



## 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 2010

#### 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;	<a href="http://www.kombank.com">www.kombank.com</a> , <a href="mailto:posta@kombank.com">posta@kombank.com</a>																																												
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);	6419-other monetary brokerage																																												
5) Number of employees;	(as of 31.12.2010) 3,101																																												
6) Number of shareholders;	(as of 31.12.2010.) 1,811																																												
7) Ten biggest shareholders (name and surname, name of legal entity with the number of shares and holdings in equity);	<p><u>31.12.2010</u></p> <table border="1" data-bbox="671 969 1444 1480"> <thead> <tr> <th>No</th> <th>NAME/Corporate name</th> <th>No. Of shares</th> <th>% of holding</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>REPUBLIKA SRBIJA</td> <td>370,989</td> <td>42.5968</td> </tr> <tr> <td>2.</td> <td>EBRD LONDON</td> <td>217,733</td> <td>25.0000</td> </tr> <tr> <td>3.</td> <td>ARTIO INT. EQUITY FUND</td> <td>41,505</td> <td>4.7656</td> </tr> <tr> <td>4.</td> <td>JUGOBANKA U STEČAJU</td> <td>32,160</td> <td>3.6926</td> </tr> <tr> <td>5.</td> <td>KOMP.DUNAV OSIGURANJE</td> <td>29,558</td> <td>3.3938</td> </tr> <tr> <td>6.</td> <td>EVROPA OSIGURANJE U STEČAJU</td> <td>24,942</td> <td>2.8638</td> </tr> <tr> <td>7.</td> <td>INVEJ DOO</td> <td>23,000</td> <td>2.6409</td> </tr> <tr> <td>8.</td> <td>STANKOM CO DOO</td> <td>13,711</td> <td>1.5743</td> </tr> <tr> <td>9.</td> <td>ANBO DOO</td> <td>6,558</td> <td>0.7530</td> </tr> <tr> <td>10.</td> <td>VERANO MOTORS DOO</td> <td>6,040</td> <td>0.6935</td> </tr> </tbody> </table>	No	NAME/Corporate name	No. Of shares	% of holding	1.	REPUBLIKA SRBIJA	370,989	42.5968	2.	EBRD LONDON	217,733	25.0000	3.	ARTIO INT. EQUITY FUND	41,505	4.7656	4.	JUGOBANKA U STEČAJU	32,160	3.6926	5.	KOMP.DUNAV OSIGURANJE	29,558	3.3938	6.	EVROPA OSIGURANJE U STEČAJU	24,942	2.8638	7.	INVEJ DOO	23,000	2.6409	8.	STANKOM CO DOO	13,711	1.5743	9.	ANBO DOO	6,558	0.7530	10.	VERANO MOTORS DOO	6,040	0.6935
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8) Value of equity;	Value of equity and share capital as of 31.12.2010 amounted to 28,462,553 (000) dinars																																												
9) Number of issued shares (ordinary and preference, with ISIN number and CFI code);	<p>As at 31.12.2010 Komercijalna banka AD issued 870,931 ordinary shares with nominal value of RSD 10,000 per share, CFI code ESVUFR, ISIN number RSKOBBE33594, 37,351 preference shares with nominal value of RSD 10,000 per share, CFI code EPNXAR, ISIN number RSKOBBE95171 and 479,819 preference convertible shares with nominal value of RSD 10,000 per share, CFI code EFNXFR, ISIN number RSKOBBE53907.</p> <p>On 07.03.2011 at the session of the General Meeting of the Bank's Shareholders a decision was made to issue shares by type and class for the purpose of decreasing their nominal value and their consequent replacement. On 17.03.2011 the Securities Commission issued a decision that approved an issue of securities without public offer in order to change their nominal value. Replacement of shares in the Central Securities Depository and Clearing House. was performed on 31.03.2011. The Bank replaced (split) the shares in the Central Securities Depository and Clearing House with the ratio of 1:10, so that each existing share was split into 10 new shares with their nominal value consequently decreasing to</p>																																												

	RSD 1,000 each.
<b>10) Data about subsidiaries (up to five most important entities of consolidation) – name, head office and business address;</b>	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
<b>11) Name, head office and business address of the audit company that audited the last financial statement;</b>	DELOITTE DOO Beograd, Terazije 8.
<b>12) Name of organized market in which shares are included</b>	Belgrade Stock Exchange ad Beograd, Omladinskih brigada 1, 11070 New Belgrade

## II DATA ABOUT THE COMPANY MEMBERS

<b>1. Board of Directors Members</b>	BoD PRESIDENT	BoD Member	BoD Member	BoD Member	BoD Member	BoD Member	BoD Member	BoD Member	BoD Member
Name, surname and place of residence	Vesna Džinić, Belgrade	Prof. PhD Dejan Erić, Belgrade	Vladimir Šarić, Belgrade	PhD Miroslav Todorović, Belgrade	MSc Marija Pantelić, Belgrade	Franz G. Leitner, PhD. Austria	Dragica Pilipović-Chaffey, Belgrade	Khosrow Zamani	Mats Kjaer
Education	Graduate economist of Belgrade University	PhD in economic sciences of Belgrade University	Graduate economist of Belgrade University	PhD in economic sciences of Belgrade University	MSc in economics sciences of Belgrade University	PhD in Law of Vienna University of Social Sciences	MSc. in Political Sciences and Business Administration of Washington University	Civil Engineer Case Western Reserve (University Institute of Technology)	MSc in Economics, The Peoples' Friendship University of Russia".
Current employment (company name and position)	-	Director of the Institute of Economic Sciences Belgrade	-	Faculty of Economics, Assistant Professor	Faculty of Economics, Assistant Lecturer	-	EBRD	IFC	
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 2010 equaled 10,648,520.96 dinars (net).								

Number and percentage of shares held in the joint-stock Company*	-	-	-			-	-	-	-
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\* 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](http://www.crhov.co.yu)

<b>2. Executive Board members</b>	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	-	Member of SB of Matica Srpska, Novi Sad	-	President 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 2010 equaled 55,716,004.46 dinars (net).				
Number and percentage of shares held in the joint-stock Company*	-	-			
<b>3. Indicate if the Company management has an adopted written code of conduct, and the web-site where posted</b>	„Rules of Conduct and Professional Ethics„- Code of Conduct dated 23.03.2010. 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 dissentions, and other issues of principle relating to conduct of operations;**

In 2010, 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	15,520,261	Interest expenses	8,082,778
Fee and commission income	4,423,483	Fee and commission expenses	531,024
Net income from change in the value of assets and liabilities	8,512,688	Net exchange differentials expenses	7,371,168
Income from dividends and holdings	2,951	Operating and other business expenditures	8,490,187
Net other business income	224,092	Net expenditures of indirect write-off of loans and advances, and provisions	1,416,354

In 000 dinars.

Interest income in 2010 was up by 5.5% against 2009.

Interest expenses in 2010 were by 3.5% lower than in 2009.

Fee and commission income in 2010 were up by 9.8% against 2009.

Fee and commission expenses in 2010 were by 7.1% higher against 2009.

Net negative exchange differentials and net income from the change in the net value of assets and liabilities were lower by 8.3% if compared to those recorded in 2009.

Operating and other business expenditures were by 6.7% higher, while net expenses of indirect write-off of loans and advances were higher by 3.7%.

Profit before tax was 2,791,964 dinars, which was a 35.8% increase against 2009.

Profit totaled 2,520,054 dinars, by 35.0 % higher against 2009.

<ul style="list-style-type: none"> <li>Return on equity - ROE (gross profit/average total capital)</li> </ul>	6.98%
<ul style="list-style-type: none"> <li>ROA (profit before tax/average balance-sheet assets)</li> </ul>	1.15%
<ul style="list-style-type: none"> <li>Return on own capital (gross profit/share capital)</li> </ul>	9.81%
<ul style="list-style-type: none"> <li>Cash portion of share capital (min. EUR 10 million) (regulatory capital was used for this ratio)</li> </ul>	298.8 million EUR
<ul style="list-style-type: none"> <li>Capital adequacy (net capital/ assets weighted by credit risk + net open FX position); (min. 12%)</li> </ul>	17.14%
<ul style="list-style-type: none"> <li>Investments in entities not in the financial sector, and in fixed assets (max. 60%)</li> </ul>	21.70%
<ul style="list-style-type: none"> <li>Liquidity (liquidity ratio as of 31.12.2010); (min. 1%)</li> </ul>	2.45%
<ul style="list-style-type: none"> <li>Sum of large Bank exposures (max. 400%)</li> </ul>	82.51%
<ul style="list-style-type: none"> <li>FX risk ratio (max. 20%)</li> </ul>	7.19%
<ul style="list-style-type: none"> <li>Share price – the highest and the lowest in the reporting period, if traded (separately for ordinary and preference),</li> </ul>	<p>Minimum price for ordinary shares was 2,480 dinars, and maximum 3,272 dinars. Minimum price for preference shares was 800 dinars, and maximum 1,260 dinars. (01.01 – 31.12.2010 data was taken from BSE archive)</p> <p>Note: On 31.03.2011 a split of shares was performed in the Central Securities Depository and Clearing House with a ratio of 1:10, i.e. each existing share was split into 10 new ones,</p>

	and their nominal value was decreased to RSD 1,000.
<ul style="list-style-type: none"> <li>Market capitalization,</li> </ul>	Market capitalization as of 31.12.2010 was about 23 billion dinars, or EUR 218 million (ordinary and preference shares).
<ul style="list-style-type: none"> <li>Earning per share, (for 2010)</li> </ul>	2,850 din./share
<ul style="list-style-type: none"> <li>Dividend paid per ordinary and preference share, in the last 3 years, per each year;</li> </ul>	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. For 2010, the amount for payment of dividends was 37,575,106 dinars or 1,006 dinars per share.* (*data refer to preference shares)
<b>3. Information on company achievements per segments (formed on manufacturing and geographic basis), in accordance with IAS 14 requirements, namely, about:</b>	
<ul style="list-style-type: none"> <li>Income from sales to external buyers,</li> </ul>	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.
<ul style="list-style-type: none"> <li>Income from sales to other segments within the same company,</li> </ul>	-
<ul style="list-style-type: none"> <li>Each segment performance,</li> </ul>	-
<ul style="list-style-type: none"> <li>Segments' assets and liabilities,</li> </ul>	-
<ul style="list-style-type: none"> <li>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),</li> </ul>	-
<ul style="list-style-type: none"> <li>Mode of transfer price setting;</li> </ul>	-
<b>4. Indicate and explain each change exceeding 10% against the preceding year in:</b>	
<ul style="list-style-type: none"> <li>Assets and liabilities (shown per items presented in Extract from financial statements),</li> </ul>	<p>In 2010, Bank registered a 24.7% growth of total balance sheet assets against 2009. Among major balance sheet items, changes over 10% were registered in items:</p> <ol style="list-style-type: none"> <li>1) loans and deposits to customers (rise of 30.80%)</li> <li>2) securities (rise of 3.124%) i</li> <li>3) transaction and other deposits (rise of 19.10%).</li> </ol> <p>On the assets side, the most significant increase was recorded in the position „loans and deposits to customers“ and „securities“ due to increased credit activity and increased investment into RS securities. In 2010 there was a capital increase in the amount of EUR 30 million (Komercijalna banka ad Budva i Komercijalna banka ad Banja Luka).</p> <p>On the liabilities side, growth was recorded in the position “transaction and other deposits” primarily as a result of a more significant growth of retail deposits, FX deposits from the public sector and and publicly owned companies. The business year started with a capital increase of EUR 120 million funded by a group of international professional investors, which resulted in the rise in capital of 50.5% in 2010.</p>
<ul style="list-style-type: none"> <li>Net profit or loss of that company;</li> </ul>	Realized net profit in 2010 was 35.0% higher than in the previous year. Again in 2010 the Bank faced with more expensive sources of finance which, with the policy of maintaining the same level of interest receivable, resulted in the rise in net interest income of 5.5% in 2010. Fee and commission income in 2010 was higher by 10.2%, compared with 2009. On the other hand, operating expenses in 2010 were higher by 6.7% compared with 2009, primarily due to the rise in “operating and other business expenses”.

## **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 2010 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;**

-

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

Investment in the purchase of new IT equipment in 2010 (without its maintenance) amounted to 144,603,000 dinars, while investment in personnel vocational educational and training was worth 27,036,000 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 31.12.2010 the Bank had formed reserves totaling 9,898,448 thousand dinars, which comprised:

- 1) reserves from the profit of 9,235,440 thousand dinars, and
- 2) revaluation reserves of 663,008 thousand dinars.

As of 31 December 2010, Bank reserves were by 1,795,567 thousand dinars larger against those in 2009. The most important

part of reserves from the profit consists of „special reserve from the profit for assessed losses“, which on 31 December 2010 amounted to 9,235,440 thousand dinars, and were against 2009-end larger by 2,210,868 thousand dinars. These reserves are formed from the realized profit, in line with the National Bank of Serbia regulations, in order to serve as additional security of Bank's credit portfolio. Bank's revaluation reserves decreased during 2010 by 54,433 thousand dinars.

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

On 07.03.2011 at the session of the General Meeting of the Bank's Shareholders a decision was made to issue shares by type and class for the purpose of decreasing their nominal value and their consequent replacement. On 17.03.2011 the securities commission issued a decision on approving the issue of securities without public offer in order to change their nominal value. Replacement of shares in the Central Securities Depository and Clearing House. was performed on 31.03.2011. The Bank replaced (split) the shares in the Central Securities Depository and Clearing House with the ratio of 1:10, so that each existing share was split into 10 new shares with their nominal value consequently decreasing to RSD 1,000 each.

The following reports were adopted at the General Meeting of the Bank's Shareholders held 29.04.2011: audit report for 2010, financial report for 2010, and the audit report and consolidated financial report for 2010 for the Group Komercijalna banka AD Beograd.

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

As of 31 December 2010, loans and deposits amounted to 150,566,311 thousand dinars and their increase against the beginning of the year was 30.8%. In spite of unfriendly economic conditions in 2010, growth was recorded in deposits and in loans approved to both corporate and retail clients. During 2010, 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 2010, 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.

Official recognition also came from the most influential partners in international cooperation, such as "Deutsche bank" and "Kommerz bank", as well as from many quality assessment surveys. In 2010 the five-year process of implementing the Institution Building Plan for the Bank was mostly completed which modernized the Bank's infrastructure in keeping with modern banking practice. The process of downsizing the branch network and reducing the number of employees continued.

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

Belgrade, July 2011

Member of the Executive Board  
Lidija Sklopić

Chairman of the Executive Board  
Ivica Smolić