



KOMERCIJALNA BANKA AD BEOGRAD

In accordance with Article 67 of the Law on Securities and Other Financial Instruments Market („RS Official Gazette“, No. 47/06) and Article 4 of the Rules on the Contents and Mode of Reporting by Public Companies and Disclosure of Voting Share Holdings („RS Official Gazette“, No. 100/06), KOMERCIJALNA BANKA AD BEOGRAD, Svetog Save 14, 11000 Beograd, Register ID number 07737068, is releasing the

ANNUAL REPORT ON BUSINESS OPERATIONS IN 2009

I GENERAL DATA

1) Name, head-office and address, Registry number and tax ID number of joint-stock company;	KOMERCIJALNA BANKA AD BEOGRAD, Beograd, Svetog Save 14, Registry number-07737068, tax ID number - SR 100001931		
2) web site and e-mail address;	www.kombank.com , posta@kombank.com		
3) Number and date of the Ruling on entry in Business Registry;	Ruling on the Transfer to Business Registries Agency, number BD 10156/2005 of 14.04.2005		
4) Activity (code and description);	065121-banking organizations		
5) Number of employees;	(as of 31.12.2009) 3,155		
6) Number of shareholders;	(as of 31.12.2009.) 1,864		
7) Ten biggest shareholders (name and surname, name of legal entity with the number of shares and holdings in equity);	31.12.2009		
	<u>NO..</u>	<u>NAME/CORPORATE NAME</u>	<u>NO. OF SHARES</u>
	1.	REPUBLIC OF SERBIA	370.989
	2.	EBRD LONDON	217.733
	3.	ARTIO INT. EQUITY FUND	41.505
	4.	JUGOBANKA IN BANKRUPTCY	32.160
	5.	COMPANY .DUNAV OSIGURANJE	30.371
	6.	EVROPA OSIGURANJE IN BANKRUPTCY	26.000
	7.	INVEJ DOO	23.000
	8.	STANKOM CO DOO	13.711
	9.	ANBO DOO	6.558
	10.	VERANO MOTORS DOO	6.040
8) Value of equity;	Value of equity and share capital as of 31.12.2009 amounted to 17,062,534,722 dinars		
9) Number of issued shares (ordinary and preference, with ISIN number and CFI code);	As of 31.12.2009, Komercijalna banka AD had 870,931 pieces of issued ordinary shares of a nominal value of 10,000 dinars per share, CFI code ESVUFR, ISIN number RSKOBBE33594, and 37,351 pieces of preference shares of a nominal value of 10,000 dinars per share, CFI code EPNXAR, ISIN number RSKOBBE95171		
10) Data about subsidiaries (up to five most important entities of consolidation) – name, head office and business address;	KOMERCIJALNA BANKA AD Budva, Podkošljun bb, Budva, Montenegro KOMERCIJALNA BANKA AD Banja Luka, Veselina Masleše 6, Republic of Srpska DZUIF KOMBANK INVEST AD Beograd, Makedonska 29, Beograd		
11) Name, head office and business address of the audit company that audited the last financial statement;	KPMG DOO Beograd, Kraljice Natalije 11		
12) Name of organized market in which shares are included	Belgrade Stock Exchange ad Beograd, Omladinskih brigada 1, 11070 New Belgrade		

II DATA ABOUT THE COMPANY MEMBERS

1. Board of Directors Members	BoD PRESIDENT	BoD Member	BoD Member	BoD Member	BoD Member	BoD Member	BoD Member
Name, surname and place of residence	Vesna Džinić, Belgrade	Anka Gajić, Belgrade	Dr Miroslav Todorović, Belgrade	Franz G. Leitner, PhD. Austria	Dragica Pilipović-Chaffey, Belgrade	Mirko Petrović, M.Sc. Belgrade	Prof. Boško Živković, PhD Belgrade
Education	Graduate economist of Belgrade University	Graduate economist of Belgrade University	Ph.D in Economic Sciences of Belgrade University	PhD in Law of Vienna University of Social Sciences	MSc. in Political Sciences and Business Administration of Washington University	MSc. In Law of Belgrade University	PhD in economic sciences of Belgrade University
Current employment (company name and position)		Deposit Insurance Agency, Director of State- and Socially-Owned Capital Sale Department	Faculty of Economics, Senior lecturer	-	EBRD	-	Professor Of the Faculty of Economics, Belgrade
Membership in BoDs and Supervisory Boards of other companies	-	-	-	-	-	-	-
Paid out net remuneration amount	Total amount of remunerations paid out to members of the Board of Directors and Audit Committee in 2009 equaled 10,132,000 dinars (net).						
Number and percentage of shares held in the joint-stock Company*	-	-	-	-	-	-	-

* Data about the number and percentage of shares held by members of the management are maintained in the Book of Shareholders, as an official document, and are accessible on the Internet site of the Central Securities Depository and Clearing House: www.crhov.co.yu

2. Executive Board members	Executive Board Chairman	Executive Board Deputy Chairman	Executive Board member	Executive Board member	Executive Board member
Name, surname and place of residence	Ivica Smolić, Belgrade	Dragan Santovac, Novi Sad	Andrijana Milanović, Belgrade	Lidija Sklopić, Belgrade	Slavica Đorđević, Belgrade
Education	Graduate economist	Graduate economist	Graduate economist	Graduate economist	Graduate economist
Current employment (company name and position)	Komercijalna banka AD Beograd Chairman of Bank's Executive Board	Komercijalna banka AD Beograd Deputy Chairman of Bank's Executive Board	Komercijalna banka AD Beograd Executive Board member	Komercijalna banka AD Beograd Executive Board member	Komercijalna banka AD Beograd Executive Board member
Membership in BoDs and Supervisory Boards of other companies	-	President of SB of Komercijalna banka AD Banja Luka, member of SB of Matica Srpska, Novi Sad	-	Member of SB of Komercijalna banka AD Banja Luka	President of BoD of Komercijalna banka AD Budva
Paid out net remuneration amount	Total amount of remunerations paid out to members of the Executive Board in 2009 equaled 49,803,000 dinars (net).				
Number and percentage of shares held in the joint-stock Company*	-	-			
3. Indicate if the Company management has an adopted written code of conduct, and the web-site where posted	„Rules of Conduct and Professional Ethics,- Code of Conduct dated 26.06.2007 is posted on the Bank's Intranet presentation – Bank's Portal				

III DATA ABOUT THE COMPANY'S BUSINESS OPERATIONS

1. Management report about implementation of adopted business policy, by indicating the cases and reasons for dissensions, and other issues of principle relating to conduct of operations;	In 2009, the Management implemented in full, in accordance with the circumstances in place, the adopted Bank's business policy.		
2. Analysis of achieved income, expenditures and operating results, income per activities, description of basic products and services, with special focus on solvency, liquidity, cost effectiveness, overall return of the company and its market value, as well as the effects of the changes in the company's legal position (status changes)			
Data from non-consolidated financial statements (in 000 din.)			
Interest income	14,713,932	Interest expenses	8,379,834
Fee and commission income	4,027,010	Fee and commission expenses	495,845
Net income from change in the value of assets and liabilities	6,004,079	Net exchange differentials expenses	4,758,593
Income from dividends and holdings	6,469	Operating and other business expenditures	7,957,742
Net other business income	261,242	Net expenditures of indirect write-off of loans and advances, and provisions	1,365,223

U 000 din.

Interest income in 2009 was up by 34.5% against 2008.

Interest expenses in 2009 were by 80.6% larger than in 2008.

Fee and commission income in 2009 were up by 31.3% against 2008.

Fee and commission expenses in 2009 were by 65.6% higher against 2008.

Net negative exchange differentials and net income from the change in the net value of assets and liabilities were lower by 48.3% if compared to those recorded in 2008.

Operating and other business expenditures were by 7.6% higher, while net expenses of indirect write-off of loans and advances were dropped by 10.5%.

Profit before tax was 2,055,495 dinars, which was a 27.0% decrease against 2008.

Profit totaled 1,866,676 dinars, by 33.0 % less against 2008.

• Return on equity - ROE (gross profit/average total capital)	7.78%
• Return on own capital (gross profit/share capital)	12.05%
• Cash portion of share capital (min. EUR 10 million) (regulatory capital was used for this ratio)	227.3 million EUR
• Capital adequacy (net capital/ assets weighted by credit risk + net open FX position); (min. 12%)	14.82%
• Investments in entities not in the financial sector, and in fixed assets (max. 60%)	32.47%
• Liquidity (liquidity ratio as of 31.12.2009); (min. 1%)	2.71%
• Sum of large Bank exposures (max. 400%)	114.30%
• FX risk ratio (max. 20%)	18.12%
• Share price – the highest and the lowest in the reporting period, if traded (separately for ordinary and preference),	Minimum price for ordinary shares was 16,439 dinars, and maximum 38,517 din. Minimum price for preference shares was 9,900 dinars, and maximum 16,490 din. (01.01 – 31.12.2009)
• Market capitalization,	Market capitalization as of 31.12.2009 was about 25 billion dinars, or EUR 287 million (ordinary and preference shares).
• Earning per share, (for 2009)	2,092 din./share
• Dividend paid per ordinary and preference share, in the last 3 years, per each year;	For 2006, net amount for payment of dividends was 52,963,718 dinars, or 1,418 dinars per share. For 2007, the amount for payment of dividends was 56,848,222 dinars or 1,523 dinars per share. For 2008, the amount for payment of dividends was 44,821,200 dinars or 1,200.00 dinars per share. For 2009, the amount for payment of dividends was 44,821,200 dinars or 1,200.00 dinars per share.* (*data refer to preference shares)

3. Information on company achievements per segments (formed on manufacturing and geographic basis), in accordance with IAS 14 requirements, namely, about:

• Income from sales to external buyers,	Bank performs the bulk of its operations in the territory of the Republic of Serbia and for this reason the information per segments is not disclosed. Business operations of subsidiary banks and companies are shown in consolidated financial statement.
• Income from sales to other segments within the same company,	-
• Each segment performance,	-
• Segments' assets and liabilities,	-
• Principal buyers and suppliers (to be listed the buyers with a share over 10% in total company's income, or suppliers with a share exceeding 10% in total company's liabilities to suppliers),	-
• Mode of transfer price setting;	-

4. Indicate and explain each change exceeding 10% against the preceding year in:

<ul style="list-style-type: none"> Assets and liabilities (shown per items presented in Extract from financial statements), 	<p>In 2009, Bank registered a 20.1% growth of total balance sheet assets against 2008. Among major balance sheet items, changes over 10% were registered in items:</p> <ol style="list-style-type: none"> 1) callable deposits and loans (a growth of 139.1%), and 2) transaction and other deposits (a growth of 25.8%). <p>On the side of assets, a major growth was recorded by item „callable deposits and loans“ due to additional allocation of assets based on the reserve requirement for FX deposits, and a sizeable investment in the National Bank of Serbia securities. On the side of liabilities, a growth was recorded in item „transaction and other deposits“, principally due to rather significant growth of households' deposits.</p>
<ul style="list-style-type: none"> Net profit or loss of that company; 	<p>Net profit achieved in 2009 was by 33.0% down due to the economic and financial crisis effects if compared with the net result achieved in the preceding year. In 2009, the Bank was faced with more expensive sources of funding which, coupled with efforts not to change the level of lending interest rates, resulted in net interest income in 2009 almost at the same level as in 2008. Fee and commission income in 2009 was by 27.6% up against 2008. On the other hand, operating costs in 2009 were by 7.6% larger than in 2008, mainly due to the growth of „operating and other business expenditures“. Also, net profit in 2009 was affected by net expenses of direct write-off of loans and advances.</p>

5. List the cases involving uncertainty of income collection or possible future costs that can affect significantly the company's financial standing;

As a safeguard against uncertainty in collection of income and possibilities of future costs, and/or in order to minimize negative effects on Bank's financial performance and capital, due to non-fulfillment of debtors' contractual obligations to the Bank, the Bank is managing the credit risk in compliance with the National Bank of Serbia regulations and internally defined credit risk management policies and procedures based on special Instructions and Methodologies.

Credit risk is managed at the levels of: (a) debtors, (b) group of related persons, and (c) total Bank's portfolio. Credit risk is identified, measured and assessed on the basis of creditworthiness of a debtor, regularity in settling the obligations and quality of assets collateralizing the claims, in accordance with the National Bank of Serbia criteria and Bank's internal rating system. The process of credit risk management involves:

- assessment of client's credit worthiness and financial standing;
- assessment of instruments offered as a collateral for loans and advances;
- linking the interest rate to the level of the risk group the client belongs to;
- application of the criteria as defined by internal rating system and establishment of special reserve for assessed losses, as well as allowances;
- setting limits for approval of loans and advances for individual clients;
- setting limits for approval of loans and advances for Bank's organizational parts, different types of Bank investments, and economic branches;
- monitoring the degree of recovery of receivables in the repayment period;
- monitoring of clients;
- managing risky loans and advances;
- managing Bank's portfolio;
- internal and external reporting;
- implementation of the process of capital adequacy assessment.

The system of credit risk management in the Bank is based on two parallel approaches:

- credit risk management in accordance with regulatory requirements (regulatory approach),
- credit risk management based on internally developed methodologies (internal approach).

The approach based on regulatory requirements means that the Bank is managing the portfolio structure by making necessary allocations for special reserve for assessed losses, in order to protect itself against potential losses which can occur in dealing with clients, and definition of an acceptable level of risk (classification) up to which the risk is deemed acceptable for the Bank.

The approach based on internally developed methods means that the Bank is managing the portfolio structure by objectively assessing the needs for impairment of loans and advances in accordance with the requirements of International Accounting Standards and internal methodology, and definition of an acceptable risk level (assessment according to internal rating system) up to which the risk is deemed acceptable for the Bank.

According to the National Bank of Serbia regulations, the Bank allocated in 2009 special reserve for assessed losses as well as for impairment of loans and advances and off-balance sheet items in compliance with the requirements of International Accounting Standards 39 and 37. Allowances for balance sheet assets and provisions for losses under off-balance sheet items charge Bank's expenditures, while reserves from the profit for assessed losses are recorded in a special account within reserves from the profit.

6. Information about the number and %, acquisition, sale and cancellation of own shares;

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7. Investment in research and development of the core activity, information technology and human resources;

Investment in the purchase of new IT equipment in 2009 (without its maintenance) amounted to 37,865,000 dinars, while investment in personnel vocational educational and training was worth 24,061,000 dinars.

8. Present the amount, mode of formation and use of reserves over the last two years;

Use and mode of formation of Bank reserves are defined by the Law on Banks, decisions of the National Bank of Serbia and internal Bank acts. Bank reserves are formed from the profit. In accordance with the mentioned acts, as of 31.12.2009 the Bank had formed reserves totaling 8,102,881 thousand dinars, which comprised:

- 1) reserves from the profit of 7,385,440 thousand dinars, and
- 2) revaluation reserves of 717,440 thousand dinars.

As of 31 December 2009, Bank reserves were by 2,769,062 thousand dinars larger against those in 2008. The most important part of reserves from the profit consists of „special reserve from the profit for assessed losses“, which on 31 December 2009 amounted to 7,024,572 thousand dinars, and were against 2008-end larger by 2,700,000 thousand dinars. These reserves are formed from the realized profit, in line with the National Ban of Serbia regulations, in order to serve as additional security of Bank's credit portfolio. Bank's revaluation reserves increased during 2009 by 69,062 thousand dinars, or 10.7%.

9. List all material business events that occurred between the balance sheet date and the date of the report submission;

Since end of 2009 to date, one of the material events has been completion of the process of the Bank's recapitalization. At the Meeting of Bank's Shareholders held on 17 December 2009, a Decision was adopted on the 21st issue of shares – preference shares convertible into ordinary shares of Komercijalna banka ad Beograd. Shares were issued without public offer, for the purpose of increasing the Bank's equity, in a total volume of 479,819 pieces of shares of a nominal value of 10,000 dinars, each, with CFI code EFNXFR and ISIN number RSKOBBE53907. On 22 December 2009, the Securities Commission issued the Decision No. 4/0-06-5803/3-09 the Decision approving the primary offer of securities to known buyers. The shares were sold to the known professional investors: the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), Deutsche Entwicklungsgesellschaft (DEG), and Swedfund.

Upon subscription and payment of the shares by professional investors, the Securities Commission issued on 20 January 2010 the Decision number 4/0-06-5803/6-09 approving the issue of securities to buyers known in advance. After the recapitalization, equity of Komercijalna banka ad Beograd increased by 11,400,019.621 dinars, or by EUR 120 million, which will be recorded in the balance sheet for 2010.

10. Provide explanation as well for other material changes of data contained in the prospectus, not mentioned above.

As of 31 December 2009, loans and deposits amounted to 115,106,246 thousand dinars and their increase against the beginning of the year was 8.4%. In spite of unfriendly economic conditions in 2009, growth was recorded in deposits and in loans approved to both corporate and retail clients. During 2009, the Risk Management Policy and Procedure were adopted and their implementation started. At the level of Komercijalna banka Group was implemented the Methodology for Assessment of Loans and Advances, in accordance with International Accounting Standards.

IV OTHER

If certain questions are not covered by the preceding points, and are relevant for understanding the legal and financial position of the joint-stock company, as well as for appraisal of the value of its securities, the company may list and explain them here.

In the course of both 2009 and 2008, Komercijalna banka demonstrated on its own example that achievement of enviable business results and profit is not contrary to investment in socially responsible projects. Through campaigns of assistance to the children without parental care, persons with special needs, investment in adaptation of premises and in improvement of working conditions of some health institutions, including massive responses to blood donation campaigns, organization of

cultural and educational manifestations, support provided to young music talents, financing of sport clubs and similar activities, Komercijalna banka proved to be a socially responsible financial institution which takes care of its environment and invests a part of its profit in the improvement of the living and working conditions of the community it belongs to. Also was completed the ambitious and complex implementation of the new core IT system, significant investment were made in the renovation and branding of the network of sub-branches, and in new equipment. However, even more important was the process of permanent training of the staff, building of a stimulating system for evaluation of the performance at work and remuneration of employees. The quality of services rendered to clients is in the process of permanent development. For this reason is important the fact that the British Standards Institute ranked us high for the introduction and daily implementation of the quality management system. We have also founded the Investment Fund Management Company from which we expect a lot, particularly when the economic situation in the region stabilizes anew and, consequently, when the securities market normalizes again.

The Company is equally accountable for the accuracy and authenticity of the data provided in the Report and in the Prospectus.

Belgrade, July 2010

Deputy Chairman of the Executive Board
Dragan Santovac

Chairman of the Executive Board
Ivica Smolić