premises, adjusting/optimizing working hours, etc..



5. BANK'S BRANCHES

In accordance with the new business network organization, which has been in full application since March 2018, the Bank conducts its business activities through a network of Business Centres, one branch and a network of branch offices, the number of which is changing and adjusting to market needs of the Division in Charge of Small and Medium-Sized Enterprises (Belgrade, Vojvodina and Central Serbia) and of the Corporate Banking Division that deals with large clients. During 2019, the Bank's operations were conducted at the Bank's Head Office in Belgrade, 6 Business Centres (intended for work with individuals-retail customers), 203 branch offices and Kosovska Mitrovica Branch (organized for

operations in the territory of Kosovo and Metohija), 3 Divisions in Charge of Small and Medium-Sized Enterprises (Belgrade, Central Serbia, Vojvodina, assigned to deal with commercial clients) and the Corporate Banking Division assigned to deal with large clients - Belgrade.

The Bank also has three subsidiaries that together form the Komercijalna Banka a.d. Group, Belgrade:

1. Komercijalna Banka a.d. Podgorica in the Republic of Montenegro (100% of ownership),
2. Komercijalna Banka a.d., Banja Luka in Bosnia and Herzegovina (99.998% ownership) and
3. KomBank INVEST a.d., Belgrade, Investment Fund Management Company (IFMC) (100% ownership).

Komercijalna Banka ad Banja Luka
-159 employees,
-19 organizational units
(10 branches and 9 agencies).

Komercijalna Banka ad Podgorica
-148 employees,
-10 organizational units
(9 branches and 1 branch office).

KomBank Invest Belgrade
-5 employees.





5.1. Significant Transactions with Related Persons

Total exposure to persons related to the Bank as of December 31, 2019 was RSD 631.9 million, representing 1.0% of the regulatory capital of RSD 63,647.0 million (the maximum allowed value of total investments to all persons associated with the Bank under the Law on Banks is 25% of the Bank's capital).

The largest portion of exposures to persons affiliated with the Bank (in accordance with the NBS methodology for the presentation of exposures to persons related to the Bank), as at 31 December 2019, amounted to RSD 513.1 million or 0.8% of the Bank's regulatory capital. The information presented relates to investments made to KomBank Invest ad Beograd.

Pursuant to Article 37 of the Law on Banks, the Bank did not grant loans having better terms to the persons affiliated with the Bank in comparison to the loans granted to other persons that are not affiliated with the Bank, that is, persons not employed by the Bank.

A further overview of the Bank's relationship with related persons is available in the Notes to the Financial Statements.

6. FINANCIAL POSITION AND RESULTS OF BANK'S OPERATION IN 2019

6.1. Introduction

During 2019, great attention of the Bank's management was focused on managing the risks in business, especially credit risk, in order to achieve the highest possible loan portfolio. The Bank's management policy to allocate a significant portion of the generated profit to reserves in previous years has enabled the safety of operations by increasing the capital and ratios of the Bank's capital adequacy.

Net interest income generated in 2019 is lower than in 2018, while KB recorded higher net fees and commissions.

The performance of the Bank in 2019 was influenced by passing of the Law on the Conversion of Housing Loans Indexed in Swiss Francs.

Balance Sheet Sum

At the end of 2019, the Bank's balance sheet sum (net assets) reached RSD 432,380.4 million (EUR 3.7 billion), an y.o.y. increase of 7.8%. During the previous year, the Bank's business focus was on business growth, profitability growth, maintenance and further improvement of the loan portfolio quality. Also, the Bank's management made efforts to find new sources of income and to use more efficiently the available funds.

Funding Sources

During 2019, as in previous years, a steady growth of retail foreign currency savings of EUR 81.1 million continued, which is the Bank's main source of funds. Corporate deposits recorded a decrease of RSD 2,000.2 million compared to the end of 2018 (the amount of corporate deposits was adjusted in early 2018 due to the transfer of micro-client deposits to the retail business line). Deposits from banks and other financial institutions increased by RSD 570.3 million.

During 2019, the Bank repaid approximately EUR 11.7 million to foreign creditors. The amount of the Bank's liabilities arising from credit lines received amounts to RSD 1,426.9 million or decreased by RSD 1,391.1 million y.o.y.

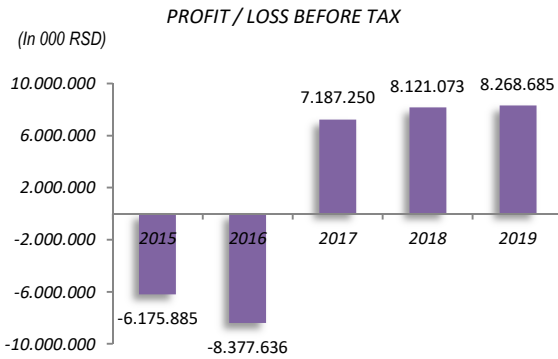
At the end of 2019, the Bank has no subordinated balance sheet liabilities.

Loans and Advances

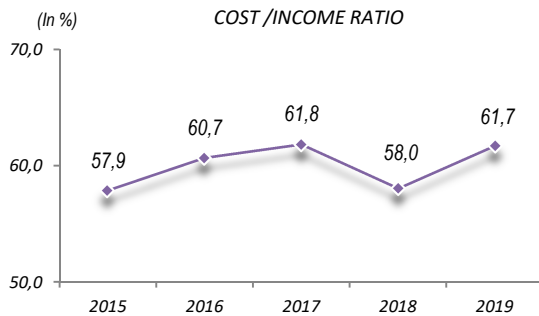
During 2019, the Bank recorded an increase in corporate loans of RSD 6,240.0 million. In the retail segment, there was also an increase in loans of RSD 7,023.6 million. At the end of the year, the structure of the net loan position was dominated by housing and cash loans. The Bank placed a significant portion of its liquid assets in securities. At the end of 2019, RSD 138,469.6 million was invested in securities, which represents an increase of RSD 5,292.0 million (4.0%) compared to the end of 2018..

Profitability

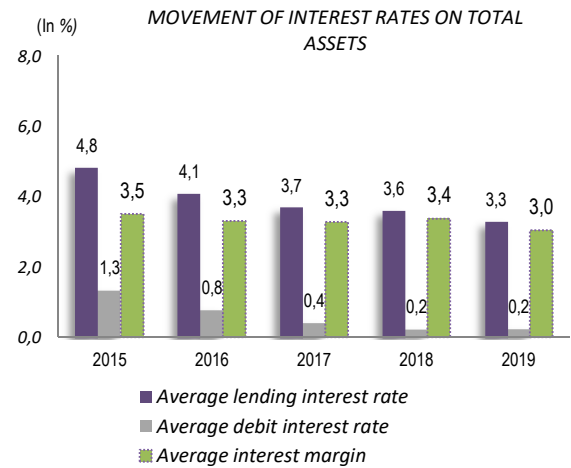
At the end of 2019, the Bank achieved a positive result, a pre-tax profit of RSD 8,268.7 million, which makes y.o.y. increase of RSD 147.6 million.



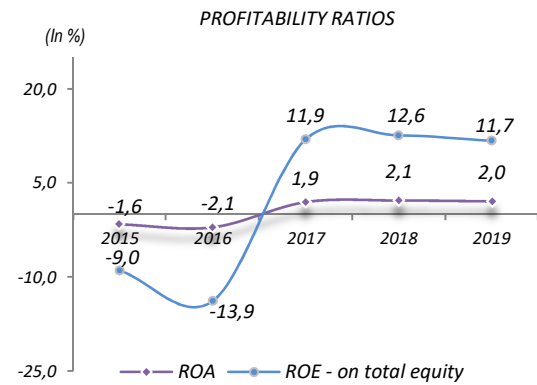
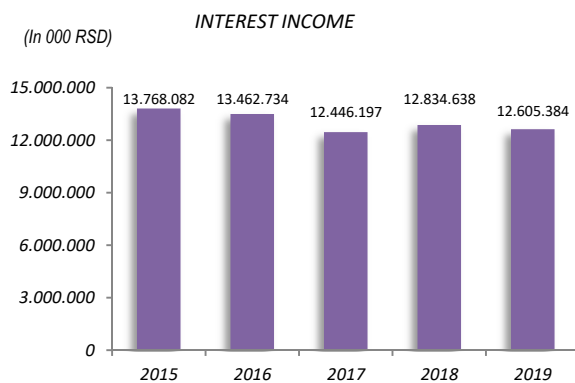
In addition to the increase cost/income ratio - CIR (61.7% at end-2019 vs. 58.0% at end-2018), net income from impairment of financial assets measured at fair value during 2019 was also generated in 2019 (RSD 2,425.9 million).



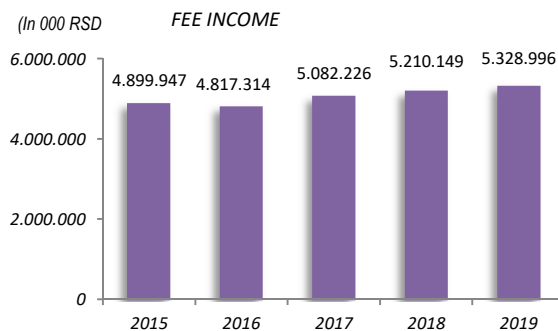
Interest income earned during 2019 declined by 1.8% over the same period in 2018. Fee and commission income earned in 2019 was up 2.3% year-over-year.



During 2019, the stabilization of both lending and debit interest rates continued. Interest margin on total assets was 3.0%.

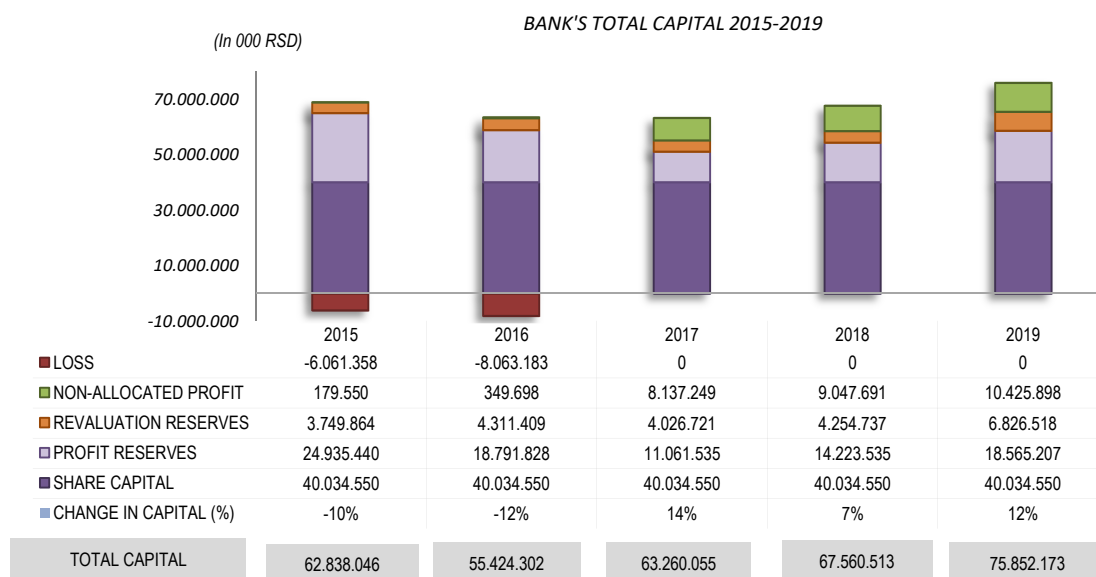


Generated ROA at the end of 2019 are at the level of values achieved at the end of 2018.

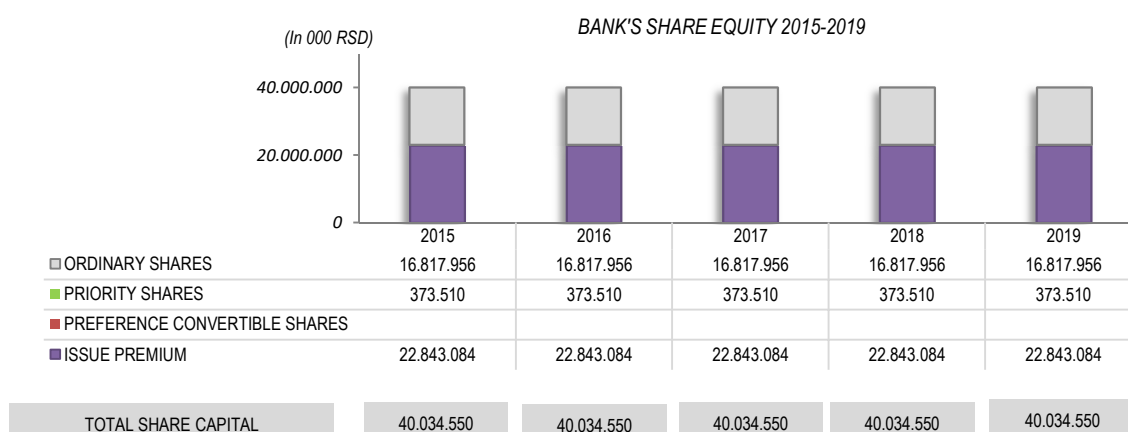




Bank Capital



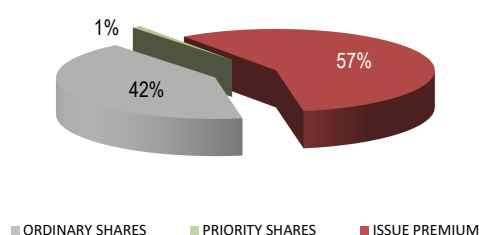
At the end of 2019, the Bank's total equity amounted to RSD 75,852.2 million and increased by 12.3% compared to the end of 2018. From 2011 to 2019, the total capital of the Bank increased by 71.3%. In the same period, the share capital increased by 40.7% or RSD 11,572.0 million. For a long period of time, the Bank has allocated a considerable part of the realized profit to reserves for estimated losses in order to maintain business security and capital adequacy, that is, to protect share capital from possible losses and to increase capital. During the last five years, from the generated profit and on the bases of revaluation, the Bank initially increased its total reserves to partially use it to cover losses recorded at the end of 2015 and 2016. Profit reserves at the end of 2019 increased by RSD 4,341.7 million y.o.y. Together with revaluation reserves, the Bank's total reserves increased RSD 6,913.5 million y.o.y.



The Bank's ordinary shares have been traded on the Standard Listing since 2010, while the preferred shares are traded on the Open Market of the Belgrade Stock Exchange. In 2014, the conversion of preference convertible shares into ordinary shares was made and since then there have been no changes in the structure of share capital. As of December 31, 2019, the Bank has 16,817,956 ordinary (ordinary) shares and 373,510 preferred (preference) shares of an individual par value of RSD 1,000.



SHARE CAPITAL STRUCTURE AS AT 31/12/2019

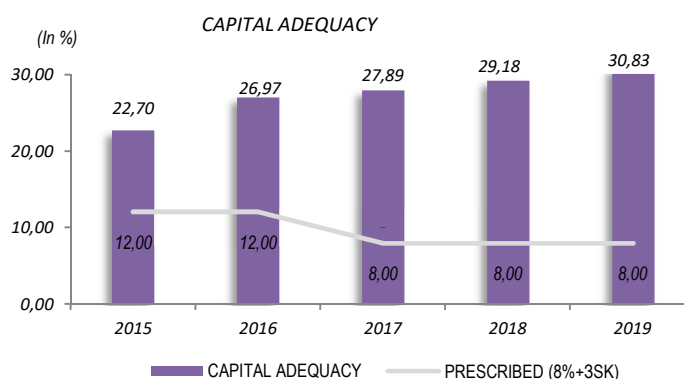


The shareholder of the Bank (with a share exceeding 5%) as at December 31, 2019 are as follows:

SHAREHOLDERS	ORDINARY SHARES	% OF SHARE	PRIORITY SHARES	% OF SHARE	TOTAL SHARES	% OF SHARE IN EQUITY
Republic of Serbia	13.997.686	83,23	0	0,00	13.997.686	81,42
OTHRES	2.820.270	16,77	373.510	100,00	3.193.780	18,58
TOTAL	16.817.956	100,00	373.510	100,00	17.191.466	100,0

Capital Adequacy

At the end of 2019, the Bank's capital adequacy ratio, in addition to the still significant provisioning values, was 30.83%, indicating that the Bank retained adequate capitalization. During 2019, the Bank fulfilled all the business parameters prescribed by the Law on Banks, and fulfilled all obligations, which is a reliable indicator of stable and safe operation.



Legally Prescribed Performance Ratios

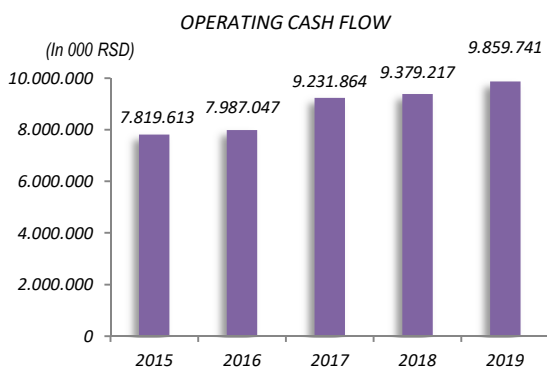
No.	ITEM	PRESCRIBED	2019.	2018.	2017.	2016.	2015.
1.	CAPITAL ADEQUACY RATIO (CAPITAL/RISK ASSETS); *REQUEST FOR COMBINED CAPITAL BUFFER/PROTECTIVE LAYER	min 8% +3sk*	30,83%	29,18%	27,89%	26,97%	22,70%
2.	RATIO OF INVESTMENT IN NON-FINANCIAL SECTOR PERSONS AND FIXED ASSETS	max 60%	13,05%	13,18%	14,96%	17,47%	23,13%
3.	BANK'S LARGE EXPOSURE RATION	max 400%	26,62%	39,77%	34,96%	38,48%	79,76%
4.	FX RISK RATIO	max 20%	1,98%	1,87%	4,40%	2,96%	10,60%
5.	LIQUIDITY RATIO (monthly, last day of the month)	min 0,8	4,08	3,86	4,30	2,86	2,73

Note: In accordance with NBS regulation, the Bank calculates a capital conservation buffer, a capital buffer for systemically significant banks, and a capital buffer for structural systemic risk.



Operating Cash-Flow

At the end of 2019, year over year operating cash-flow was higher by RSD 480.5 million (an increase of 5.1%). In the observed period, interest income increased by RSD 270.2 million or 1.9%, while fee inflows recorded a fall of RSD 37.7 million or 0.5%. In cash outflow from business activities, interest payments were lower by RSD 27.6 million.



Description of Changes in Company's Business Policies

During 2019, the Bank made no changes to the Business Policy. The Bank's business policy was adopted at the General Meeting of Shareholders on 26.01.2012.

The business policy defines the basic principles of business and operations that the Bank performs in order to fulfil the business results and priorities defined by the current Strategy and Business Plan of the Bank, which is based on:

- KB's position on financial market and acquired clients' confidence,
- Projections of key parameters of macro-economic policy and
- KB's development targets.

The Bank's business policy has been complied with the Risk Management Strategy and the Capital Management Strategy, as well as individual risk management policies.

The Bank operates independently, in accordance with market principles, applying the principles of liquidity, profitability and safety, respecting the laws, other regulations and general principles of banking in achieving its goals in a socially responsible manner, in accordance with its core values and business ethics.

Corporate Governance Rules

The Bank's corporate governance rules are based on relevant legal regulations (primarily the Law on Banks and the Law on Companies).

The authorities and powers of all the bodies of the Bank (Shareholders Assembly, Board of Directors, Executive Board, Audit Committee, Asset and Liability Management Committee, Credit Committee) are based on the relevant legal regulations and defined by internal acts (Memorandum on Association, Articles of Association of the Bank, Rules of Procedure regulating the work of the Bank's bodies and other internal acts).

In its operations and in accordance with the Decision of the Executive Board of the Bank no. 8373 of 09.04.2013, the Bank has been implementing the Corporate Governance Code of the Serbian Chamber of Commerce (Official Gazette of the RS, No. 99/2012), adopted by the Assembly of the Serbian Chamber of Commerce.

Corporate governance rules have been implemented through the Bank's internal acts and there are no discrepancies in their application..

The Corporate Governance Code establishes the principles of corporate practice according to which the corporate governance bodies of the Bank behave and adhere to in banking business. The goal of the Code is to introduce good business practices in the field of corporate governance, equal influence of all stakeholders, existing and potential shareholders, employees, clients, bodies of the Bank, the state, etc. The ultimate goal is to ensure the Bank's long-term and sustainable development.

The text of the Corporate Governance Code was published on the website of the Serbian Chamber of Commerce (www.pks.rs/PoslovnoOkruzenje.aspx?id=1412&p=3) as well as on the Bank's website (<http://newdev.kombank.com/corporate-governance>).

Project and Project Portfolio Management

In 2019, a total of 12 projects from the project portfolio were completed, while 6 projects continue in 2020.

The focus of the project activities in 2019 was to further enhance the customer experience



primarily with regard to the use of digital services, while optimizing business processes to better understand customer needs and provide the right service at the right time.

During 2019, special attention was paid to the following project:

- **Instant payment at merchant point of sale** - which is a continuation of the implementation of the instant payment system in accordance with the regulatory obligation prescribed by the NBS with the introduction of an innovative method of cashless payment at retailers' points of sale via mobile phones through QR code scanning.

Of the other projects in the project portfolio for 2019, we would like to highlight the following projects:

- **Improvement of internal PD models** – the project developed statistically based "Credit Scoring" models for SMEs, micro-clients and individuals-retail clients (cards and current account overdrafts), which made it possible to improve the decision-making process, with a more adequate calculation of loan impairment, and more precise determination of the price of product.

- **Introducing new cards** - The Bank has introduced new Dina debit cards with deferred payment without interest (equal to checks) as well as new revolving credit cards with repayment based on a "charge" principle.

Activities for the improvement of ICT infrastructure continued, and in this sense in 2019 a new server infrastructure was installed along with upgraded virtual infrastructures. Also, the migration of the "CORE" information system to the new version of the database was successfully completed.

In order to improve communications the Bank introduces - **IP telephony as a service** – where within the project classic analogue/digital switchboards have been replaced with a new form of communication which brings significant improvement of the quality of service as well as additional functionalities.

The project, which continues in 2020 and is expected to be completed in the first half of 2020, is related to **signing a contract through two-factor authentication**, aimed to further modernizing and digitizing the Bank's products and services. The implementation of the project will enable the remote conclusion of e-contracts through two-factor product authentication and services of the Bank, where the client is not obliged to be

physically present at the bank when signing the contract.

6.2. Corporate Operations

Market-key tendencies

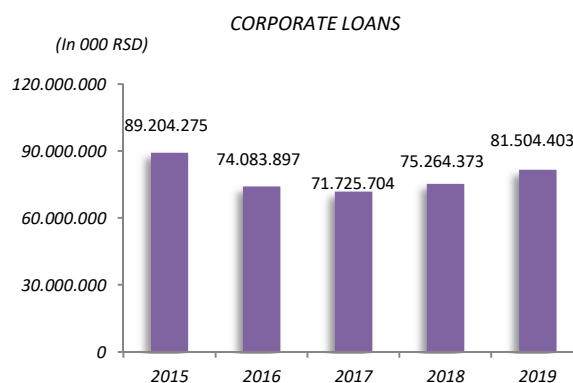
In 2019, the downward trend in interest rates, both in terms of RSD and foreign currency indexed loans, was stopped.

Banks' standards for newly approved corporate loans, which eased in 2018, remained unchanged in 2019, primarily for small and medium-sized enterprises and, to a lesser extent, large enterprises. In terms of maturity and currency, the easing of standards is present in the short and long-term corporate RSD lending, as well as the short-term corporate lending in foreign currency. Banks are also more willing to take risks when lending to corporate clients (especially in the area of loan collaterals).

In 2019, after the initial decline, the level of corporate lending stabilized. At the banking sector level, the level of lending is higher than at the end of 2018 (in total, companies, public enterprises and local government recorded an increase of 6.2%, or RSD 74.7 billion).⁷¹

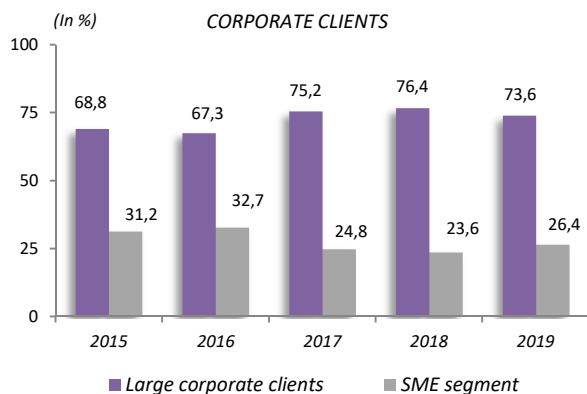
Loans⁷² - Operation of the Bank

Realization of newly approved loans in 2019 is higher by RSD 7.2 billion y.o.y. (realization growth of 15%), this being the case in the segment of large corporate clients with higher realization amount by RSD 2.5 billion and in the SME segment amount by RSD 4.7 billion. Balance sheet portfolio increased by 10.1%, and the portfolio structure of large corporate clients decreased from 76.4% (at the end of 2018) to 73.6%.

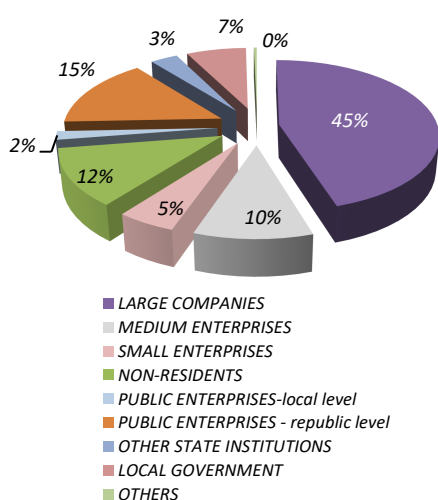


⁷¹ NBS, Banking Sector Consolidated Balance Sheet, November 2019

⁷² Loans to customers position does not include other loans



CUSTOMER STRUCTURE AS AT 31/12/2019



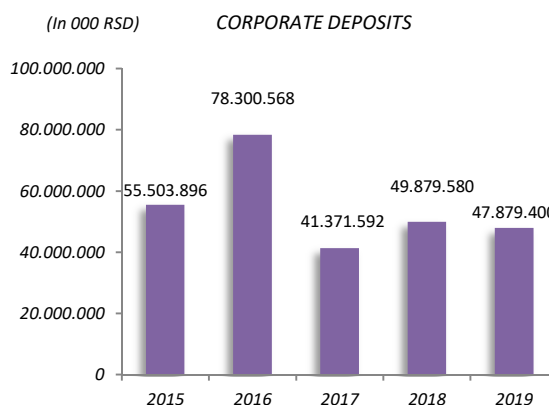
The average weighted interest rates on loans disbursed in 2019 are at a slightly higher level than the loans disbursed in 2018.

The interest rate on loans indexed in EUR remained lower than the interest rate on loans in dinars, which in the conditions of stable exchange rate was the determining factor of the market to show higher demand for loans with a currency sign compared to dinars. Of the total amount of loans disbursed in 2019, 16% were extended in dinars, while 84% were extended as loans with a currency sign in EUR. Accordingly, the share of RSD loans in the portfolio at the end of 2019 came to the level of only 5.6%.

In terms of competition during 2019, the most active were Banca Intesa a.d. Beograd, UniCredit Bank Serbia a.d. Beograd, Raiffeisen Bank a.d. Beograd, OTP Bank a.d. Beograd. A more flexible approach (interest rates, maturities, required collateral) is noticeable with respect to all the competitors when granting loans.

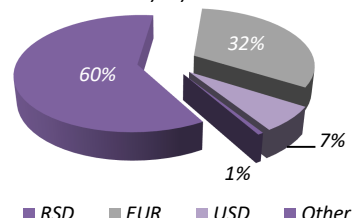
Deposits ⁷³

High share of transaction deposits of 77% of total corporate deposits results in lower interest expenses and has a positive effect on the Bank's business result.

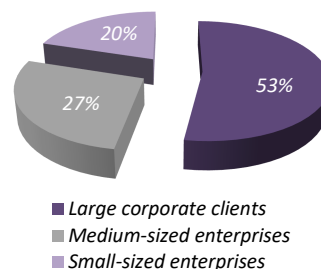


Note: At the end of 2017, RSD 11.2 billion of micro-client deposits were transferred from corporate to retail banking sector, which makes the data different from the data in the previous annual report; the amount of corporate deposits at the end of 2016 was influenced by one individual deposit.

CURRENCY STRUCTURE OF THE DEPOSITS ON 31/12/2019



STRUCTURE OF DEPOSITORS ON 31/12/2019

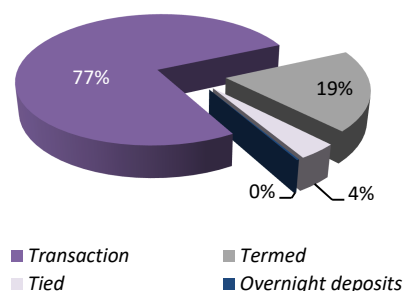


Note: Depositor structure overview has been prepared according to the internal client segmentation.

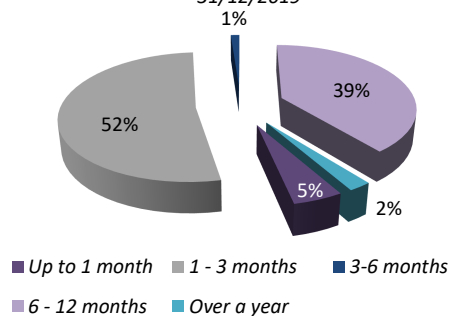
⁷³ Position deposits does not include other liabilities and funds received through credit lines



MATURITY STRUCTURE OF THE DEPOSITS ON
31/12/2019



MATURITY STRUCTURE OF TERM DEPOSITS ON
31/12/2019



6.3. Retail Banking Operation

The retail business achieved its goals in 2019 and recorded the best results in this decade.

Loans

The focus was on the lending growth and on loan portfolio realization, net income generation and maintaining market share. In 2019, RSD 47.5 billion of loans were realized, which is 5% more than in 2018. The growth of credit realization was achieved thanks to the advancement of technological solutions and constant innovation of the product offer in order to adapt to market demands and improve competitiveness.

The biggest increase was achieved in **housing loans** (34%) due to attractive product offerings, intense demand and adequate supply of new apartments. There is also a noticeable trend in the market of loans not secured by the NMIC. In addition, and taking into account the downward trend in interest rates in the market, the Bank applies a customer retention policy in order to preserve the quality and amount of portfolios. In 2019, the Bank's market share slightly increased to 10.4%.

In the segment of **cash loans** there was also an increase in realization, despite the NBS approval

deadline being reduced to 95 months and a more restrictive credit rating. This is the segment with the most intense competition in the market, where the offer is based on large amounts (up to RSD 4 million) with bills of exchange as the only security instrument and favourable interest rates. The banks' offer is also largely based on personalized offers with extremely low prices for specific groups of clients, clients with higher incomes and employees of budgetary institutions. Much attention is also paid to retirement loans that make up a significant number of clients. At the beginning of August, the Bank introduced automatic loan approval in accordance with certain standards, reducing the duration of the approval process to the minimum possible time. The Bank's market share in the cash loans segment is 7.3%.

In **agro business** loan realization increased by 6%. In addition to attractive products from the Bank's offer, subsidized loans were granted in cooperation with the Ministry of Agriculture, Forestry and Water Management (we are the first bank by the number of subsidized loans granted), local governments and dealers of agricultural machinery. The offer is universal, covering all areas of agricultural production and all types of farms. We have introduced a special line of credit for the purchase of agricultural land with repayment periods of up to 15 years, which gives clients additional flexibility in terms of optimizing the annuity amount. In 2019, the Bank continued to grow its market share in the agro credit segment and now stands at 14%.

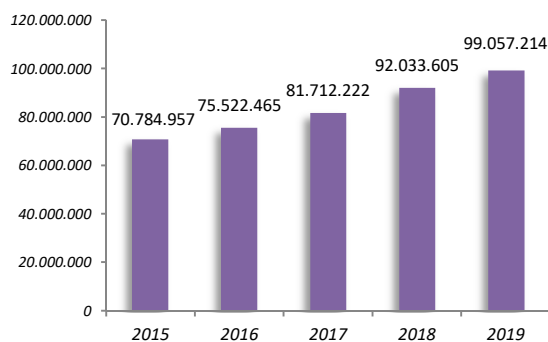
Loan realization in **micro business** segment remained at its 2018 level. It is also a segment with strong competition, primarily due to pre-approvals and favourable long-term loans secured only by bills of exchange. In order to be competitive, we have introduced loans secured by the European Investment Fund guarantee (EDif and COSME program) in our offer. This segment covers entrepreneurs and micro-enterprises. In the segment of entrepreneurs in 2019, the Bank's market share was retained at 9%.

During 2019, cash loans had the highest realization (51% of total sales), followed by micro-business loans (20%), housing loans (15%) and agricultural loans (14%).

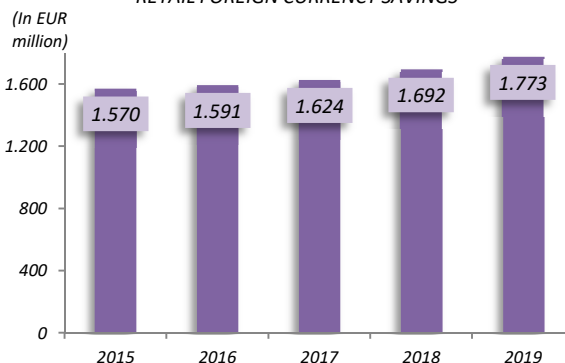
All of the above led to an increase in the net balance of retail lending by RSD 5.2 billion as of 31.12.2018. In the net balance structure, the share of housing loans is 42% and the share of other, more profitable products is 58%.



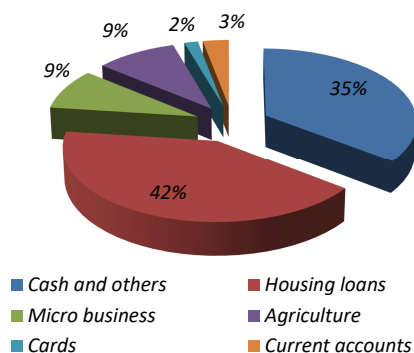
(In 000 RSD) RETAIL LOANS - net balance



RETAIL FOREIGN CURRENCY SAVINGS



NET STATUS OF LOANS AS AT 31 DECEMBER, 2019.



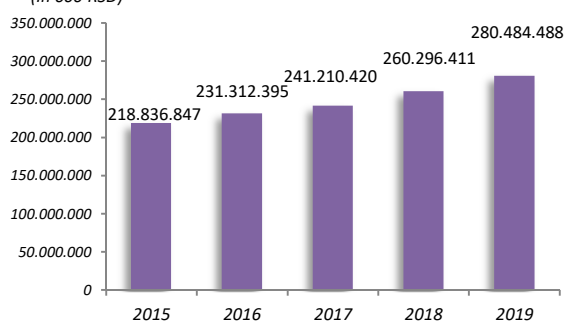
* Foreign currency savings shown do not include tied foreign currency savings accounts (retirees) and entrepreneurs

Citizens prefer a `vista savings whose share has increased from 63% to 68%, while the share of term savings has dropped to 32%. Savings deposits of up to EUR 50,000 dominate (over 99%, 74%). Due to the citizens-retail clients who favour term savings, we have introduced an action product in our offer - 60 months term savings with the possibility of step-by-step cancellation of the deposit term under stimulating conditions.

Deposits⁷⁴ - Bank's Operation

In 2019, positive trends in deposit collection continued. There was a significant increase in retail deposits of RSD 20.1 billion or 8%.

(In 000 RSD) RETAIL DEPOSITS



After years of decline, debit interest rates on retail foreign currency savings have stabilized (31.12.2018=0,26%, and 31.12.2019=0,24%). A slight increase in the interest rates is expected in the forthcoming period. The clients recognize Komercijalna Banka as the most trusted institution, therefore deposits are constantly growing.

Other Products

The Bank's most valuable asset is its clients, and in the Retail Banking we have a total of 1.2 million, of which 820 thousand active clients. Activities have been carried out to increase the number of clients in all segments, and especially in the most important segment - the number of natural persons (retail clients) having regular income deposited through current account (413,000 clients, the number of clients increased by 4,000 during the year). These clients represent the core of the retail business and are the basis for growth in lending activity, especially current account overdrafts, since these are the most profitable product and are used by every third client. More than 287,000 customers (an increase of 46,000 compared to last year) use the "Set Account" as a better quality product than basic current account, of which about 34,000 use Start Sets, intended for the youngest clients (18-27 years old), thus forming the basis for safe business in the future. The number of debit and credit cards has

In 2019, the total foreign currency retail deposits in the banking market (excluding micro-enterprises) increased by EUR 826 million, while the Bank maintained its leading position in the market with a share of 18% and EUR 93 million growth. If we look at the "classic retail foreign currency savings", it has increased EUR 81 million during the year.

⁷⁴ Position deposits do not include other liabilities and funds received through credit lines



increased slightly, and currently stands at around 952,000, of which 50% are used regularly.

In the micro-business segment, we have 16,000 Set Accounts (an increase of 6,000 thousand compared to 2018). A total of 75,000 individuals regularly use electronic and mobile banking for payments (14% increase), while the number of micro clients that regularly use electronic services is 14,000 (17% increase).

Business Network

We carry out our retail business segment in 203 branch offices, which makes us the market leader. There are 286 ATMs available to our customers (an increase of 15 compared to 2018) and approximately 13,600 POS terminals, making us one of the market leaders. Taking into account the needs of the clients, the Bank continued its activities to improve the customer experience by improving the appearance of its branch offices, moving to new premises, adjusting/optimizing working hours, etc.

Profitability

Due to all the business activities undertaken, the retail business generated total net interest and fee income in the amount of RSD 10.188 million, which is y.o.y. increase of 3%.

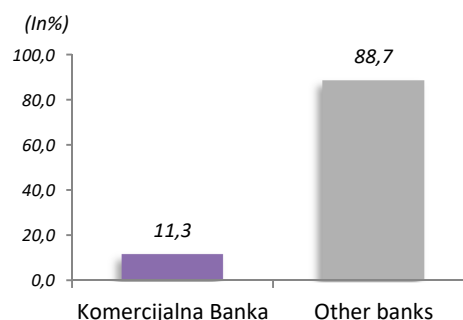
6.4. Asset Management

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

The environment in which the Treasury function was operating was marked by a decrease in the benchmark interest rate (BIR) in 2019 from 3.00% to 2.25%, stabilization of interest rates at a relatively low level, a downward trend in yields on domestic government securities and negative interest rates on EUR and CHF in foreign markets, which, given the available funds, presented a very significant challenge in managing liquidity.

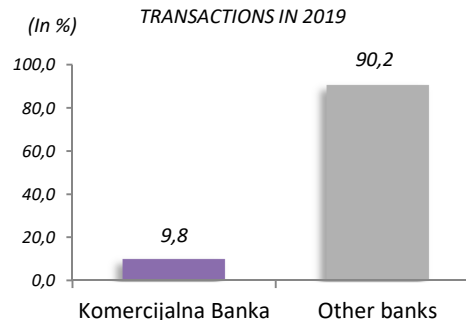
In 2019, the Bank's liquidity position was stable, with liquid assets predominantly invested in government securities of the Republic of Serbia.

BANK'S PARTICIPATION IN PRIMARY AUCTIONS FOR SALE OF STATE SECURITIES IN 2019

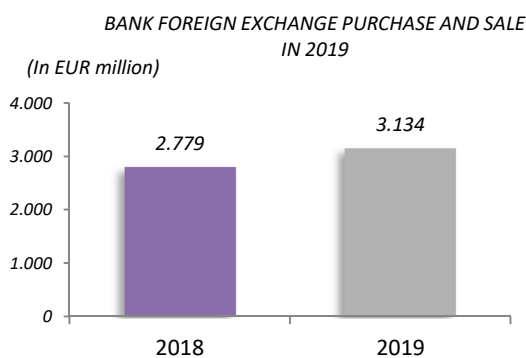


Extensive participation of KB in the primary auctions of government securities of the Republic of Serbia was accompanied by a very active engagement in the secondary market, while given the maturity structure of sources; most of the short-term dinar liquidity was placed through short-term investments on the inter-change market, and in reverse repurchase operations with the National Bank of Serbia.

BANK'S PARTICIPATION IN NBS REPO TRANSACTIONS IN 2019



The activities of the Treasury business function in the foreign exchange market were also intense. In total transactions with clients, authorized money changers and other banks in the interchange foreign exchange market, the volume of purchase and sale transactions amounted to EUR 3.134 million (an increase of 12.78% compared to the previous year) and with a total generated net income of RSD 603.8 million.



On 01/08/2019, the Bank signed a Guarantee Agreement with the European Investment Fund (EIF) for the COSME program - the SME Competitiveness Program.

The Treasury function's strategy in the coming period will focus on prudent employment of liquid assets in risk-free and low-risk financial instruments while mitigating the effect of falling yields by investing in longer-term instruments.

Key Results of the New Banking Technologies Business Function, With its Specific Components

Market – Key Tendencies

NBS introduced mandatory instant payment starting October 22, 2018, creating an obligation for banks to provide customers with an infrastructure which would enable instant transfers through one sales channel and from 2019 the obligation for banks to provide instant payment across all payment channels. The amount of merchant fees is stimulating for merchants, contributing to faster adoption of cashless payments.

The Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions has been in application since the end of 2018, stipulating a reduction of the interchange fee, which in the transitional period (the first six months) must amount to a maximum of 0.5% for debit cards and 0.6% for credit cards. Further reductions in fees, effective since June 18, 2019, has been in line with the European level of 0.2% for debit and 0.3% for credit cards.

NBS also directed banks to use national card scheme and support domestic "Dina" brand, indicating lower costs.

The trend of adopting cashless payment and digital service delivery continues, as has been indicated by key market parameters:

- The number of cash deposits and disbursements has had a long-term downward trend,

- at the same time, orders initiated electronically record increasing annual growth rates followed by traffic growth, the number of transactions on merchants' internet outlets is increasing, cards are still dominant, but the use of electronic money is also on the rise,
- the acceptance network is expanding with the increase of internet e-trading, POS terminals and ATMs,
- the number of active internet and mobile banking users is increasing.

6.5. Development Activities of KB Digital Banking

Analytical Predictive Tool (CRM) was released on February 26, 2019. After 10 months of campaigning, over a million customer responses have been collected to help us enhance the existing campaigns and improve credit product sales.

Also, in 2019, the creation of program code was completed, combining the client responses to the displayed messages with the realization of the products to which that message relates. Activation of the Self Learner model, which, based on the history of accepting/rejecting offers and behaviour of clients, owing to the advanced analytics, predicts client behaviour, has planned to go into production in the first quarter of 2020, which, predictably, will influence the maximization of sales of the Bank's services and products to users of digital channel.

An "RTDM" campaign was created to send the best offer to micro-entities and entrepreneurs through the KOMBANK BIZ WEB application, which started sending messages to the development environment during December 2019.

The existing "RTDM" retail campaign is customized for display on the mobile application. A pilot version of the mobile application has been delivered to production, through which RTDM began sending messages to this channel. We expect all mobile application users to be able to "see" "RTDM" messages by the end of February 2020.

Three basic models have been created to identify customer needs and group them into specific categories, and a new channel is planned for 2020 to display "RTDM" messages. Through this channel, "RTDM" would send messages to all active clients of the Bank, regardless of whether they use mobile or internet applications.



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

- ✓ As an acceptor, the Bank provided an instant payment acceptance service on an infrastructure that relies on the existing payment card acceptance system, and introduced the option of using an independent infrastructure, which does not require a merchant to have a POS terminal.
 - ✓ As a payment instrument issuer, the Bank has provided customers with a quick and easy cashless payment transaction service at a merchant's point of sale via the Bank's mobile application using a QR code.
- We have redesigned and improved applications intended for retail clients – natural persons, by optimizing the application in order to improve the user experience.
 - ✓ Number of retail e-banking users – natural persons increased, as well as the outgoing traffic and number of retail e-banking transactions.
 - ✓ Number of retail mobile banking users – natural persons has also increased, followed by the increase in the number of transactions and traffic growth.
 - ✓ Total number of corporate e-banking users – legal persons increased, as well as the total number of corporate e-banking transactions executed by legal persons, followed by the growth of e-Bank share in the total number of transactions and Bank's payment operations volume.
 - Digital branch office „KOMeCENTER “ continued successful work, and the number of applications for products increased 39% year over year. Of all the products offered by the Bank through "KOMeCENTER", the highest interest of clients was overdraft approval, where 50% more applications were realized year over year.

6.6. Development Activities for Payment Cards

- New "Dina" 1/24 credit card has been introduced with the most attractive interest rate on the domestic market.
- Project of introducing the „China Union Pay International“ payment cards on Komercijalna Banka's ATMs was completed.

- New functionality of "Dina" debit card enabling instalment payment – the first card of this type in the Bank's portfolio of products. This card represents the replacement for cheques – it enables its holders interest free instalment payment with merchants that have signed contracts of this type with Komercijalna Banka.

6.7. Securities Division

The Securities Division is a separate organizational form of the Bank, consisting of the Authorized and the Custodian Bank, with the permission of the Securities and Exchange Commission to provide investment and additional, or custody services. In 2019 in the financial instruments business, the Bank achieved significant results:

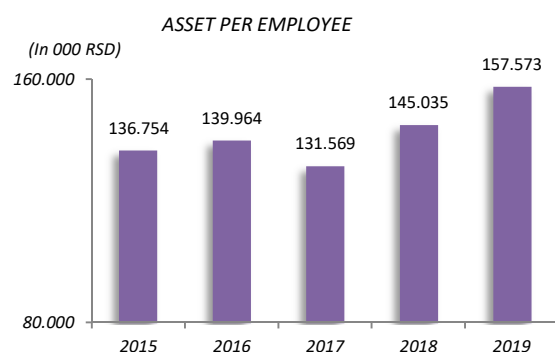
- On the primary and secondary (OTC) market of sovereign debentures denominated in EUR and RSD – dealer operations;
- The Bank is one of the first ten Stock Exchange members by total turnover scope, second by number of transactions, eight by value of transactions;
- Considerable growth of Authorised Bank's income;
- Increase in the number of clients that use unique web application „Kombank Trader “ which enables „on-line“ trading with financial instruments on the domestic and foreign markets – by using computers and mobile phones;
- Recapitalization of issuers of financial instruments completed, payment of concession fee, disposal of treasury shares, successfully realized transaction of high value (approximately EUR 400 million) - purchase of shares of domestic bank and insurance company by one of the leading foreign owned banks;
- Significant increase of the Custody Bank's clients in terms of the custody services in foreign market;
- Significant increase of clients in domestic market;
- Rise in the number of orders issued by Custody Bank's clients;
- Continued trend of competitiveness in reference to the traffic volume compared to other custody banks;
- Establishment of business-technical cooperation and initiation of test phase (as preparation for the future services of the custody bank to one of the leaders in the domestic market of pension funds „Dunav Fund “;



- Raising the interest of clients, particularly in voluntary pension funds, as well as professional clients.

6.8. Bank Human Resources

The mission of human resources management at Komercijalna Banka is to develop and maintain a high level of expertise and motivation of employees in order to realize the Bank's business plans. In addition to the continuous optimization of the number and structure of employees in recent years, the efficiency of the Bank, measured by assets per employee, has grown significantly. The Bank is continuously investing in employee training and development.



The development approach is based primarily on identifying the developmental needs of employees, defining and adjusting the content of training, creating and implementing internal training, organizing internal and external training, measuring and improving the quality of training, as well as both training and employee development process itself.

During 2019, the Human Resources Division actively participated in the organization and implementation of employee training. According to the criterion of importance of the topic and coverage of training in terms of number of participants, the most important external professional training in 2019 were: "Compulsory continuing education of authorized representatives in bank insurance", "Advanced excel", "Training in the National Bank of Serbia on performing cash processing operations", "Training for an Authorized Insurance Agent", "Collateral Management", "Querying Data with Transact - SQL".

According to the criterion of importance of the topic and coverage of training in terms of the number of trainees, trainings realized by employees from organizational units of the Bank

in cooperation with the Human Resources Division, including on-line training, in 2019 were: "Information Security", "Prevention Money Laundering and Terrorist Financing", "Euro Currency Processing in accordance with the Decision of the National Bank of Serbia", "Typology of Money Laundering", "Code of Conduct, Client Complaints and Conflict of Interest", "Fraudulent Practices", "Management and Improvement of Communication in Branch Office", "Training for newly hired tellers", "Establishing business cooperation with clients", etc..

Training organized for the branch employees aim at raising the awareness of the Bank's employees of the importance of adequate communication with clients and resolving disputable situations or objections and complaints, acting in accordance with the law and internal acts of the Bank in daily work with clients, in order to reduce regulatory and reputation risk to the Bank and increased customer satisfaction with the Bank's products and service.

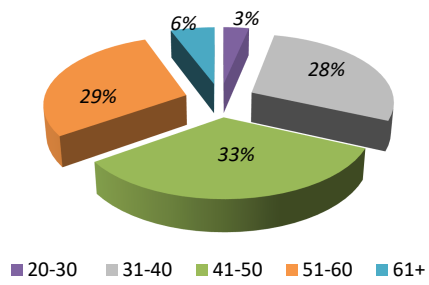
Number of employees	2.744			
Network	1.722			
Divisions	1.022			
Gender	Male		Female	
	726		2.018	
Employment status	Full-time	Fixed term	Job protected time away	
	2.633	106	5	
Education structure	University	College	High school	Non-qualified/Semi-qualified Fully-qualified
	1.244	634	846	20
Age structure	20-30	31-40	41-50	51-60
	91	780	918	798
				157

Since 2008, the Bank has been conducting the Annual Evaluation of Employee Performance on the basis of the set annual goals, monitoring the achievement of those goals, as well as the expressed abilities of employees in achieving the goals. Annual evaluation of employee performance is also the basis for remuneration, employee career planning and Budgeting and Employee Training Plan.

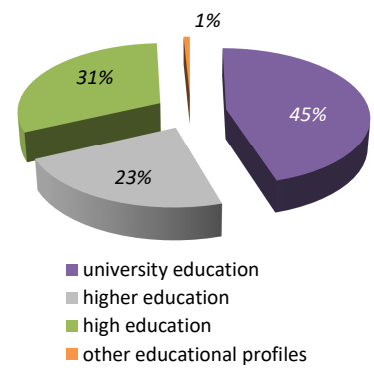
The principles of employee remuneration are clearly defined in the Employee Compensation Policy, adopted by the Bank's Board of Directors at the proposal of the Compensation Committee, a Board of Directors body. The aim of this policy is not only to adequately reward employees, but also to motivate them to achieve better work results.



AGE STRUCTURE OF EMPLOYEES IN 2019



QUALIFICATION STRUCTURE OF EMPLOYEES IN 2019





6.9. Balance Sheet of the Bank as at December the 31st 2019.

No.	BALANCE SHEET ITEM	31.12.2019.	31.12.2018.	INDICES	% OF SHARE AS OF 31/12/2019
1	2	3	4	5	6
ASSETS (in 000 RSD)					
1.	Cash and funds held with the Central Bank	67.558.219	63.595.710	106,2	15,6
2.	Pledged funds	-	-	-	-
3.	Receivables arising from derivatives	-	4.070	-	-
4.	Securities	138.469.551	133.177.598	104,0	32,0
5.	Loans and receivables due from banks and other financial institutions	24.733.958	18.477.729	133,9	5,7
6.	Loans and receivables due from customers	180.852.563	167.545.674	107,9	41,8
7.	Changes in fair value of items that are the subject of hedging	-	-	-	-
8.	Receivables from financial derivatives held for hedging	-	-	-	-
9.	Investments in associated companies and joint ventures	-	-	-	-
10.	Investments in subsidiaries	3.433.697	2.611.859	131,5	0,8
11.	Intangible investments	665.735	557.051	119,5	0,2
12.	Real-estate, buildings and equipment	6.437.937	5.619.078	114,6	1,5
13.	Investment property	1.857.927	1.896.347	98,0	0,4
14.	Current tax assets	-	-	-	-
15.	Deferred tax assets	1.074.197	840.967	127,7	0,2
16.	Fixed assets intended for sale and funds from discontinued operations	196.300	227.630	86,2	-
17.	Other assets	7.100.359	6.612.267	107,4	1,6
TOTAL ASSETS (1 to 17)		432.380.443	401.165.980	107,8	100,0



No.	POSITION	31.12.2019.	31.12.2018.	INDICES	% OF SHARE AS OF 31/12/2019
1	2	3	4	5	6
LIABILITIES (in 000 RSD)					
1.	Liabilities arising from derivatives	-	-	-	-
2.	Deposits and other liabilities to banks, other financial institutions and the central bank	5.021.756	5.662.748	88,7	1,2
3.	Deposits and other liabilities to other customers	335.317.154	317.229.084	105,7	77,6
4.	Liabilities arising from financial derivatives held for hedging	-	-	-	-
5.	Changes in fair value of items that are the subject of hedging	-	-	-	-
6.	Liabilities arising from securities	-	-	-	-
7.	Subordinated liabilities	-	-	-	-
8.	Provisions	2.328.130	1.653.663	140,8	0,5
9.	Liabilities arising from funds intended for sale and funds from discontinued operations	-	-	-	-
10.	Current tax liabilities	-	-	-	-
11.	Deferred tax liabilities	-	-	-	-
12.	Other liabilities	13.861.230	9.059.972	153,0	3,2
13.	TOTAL LIABILITIES (1 to 12)	356.528.270	333.605.467	106,9	82,5
CAPITAL					
14.	Share capital	40.034.550	40.034.550	100,0	9,3
15.	Own shares	-	-	-	-
16.	Profit	10.425.898	9.047.691	115,2	2,4
17.	Loss	-	-	-	-
18.	Reserves	25.391.725	18.478.272	137,4	5,9
19.	Unrealized gains	-	-	-	-
20.	Non-controlling interest	-	-	-	-
21.	TOTAL CAPITAL (14 to 20)	75.852.173	67.560.513	112,3	17,5
22.	TOTAL LIABILITIES (13+21)	432.380.443	401.165.980	107,8	100,0



6.10. Bank's 2019 Profit & Loss Statement

No.	POSITION	31.12.2019	31.12.2018	INDICES (3:4)*100
1	2	3	4	5
OPERATING INCOME AND EXPENSES (in 000 RSD)				
1.1.	Interest income	13.630.674	13.744.908	99,2
1.2.	Interest expenses	-1.025.290	-910.270	112,6
1.	Net interest income	12.605.384	12.834.638	98,2
2.1.	Fee and commission income	7.124.829	7.207.872	98,8
2.2.	Fee and commission expenses	-1.795.833	-1.997.723	89,9
2.	Net fee and commission income	5.328.996	5.210.149	102,3
3.	Net gains /losses (-) arising from change in fair value of FI	71.614	44.076	162,5
4.	Net gains/losses (-) arising from re-classification of FI	-	-	-
5.	Net gains/losses (-) from de-recognition of FI valued at fair value	353.490	230.194	153,6
6.	Net gain / loss on risk hedging	-	-	-
7.	Net gains / losses on foreign exchange transactions and effects of foreign currency clause	38.228	-7.458	-
8.	Net gains/losses (-) arising from impairment of FI not valued at fair value through profit and loss	2.425.931	9.493	-
9.	Net gains/losses (-) from de-recognition of FI valued at depreciated value	-579.933	526.547	-
10.	Net gain / loss (-) arising from de-recognition of on investments in associated companies and joint ventures	-	-	-
11.	Other operating income	151.321	155.969	97,0
12.	TOTAL NET OPERATING INCOME	20.395.031	19.003.608	107,3
13.	Wages, salaries and other personal expenses	-4.917.532	-4.442.799	110,7
14.	Depreciation costs	-1.005.837	-551.988	182,2
15.	Other income	720.795	280.229	257,2
16.	Other expenses	-6.923.772	-6.167.977	112,3
17.	PROFIT / LOSS (-) BEFORE TAX (1 to 16)	8.268.685	8.121.073	101,8
18.	Profit tax	-	-	-
19.	Profit from deferred tax	1.482.667	700.754	211,6
20.	Loss from deferred tax	-795.593	-676.645	117,6
21.	PROFIT / LOSS (-) AFTER TAX (17 to 20)	8.955.759	8.145.182	110,0
22.	Net profit from discontinued operations	-	-	-
23.	Net loss from discontinued operations	-	-	-
24.	RESULT FOR THE PERIOD PROFIT / LOSS (-) (21 to 23)	8.955.759	8.145.182	110,0



7. INVESTMENTS AIMED AT PROTECTING THE ENVIRONMENT

The Bank respects the highest international standards and values in the creation of financial products and services, develops and implements activities in the field of environmental protection and protection of human and labour rights. The Environmental and Social Risk Management Procedure defines the standards for identifying, measuring and assessing, monitoring and managing environmental and social risks in the process of granting and monitoring loans. The aim of the environmental risk management system is to introduce this system in the process of credit activity and credit monitoring, thus increasing the possibilities for acceptable and sustainable economic development from the point of view of environmental protection and minimizing the possibility of occurrence of environmental and socially negative impacts.

The Bank has also defined a procedure for resolving and responding to complaints regarding the direct or indirect impact of the Bank's business activities on physical and the social environment.

The Bank requires customers to operate in accordance with applicable environmental, health and safety regulations, EU standards and other international good practice standards, where applicable. In order to consistently apply the standard, the Bank applies a list of activities, projects or activities that are excluded from financing or operate in accordance with defined limits for individual activities.

In the process of granting the loan, in accordance with the legislation relevant for environmental protection, the Bank categorizes the client's requirements from the aspect of environmental and social impact using the List of categorization of environmental and social risks.

The Bank monitors the portfolio structure, that is, the participation of risk categories from the aspect of environmental and social impact. At the monthly level, the Credit Committee, the Executive Board, the Audit Committee and the ALKO Committee are reported, and at the quarterly level the Board of Directors is informed about the environmental and social risk exposures. In addition, the Bank continuously monitors emergency events with its customers that may have adverse impact on the environment, health or safety or the community as a whole, and regularly informs the Bank's governing bodies.

On the other hand, the Rules of Conduct and Professional Ethics of Komercijalna Banka AD

Belgrade contain a Code of Conduct in order to improve and more precisely regulate the existing principles of business ethics and rules of conduct. Within this Code, a separate section is dedicated to protecting the environment and raising awareness of the importance of protecting the environment. Accordingly, the Bank has had centralized double-sided printing for years, saving both paper and electricity. The toners in these printers are recycled, while paper and plastic recycling boxes have also been installed throughout the Bank.

The bank has a contract with an authorized company to take over electronic waste. The certified company has all the necessary solutions for the transportation, storage and treatment of electronic waste issued by the competent ministry. It is a standard procedure to prepare all electronic waste (defective IT equipment) for safe disposal from the Bank once a year, upon completion of the annual inventory of fixed assets.

8. IMPORTANT EVENTS AFTER THE END OF FISCAL YEAR

From 31 December 2019 to the end of February 2020, one session of the Bank's General Meeting was scheduled.

The regular General Meeting of Shareholders of the Bank is scheduled and held on March 9, 2020. On General Meeting of Shareholders was adopted:

- Decision on the adoption of the Strategy and Business Plan of Komercijalna Banka ad Beograd for the Period 2020-2022.

A description of event after the end of the fiscal year has been presented in the item "Events after the balance sheet date - Note to the financial statements for 2019".



9. PLAN OF FUTURE DEVELOPMENT OF THE BANK

The main pillars of the Bank's development strategy over the next three-year period are⁷⁵:

- increase in loans to customers (as a key aspect of future profitability in a situation of reduction of interest rates on securities),
- maintaining the quality of the loan portfolio in order to keep the low level of NPL, as well as the cost of credit risk,
- improvement - changing customer structure - targeting customers based on demographics and standards (taking into account the development of innovative products, primarily digitalisation); in addition to large enterprises, the Bank's focus will be on the segment of operations with local governments, public companies, while retaining existing clients;
- increase in share of fees and commissions in relation to interest income (the Bank will have stronger focus on fee and commission income, bearing in mind the tendency of interest rates decrease and application of digitization aimed at attracting new clients from younger population),
- control of operating expenses and further improvement of business efficiency (through stricter financial discipline) with the aim of reducing operating expenses according to the generated income over the entire planning period (CIR),
- maintaining an adequate capital position, with the payment of cumulative dividends from previous years and dividends based on projected profit in the next three-year period (CAR ≈28.4% average over the next planning period).

Retail Banking

In retail banking segment, for the coming period the Bank is planning numerous improvements with the aim of improving business in all segments. Process improvements are given below:

- automation of decision-making processes in all segments;
- automation of contract signing by two-factor email and SMS authentication;
- further complete centralization of back office activities in order to relieve the

branches through changes in business processes and development of application solutions;

- revising the market approval policy in order to better exploit the client base and attract new clients.

Business network:

- operation of branches according to service and sale centre model;
- introduction of a specialist to work with the most significant micro clients;
- head office and business network optimization (opening, merging and closing of branch offices in accordance with market potential).

Employees:

- ensuring the optimal number and structure of employees in the branch offices, and hiring younger staff as requirement (including adequate programs for voluntary employment termination programme with the Bank);
- evaluation of salaries through work performance.

One of the Bank's key strategic goals for the coming period is to maintain and increase its customer base while improving its structure in all segments. The focus will be on the acquisition of better performing clients through offering new, innovative products and services, and an individual approach to each client's needs. The aim is to further improve the loan approval process, so that clients can receive funds as soon as possible (approval in the branch office, signing of the contract without coming to the branch office, lending through digital branch office...).

We plan to increase lending activity in all segments while maintaining a similar portfolio structure (40% -42% share of housing loans in the portfolio). The planned growth of loans should lead to the growth of market share in all segments and products.

Cash loans will continue to be a major driver of retail lending growth due to high profitability and strong demand, with the aim of increasing market share in the coming years. Growth in housing loans is also expected due to favourable lending conditions, demand growth, adequate supply of new apartments and expected growth in average wages. Growth is also planned in terms of the micro and agro segment (in the agro segment the Bank is one of the market leaders by most parameters).

⁷⁵ Strategy and Business Plan of Komercijalna Banka ad Beograd for the period 2020-2022



The fall in lending interest rates in the market is milder than in previous years and will be offset by the growth in the realization of loans and portfolios. As a result of all of the above, interest income from retail operations is projected to grow by 6% in 2020.

In the deposit segment, the Bank's objective is to maintain a leading position in terms of the volume of raised retail foreign currency savings. The plan is ambitious and predicts an increase in total retail deposits of RSD 14 billion in 2020, with retail foreign currency savings being the main growth generator. We have planned for an individual approach to depositors having higher deposit amounts placed in order to prevent them leaving to other banks, given the trend of a slight increase in market interest rates. Due to the expected mild growth of deposit interest rates and significant growth of deposits, interest expenses are also expected to increase.

In 2020, we expect a significant increase in fee and commission income due to growth in all segments, most of all from payment card business. Retail and micro-clients current accounts fees recorded steady growth due to the increase in the number of clients and the transition to "sets" of current accounts. Fees charged for performance of payment services are also growing.

The strategic goal in 2020 is also to increase the number of clients actively using electronic and mobile banking.

Conclusion

As a result of all planned activities, we expect net interest and fee income to grow by 7% in 2020, which will continue years long up-growth business trends and increasing profitability in retail banking segment. In addition, retail banking is the most significant generator of achievement of goals and net income at the Bank level.

Corporate Banking Operations

In corporate banking business function we are planning the following in the period to come:

- to modify internal client segmentation within a function;
- to introduce „*Pre approval*“ processes for SME clients, primarily for small businesses,
- to improve the use of the existing corporate client base with the conversion of existing "deposit clients" into clients with *ON* and *OFF* exposure,
- to increase efficiency in the process of granting corporate loans,

- to maintain quality and growth of loan and off-balance sheet portfolios,
- to maintain profitability at projected value levels, with a focus on increasing non-interest income,
- to maintain focus on lending to state and local level public and local government segment (participation in tenders and public calls),
- the Bank's involvement in "syndicated" lending to the public and private sectors in cooperation with other banks,
- The Bank remains open to participate in the cross-border financing in the coming period in the realization of larger credit requirements by clients from the surrounding markets. The Bank will continue to perform these activities in coordination with its subsidiaries in Montenegro and Bosnia and Herzegovina.,
- increasing the volume of loans for financing real estate development projects ("project financing").

During 2020, the Bank expects a stable business environment; forecasts of economic activity tend to grow. Expected GDP growth will be predominantly influenced by the business of export-oriented economic entities, as well as by foreign direct investment (FDI). Domestic demand is expected to increase as a result of public sector wages and pensions. Continued implementation of large-scale infrastructure projects at the state and local level in Serbia and in the region, and the continuation of the development trend of construction projects, followed by investments in equipment. The growth of the banking sector (total net assets, loans and deposits) is expected to continue - the growth of banks' corporate lending activity, with stabilization and a slight increase in lending interest rates.

Operations with Financial Instrument

In 2020, the Securities Division continues to develop and improve its operations through:

- performing servicing of the clients, i.e. redemption, for the account of the Bank, of bonds issued in accordance with the Law on Regulation of the Public Debt of the Republic of Serbia on the basis of unpaid retail foreign currency savings deposited with banks operating in the territory of the Republic of Serbia and their branches in the territories of the former Republics of the SFRY;
- improvements to the "Kombank Trader" web application;



- collateral in the investment units of KomBank Money Fund intended for trade on domestic and foreign stock markets through “KomBank Trader” application;
- improvement of dealer transactions with sovereign debentures via more frequent trading through trading book and widening of the client base for dealer operations with clients from banking insurance and investment funds;
- increase in the number of clients, with the focus on understanding the needs of clients and taking care of long-term business cooperation;
- realization of inter-bank REPO transaction;
- providing professional, fast and safe service, as well as support to clients in achieving their investment objectives;
- improvement of custody services on domestic and foreign markets to clients, in the form of more extensive reliability, speed and operability in realization of the clients’ requests;
- further automation of the operating process, especially “cash settlement” for foreign trading (modelled according to the automation of the settlement procedure for domestic market);
- higher level of automation during controlling the operating process (aimed at higher level of accuracy and decrease in administration and manual engagement by employee);
- further increase in the number of clients, with special emphasis on institutionalized clients (investment funds, pension funds, professional investors, broker houses);
- further increase in the scope of services provided to clients;
- growth of custody portfolio;
- further growth of income and intention of minimizing the operating costs;
- formalization of business cooperation in the part of providing services of the Custody Bank to the largest domestic voluntary pension fund “Dunav Fund”, and as a result of successful test phase which is still on-going;
- continuation of pro-active and affirmative approach to potential clients, listening to their needs and expectation and improvement of operation of the Custody Bank in this sense.

Adhering to the principles of friendly and constructive information sharing, commitment and efficiency, the Securities Division will continue to meet client expectations with ease.

Profitability

In order to increase future profitability, the Bank plans to ⁷⁶:

- realize the growth of loans to customers as a key aspect of profitability in the conditions of falling interest rates on securities,
- generate fees and commissions income growth to respond to falling interest rates and interest income,
- more efficient control of operating expenses.

The banking sector of Serbia was marked by a decrease and stabilization of both lending and debits interest rates, especially in the last two years. As a result, there was a significant decrease and stabilization of the interest margin. No further significant decrease of lending and debit interest rates is expected in the future. There is also a slight increase in debit interest rates in the retail sector.

In order to maintain and increase its profitability in the coming period, the Bank will make an effort to increase fees and commissions income. The most important sources of fees will be payment cards, domestic payments and retail current accounts. The development of business digitization and other initiatives are expected to contribute to the growth of fee income. In the corporate banking division, profitability growth will be driven by growth in non-interest income from payment fees and documentary and guarantee products.

In the future, special attention will be paid to controlling the costs of operating the business, which should result in a further reduction of cost/income ration.

The Bank does not expect significant impairment losses in the next three-year period.

As a result of all of the foregoing, the Bank's profitable operations and adequate rates of return on assets and capital have been projected in the next three-year period.

Asset Management („Treasury “)

Below is the Bank's strategy in the area of asset management in the future:

- active management of the entire securities portfolio,
- withdrawal of additional funds from credit lines according to need and
- contribution to the Bank's profitable business.

⁷⁶ Strategy and Business Plan of Komercijalna Banka ad Beograd for the period 2020-2022



As a result of the lack of quality demand in the previous period, a significant part of the Bank's assets is in highly liquid and risk-free securities (bonds of the Republic of Serbia). The Bank does not plan further significant growth of investments in securities, but will reinvest the assets released from securities into instruments with longer maturities. This will mitigate the negative effect of falling interest rates, especially on securities with shorter maturities.

The volume of retail and corporate deposits with insufficient quality of demand for loans reduced the Bank's need to use funds from foreign credit lines. The Bank will take new credit lines only if there is an interest of creditworthy clients for loans with the purpose that may be funded by these lines, respecting the criteria of their competitiveness (margin, maturity ...) in relation to other available sources of the Bank.

On the basis of all of the above, the Bank's objectives in terms of asset management are to have adequate liquidity reserves at all times in the form of highly liquid assets that can be quickly converted to cash. The excess liquid assets will be invested in low-risk securities or in other first-class financial institutions for the purpose of obtaining adequate income. The development of innovative products, as well as the operations of buying and selling foreign currencies in the money and capital markets, will also provide an adequate amount of net fee income.

Deposit Potential

Below are the key sources of deposit potential of the Bank in the coming period:

- retail foreign currency savings - remains the dominant source of financial resources in the future,

- deposits of legal entities and financial institutions and
- funds raised in the form of credit lines from international financial institutions.

During a more extensive period of time the Bank has been standing out by the amount of retail foreign currency savings in the banking sector. The Bank's strategic commitment is to continue to be a leader in this segment while striving to optimize the cost and structure of these funding sources. The Bank plans to continue to base its retail foreign currency savings on a large number of relatively small deposits, that is, to have a large number of depositors with individually small cash deposits.

Corporate deposits have been on a stable level over a long period of time, and it is expected that new clients, loan beneficiaries, will transfer their deposits to the Bank as well, which will result in an increase in corporate deposits.

Given the recognized and stable position in the market, the Bank is able to apply in the international financial institutions for funds in the form of dedicated credit lines. The Bank will use this funding source in accordance with its ability to create credit products that are acceptable in the market.



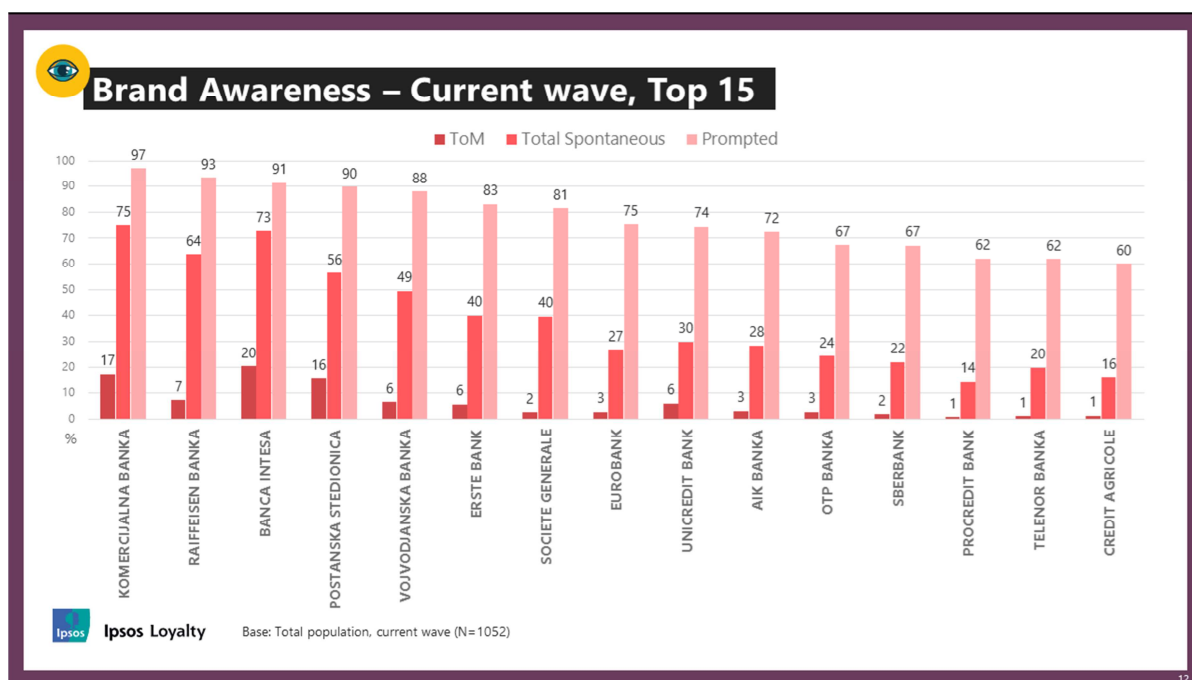
10. RESEARCH AND DEVELOPMENT

During 2019, Komercijalna Banka has been closely and promptly monitoring the developments on the financial market and successfully adapting to the conditions and changes in the financial market in order to maintain its leading position, as shown by the conducted research.

The Bank's market position as a brand, its products and services were further examined in 2019 through the banking omnibus conducted by the IPSOS research agency specialized in this type of research. Research shows that the Bank has been holding one of the leading positions in the public awareness for a long time, measured by the criteria of brand recognition, quality and satisfaction with the products and services used by customers. All research results are published on the Bank's internal portal so that targeted groups are introduced to these results and thus further strengthen the Komercijalna Banka brand..

The latest banking omnibus report (November 2019) shows that, in the opinion of the respondents, Komercijalna Banka was ranked first by the brand recognition criteria among the top 15 banks in Serbia.

Bank Brand Awareness in Serbia (Omnibus Banking, November 2019)



11. SHARE REPURCHASE

As of December 31, 2019 the Bank has had no own shares, nor held any own shares during 2019. Also, the Bank does not intend to acquire its own shares in the future.

12. FINANCIAL INSTRUMENTS SIGNIFICANT FOR THE ASSESSMENT OF FINANCIAL POSITION

The following balance sheet positions are of paramount importance for an adequate assessment of the Bank's financial position at the end of 2019:

- At the asset side:
 - ✓ Loans and receivables from customers,
 - ✓ Loans and receivables from banks and other financial organizations,
 - ✓ Securities,
 - ✓ Cash and funds held with the Central Bank.



- At liabilities side:
 - ✓ Deposits and other liabilities to other customers,
 - ✓ Capital.

Loans and receivables from customers, banks and other financial organizations at the end of 2019 amount to RSD 205,586.5 million and represent 47.5% of total balance sheet assets. The sum of the same two balance sheet items at the end of 2018 amounted to RSD 186,023.4 million and represented 46.4% of the total assets of the Bank. During 2019, the Bank has given great importance to risk management policy, given that loans and other investments account for approx. 50% of total balance sheet assets. The focus was on credit risk monitoring. During 2019, loans and receivables increased by RSD 19,563.1 million or 10.5%. The Bank's extensive loan portfolio, through 2019, was secured by an appropriate amount of impairment provisions and reserves.

At the end of 2019, securities amount to RSD 138,469.6 million, representing 32.0% of total assets. At the end of 2018, the same position amounted to RSD 133,177.6 million, representing an increase of securities of RSD 5,292.0 million, or an increase of 4.0%. Securities mostly consist of securities of the Republic of Serbia - government bonds in RSD and EUR.

Cash and balances with the central bank amounted to RSD 67,558.2 million at the end of 2019 and increased by RSD 3,962.5 million or 6.2% compared to the beginning of the year. The largest part of this position consists of funds in the drawing account (35.3%) and funds allocated with the National Bank of Serbia in the form of required reserves (44.8%).

Considering the asset structure, it can be stated that credit-sensitive assets, as well as other types of risk, were maintained at an optimal level with a reasonable risk-taking policy. The Bank's management has ensured the protection of the credit portfolio through an adequate assessment of credit risk in a much more restrictive manner.

Deposits and other liabilities to banks, other financial institutions, the central bank and other customers (including credit lines) amount to RSD 340,338.9 million at the end of 2019, representing 78.7% of total balance sheet liabilities. Deposits and other liabilities to other customers increased by RSD 18,088.1 million compared to the beginning of the year. The Bank's deposit potential is predominantly comprised of retail foreign currency deposits. On 31/12/2019, retail foreign currency savings amounted to EUR 1,773.2

million, with the structure still being a large number of smaller individual deposits. Despite lower interest rates on retail savings compared to previous years, foreign currency deposits of retail clients recorded an y.o.y. increase of EUR 81.1 million at the end of 2019.

At the end of 2019, the Bank's total capital amounts to RSD 75,852.2 million, representing 17.5% of total liabilities. Total capital was increased by RSD 8,291.7 million or 12.3% at the end of 2019 compared to 2018. The capital increase is a result of the profit generated in 2017, 2018 and 2019. During 2019, the Bank's reserves increased by RSD 6,913.5 million, which also contributed to the growth of capital.

The Bank achieved capital adequacy of 30.83% at the end of 2019, which is above the statutory minimum (8% + requirement for a combined hedging layer).

During 2019, the Bank provided the necessary diversification of funding sources for business operations in terms of the required stability and desired profitability.

13. RISK MANAGEMENT

13.1. Objectives and Policies of Financial Risk Management

Risk management is a key element of business management, since risk exposure arises from all business activities, as an inseparable part of the banking business, which is managed through identifying, measuring, assessing, monitoring, controlling and mitigating, i.e. establishing risk limits, as well as reporting in line with strategies and policies.

The Bank has put in place a comprehensive and reliable risk management system that includes: risk management framework and risk statement, strategies, policies and procedures for risk management, methodologies for managing individual risks, appropriate organizational structure, effective and efficient process of managing all risks to which the Bank is, or may be exposed in its operations, an adequate internal control system, an adequate information system and an adequate internal capital adequacy assessment process. Also, the Bank's Recovery Plan is integrated into the risk management system, as a mechanism for early identification of a situation of severe financial disruption in which the Bank can take measures, that is apply defined recovery options in order to prevent entry into the



early intervention phase with an active participation of a regulator or improvement of an already deteriorated financial condition. The risk management framework is a formalization of the Bank's propensity for materially significant risks, which entails defining objectives, tolerances and limits for all materially significant risks that can be quantified. The risk management strategy and the capital management strategy and plan set the following goals within the risk management system: minimizing the adverse effects on the financial result and capital while respecting the defined frameworks of the acceptable risk tolerance limits, maintaining the required level of capital adequacy, developing the Bank's activities in line with the business strategy and opportunities and market development in order to create competitive advantages, diversify the risks to which the Bank is exposed, maintain the NPL share in total credit the level above the defined limit, the maintaining concentration risk ratios based on exposure to certain types of products below the regulatory prescribed level, maintaining liquid assets coverage ratio above the regulatory prescribed level and the internal limits. The Bank constantly monitors all announcements and changes to the regulatory framework, analyses the impact on the level of risk and takes measures to timely align its operations with the new regulations.

The Bank has implemented activities to comply with the new regulation, which further regulates the Bank's exposure to concentration risk based on certain products, and abolishes the calculation of the reserve for estimated losses and required reserves, which entered into force in early 2019. Through a clearly defined process for introducing new and significantly modified products, services and activities related to processes and systems, the Bank analyses their impact on future exposure to risks in order to optimize its income and costs for the estimated risk, as well as minimize any potential adverse effects on the financial result of the Bank. A more detailed account of the Bank's risk management objectives and policies is set out in the notes to the financial statements.

Policy of Protection from Credit Risk Exposure

In order to protect against credit risk exposure, the Bank applies credit risk mitigation techniques by acquiring acceptable collateral as secondary sources of loans repayment. The Bank strives to do business with clients of good credit standing, assessing it at the moment of application, and to regularly monitor debtors, loans and collaterals, with the aim of timely undertaking of the appropriate activities in the collection process. The types of collateral for receivables depend on

the assessment of the borrower's credit risk, and are determined on a case-by-case basis, and their acquisition is made upon conclusion of the contract and before loan disbursement.

The Bank's internal acts regulate the evaluation and management of credit protection instruments.

The Bank pays special attention to the marketability and adequate evaluation of collateral, and in this respect, when assessing the value of collateral, engages authorized appraisers in order to minimize the potential risk of unrealistic evaluation, while the real estate, goods, equipment and other movable property that are subject to pledge must be insured with an insurance company acceptable to the Bank, with tied insurance policies.

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

The Bank pays special attention to collateral monitoring and undertakes activities to provide new evaluations, but also to obtain additional collateral, primarily regarding the clients with identified business problems, but also the clients whose collateral exposure coverage is reduced due to a decline in the value of collateral acquired.

For the purpose of adequate risk management, the Bank conducts activities of credit risk analysis when approving the loans and through establishing a system of monitoring, preventing and managing risk loans, including adequate identification of potentially risky clients (Watch List), mitigates credit risk of the clients with the status specified above, as well as through taking measures and actions in order to protect the Bank's interests and prevent adverse effects on the Bank's financial result and capital.

During 2019, the Bank continued to improve its risk management system. The Bank revised its Risk Management Strategy (reduced the highest acceptable NPL level, defined objectives, tolerance and limits for the most important risk parameters), amended procedures to comply with changes in domestic and international regulations and improved business practices. In line with the changed regulatory requirements, credit risk management has been improved.

In 2019, KB's focus was on improving the credit portfolio quality by reducing the events of new non-performing loans and resolving the problem of clients who have already been identified as



problematic, and also carried out the activities aimed at reducing the existing non-performing loans (improved collection, sale/assignment, as well as write-off by full transfer of receivables into the off-balance sheet records). The Bank has collected a significant amount of risk loans, which resulted in a significant decrease in the NPL ratio, below the planned value defined by the Business Plan, as well as a decrease in the credit risk appetite through revising the maximum acceptable level of NPL assets. Also, in accordance with the Decision of the National Bank of Serbia on the Accounting Write-Off of the Balance Sheet Assets of Banks, the Bank continued to transfer 100% of impaired loans from balance sheet to off-balance sheet records.

The Bank applies IFRS 9 standard and in accordance with the stated standard calculates impairment of balance sheet assets and probable loss on off-balance sheet items. The Bank applies the concept of "expected losses" by incorporating the impact of the expected movement of macroeconomic factors on the future trend of the probability of default status occurrence, based on statistically proven inter-dependencies, wherewith in 2019 the Bank introduced three scenarios (optimistic, realistic and pessimistic). The portfolio is differentiated into three levels that monitor client status (Level 1 - PL clients with no identified credit risk deterioration, Level 2 - PL clients with identified credit risk deterioration - measured by a set of defined criteria, Level 3 - NPL clients), with defined criteria for transition of higher-level clients to lower levels, which were further enhanced in 2019. Also, in accordance with IFRS 9, the Bank calculates impairment for exposures to the Republic of Serbia and the National Bank of Serbia.

Real decrease in impairment provisions (income statement) in 2019 was caused by higher-than-planned collection of risk loans in the Corporate Banking Division, improvement of PD ratio for PL loans in the Corporate Division due to the conservative policy of loan approval and standard quality of corporate portfolio which is continuously improving from year to year. Also, the real decrease in impairments in the income statement was influenced by a new estimate of the share in equity of subsidiaries, which is significantly higher than the previous one, made by an external house from the "Big Four". The significant decrease in in the balance sheet impairment provisions, in addition to the real decrease in the income statement, was also influenced by the transfer of 100% impaired loans from balance sheet to off-balance sheet records.

13.2. Exposure to Risks (Price, Credit, Liquidity and Cash Flow Risk) With Risk Management Strategy and Assessment of Its Efficiency

In its operations the Bank is particularly exposed to the below listed types of risks:

1. Credit and related risks.
2. Liquidity risk.
3. Market risk.
4. Interest rate risk in the banking book.
5. Operational risk.
6. Investment risk.
7. Exposure risk.
8. Country risk as well as other risks that may appear in the regular operation of the Bank.

Credit risk is the possibility of negative effects on the Bank's financial result and capital due to the debtor's default in fulfilling the financial obligations to the Bank.

Credit risk is conditioned by the debtor's creditworthiness, its orderliness in fulfilling its obligations to the Bank, and the quality of the collateral. The acceptable level of exposure to the Bank's credit risk is in accordance with the defined Risk Management Framework and the Risk Management Strategy and depends on the structure of the Bank's portfolio, based on which it is possible to limit the adverse effects on the Bank's financial result and capital while minimizing capital requirements for credit risk, counter-party risk, the risk of impairment of purchased receivables, the risk of settlement/delivery based on free deliveries and in order to maintain capital adequacy at an acceptable level. The Bank manages credit risk at the level of the client, group of related parties and the entire credit portfolio. The Bank approves loans to clients (legal and natural persons), that are estimated as being creditworthy, through performed analysis, that is, quantitative and/or qualitative measurement and assessment of credit risk and financial condition of the borrower. The process of measuring credit risk is based on measuring the level of risk of individual loans on the basis of the internal rating system, as well as on the application of regulations of the National Bank of Serbia, which requires the classification of each loan on the basis of prescribed criteria.

By monitoring and controlling the portfolio as a whole and by individual segments, the Bank makes comparisons with previous periods, identifies trends and causes of changes in credit



risk levels. It also monitors asset quality ratios (NPL movement, NPL coverage by impairment provisions, etc.), as well as exposure to regulatory and internally defined limits. By the Decision on Concentration Risk Management based on the Bank's exposure to certain product types, as of January the 1st 2019, the National Bank of Serbia also prescribed the obligation to monitor the concentration risk, i.e. exposure to product groups, such as exposures based on cash, consumer and other loans granted to retail clients with contracted maturity exceeding 8 years in 2019, or further reduction thereof in the next two years. Also, monitoring and reporting about the level of credit indebtedness of retail clients (DTI ratio) was introduced. The credit quality monitoring process enables the Bank to assess potential losses as a result of the risks to which it is exposed and to take appropriate corrective action. On the other hand, the Bank does not invest in high risk investments, such as investments in potentially profitable but high risk projects, in high risk portfolio investment funds and the like.

Liquidity risk represents the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to meet its obligations, resulting from the withdrawal of existing funding sources and the inability to acquire new funding sources - funding source liquidity risk, as well as difficult conversion of assets into liquid assets due to market distortions - market liquidity risk.

Liquidity risk is manifested through the Bank's difficulties in meeting due liabilities in the event of insufficient liquidity reserves and inability to cover unexpected outflows of other liabilities. In its operations, the Bank respects the basic principles of liquidity, obtaining a sufficient level of liquid assets to cover liabilities arising in the short term, that is, respects the principle of solvency, by forming an optimal structure of own and borrowed funding sources and by accumulating a sufficient level of liquidity reserves so as to avoid threats to the planned return on equity.

Liquidity risk is also manifested in the Bank's inability to transform certain parts of assets into liquid assets in the short term. The Bank analyses the funding sources liquidity risks and market liquidity risk. The liquidity problem in terms of the funding sources relates to the structure of liabilities, that is, financial obligations, and is expressed through the potentially significant share of volatile sources, short-term sources or their concentration. The funding sources liquidity is in fact the risk that the Bank will not be able to meet its obligations due to the withdrawal of volatile funding sources, i.e. the inability to obtain new

funding sources. On the other hand, liquidity risk is also manifested through a deficit of liquidity reserves and difficult or impossible acquisition of liquid assets at acceptable market prices. During 2019, the Bank complied with regulatory and internally defined limits. The Bank is actively taking preventative measures to minimize liquidity risk exposure.

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

The Bank is exposed to **foreign exchange risk** manifested through the possibility of adverse effects on the financial result and capital due to exchange rate volatility, ratios, changes in the value of the domestic currency against foreign currencies, or changes in the value of gold and other precious metals. In order to minimize foreign currency risk exposure, the Bank diversifies the currency structure of its portfolios and the currency structure of its liabilities, matching open positions by individual currencies, while respecting the principles of maturity transformation of assets. During 2019, the Bank complied with the foreign exchange risk regulatory ratio, which was expressed as 20% of regulatory capital, as well as with significantly more conservative internally defined limits, that is, with the defined Risk Management Framework.

Interest rate risk represents the risk of adverse effects on the Bank's financial result and equity arising from banking book positions due to adverse changes in interest rates. The Bank identifies the causes of the current and assesses the future factors of interest rate risk exposure in a timely manner. Exposure to this type of risk depends on the ratio of interest-sensitive assets to liabilities. Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk in terms of impact on the financial result and economic value of equity, by pursuing an adequate policy of maturity adjustment of the interest rate repricing period and matching funding sources with loans according to the level of interest rate and maturity structure.

Operational risk is the risk of possible negative effects on the financial result and capital of the Bank due to a failure in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to unforeseen



external events. Operational risk also includes legal risk, which is the risk of adverse effects on the financial result and equity of the Bank through judicial or extrajudicial proceedings. The Bank undertakes measures to mitigate operational risks and to react proactively to potential operational risk events through continuous monitoring of all activities, monitoring of key risk indicators which represent an early warning for signalling changes in the Bank's risk profile, implementation of an adequate and reliable information system, whose implementation is being improved. In order to minimize legal risk and its impact on the financial result, the Bank continues to improve its business practices in the timely provisioning for claims against the Bank, in accordance with an estimate of future expected loss on that basis.

Investment risk of the Bank represents the risk of investing in other legal entities and in fixed assets and investment property. In accordance with the regulations of the National Bank of Serbia, the level of permanent investments is monitored and notified to the bank's bodies and committees. This ensures that the Bank's investment in one non-financial sector entity does not exceed 10% of the Bank's capital, and that the Bank's investment in non-financial sector entities and in the Bank's fixed assets and investment property does not exceed 60% of the Bank's capital.

Large **exposure of the Bank** to one person or group of related parties, including persons related to the Bank, is an exposure that amounts to at least 10% of the Bank's capital. During 2019, the Bank complied with regulatory and internally defined exposure limits.

Country risk is the risk related to the country of origin of the person to which the Bank is exposed, that is, the risk of the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to collect receivables from the debtor for reasons due to political, economic or social circumstances in the debtor's country of origin. The Bank's exposure to country risk is at an acceptable level.

A detailed presentation and explanation of the risks to which the Bank is exposed in its operations is presented in paragraph 4. Note to the financial statements.

14. SOCIALLY RESPONSIBLE OPERATION

Particularly contributing to the preservation and enhancement of the corporate image were the activities in the area of Corporate Social

Responsibility (CSR), which the Bank carefully selected and supported and in which it actively cooperated with its partners. In 2019, the Bank continued its campaign of donating babies born on World Savings Day, 31 October, in the amount of EUR 50 in RSD equivalent. Also, the Bank continued with the "Together for Babies" campaign, and in 2019 funds and equipment for maternity wards in Čuprija and Pančevo were donated, paid and ordered for maternity wards in Vršac, Vranje and East Sarajevo. Last year, the humanitarian action "Handicap Plugin" continued when 10 boxes of plastic stoppers were handed over and a number of cultural events and manifestations were supported.

Modern market business cannot be imagined without proper PR support. The Bank communicated with its stakeholders in a high quality, clear and targeted manner in order to achieve mutual understanding and favourable opinion on the company and thus maintain its acquired image and reputation.

Marketing Activities of the Bank

Marketing activities in 2019 continued to promote products and services, both existing and new, with constant reminder and refreshment of the brand. The previous year, 2019, was marked by campaigns related to the Bank's existing products and services, such as the campaign for cash and refinancing loans, loans for agriculture, housing loans, payment cards, etc.

We have promoted agrarian loans at the Agricultural Fair in Novi Sad and at several appropriate events throughout Serbia. The emphasis in the promotion of payment cards was placed on the domestic DinaCard, and the new DinaCard credit card was promoted, whose endorser is athlete Ivana Španović.

During 2019, the Bank implemented and started to use the new WEB 3.0 e-commerce application, which had an appropriate promotion follow-up so that all customers would be introduced to this application. All advertising of the Bank (advertising in electronic and print media, on the Internet, indoors and outdoors) is in compliance with the new decision of the NBS, effective from 1 July 2019.

The implemented campaigns were integrated, which means that they coordinated numerous communication channels through which we sent a clear and attractive message about the Bank and its product, which is supported by successful data

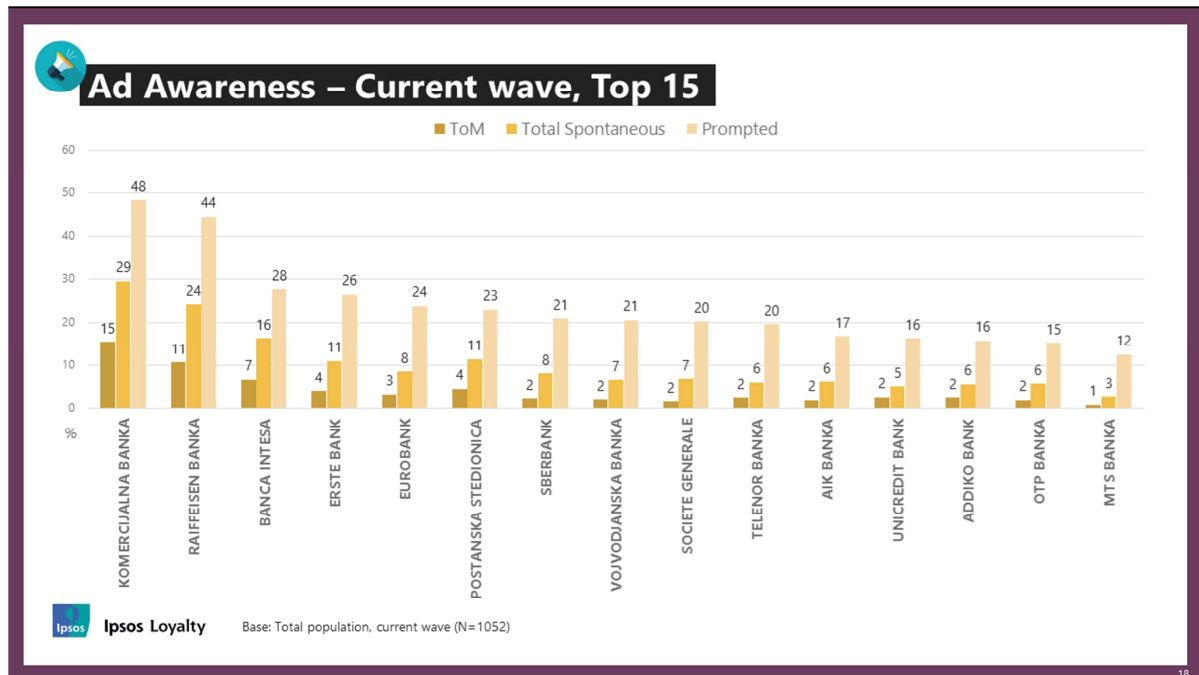


on the position of the Bank when it comes to the visibility of advertising campaigns.

Komercijalna Banka's marketing campaign for Transparent Cash Loans received the prestigious 2019 "Efi" Award in the Finance and Financial Cards category. These awards are given to the best campaigns for marketing effectiveness, extraordinary marketing communication in the segments of creativity, strategy and achieved results.

Last year, Komercijalna Banka was in the first place by all three criteria related to the visibility of advertising campaigns!

Awareness of Bank Advertising Campaigns in Serbia (Banking Omnibus, November 2019):



In addition to the traditional channels of communication, comprehensive communication through social networks continued: Facebook, Twitter, YouTube, Instagram, and LinkedIn. In this way, the effects of the promotion were at the highest level, given the benefits of both traditional and modern media. All marketing activities are followed on our website: www.kombank.com, as well as on the Bank's social media accounts.



15. PERFORMANCE OF THE BANK'S BUSINESS PLAN FOR 2019

15.1. Performance of the balance-sheet plan for 2019

No.	ASSETS ITEM	REALIZED IN 2019	PLAN FOR 2019	INDICES
1	2	3	4	5
	ASSETS (in RSD million)			
1.	Cash and assets with the central bank	67.558	60.170	112,3
2.	Securities	138.470	119.563	115,8
3.	Loans and receivables from banks and other financial organizations	24.734	15.680	157,7
3.1.	Loans	5.108	5.254	97,2
3.2.	Other lending and receivables	19.626	10.426	188,2
4.	Loans and receivables from customers	180.853	203.591	88,8
4.1.	Corporate (loans)	81.504	99.695	81,8
4.2.	Retail (loans)	99.057	103.527	95,7
4.3.	Other lending and receivables (cor.+ ret.)	291	369	78,8
5.	Investment in subsidiaries and affiliates	3.434	2.612	131,5
6.	Fixed assets and investment property	8.296	7.347	112,9
7.	Other assets	9.037	7.765	116,4
8.	TOTAL ASSETS	432.380	416.729	103,8

- Balance of cash and assets at the central bank is higher compared to the planned value and due to the lower than planned volume of investment of funds into loans.
- The item securities (sec) is higher than the planned volume by the amount of RSD 18,906.1 million as a result of increased investment activity in new securities of the Republic of Serbia with longer maturities.
- Lending and receivables from banks and other financial organizations are higher than planned, primarily due to higher volume of investment of funds into repo transactions and lower amount of loans granted to banks, compared to the planned values.
- Disbursed corporate loans were lower than the plan for the end of 2019 due to decrease in good quality demand.
- Retail lending is marginally lower compared to the planned annual volume.
- Lower than planned growth in portfolio was compensated for by the growth in investment of funds into securities compared to the planned volume (15.8%).
- Value of fixed assets and investment property of the Bank is higher than planned (12.9%).
- Other assets were realized at a higher than planned level (16.4%), primarily due to the higher than planned realization of other and intangible assets.



No.	LIABILITIES ITEM	REALIZED IN 2019	PLAN FOR 2019	INDICES
1	2	3	4	5
	LIABILITIES (in RSD million)			
1.	Deposit and liabilities to banks, financial organizations and the central bank	11.012	10.804	101,9
1.1.	Deposits	9.585	7.611	125,9
1.2.	Credit lines	1.427	3.192	44,7
1.3.	Other liabilities	1	1	76,6
2.	Deposits and other liabilities to customers	329.326	329.095	100,1
2.1.	Corporate	47.948	55.436	86,5
2.1.1.	Deposits	47.879	55.374	86,5
2.1.2.	Other liabilities	69	62	111,1
2.2.	Retail	281.378	273.659	102,8
2.2.1.	Deposits	280.484	272.759	102,8
2.2.2.	Other liabilities	894	900	99,3
3.	Subordinated liabilities	-	-	-
4.	Provisioning	2.328	1.682	138,5
5.	Other liabilities	13.861	4.320	320,9
6.	TOTAL LIABILITIES	356.528	345.900	103,1
7.	Share capital and issue premium	40.035	40.035	100,0
8.	Reserves from profit and retained earnings	35.818	30.794	116,3
9.	TOTAL CAPITAL	75.852	70.829	107,1
10.	TOTAL LIABILITIES	432.380	416.729	103,8

- Retail deposits reached the amount of just above the values planned for the end of 2019 (2.8%).
- Corporate deposits were below the planned values by 13.5%.
- Deposits by banks and other financial organizations were above the planned values by 25.9%.
- Bank's total capital is higher than planned (7.1%) due to higher than planned amount of realized profit, as well as due to higher reserves formed from profit.



15.2. Performance of the P&L plan for 2019

No.	ITEM	REALIZED IN 2019	PLAN FOR 2019	INDICES
1	2	3	4	5
	(in RSD million)			
1.1.	Interest income	13.631	14.247	95,7
1.2.	Interest expenses	-1.025	-1.012	101,3
1.	Interest gains (1.1.-1.2.)	12.605	13.236	95,2
2.1.	Fee and commission income	7.125	7.562	94,2
2.2.	Fee and commission expenses	-1.796	-1.615	111,2
2.	Fee and commission gains (2.1. -2.2.)	5.329	5.948	89,6
3.	Net exchange rate differences and revaluation (FX clause)	38	-	-
4.	Net cost of indirect write-off of loans and provisions	2.426	-519	-
5.	Other operating income	-1.065	57	-
6.	Operating expenses	-11.065	-11.120	99,5
7.	OPERATING PROFIT BEFORE TAX	8.269	7.601	108,8

- During 2019 realized net interest gains was lower than planned by 4.8%. Corporate and retail interest income was lower than planned. Interest income realized within the Treasury business function was higher than planned. Due to everything mentioned above, total interest income was RSD 616.5 million lower than planned. Total recorded interest expenses during 2019 were RSD 13.6 million higher than planned.
- Net fee and commission income realized during 2019 was 10.4% lower than planned.
- At the end of 2019 realized net income from indirect write-off of loans and provisions amounted to RSD 2,425.9 million, while the plan anticipated a net expense of RSD 519.2 million.
- Operating expenses were lower than planned by RSD 55.4 million.
- Realized other operating income was lower than other operating expenses which resulted in realization of net other operating expenses (RSD 1,065.2 million) while other operating income was planned in the amount of RSD 57.3 million.
- In the period January – December 2019 profit before tax was realized in the amount of RSD 8,269 million, which is more than planned by RSD 668 million or 8.8%.

Signed on behalf of Komercijalna Banka ad Beograd

Member of the Executive Board

Miroslav Perić, PhD



Chief Executive Officer

Vladimir Medan, PhD