



ANNUAL REPORT 2006



KOMERCIJALNA BANKA

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INTRODUCTION

Dear business friends,

We share the view of those who believe that figures speak more picturesquely about one's operating results than would any sort of an inspired and detailed verbal or written description. The figures in our operating balance for 2006 say the following: Komercijalna banka achieved a volume of operation of almost EUR 2 billion, representing



Predrag Mihajlović
DEPUTY PRESIDENT



Ivica Smolić
PRESIDENT

an increase of 43% against a year earlier, Bank's equity rose by 78% and, together with the reserves, exceeded EUR 200 million, thus making it the second largest bank in our market; deposits reached a level of almost one billion euros, while operating profit was almost EUR 11 million, or by 68% more than in the preceding year.

Quality related indicators have also significantly improved: return on equity (ROE) rose from 7.62% to 9.71%, return on assets (ROA) rose from a 0.69% to 0.84%, capital adequacy from 15.37 to 17.28, income and expenses ratio ... All of which in an ambiance of an increasing competition which resulted in a substantial fall in the Bank's interest margins, commissions and fees.

However, those keen on analyzing the figures will find in the text of our Annual Report and accompanying auditors' opinions, and those more ambitious among them will find between the lines as well, many other exact data which will help them judge whether, and to what extent, our satisfaction with the achieved operating result is justified. Your attention will, therefore, be drawn in the introduction of this Annual Report to a number of facts which additionally describe the Bank's operation, its market position and overall reputation, and which are not usually shown in regular reports.

Reference will not be made on this occasion to the limitations and difficulties coming from inside the "environment". The conditions were, after a rather long time, equal for all and allowing as such a correct competition.

Foreign exchange savings were in the past 12 months rising at a rate significantly faster than the growth of our economy or the growth of citizens' income. This manifests the determination of our customers to further entrust, with full confidence, their savings with Komercijalna banka, to have them maintained and cared of more adequately, and to invest them more profitably. With the growth of EUR 175 million, or by 40%, the savings exceeded the level of EUR 615 million at the year-end. In this way, our position of the already traditionally irrefutable leader in savings among all banks has strengthened further.

Following a detailed analyses of the balance sheets and of all aspects of the Bank's operations and after the Agreement was signed with our majority owner – the State, the European Bank for Reconstruction and Development purchased 25% of our Bank shares in June 2006. It was not only the proof of the reputation the Bank enjoys internationally. It was also the key quality factor in our further development and operation.

Quotation of, and trading in, our shares on the stock exchange started in the course of the past year. Due to the permanent and strong demand their price was permanently rising so that the Bank entered the year 2007 with the price of shares more than 9 times higher than their nominal value. If the value of the Bank were appraised on the basis of this price of shares, we could say that we are the first bank in the country whose market capitalization exceeded one billion euros.

In the past year, implementation of our regional expansion plans was accelerated. In addition to 270 branch offices in the country and one bank in Montenegro which has proved its successful operation, we founded a bank in Bosnia and Herzegovina, with the head office in Banja Luka, the first results of which justify our intention to start yet more ambitious plans of regional expansion. In 2006 we were also granted, as the first and for the time being the only bank in the region, a license by BaFin – the central German financial institution, to open a sub-branch with registered office in Frankfurt, which would render services of money transfers by citizens from Germany and neighbouring countries to Serbia. We strongly believe that the sub-branch will be both more efficient and cheaper in comparison with all others engaging in this type of activity in our market. By broadened range of products and services, particularly in the retail business

segment, we can note with pleasure that Komercijalna banka has a competitive offer in almost all types of banking activities and that it currently holds a steady market share of 9-10%, in terms of the Bank's assets share in total assets of the banking sector in Serbia.

Thanks to increased investments and intensified marketing activities, public relations and the projects of social responsibility, Komercijalna banka has by simultaneous maintenance and upgrading of the quality become a clearly recognizable brand positioned in the market on the basis of its quality. In order to avoid the trap of excessive complacency about the achieved, we will skip this time the formal prizes and recognitions, which were numerous in 2006.

As is customary, and taking into account that we did not err in our estimates when addressing you on earlier occasions, a number of key activities will be highlighted in the end, those which have been planned as priority so as to make our future business reports even better: strengthening of the equity base through a more sizeable issue of new shares; integral introduction of a new organization scheme and improvement of all procedures according to the most modern international standards; improvement of quality in managing assets, risks, human resources...; upgrading the operation of the existing and implementation of a new more modern IT; stronger orientation to retail business to include a broader range of services, particularly new banking products; development of investment banking including establishment of an investment fund... All aimed at improving the operating performance, preserving the market share, increasing the Bank's value and price in the market.

And last, but not the least, we wish to express to you our gratitude for your both hitherto and future support and cooperation!

EXECUTIVE BOARD
DEPUTY PRESIDENT



Dr Predrag Mihajlović

EXECUTIVE BOARD
PRESIDENT



Ivica Smolić

FROM THE WORK OF THE BANK'S EXECUTIVE BOARD

1



1. FROM THE WORK OF THE BANK'S BOARD OF DIRECTORS IN 2006

In 2006, banks operated in the following circumstances:

- macro-economic developments: the rate of inflation was 6.6%, while the dinar appreciated by 7.6%,
- restrictive monetary policy, particularly the measures aimed at withdrawing money from circulation, implemented to reduce the lending activity of banks and maintain the rate of inflation within the planned framework, and
- application of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), which had a significant impact on the assessment of balance sheet items and on the preparation of financial statements which would present realistically the economic position of banks.

Competences of the Board of Directors are set forth in the Bank's Statute.

In 2006, the Board of Directors' activity included, inter alia, in accordance with the competences:

- it drafted proposals for the Meeting sessions, and implemented the decisions made by the Meeting,
- convened sessions of the Bank's Meeting,
- discussed the alterations in the Bank's equity and proposed to the Meeting adoption of the decision on the 19th issue of ordinary shares,
- discussed amendments of the Bank's Statute,
- adopted the external auditor's report,
- adopted internal Bank acts falling within its scope of competence,
- made decisions setting up the Bank's committees,
- discussed and established draft balance sheet of the Bank for 2005,
- submitted a report of its work to the Bank's Meeting,
- performed other activities in accordance with law and the Bank's Statute.

In 2006, the Board of Directors of the Bank held twelve sessions and was together with the Bank's Executive Board seeking the best solutions that would improve the economic position and operation of the Bank.

Apart from regular activities falling under the competence of the Board of Directors, the activities of the Bank's Board of Directors in 2006 primarily focused on:

- implementation of the plan for capital increase of the Bank and fulfilment of the obligations arising from the Institutional Building Plan (IBP),

- fulfilment of the obligations aimed at complying the Bank's operation with the provisions of the Law on Banks,
- adoption of the Bank's Business Plan and Strategy for the next three years,
- establishment of a bank in Banja Luka,
- improvement of IT support to Bank operation,
- re-engineering of the Bank's organizational structure, and
- monitoring of the Bank's operation.

After the compliance of the operation with the new Law on Banks, which was completed at the close of 2006, the Board of Directors has been operating in the following composition:

NAME AND SURNAME	SHAREHOLDER / MEMBER INDEPENDENT FROM THE BANK	TITLE
1. Vladislav Cvetković, M.Sc.	Republic of Serbia	Chairman
2. Anka Gajić	Republic of Serbia	Member
3. Miroslav Todorović, Ph. D.	Republic of Serbia	Member
4. Victor Pastor	EBRD	Member
5. Gregor Kastelic	EBRD	Member
6. Mirko Petrović, M.Sc.	Member independent from the Bank	Member
7. Prof. dr Boško Živković	Member independent from the Bank	Member

The Board of Directors engaged in monitoring the alterations occurring in the share capital structure through a new issue of shares intended to accomplish compliance of this segment of operation with the regulations and international standards. Increase of the share capital in 2006 through the 19th issue of ordinary shares in the amount of 2,120.8 million dinars and the issue premium of 3,961.5 million dinars resulted in improved capital adequacy ratio of Komercijalna banka AD Beograd, and of all other prescribed parameters.

The Board of Directors supported in all business activities the development policy of the Bank which was based upon the principles of safe banking operation:

- permanent maintenance of liquidity and safety in doing business,
- protection of the Bank against operating risks,
- increase of Bank's equity through capital increase by EBRD intended to improve the balance sheet quality, raise the rating and advance the Bank's operation through strategic EBRD – Bank cooperation,
- upgrade the Bank's organization aimed at increasing the number and improving the quality of banking products which the Bank offered to its clients in 2006,
- expansion of the Bank's operation onto new markets.

MACROECONOMIC CONDITIONS FOR DOING BUSINESS

2

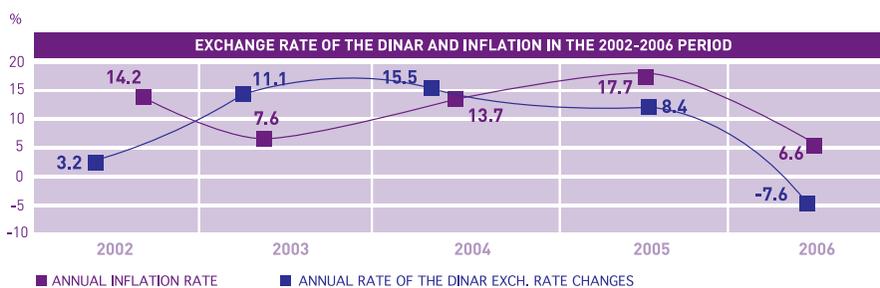
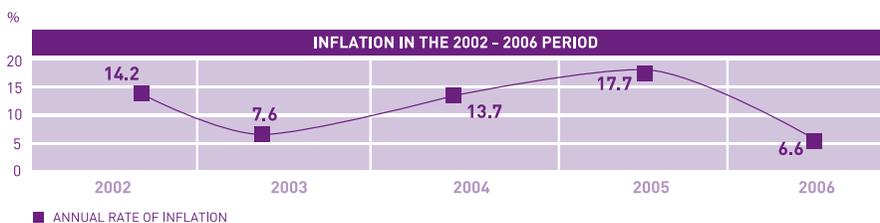


2. MACROECONOMIC CONDITIONS IN WHICH THE BANK OPERATED^{1/}

2.1. In the 2002-2006 Period

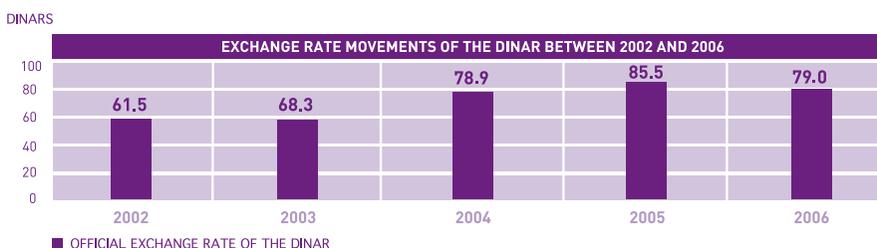
Monetary reforms and changes in the domestic banking, initiated back in December 2000, resulted in the lower price rise, and/or lower inflation which in the years 2002, 2003, 2004 and 2005 was 14.2%, 7.6%, 13.7% and 17.7%, respectively. However, in 2006, the rate of inflation was 6.6%. The objective of the National Bank of Serbia was to reduce the lending activity of banks by withdrawal of money from circulation by means of mandatory reserve requirement and repo operations, particularly in 2006, and to limit in that way the growth of credit offer with ultimate objective to bring down the inflation.

The rate of inflation, reflecting annual retail price rise rates, had the following movements per years:



^{1/} The short overview of the conditions in which banks operated is presented to allow insight into, and comparability of, the series of data from earlier years referred to in this report.

Exchange rate of the dinar and inflation had the following movements as a result of the National Bank of Serbia interventions in the foreign exchange market and conduct of the policy of floating exchange rate of the dinar:



2.2. In the Course of 2006

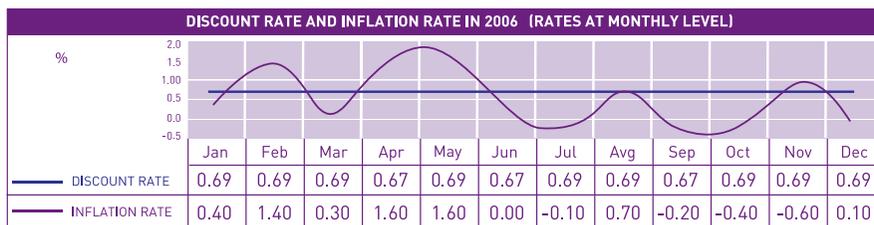
In the area of monetary policy, the National Bank of Serbia was also in the course of 2006 consistently conducting the anti-inflationary policy and the strategy of a stable exchange rate of the dinar. In 2006:

1. Retail price rise, as a measure of inflation, was 6.6%.



The inflation rate in 2006 (6.6%) was lower than the one projected for that year.

2. Discount Rate and Inflation Rate:



The discount rate in 2006 was 8.5% per annum, while annual rate of inflation was 6.6% in the same period.

3. Reserve Requirement

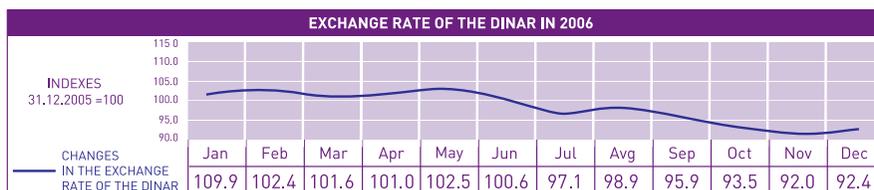
In the focus of the National Bank of Serbia activity in 2006 was to apply the instruments and measures for monetary regulation, which were used to adjust and direct the monetary and credit policy towards achievement of the priority objectives and tasks of monetary policy, and/or to conduct an anti-inflationary policy.

Depending on the objectives it wished to attain, the Central Bank was influencing efficiently, by changing the reserve requirement rates and also by widening or narrowing down the volume of assets on which the reserve requirement is appropriated, the lending activity of banks, on the volume of loans and, accordingly, the volume of money in circulation.

Raising of the reserve requirement rate or inclusion of new assets into the base upon which the reserve requirement was calculated had in quantitative terms the strongest impact on the withdrawal of money from circulation, the effects of which manifested after a very short period. This was, no doubt, a powerful instrument the Central Bank was applying in the conduct of restrictive monetary policy.

Withdrawal of money from circulation by way of the reserve requirement resulted in reduced volume of loans to banks' customers, on one side, and in increased share of banks' receivables from the National Bank of Serbia. At the close of 2006, the receivables of Komercijalna banka from the Central Bank equalled, on average, 26.3 billion dinars or 26% of total balance assets.

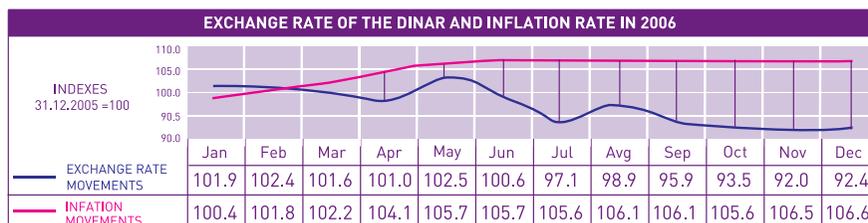
4. The exchange rate of the dinar against the euro was: from EUR 1 = 85.5 dinars at the beginning of 2006 to 79.0 dinars at 2006-end.



It arises from the above movements that the exchange rate of the dinar in 2006 appreciated against the euro by 7.6%. The changes were the result of the conducted policy of floating exchange rate of the dinar, which was set on the basis of the foreign exchange supply and demand in the foreign exchange market.

Annual rate of inflation (6.6%) and floating exchange rate of the dinar (7.6% dinar appreciation) are the basic indicators of the macroeconomic conditions in which banks operated during 2006.

5. Exchange Rate of the Dinar and the Rate of Inflation:



Appreciation of the dinar was the result of foreign exchange supply in the foreign exchange market bigger than the demand, on one hand, and increased foreign exchange reserves, on the other, which allowed the National Bank of Serbia to influence the exchange rate of the dinar by supplying (selling) or by buying the foreign exchange in the foreign exchange market.

DEVELOPMENT OF THE BANK

3



3. DEVELOPMENT OF THE BANK

Komercijalna banka a.d. Beograd was established in 1970. The hitherto development of the Bank has been highly dynamic and characterized by:

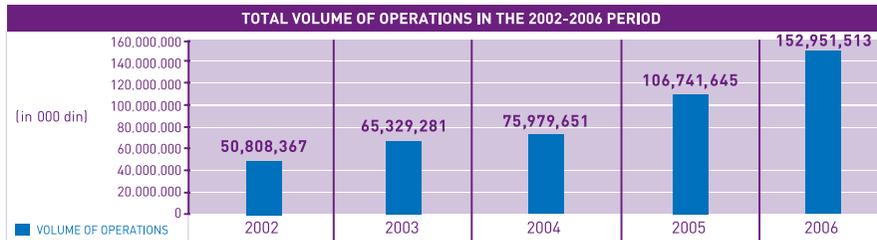
- increase in the volume of operation,
- expansion of the range of banking products and operations,
- permanent innovation of the operation methods and increased efficiency,
- expansion of the Bank's business network in the territories of the Republic of Serbia, Republic of Montenegro, and in that of Bosnia and Herzegovina in 2006,
- improvement in human resources skills for performing modern banking operation,
- permanent innovations and implementation of ideas in the domestic banking.

The Bank achieved a prominent position and reputation in the country thanks to the maintenance of safety in business, quality of the transactions performed, development of new banking products, and increased operating profitability.

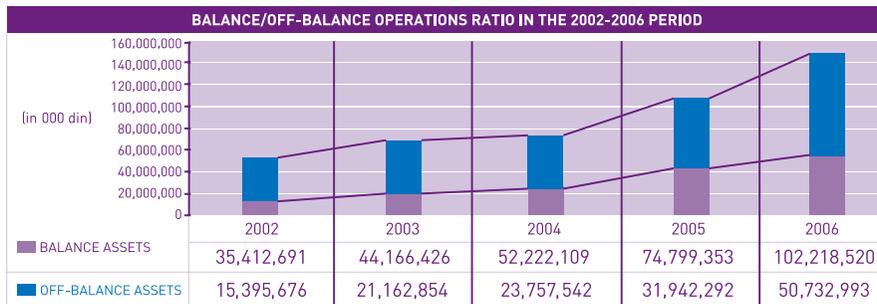
3.1. Realized Volume of Operation in the 2002-2006 Period

VOLUME OF OPERATIONS AND REALIZED PROFIT BETWEEN 2002 AND 2006

YEAR	BANK'S BALANCE SHEET AMOUNT (IN 000 DIN)	CHAIN INDEX	REALIZED PROFIT (IN 000 DIN)	CHAIN INDEX	RETAIL PRICE RISE INDEX	DINAR/EUR EXCHANGE RATE
31. 12. 2002	50,808,367	195.1	40,443	118.3	114.2	61.52
31. 12. 2003	65,329,281	128.6	124,629	308.1	107.6	68.31
31. 12. 2004	75,979,651	116.3	304,101	244.0	113.7	78.89
31. 12. 2005	106,741,645	140.5	513,310	168.8	117.7	85.50
31. 12. 2006	152,951,513	143.3	860,140	167.6	106.6	79.00



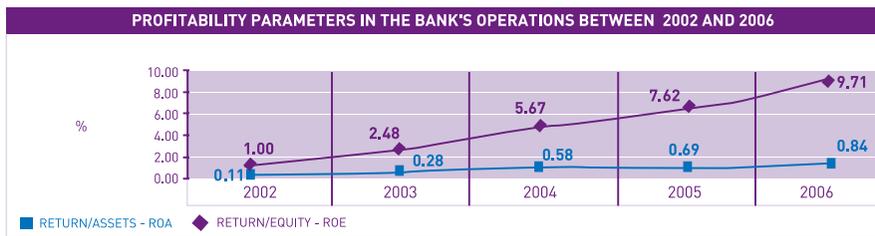
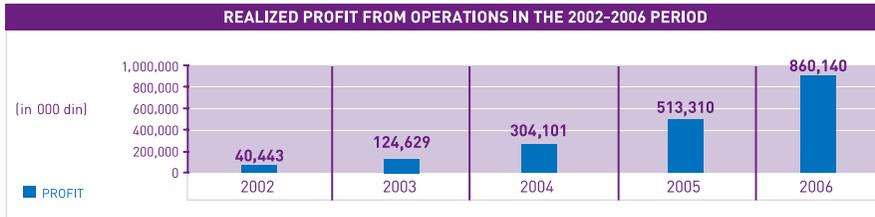
If viewed through the Bank's balance amount, the growth in the volume of operations was significant not only in nominal but also in real terms. Real volume of operations, and/or the growth of the volume of operations above the rate of inflation, was achieved in the period between 2002 and 2006.



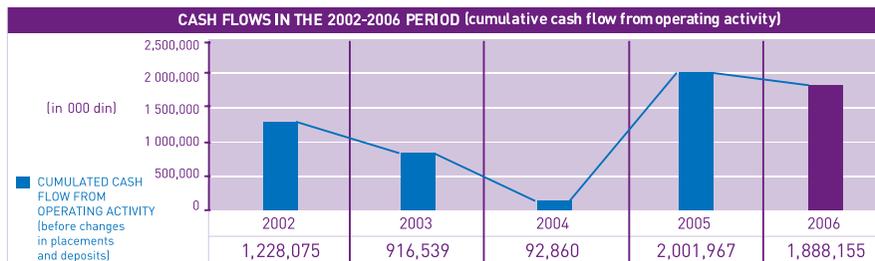
In the period under review, the share of balance assets and off-balance assets was on average 70% and 30%, respectively, of the Bank's volume of operations.

3.2. Recorded Profitability of the Bank in the 2002-2006 Period

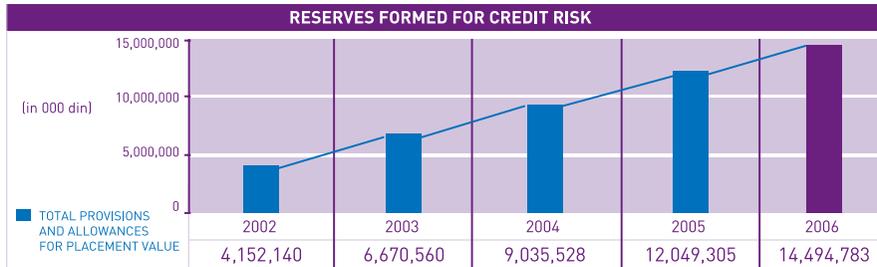
Realized profit also had a trend of real growth, which has led to improved profitability parameters:



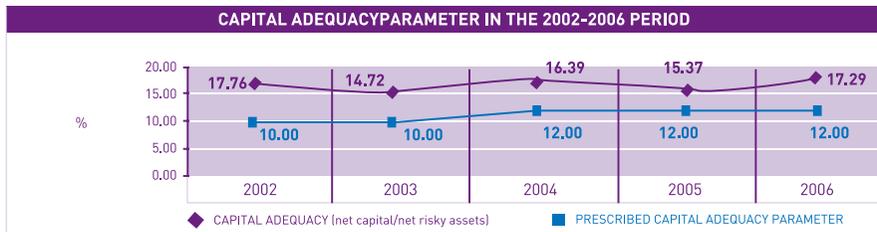
3.3. Cash Flows in the 2002-2006 Period



3.4. Forming Reserves for Credit Risk in the 2002-2006 Period



3.5. Accomplished Capital Adequacy Parameter in the 2002-2006 Period



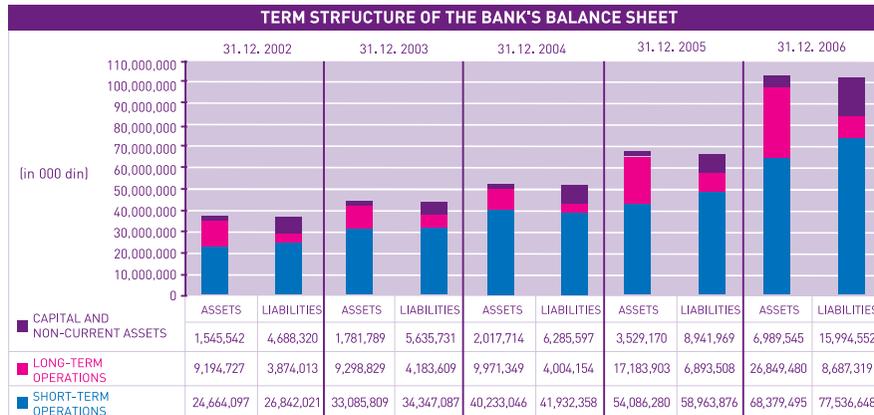
Capital adequacy parameter, calculated as a ratio of equity and balance and off-balance assets classified from the angle of risk, according to domestic regulations, was 16.4% on average, and at 2006-end 17.3%.

3.6. Structural Changes in the Bank's Balance Sheet in the 2002-2006 Period

3.6.1. Term Structure of the Bank's Balance Sheet

(in 000 din)

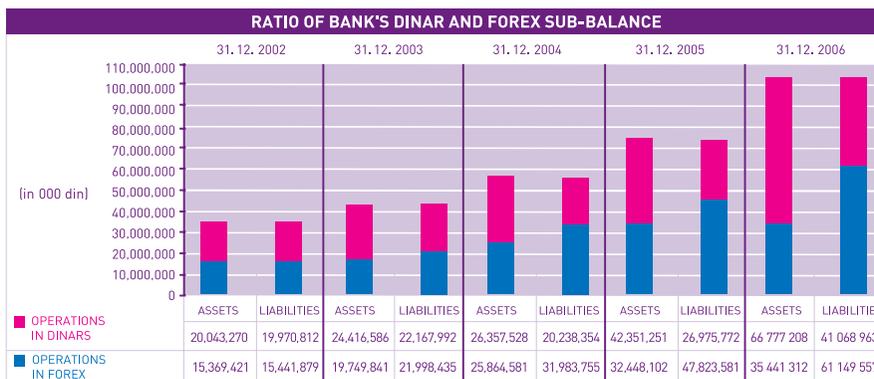
BALANCE SHEET ITEM	AS AT 31.12.2002	AS AT 31.12.2003	AS AT 31.12.2004	AS AT 31.12.2005	AS AT 31.12.2006
1	2	3	4	5	6
ASSETS					
I SHORT-TERM ASSETS	24,664,097	33,085,809	40,233,046	54,086,280	68,379,495
1. In foreign exchange	13,141,154	16,703,852	20,739,272	26,927,986	29,668,673
2. In dinars	11,522,943	16,381,957	19,493,774	27,158,294	38,710,822
II LONG-TERM ASSETS	9,194,727	9,298,829	9,971,349	17,183,903	26,849,480
1. In foreign exchange	2,228,267	3,045,989	5,125,309	5,520,116	5,772,639
2. In dinars	6,966,460	6,252,840	4,846,040	11,663,787	21,076,841
III FIXED ASSETS	1,545,542	1,781,789	2,017,714	3,529,170	6,989,545
IV NON-BUSINESS ASSETS	8,325				
TOTAL BALANCE ASSETS (I+II+III+IV)	35,412,691	44,166,427	52,222,109	74,799,353	102,218,520
V OFF-BALANCE ASSETS	15,395,676	21,162,854	23,757,542	31,942,292	50,732,993
LIABILITIES					
I SHORT-TERM LIABILITIES	26,842,021	34,347,087	41,932,358	58,963,876	77,536,648
1. In foreign exchange	14,122,906	18,909,571	29,184,896	42,350,952	54,098,600
2. In dinars	12,719,115	15,437,516	12,747,462	16,612,924	23,438,048
II LONG-TERM LIABILITIES	3,874,013	4,183,609	4,004,154	6,893,508	8,687,319
1. In foreign exchange	1,318,973	3,088,864	2,798,859	5,472,629	7,050,956
2. In dinars	2,555,040	1,094,745	1,205,295	1,420,879	1,636,363
III CAPITAL AND RESERVES	4,688,320	5,635,731	6,285,597	8,941,969	15,994,552
IV NON-BUSINESS ASSETS	8,337				
TOTAL BALANCE LIABILITIES (I+II+III+IV)	35,412,691	44,166,427	52,222,109	74,799,353	102,218,520
V OFF-BALANCE LIABILITIES	15,395,676	21,162,854	23,757,542	31,942,292	50,732,993
ANNUAL PRICE RISE RATE	14.2%	7.6%	13.7%	17.7%	6.6%

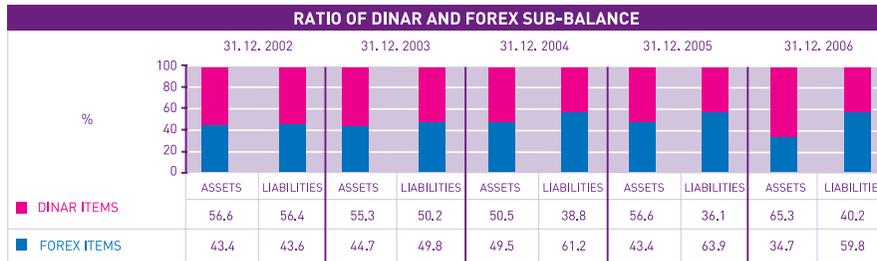


The changes in such synthesized balance sheet of the Bank in the period between 2002 and 2006 mostly relate to business activities in short-term operations, which was a justified economic determination if one takes into account the term structure of the deposits raised and the conditions in which banks were operating in the Republic of Serbia over a couple of past years. In 2006, however, long-term loans approved to both corporate and retail customers were on an ascending trend.

3.6.2. Bank's Dinar and Forex Sub-Balance Ratio

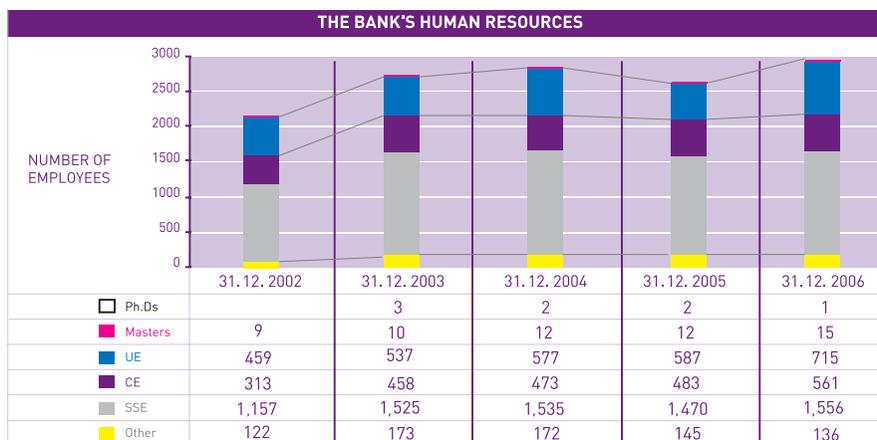
The share of foreign exchange items in the balance assets, shown at official exchange rate, ranged in the 2002-2006 period from 34.7% to 49.5%. while the share of foreign exchange items in the balance liabilities was in the range between 43.4% and 63.9%





In the circumstances where the policy of floating exchange rate of the dinar was conducted, and/or of the dinar depreciation between 2002 and 2005 and of the dinar appreciation in 2006, the Bank had to maintain a balanced foreign exchange sub-balance in order to minimize the currency risk.

3.7. Human Resources in the 2002-2006 Period



Increased number of employees is in direct correlation with the increased volume of business, introduction of new operations, and the fast expansion of the network of the Bank's business units throughout the territory of the Republic of Serbia.



At the close of 2006 Komercijalna banka employed a total of 2,984 workers, of which:

- 1,292 workers, or 43.3% holders of academic titles,
- 1,556 workers, or 52.1% with secondary school education,
- 136 workers, or 4.6% of other professions.

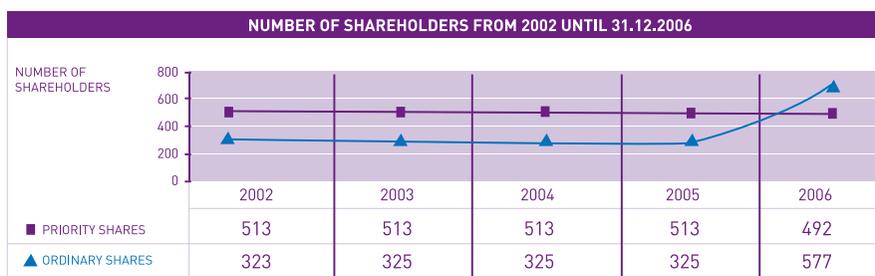
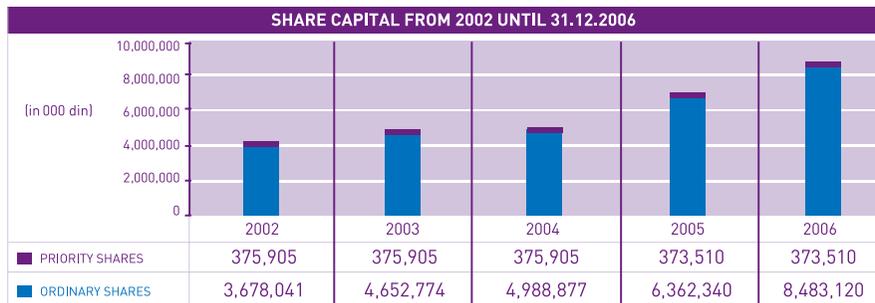
In the course of 2006 was recorded a change in the qualification structure of employees. The Bank has 1,276 employees with academic education which number, if compared with the preceding year, represents an increase of 206 workers or 19%. In the period under review, 26 academically educated trainees were employed.

In 2006, the Bank paid greater attention to the professional upgrading of its employees in almost all segments of its operation. The upgrading particularly included the seminars, trainings and lectures in the areas of internal audit, International Accounting Standards, human resources, risk management, foreign languages, and other areas.

3.8. Changes in Share Capital in the 2002-2006 Period

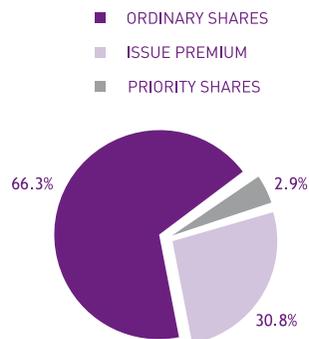
Pursuant to the Law on Banks, Komercijalna banka was founded as a joint-stock company. Share capital was formed from nineteen issues of shares which were all successfully realized between 1990 and 2006.

Total share capital of the Bank was as at 31.12.2006 equal to 8,856.6 million dinars, while issue premium totalled 3,934.5 million dinars



STRUCTURE OF SHARE CAPITAL AND ISSUE PREMIUM AS AT 31.12.2006

CLASS OF SHARES	NUMBER OF SHAREHOLDERS	VALUE (IN 000 DIN)	%
I ORDINARY SHARES	577	8,483,120	66.3
II PRIORITY SHARES	492	373,510	2.9
III ISSUE PREMIUM		3,934,534	30.8
TOTAL (I+II)	1,069	12,791,164	100.0



Bank's share capital together with the issue premium is 12,791.2 million dinars. Komercijalna banka has 1,069 shareholders in total, of which number 577 shareholders are with voting rights and 492 shareholders hold preference shares entitling them to priority payment of dividends.

A PARTNER FOR COOPERATION

4



4. KOMERCIJALNA BANKA AD BEOGRAD – A PARTNER FOR COOPERATION

The Bank has been operating for the past 36 years. In this period it has gained the necessary experience and knowledge, created the organizational, personnel and technical capabilities and embarked upon all banking operations.

The past period, particularly that between 2002 and 2006, can be assessed as specific in view of the fact that the expected more severe competitive conditions for doing business in the financial sector were in place. The new Law on Banks adopted in 2006 provided a longer-term legal framework for banks' operation in the financial market.

Development of the market conditions for doing business in the Republic of Serbia over the past years inevitably resulted in, and required, a change in the manner in which banks used to operate. In addition to adjusting their operation to the market principles, the Bank had to change its organization, ensure a qualitative and fast performance of banking operations, improve human resources and technical equipment, and introduce new operations and new banking products into its operation.

4.1. Belgrade – Bank's Head-Office

The head-office of Komercijalna banka is located in downtown Belgrade, in the vicinity of the "Slavija" square. Certain operations are also performed in the office buildings in Svetogorska Street and in Kralja Petra Street 19-21:

STREET	Svetog Save 14	Svetogorska 42-44	Kralja Petra 19-21
TELEPHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-08-002
TELEX	12133 COMBANK YU	12133 COMBANK YU	12133 COMBANK YU
FAX	381-11-34-42-372	381-11-32-36-160	381-11-32-82-732
S.W.I.F.T. code	KOBBCSBG	KOBBCSBG	KOBBCSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	http://www.kombank.com	http://www.kombank.com	http://www.kombank.com
INTERNET E - mail	posta@kombank.com	posta@kombank.com	posta@kombank.com

4.2. Komercijalna Banka a.d. Group Beograd

Apart from the parent bank in Belgrade, Komercijalna banka AD Group Beograd consists of:

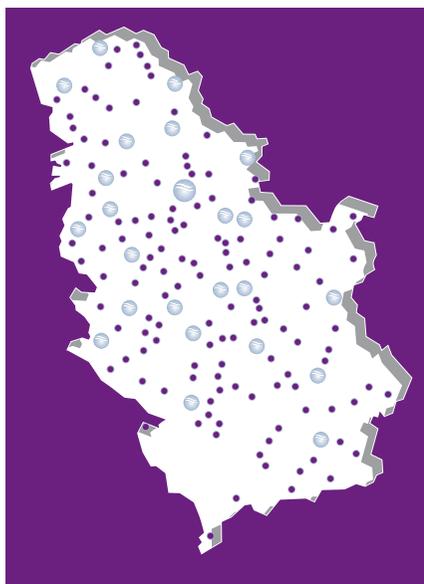
- Komercijalna banka AD Budva in the Republic of Montenegro, and
- Komercijalna banka AD Banja Luka in the Republika Srpska.

	BUDVA	BANJA LUKA
STREET	Potkošljun bb	Veselina Masleše 6
TELEPHONE	381-86-451-471	387-51-244-701

4.3. Regional Distribution of the Bank's Branches in the Republic of Serbia

In order to bring the Bank closer to its customers, perform domestic payment operations and operate efficiently, the Bank has 23 branches in the territory of the Republic of Serbia.

	BRANCH	MAIN OFFICE
1.	Kruševac Branch	Trg oktobarske revolucije 1
2.	Niš Branch	Episkopska 32
3.	Zrenjanin Branch	Trg Slobode 5
4.	Čačak Branch	Železnička bb
5.	Kraljevo Branch	Trg S. Ratnika bb
6.	Novi Pazar Branch	Njegoševa 1
7.	Priboj Branch	Meše Selimovića 1
8.	Novi Sad Branch	Trg slobode 4
9.	Užice Branch	D. Tucovića 151
10.	Vranje Branch	Stefana Prvovenčanog 58
11.	Valjevo Branch	Gradski Trg bb
12.	Subotica Branch	Korzo 10
13.	Šabac Branch	Gospodar Jevremova 2
14.	Kragujevac Branch	Kneza Miloša 3
15.	Smederevo Branch	Karadordjeva 28
16.	Požarevac Branch	Moše Pijade 2
17.	Jagodina Branch	Kneginje Milice 24
18.	Loznica Branch	Gimnazijska 1
19.	S. Mitrovica Branch	Kralja Petra I 5-7
20.	Zaječar Branch	Nikole Pašića 25
21.	Kikinda Branch	Kralja Petra I 39
22.	Sombor Branch	Staparski Put 14
23.	Vršac Branch	Trg Save Kovačevića 2



At 2006-end, the Bank had 279 branch-offices which are organizationally linked with the branches or directly with the Bank upon regional principle.

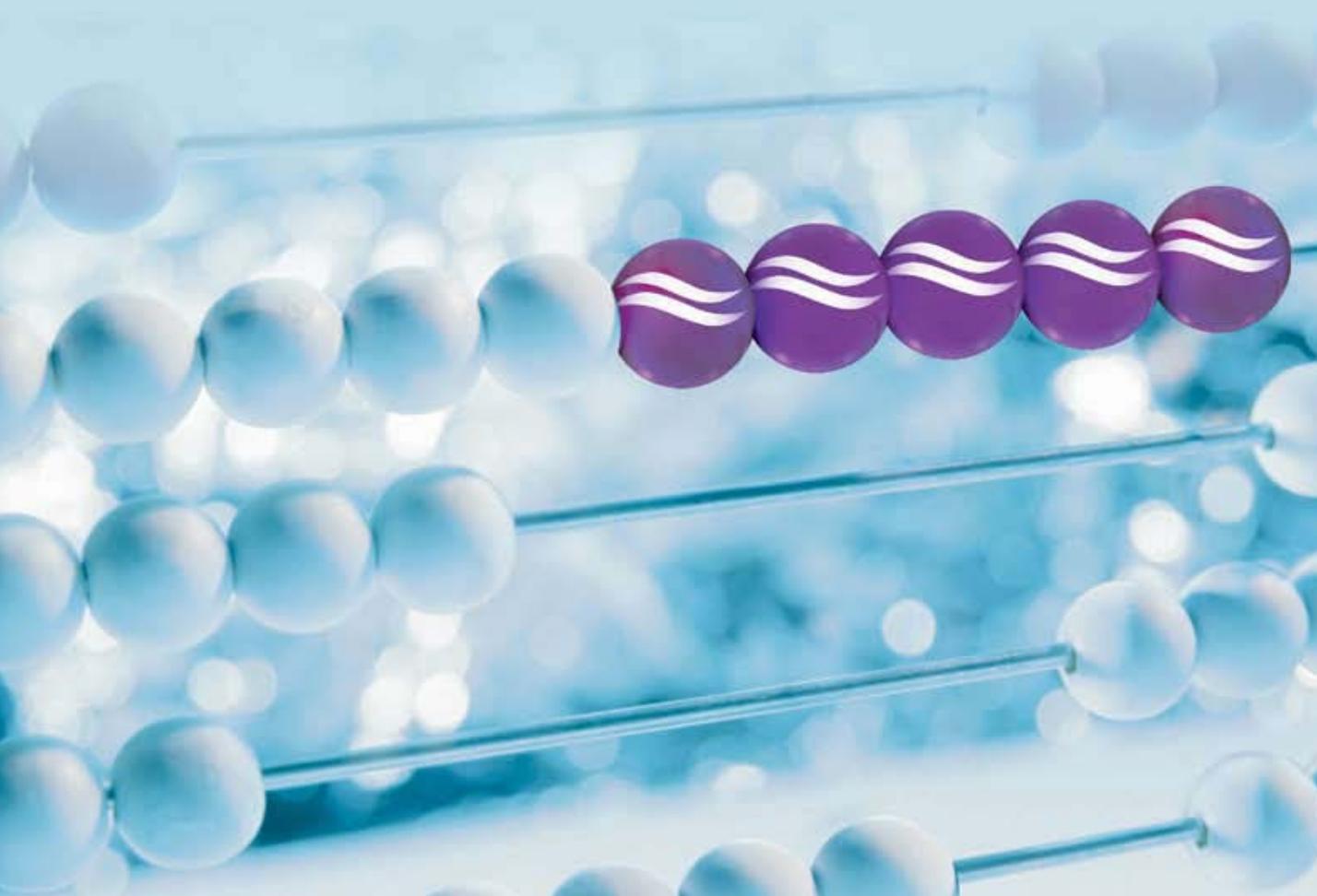
4.4. Bank's Representative Offices Abroad

The Bank's Representative Office in Germany has been operating since 1996 and the Representative Office in Zagreb since 2004. They perform the following activities:

- establish business cooperation with banks and companies,
- organize the meetings of representatives of the Bank's customers with business partners abroad demonstrating interest in such encounters,
- gather and provide information and data about the possibilities of, and opportunities for, doing business in the Republic of Serbia by foreign entities and by domestic businessmen abroad,
- mediate in the entering into contracts and business arrangements in the name and for account of the Bank and/or its customers,
- follow up and analyze the developments in the money and capital markets.

IMPORTANT CHANGES IN BANK OPERATIONS IN 2006

5



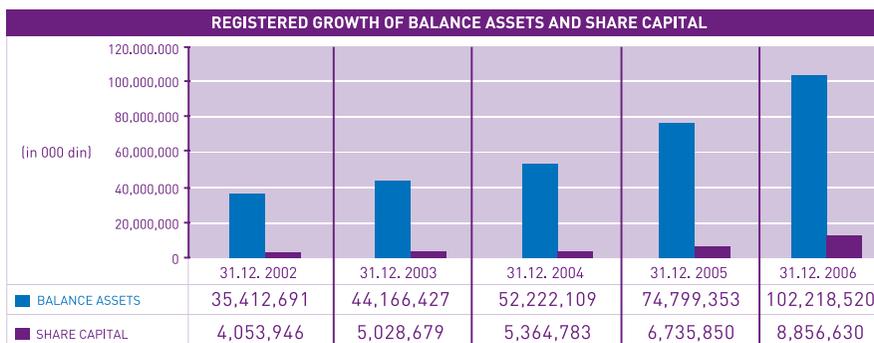
5. IMPORTANT CHANGES IN THE BANK OPERATION IN 2006

5.1. The Most Important Business Changes in 2006 and Bank's Objectives

	YESTERDAY	TODAY	TOMORROW
1.	A highly pronounced credit risk	Minimized credit risk	Protection against credit risk pursuant to the principles of the Basle Agreement
2.	Insufficient flow of assets	Appropriate flow of assets	Institutional cooperation with shareholders
3.	Developed network of business units in the territory of the Republic of Serbia	Rationalization of Bank's business units network in the Republic of Serbia, and adequate monitoring and redefinition of the role of business units	Implementation of the three-year development plan of the Bank (Institution Building Plan) <ul style="list-style-type: none"> •human resources •new work organization in the Bank
4.	Business activities in the territory of the Republic of Montenegro	Apart from Montenegro, the Bank also founded a bank in Banja Luka	Implementation of the Strategy and Business Plan of the Bank for the 2006-2009 period, and expansion of business
5.	Inadequate IT support to the Bank needs	Improved operation of the existing IT	Implementation of new complete IT
6.	Measures undertaken for introduction of ISO 9001:2000 quality standard	Certificate received from BSi of implementation and application of ISO 9001 quality standard	Introduction of other quality standards in Bank's operation
7.	Important amount of raised savings in foreign currencies (Bank holds the 1st place)	Growth of households' savings in foreign currencies continued - confidence of households	Improved quality and larger volume of services to households and further growth of savings - mainly of fixed-term households' savings
8.	Inadequate retail credit finance	Retail credit finance improved significantly - new types of credits	Increased share of retail loans in total credits
9.	Limited classical banking products and services	Diverse banking products and services for retail and corporate customers	Development of new banking products pursuant to IBP
10.	Beginning of the Bank's marketing and public relations development	Satisfactory Bank's marketing and presence in the public	Based on market research - permanent and meaningful marketing campaign about new products and services for Bank customers
11.	Bank performed brokerage for its customers on a limited basis only	Bank performed operations of a custody bank - higher quality level of services rendered to customers	Development of investment banking activity - established a fund for investment fund administration
12.	In terms of volume of balance assets, the Bank was one of the 3 biggest banks	Bank is currently one of the 4 biggest banks in terms of the volume of balance assets	Pursuant to the Business Plan, the purpose of the Bank is to keep a market share between 9% and 10%
13.	Capital adequacy parameter was 15%	After capital increase of the Bank, capital adequacy parameter rose to 17.29%	Bank is planning a new issue of shares and maintenance of capital adequacy parameter above 20%
14.	In terms of capital amount, the Bank held the 4th place	In terms of capital amount, now totalling 16,0 billion dinars, the Bank holds the 2nd place	Bank is planning a capital increase of EUR 100 million in 2007
15.	Bank shares were not quoted on the Belgrade Stock Exchange	Bank shares are now quoted on the Belgrade Stock Exchange - the achieved market value is 7 times higher than the nominal value of ordinary shares	Increase of capital value
16.	Return on Equity (ROE) ranged from 5% to 7%	Return on Equity (ROE) is currently around 9.7%	Pursuant to Business Plan, Return on Equity (ROE) - from 10% to 17%
17.	Care for human resources of the Bank	Policy aimed at improving the Bank's human resources in order to strengthen their professional skills	Development and application of HR strategy

5.2. Increase of Share Capital

The circumstances of fast development and increase in the Bank's balance assets in the period under review required a decision to issue and distribute ordinary shares which would: improve the capital adequacy ratio, increase safety in work and allow a longer-term compliance in the Bank operation with the Law on Banks on one side, and creation of a base for a more stable lending activity of the Bank, on the other.



In order to increase the Bank's capital, the European Bank for Reconstruction and Development (EBRD) and the Bank launched in 2005 an initiative for cooperation. The initiative was that the EBRD invest funds in the Bank's capital and increase its potential, and/or establish a strategic partnership. The purpose of the EBRD/Bank partnership is the increase of the Bank's capital, further improvement of the overall operation quality and rating of the Bank, as well as the upgrading of organizational processes and procedures within the Bank's regular business activity.

In the period between July 2005 and February 2006 a thorough analysis of the Bank's operations and a detailed "Due Diligence" were carried out.

In accordance with the observations made while carrying out the "Due Diligence", the EBRD submitted to the Bank a draft "Institution Building Plan" which envisages improvement of the Bank's entire activity in the forthcoming period. The documents and proposals for the final version and strategy were discussed in direct communications between the EBRD representatives and the Bank, and at the level of the Bank's competent bodies.

In March 2006, the agreements were agreed upon and entered into by and between the Bank and the EBRD on one side, and the Government of the Republic of Serbia, as the largest shareholder, and the EBRD, on the other.

The Bank prepared a draft three-year "Business Plan" which was submitted to the EBRD for consideration and was thereafter adopted at the Bank's Meeting.

In the first half of 2006 all activities necessary for the Bank's capital increase were undertaken in the Bank and with competent authorities, and on 29 June 2006 EBRD became a shareholder of the Bank. EBRD became a holder of 212,078 ordinary shares of the 19th issue without offering for the in-advance-known professional investor, at total issue price of EUR 70.0 million, which represents a price 2.8 times higher than nominal value of ordinary shares.

5.3. Compliance of Bank Operations with the New Law on Banks

By 1 October 2006 the Bank complied its operations with the new Law on Banks, and/or:

- the Board of Directors and Executive Board of the Bank were constituted,
- the Statute and amendments of, and supplements to the Agreement Establishing the Bank were constituted,
- the Audit Committee, ALCO Committee and Credit Committees of the Bank were set up,
- work was organized of:
 - Internal Audit Department, and
 - Operations Compliance Control Department
- adopted were:
 - the Bank's acts establishing the policies and procedures for risk identification, measurement and evaluation, and for risk management,
 - the Bank's anti-money laundering and anti-terrorist financing policy, and
 - the "Know Your Client" procedures.

NOTE: Pursuant to the Law on Banks, all necessary approvals of the National Bank of Serbia were obtained.

5.4. Development of New Banking Products

In the circumstances of a stronger competition in the banking market, the Bank significantly broadened the number of banking products it offered to its customers.

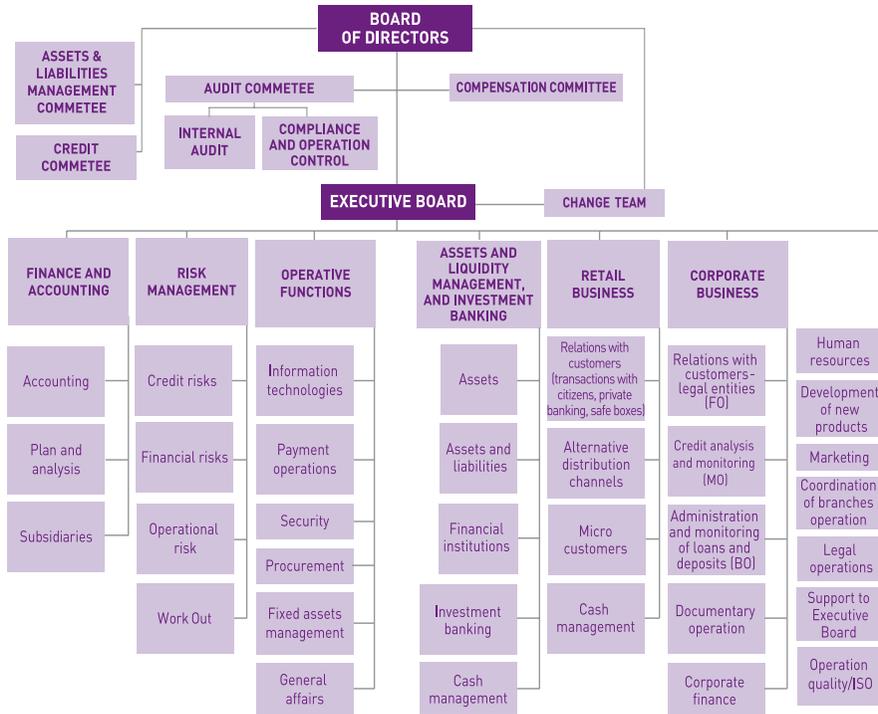
For illustration purposes, some of them are:



The sale of new banking products in 2006 was accompanied by an adequate marketing campaign.

5.5. Improvement of Work Organization in the Bank

In accordance with the IBP and the new Law on Banks, the Bank's Board of Directors adopted a new organizational structure:



The activities carried out after the adoption of the new organization structure of the Bank included: the Executive Board was appointed, a detailed work organization in the Bank was prepared, and all committees were set up.

5.6. Custody Operations

Komercijalna banka was one of the first banks in Serbia which was in 1996 licensed for exchange trading in financial stock exchanges.

Further, the Bank harmonized in 2005 its internal acts with the new Law on Securities and on 15 March 2005 was licensed by the Securities Commission, on the basis of prior approval of the National Bank of Serbia, for dealings in securities as authorized bank.

Upon the development and improvement of brokerage and dealer operations and those of authorized bank, the Bank was on 1 June 2006 granted a licence for performing custody operations, which increased the quality of services the Bank renders to its customers.

5.7. Establishment of Bank in Banja Luka

Once the analysis of economic justification was carried out, all necessary licences obtained and organizational preparations completed, in September 2006 Komercijalna banka a.d. Banja Luka commenced its operation as a bank within the Komercijalna banka AD Group Beograd.

Founders of Komercijalna banka a.d. Banja Luka are:

	FOUNDERS	ORIGINAL CAPITAL	NUMBER OF SHARES	% OF STAKE
1.	Komercijalna banka a.d. Beograd	19,999,000.00 KM	19,999	99.99%
2.	Fund for Foreign Trade Operation Insurance and Financing "Smeca" Beograd	1,000.00 KM	1	0.01%
	TOTAL (1+2)	20,000,000.00 KM	20,000	100.00%

Establishment of the bank in Banja Luka was in accordance with the Bank's development plans envisaging expansion of the Bank onto new territories.

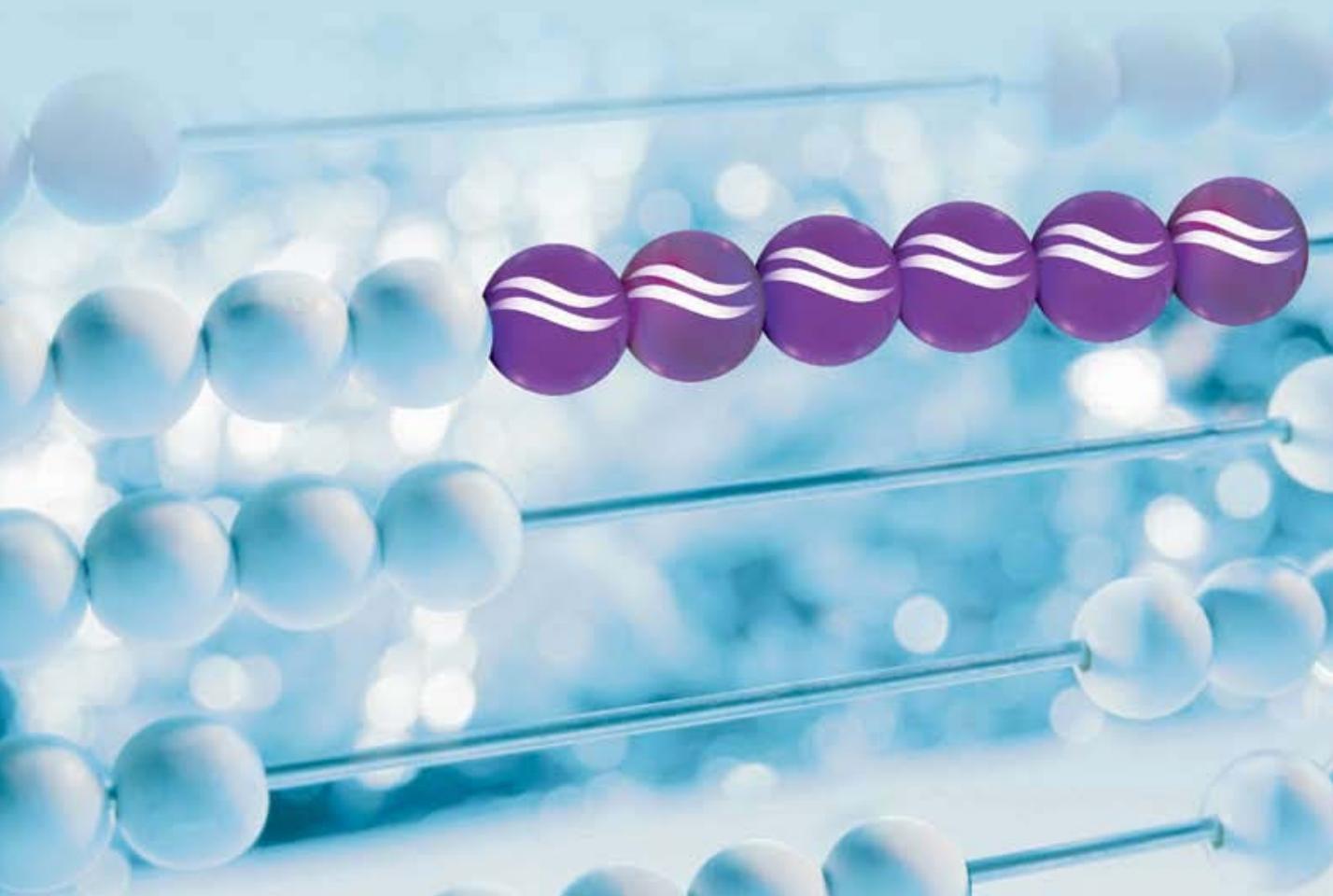
From the beginning of the Bank's operation in Banja Luka until 31 December 2006, six branches opened for business in:

- Gradiška,
- Brčko,
- Bjeljina,
- Pale,
- Trebinje,
- Sarajevo

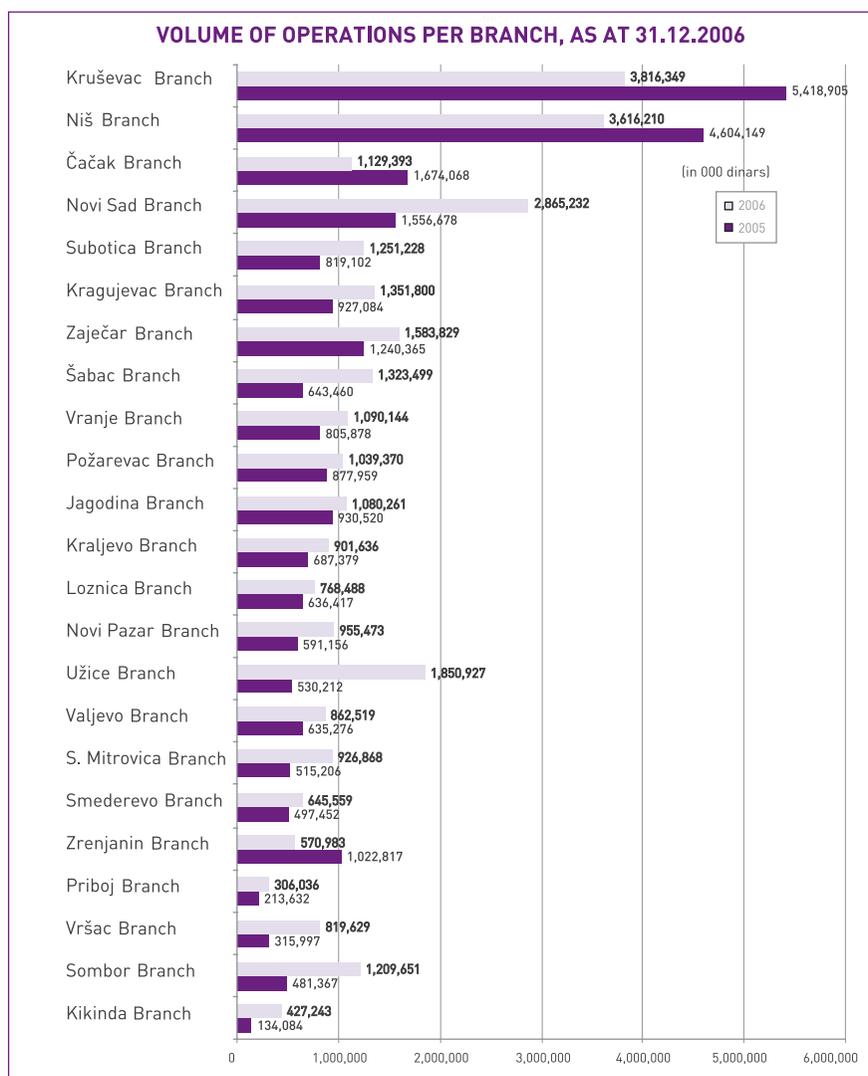
as well as three agencies operating as parts of the branches, namely the agencies located in Zalužani, Nova Topola and Vlasenica.

OPERATION OF BANK'S BRANCHES IN 2006

6

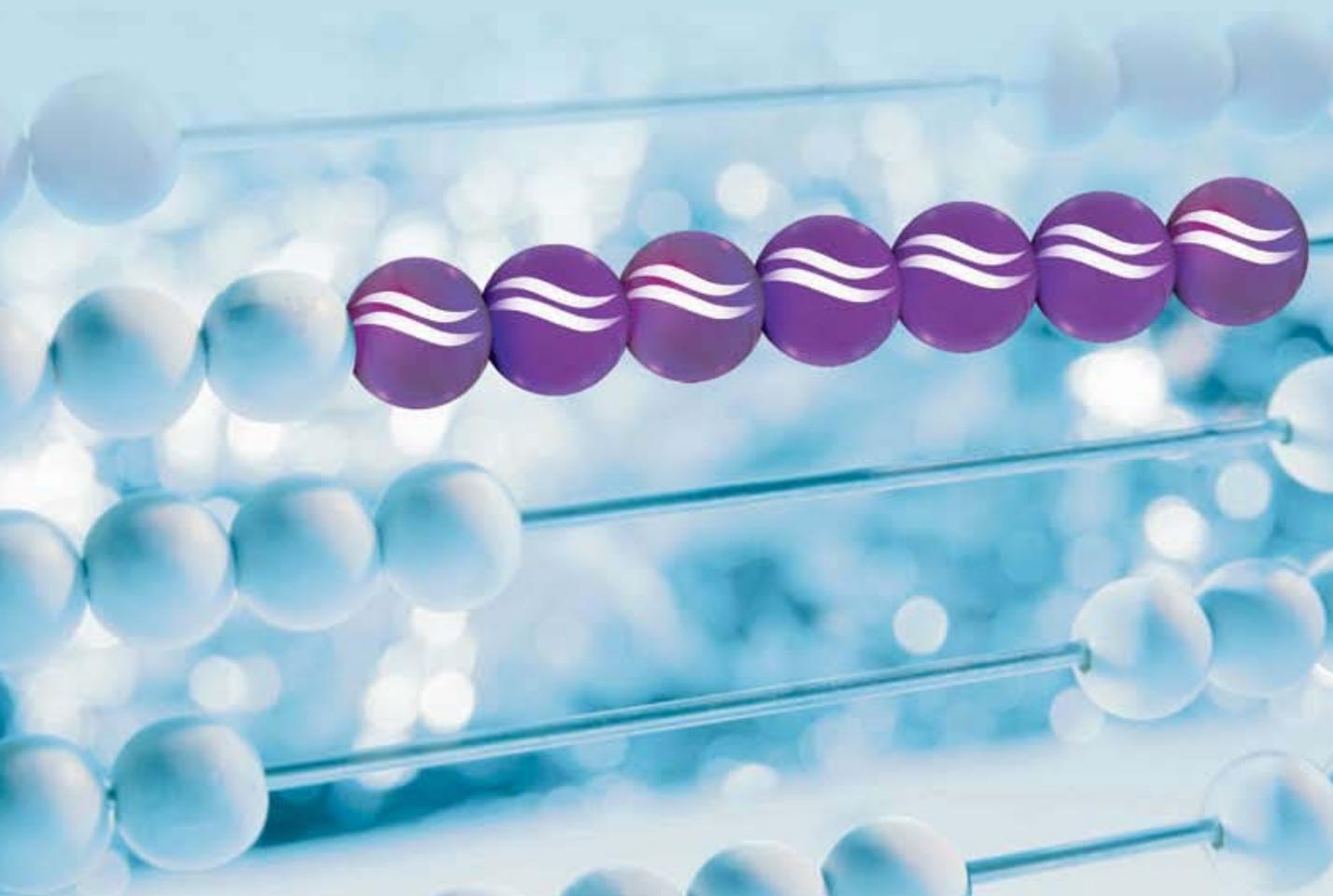


6. OPERATIONS OF THE BANK'S BRANCHES IN 2006



BANK'S BALANCE SHEET

7



7. THE BANK'S BALANCE SHEET

7.1. Recorded Volume of Operations in 2006

PERIOD	BANK'S BALANCE AMOUNT (IN 000 DIN)	INDEXES 31. 12. 2005 = 100	PRICE RISE INDEX 31. 12. 2005 = 100	INDEX* OF CHANGES IN THE DINAR EXCHANGE RATE 31. 12. 2005 = 100
31.12.2005	106,741,645	100.0	100.0	100.0
JANUARY 2006	109,348,550	102.4	100.4	101.9
FEBRUARY	114,627,235	107.4	101.8	102.4
MARCH	112,880,338	105.8	102.2	101.6
APRIL	114,717,624	107.5	104.1	101.0
MAY	121,289,646	113.6	105.7	102.5
JUNE	132,751,126	124.4	105.7	100.6
JULY	129,602,546	121.4	105.6	97.1
AUGUST	132,413,304	124.1	106.3	98.9
SEPTEMBER	132,785,064	124.4	106.1	95.9
OCTOBER	138,512,185	129.8	105.6	93.5
NOVEMBER	141,316,743	132.4	105.5	92.0
31.12.2006	152,951,513	143.3	106.6	92.4

*NOTE: 1 EUR = 79.00 (Mid-exchange rate 31.12.06)



In 2006, the rate of retail price rise (inflation) was 6.6%, while the exchange rate of the dinar appreciated by 7.6%. In such circumstances, the volume of Bank operations rose by 43.3% against the preceding year.

Total balance amount in 2006 increased by 27,419.2 million dinars, or by 36.7%. Within this increase:^{1/}

- total short-term placements rose by 14,293.2 million dinars or 26.4%, while total short-term assets registered a growth equal to 18,572.8 million dinars or 31.5%.
- total long-term placements rose by 9,665.6 million dinars or 56.2%, while increase of total long-term assets was 1,793.8 million dinars or 26.0%.
- the Bank's non-current assets (fixed assets and intangible investments) went up by 3,460.4 million dinars or 98.0%; at the same time, capital and reserves rose by 7,052.6 million dinars or 78.9%.

Off-balance operations^{2/} and/or the size of contingent liabilities under guarantees, letters of credits and other warranties is 50,732.9 million dinars, which represents an increase of 58.8% against the preceding year.

^{1/} Data are shown in greater detail under Chapter 8 – BANK'S BALANCE ANALYSIS

^{2/} Data in greater detail are shown under Chapter 8.3 – Guarantee Operations

At the close of 2006, term structure of the Bank's balance was as follows:

(in 000 din)

BALANCE ITEM	AS AT 31. 12. 2006	% OF SHARE	BALANCE ITEM	AS AT 31. 12. 2006	% OF SHARE
1	2	3	1	2	3
ASSETS			LIABILITIES		
I SHORT-TERM ASSETS	68,379,495	66.90	I SHORT-TERM LIABILITIES	77,536,648	75.85
1. In forex	29,668,673	43.39	1. In forex	54,098,600	69.77
2. In dinars	38,710,822	56.61	2. In dinars	23,438,048	30.23
II LONG-TERM ASSETS	26,849,480	26.27	II LONG-TERM LIABILITIES	8,687,319	8.50
1. In forex	5,772,639	21.5	1. In forex	7,050,956	81.16
2. In dinars	21,076,841	78.5	2. In dinars	1,636,363	18.84
III FIXED ASSETS	6,989,545	6.84	III CAPITAL AND RESERVES	15,994,552	15.65
TOTAL BALANCE ASSETS (I+II+III)	102,218,520	100.0	TOTAL BALANCE LIABILITIES (I+II+III)	102,218,520	100.0

Total short-term assets amount to 68,379.5 million dinars, which represents 66.9% of total balance assets, while short-term liabilities total 77,536.6 million dinars or 75.9% of total balance liabilities of the Bank.

Total long-term assets amount to 26,849.5 million dinars, which represents 26.3% of total balance assets; long-term liabilities amount to 8,687.3 million dinars or 8.5% of total balance liabilities of the Bank.

Fixed assets and other intangible investments total 6,989.5 million dinars, which is 6.8% of total balance assets. At the same time, non-current capital, reserves and retained (non-distributed) profit amount to 15,994.6 million dinars or 15.7% of total balance liabilities of the Bank.

The above synthesized data from the Bank's balance liabilities at the close of 2006 show that short-term sub-balance accounted for 75.9% of the total volume of balance operations, that the share of long-term sub-balance was 8.5%, and that of the Bank's capital and reserves 15.6%.

Within total balance amount, foreign exchange sub-balance consisted of: receivables worth 35,441.3 million dinars (EUR 448.6 million), or 34.7% of total balance assets, and foreign exchange obligations of 61,149.5 million dinars (EUR 774.0 million), or 59.8% of total balance liabilities.

In the area of guarantee operations of the Bank in 2006, a significant increase was also recorded. The amount of issued guarantees, opened letters of credit and other warranties amount at 2006-end to 50,732.9 million dinars, which was an increase of 18,790.7 million dinars or 58.8% against the preceding year.

7.2. Placements - ASSETS

(in 000 din)

	ASSETS	31.12.2005	31.12.2006	INDEX (3:2)
	1	2	3	4
A	SHORT-TERM OPERATIONS	54,086,280	68,379,495	126.4
I	IN FOREIGN EXCHANGE	26,927,986	29,668,673	110.2
1	Cash and cash equivalents in foreign currency	6,613,375	2,914,924	44.1
1.1	Forex accounts	5,834,236	2,240,833	38.4
1.1.1	Forex accounts with banks in the country	1,606	1,454	90.5
1.1.2	Forex accounts with foreign banks	5,832,630	2,239,379	38.4
1.2	Cash	675,719	554,035	82.0
1.3	Other cash assets	103,420	120,056	116.1
2	Forex deposits with the NBS	16,901,693	23,140,813	136.9
3	Loans and placements in foreign currency to banks	3,611	-	0.0
4	Loans and placements in foreign currency to customers	2,024,165	1,821,482	90.0
4.1	Companies	485,131	158,599	32.7
4.2	Public sector	-	-	-
4.3	Foreign persons	1,539,034	1,662,883	108.0
4.4	Other customers	-	-	-
5	Current maturities of long-term forex loans	803,481	1,112,464	138.5
6	Short-term securities in foreign exchange	10,280	328,482	3,195.4
6.1	Trading securities	10,280	328,482	3,195.4
6.2	Redeemed own securities, except shares	-	-	-
7	Other financial placements	434,007	179,869	41.4
8	Other forex assets	137,374	170,639	124.2
II	IN DINARS	27,158,294	38,710,822	142.5
1	Loans and placements to customers, in dinars	14,509,354	13,608,439	93.8
1.1	Companies	12,704,904	11,298,345	88.9
1.2	Public sector	874	102,490	11,726.5
1.3	Foreign persons	-	-	-
1.4	Other customers	204,400	268,610	131.4
1.5	Retail customers	1,599,176	1,938,994	121.2
2	Loans and placements to banks, in dinars	100,042	903	0.9
3	Short-term securities	-	121,354	-
3.1	Trading securities	-	121,354	-
3.2	Redeemed own securities, except shares	-	-	-
4	Deposits with the NBS, and NBS securities	1,138,561	10,245,009	899.8
5	Current maturities of long-term dinar loans	3,181,647	7,330,692	230.4
6	Other financial placements	64,984	940,333	1,447.0
7	Cash and cash equivalents in dinars	3,428,176	5,111,030	149.1
7.1	Giro account	2,675,163	3,962,207	148.1
7.2	Treasury	751,769	1,148,782	152.8
7.3	Other cash assets	1,244	42	3.4
8	Other dinar assets	4,735,530	1,353,061	28.6

(in 000 din)

	ASSETS	31.12.2005	31.12.2006	INDEX (3:2)
	1	2	3	4
	LONG-TERM OPERATIONS	17,183,903	26,849,480	156.2
I	IN FOREIGN EXCHANGE	5,520,116	5,772,639	104.6
1	Loans and placements to banks, in foreign currency	177,389	130,888	73.8
2	Loans and placements to customers, in for. currency	4,909,662	5,292,795	107.8
2.1	Companies	4,870,938	4,573,154	93.9
2.2	Public sector	-	-	-
2.3	Foreign persons	34,304	719,641	2,097.8
2.4	Other customers	4,420	-	0.0
3	Current maturities of long-term forex loans	-803,481	-1,112,464	138.5
4	Securities and other placements in foreign currency	1,236,546	1,461,419	118.2
4.1.	Securities held to maturity	695,366	15,762	2.3
4.2.	Stakes in capital, in foreign exchange	541,180	1,445,657	267.1
II	IN DINARS	11,663,787	21,076,841	180.7
1	Long-term loans and placements to banks, in dinars	6,092	4,345	71.3
2	Long-term loans and placements to customers, in dinars	13,570,185	28,084,686	207.0
2.1	Companies	5,716,276	15,194,425	265.8
2.2	Public sector	15,232	68,925	452.5
2.3	Foreign persons	-	-	-
2.4	Other customers	186,033	83,843	45.1
2.5	Retail customers	7,652,644	12,737,493	166.4
3	Current maturities of long-term loans in dinars	-3,181,648	-7,330,692	230.4
4	Long-term securities in dinars	1,269,158	318,502	25.1
4.1.	Securities held to maturity	1,083,083	2,044	0.2
4.2.	Stakes in capital, in dinars	186,075	316,458	170.1
C	NON-CURRENT ASSETS	3,529,170	6,989,545	198.1
1	Intangible investments	90,115	21,333	23.7
2	Fixed assets	3,439,055	6,968,212	202.6
2.1	Land	1,856	-	-
2.2	Buildings	2,824,591	3,124,424	110.6
2.3	Equipment	426,857	583,165	136.6
2.4	Other fixed assets and investment real property	185,751	3,260,623	1,755.4
	BUSINESS ASSETS (A+ B+ C)	74,799,353	102,218,520	136.7
D	OFF-BUSINESS ASSETS	-	-	-
	TOTAL BALANCE ASSETS (A+B+C+D)	74,799,353	102,218,520	136.7
E	OFF-BALANCE ASSETS	31,942,292	50,732,993	158.8

7.3. Obligations - LIABILITIES

(in 000 din)

	LIABILITIES	31.12.2005	31.12.2006	INDEX (3:2)
	1	2	3	4
A	SHORT-TERM OPERATIONS	58,963,876	77,536,648	131.5
I	IN FOREIGN EXCHANGE	42,350,952	54,098,600	127.7
1	Deposits and loans from banks in foreign currency	1,047,367	1,928,247	184.1
1.1.	Deposits in foreign currency	1,047,367	1,928,247	184.1
1.2.	Loans in foreign currency	-	-	-
2	Deposits in foreign currency. from customers	33,090,019	39,689,865	119.9
2.1	Companies	4,178,889	5,378,943	128.7
2.2	Public sector	15,436	1,474	9.5
2.3	Foreign persons	941,197	1,211,916	128.8
2.4	Other customers	169,118	287,778	170.2
2.5	Households	27,785,379	32,809,753	118.1
3	Obligations for loans in foreign currency. from customers	42,696	-	-
3.1	Public sector	-	-	-
3.2	Foreign persons	42,696	-	-
3.3	Other customers	-	-	-
4	Current maturities of long-term deposits in for. currency	7,400,515	11,632,682	157.2
5	Other financial obligations in foreign currency	428,902	344,204	80.3
6	Other forex liabilities	341,453	503,603	147.5
II	IN DINARS	16,612,924	23,438,048	141.1
1	Deposits in dinars from customers	14,103,448	20,387,484	144.6
1.1	Companies	8,621,736	12,581,293	145.9
1.2	Public sector	1,257,466	3,402,994	270.6
1.3	Foreign persons	117,611	203,658	173.2
1.4	Other customers	2,515,567	1,555,313	61.8
1.5	Households	1,591,068	2,644,226	166.2
1.5.1	Saving deposits	291,707	545,550	187.0
1.5.2	Current accounts	1,289,802	2,097,991	162.7
1.5.3	Giro accounts	9,559	686	7.2
2	Loans in dinars, from customers	-	-	-
2.1	Public sector	-	-	-
2.2	Foreign persons	-	-	-
2.3	Other customers	-	-	-
3	Deposits of banks, financial organizations and other obligations from inter-bank operations	1,327,363	1,822,707	137.3
3.1	Deposits from banks	1,327,363	1,822,707	137.3
3.2	From banks	-	-	-
4	Loans from reserve money creation	-	-	-
5	Current maturities of long-term deposits in dinars	22,356	45,883	205.2
6	Other financial obligations in dinars	150,517	165,453	109.9
7	Other short-term liabilities in dinars	1,009,240	1,016,520	100.7

(in 000 din)

LIABILITIES		31. 12. 2005	31. 12. 2006	INDEX (3:2)
	1	2	3	4
B	LONG-TERM OPERATIONS	6,893,508	8,687,319	126.0
I	IN FOREIGN EXCHANGE	5,472,629	7,050,956	128.8
1	Deposits and loans in foreign currency, from banks	14,864	13,088	88.1
1.1.	Deposits from banks	14,864	13,088	88.1
1.2.	Loans from banks	-	-	-
2	Deposits in foreign currency, from customers	9,742,435	15,625,911	160.4
2.1	Companies	18,169	114,827	632.0
2.2	Foreign persons	98,074	199,588	203.5
2.3	Other customers	47,819	40,419	84.5
2.4	Households	9,578,373	15,271,077	159.4
3	Obligations for loans in foreign currency, from customers	3,115,290	3,044,640	97.7
3.1	Public sector	2,020,704	2,422,264	119.9
3.2	Foreign persons	1,094,586	622,376	56.9
3.3	Other customers	-	-	-
3.4	Households	-	-	-
4	Current maturities of long-term deposits, in foreign currency	-7,400,515	-11,632,682	157.2
5	Other financial obligations in foreign currency	555		-
II	IN DINARS	1,420,879	1,636,363	115.2
1	Deposits and loans in dinars, from banks	16,211	35,831	221.0
1.1.	Deposits from banks	8,410	29,280	348.2
1.2.	Loans from banks	7,801	6,551	84.0
2	Deposits in dinars, from customers	141,996	427,435	301.0
2.1	Companies	27,961	255,540	913.9
2.2	Public sector	26,201	100,899	385.1
2.3	Other customers	61,590	11,096	18.0
2.4	Households	26,244	59,900	228.2
3	Loans in dinars, from customers	-	-	-
3.1	Public sector	-	-	-
3.2	Foreign persons	-	-	-
3.3	Other customers	-	-	-
4	Current maturities of long-term deposits in dinars	-22,356	-45,883	205.2
5	Other financial obligations in dinars			
6	Long-term provisioning	1,285,028	1,218,979	94.9
C	CAPITAL AND RESERVES	8,941,969	15,994,552	178.9
1	Original capital	6,735,850	8,856,630	131.5
1.1	Share capital – ordinary shares	6,362,340	8,483,120	133.3
1.2	Share capital – priority shares	373,510	373,510	100.0
2	Issue premium and own shares		3,797,110	
3	Revaluation reserves	607,494	769,267	126.6
4	Reserves from profit	843,290	1,193,290	141.5
5	Non-distributed profit/non-covered loss	746,185	1,369,106	183.5
6	Other capital	9,150	9,150	100.0
	BUSINESS LIABILITIES (A+ B+ C)	74,799,353	102,218,520	136.7
D	OFF-BUSINESS LIABILITIES			
	TOTAL BALANCE LIABILITIES (A+ B +C +D)	74,799,353	102,218,520	136.7
E	OFF-BALANCE LIABILITIES	31,942,292	50,732,993	158.8

7.4. Balance Sheet

(in 000 din)

	ASSETS	31.12.2005	31.12.2006	INDEXES (4:3)
	1	2	3	4
A I	Cash and cash equivalents	10,341,929	8,026,663	77.6
A II	Deposits with the Central Bank (CB) and securities which can be refinanced with the CB	17,695,512	33,371,741	188.6
A III	Interest and fee receivables	424,858	483,487	113.8
A IV	Placements to banks in the country	331,498	149,508	45.1
A V	Placements to customers	36,591,252	49,927,604	136.4
A VI	Trading securities and other placements	687,144	328,482	47.8
A VII	Investment in securities held to maturity	22,689	139,160	613.3
A VIII	Stakes in capital and other securities available for sale	727,255	1,762,116	242.3
A IX	Stakes in capital of related entities (only in consolidated balance)	-	-	-
A X	Non-current assets and assets intended for sale, and assets of the business being suspended	532	3,525	662.6
A XI	Receivables of overpaid profit tax	15,752	26,746	169.8
A XII	Goodwill	-	-	-
A XIII	Intangible investments	-	21,333	-
A XIV	Investment real property	-	3,092,489	-
A XV	Fixed assets	3,439,055	3,875,723	112.7
A XVI	Other assets and deferrals	4,223,616	643,530	15.2
A XVII	Deferred tax assets	298,261	366,412	122.8
A XVIII	Loss above capital amount	-	-	-
	TOTAL ASSETS (A I do A XVIII)	74,799,353	102,218,520	136.7
A XIX	OFF-BALANCE ITEMS	31,942,292	50,732,993	158.8
	LIABILITIES			
P I	Obligations towards banks in the country	2,509,884	3,829,558	152.6
P II	Obligations towards customers	60,271,629	79,327,802	131.6
P III	Interest and fee payables	35,594	48,722	136.9
P IV	Obligations on securities	-	-	-
P V	Obligations from the profit	851	4,284	503.4
P VI	Obligations on current profit tax	-	-	-
P VII	Obligations on assets intended for sale, and assets of the operation being suspended	-	-	-
P VIII	Other obligations from operations	843,511	648,775	76.9
P IX	Provisioning	1,185,130	1,147,830	96.9
P X	Other obligations and deferrals	960,845	1,152,769	120.0
P XI	Deferred tax obligations	49,940	64,226	128.6
	TOTAL OBLIGATIONS (P I to P IX)	65,857,384	86,223,967	130.9
P XII.1	Share and other capital	6,745,000	12,662,890	187.7
P XII.2	Reserves	1,450,785	1,962,557	135.3
P XII.3	Accumulated profit	746,184	1,369,106	183.5
P XII.4	Accumulated loss	-	-	-
P XII.5	Positive cumulative differentials	-	-	-
P XII.6	Negative cumulative differentials	-	-	-
P XII	TOTAL CAPITAL (PXII.1 to PXII.4)	8,941,969	15,994,553	178.9
	Interest of minority shareholders (in consolidated balance only)	-	-	-
	TOTAL LIABILITIES (P I do PXII)	74,799,353	102,218,520	136.7
P XIII	OFF-BALANCE ITEMS	31,942,292	50,732,993	158.8

ANALYSIS OF THE BANK'S BALANCE SHEET

8



8. ANALYSIS OF THE BANK'S BALANCE SHEET

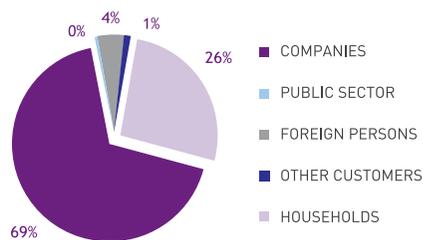
8.1. Credit Portfolio of Bank Customers

8.1.1. Credit Portfolio Structure

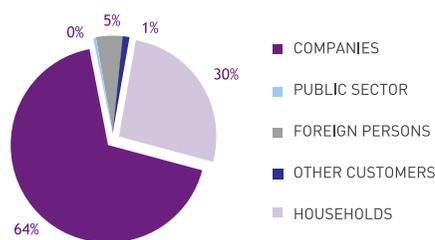
(in 000 din)

DESCRIPTION	DINAR LOANS	FOREIGN CURRENCY LOANS	TOTAL (2+3)	% OF SHARE
1	2	3	4	5
I SHORT-TERM LOANS	13,608,439	1,821,482	15,429,921	31.6
1. Companies	11,298,345	158,599	11,456,944	74.3
2. Public sector	102,490	0	102,490	0.7
3. Foreign persons	0	1,662,883	1,662,883	10.8
4. Other clients	268,610	0	268,610	1.7
5. Households	1,938,994	0	1,938,994	12.6
II LONG-TERM LOANS	28,084,686	5,292,795	33,377,481	68.4
1. Companies	15,194,425	4,573,154	19,767,579	59.2
2. Public sector	68,925	0	68,925	0.2
3. Foreign persons	0	719,641	719,641	2.2
4. Other customers	83,843	0	83,843	0.3
5. Households	12,737,493	0	12,737,493	38.2
TOTAL (I+II)	41,693,125	7,114,276	48,807,402	100.0

LOAN PORTFOLIO STRUCTURE IN 2005



LOAN PORTFOLIO STRUCTURE IN 2006



On 31 December 2006, total loans equalled 48,807.4 million dinars and were against the end of the preceding year by 13,794.1 million dinars or 39.4% larger.

The share of households in total loans of Bank customers rose in 2006 by 5,424.7 million dinars against the preceding year, which represented an increase of 58.6%. In this way, the share of retail customers in total loans rose from 26% to 30%.

Within total loans, credits in dinars were worth 41,693.1 million dinars, and/or 85.4%, while credits in foreign currency stood at 7,114.3 million dinars or 14.6% of total loans.

In order to secure the loan portfolio against risks, the Bank undertook in 2006 the measures intended to ensure good quality security instruments for all placements.

8.1.2. Balance Assets and Off-Balance Items Risk Evaluation

On 31 December 2006, the Bank made an assessment of potential losses on balance and off-balance assets in accordance with domestic regulations, international standards and internal policies and procedures of the Bank

(in 000 din)

N ^o	RECEIVABLES	Categories of classified receivables					TOTAL
		A	B	V	G	D	
1	2	3	4	5	6	7	8
	BALANCE ASSETS						
1.	Short-term loans	7,042,889	6,791,231	688,978	73,789	235,924	14,832,810
2.	Long-term loans	17,079,174	14,891,741	1,093,747	727,929	2,694,616	36,487,207
3.	Due receivables	316,444	524,788	448,170	312,849	4,710,191	6,312,442
4.	Interest and fees	156,253	191,564	71,948	151,121	902,469	1,473,356
5.	Short-term securities	-	-	-	-	-	0
6.	Long-term securities	-	130,500	-	-	-	130,500
7.	Stakes in capital	1,691,568	78,386	0	0	786,747	2,556,701
8.	Assets acquired by collected receivables	-	-	-	-	-	-
9.	Other assets	927,813	760,062	57,090	25,730	2,114,612	3,885,308
I	TOTAL CLASSIFIABLE BALANCE ASSETS (1 to 9)	27,214,141	23,368,272	2,359,934	1,291,418	11,444,558	65,678,323
	DEDUCTIBLE ITEMS	5,294,273	6,112,468	535,558	174,376	1,005,855	13,122,530
	BASE FOR CALCULATION OF ALLOWANCES AND RESERVES	21,919,868	17,255,804	1,824,376	1,117,042	10,438,704	52,555,793
	Internal rating	1-2%	5-15%	20-35%	40-75%	100%	
II	CALCULATED SPECIAL RESERVE FOR ASSESSED LOSSES	549,484	1,450,220	442,114	701,711	10,440,137	13,583,666
	ALLOWANCES FOR BALANCE ASSETS	164,482	944,249	441,865	701,016	10,295,571	12,547,183
	RESERVES FROM THE PROFIT FOR ASSESSED LOSSES	385,002	505,971	249	695	144,565	1,036,483
III	NON-CLASSIFIABLE BALANCE ASSETS	-	-	-	-	-	49,087,380
IV	TOTAL BALANCE ASSETS	27,049,659	22,424,023	1,918,069	590,403	1,148,987	102,218,520

(in 000 din)

N ^o	RECEIVABLES	Categories of classified receivables					TOTAL
		A	B	V	G	D	
	OFF-BALANCE ASSETS						
1.	Payment guarantees	1,393,245	4,492,936	251,192	12,944	82,414	6,232,731
2.	Performance bonds	866,010	899,891	97,003	29	210,376	2,073,309
3.	Sureties and bill acceptances	332,641	887,769	198,421	40,184	135,985	1,594,999
4.	Other forms of warranty	-	-	-	-	-	-
5.	Non-covered letters of credit	97,178	471,278	3,230	-	-	571,685
6.	Non-used assumed obligations	8,841,737	827,957	1,650	-	-	9,671,344
7.	Other off-balance items subject to potential payment	8,140	41,556	3,342	8,741	55,684	117,464
I	CLASSIFIABLE OFF-BALANCE ITEMS (1 to 7)	11,538,950	7,621,387	554,838	61,898	484,459	20,261,532
	DEDUCTIBLE ITEMS	8,437,435	2,337,692	256,691	7,690	131,999	11,171,507
	BASE FOR CALCULATION OF SPECIAL RESERVE	3,101,515	5,283,695	298,147	54,208	352,460	9,090,025
	Internal rating	1-2%	5-15%	20-35%	40-75%	100%	
II	CALCULATED SPECIAL RESERVE FOR ASSESSED LOSSES	56,687	408,773	66,072	27,105	352,460	911,097
	PROVISIONING FOR LOSSES ON OFF-BALANCE ITEMS	-	251,122	66,072	27,105	352,460	696,758
	RESERVES FROM THE PROFIT FOR ASSESSED LOSSES	56,687	157,651	-	-	-	214,339
III	NON-CLASSIFIABLE OFF-BALANCE ITEMS	-	-	-	-	-	30,471,462
IV	TOTAL OFF-BALANCE ITEMS	11,538,950	7,621,387	554,838	61,898	484,459	50,732,993

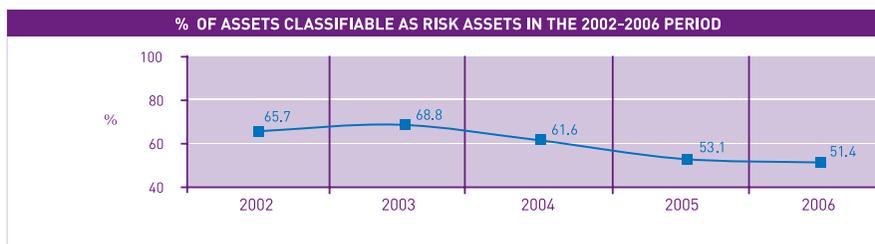
Total balance assets classifiable from the risk point of view, after the decrease under deductible items (collateral, mortgage, etc.), amount to 61,645.8 million dinars: 52,555.8 million dinars relate to balance assets, and 9,090.0 million dinars to off-balance items.

According to the Bank assessment, out of total risk assets (balance and off-balance), which total 61,645.8 million dinars, placements were classified as follows: 40.6% in risk group A, 36.6% in risk group B, 3.4% in risk group V, 1.9% in risk group G, and 17.5% in risk group D. In other words, the Bank protected the balance and off-balance assets against risk in the following manner:

(in 000 din)

	DESCRIPTION	AMOUNT
1.	ALLOWANCE FOR BALANCE ASSETS	12,547,183
2.	RESERVES FROM THE PROFIT FOR ASSESSED LOSS ON BALANCE ASSETS	1,036,483
3.	PROVISIONING FOR LOSSES ON OFF-BALANCE ITEMS	696,758
4.	RESERVES FROM THE PROFIT FOR ASSESSED LOSSES ON OFF-BALANCE ITEMS	214,339
5.	TOTAL	14,494,763

The policy of credit risk minimization was in place in previous years as well:



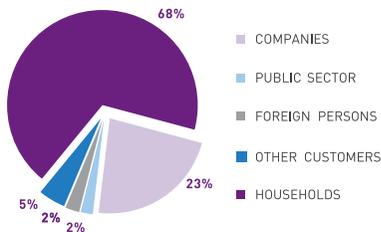
In the period under review was recorded a trend of decreasing risk assets in total assets of the Bank. At the close of 2006, 51,4% of total assets is classified as risk assets. This trend resulted from the Bank's policy of securing the placements against risk by mortgages, collaterals and other safe security instruments which ensure regularity in the repayment of loans.

8.2. Depositor Portfolio

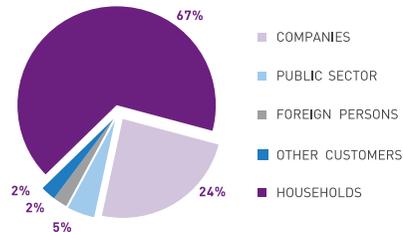
(in 000 din)

DESCRIPTION	DINAR DEPOSITS	FOREIGN CURRENCY DEPOSITS	TOTAL (2+3)	% SHARE
1	2	3	4	5
I SHORT-TERM DEPOSITS	20,387,484	39,689,865	60,077,350	78.9
1. Companies	12,581,293	5,378,943	17,960,237	29.9
2. Public sector	3,402,994	1,474	3,404,468	5.7
3. Foreign persons	203,658	1,211,916	1,415,574	2.4
4. Other clients	1,555,313	287,778	1,843,091	3.1
5. Households	2,644,226	32,809,753	35,453,979	59.0
II LONG-TERM DEPOSITS	427,435	15,625,911	16,053,346	21.1
1. Companies	255,540	114,827	370,367	2.3
2. Public sector	100,899		100,899	0.6
3. Foreign persons		199,588	199,588	1.2
4. Other customers	11,096	40,419	51,515	0.3
5. Households	59,900	15,271,077	15,330,977	95.5
TOTAL (I+II)	20,814,920	55,315,776	76,130,696	100.0

DEPOSITORS PORTFOLIO STRUCTURE IN 2005



DEPOSITORS PORTFOLIO STRUCTURE IN 2006



Total deposits were as at 31 December 2006 worth 76,130.7 million dinars. They rose against the close of the preceding year by 19,052.8 million dinars, or by 33.4%.

Within total deposits, dinar deposits amounted to 20,814.9 million dinars, and/or 27.3%, and foreign currency deposits to 55,315.8 million dinars or 72.7% of total deposits.

Percentage share of depositors in the Bank's portfolio was almost identical to the one registered in the preceding year, namely, corporate deposits accounted for 24%, and those of households for 67% of total deposits.

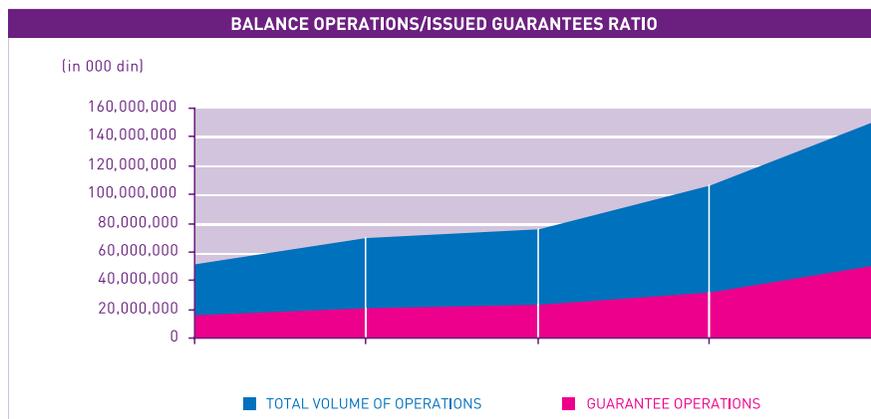
8.3. Guarantee Operations

Bank's operation in 2006 in the segment of assumed contingent obligations on guarantees registered a trend of increasing volume of issued guarantees. In 2006, total level of contingent obligations, on payment guarantees and performance bonds, letters of credit, sureties and bill acceptance reached a figure of 50,732.9 million dinars.

GUARANTEE OPERATIONS IN THE 2002-2006 PERIOD

(u 000 din)

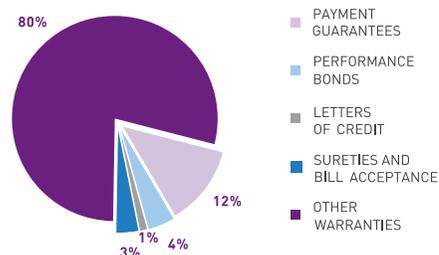
DESCRIPTION	AS AT 31.12.2002	AS AT 31.12.2003	AS AT 31.12.2004	AS AT 31.12.2005	AS AT 31.12.2006	% SHARE
1	2	3	4	5	6	7
1. PAYMENT GUARANTEES	4,050,992	6,355,710	4,989,968	6,124,340	6,232,731	12.3
2. PERFORMANCE BONDS	720,896	2,358,730	2,205,065	2,197,604	2,074,305	4.1
3. LETTERS OF CREDIT	1,650,055	1,102,919	726,256	514,904	608,185	1.2
4. SURETIES AND BILL ACCEPTANCE	373,894	952,519	1,717,779	2,005,410	1,594,999	3.1
5. OTHER WARRANTIES ^{1/}	8,599,839	10,392,976	14,118,474	21,100,034	40,222,773	79.3
TOTAL	15,395,676	21,162,854	23,757,542	31,942,292	50,732,993	100.0



The volume of guarantee operations had in 2006, as well as in the preceding years, a growth harmonized with overall operation. Such trend was in line with the Bank's policy according to which contingent obligations on guarantee operations were not to exceed a normal risk level from the point of view of the volume of balance operations and provided reserves. In the period under review, obligations on guarantee operations accounted for, on average, 33.2% of total Bank operations.

^{1/} Other warranties also include the FRY bonds under households savings in foreign currency in the amount of 8,630.3 million dinars od 8,630.00 million dinars.

The Bank approves all types of guarantees and other forms of warranty in the country and for external use. In the structure of the total of issued guarantees a significant share relates to foreign currency guarantees and letters of credit in foreign currency, which means that foreign banks and customers from abroad accept the guarantees and letters of credit issued by Komercijalna banka as an adequate form of safety in doing business.



8.4. Foreign Exchange Sub-Balance

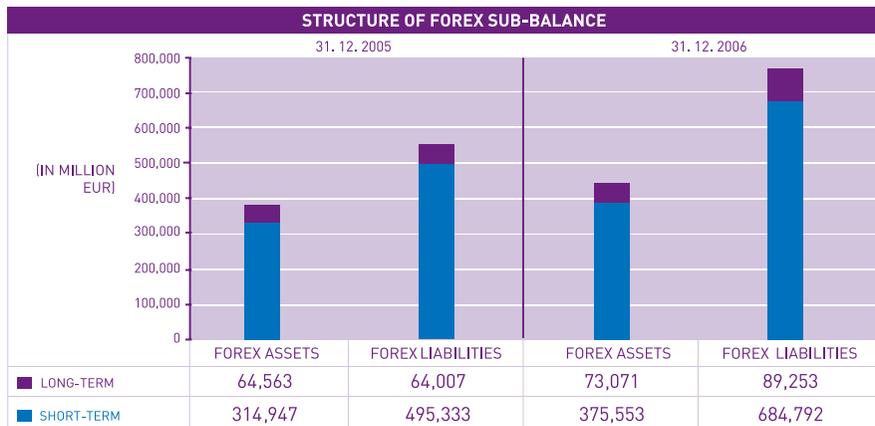
8.4.1. Structure of Foreign Exchange Sub-Balance

FOREX SUB-BALANCE (shown in dinars)

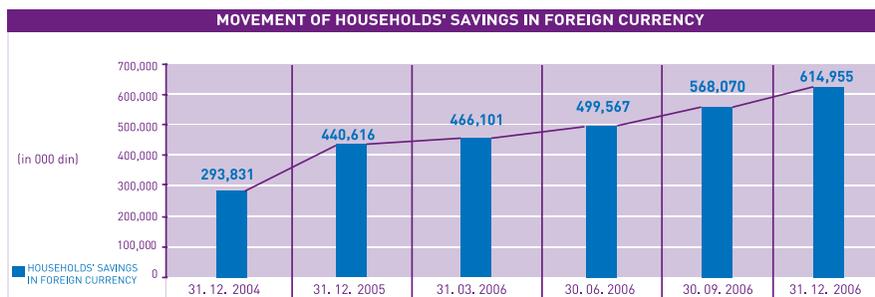
ASSETS (in 000 din)				LIABILITIES (in 000 din)			
DESCRIPTION	AS AT 31. 12. 2005	AS AT 31. 12. 2006	INDEX (3:2)	DESCRIPTION	AS AT 31. 12. 2005	AS AT 31. 12. 2006	INDEX (3:2)
1	2	3	4	1	2	3	4
1. Short-term forfx assets	26,927,986	29,668,673	110.2	1. Short-term forex liabilities	42,350,952	54,098,600	127.7
2. Long-term forex assets	5,520,116	5,772,639	104.6	2. Long-term forex liabilities	5,472,629	7,050,956	128.8
TOTAL (1+2)	32,448,102	35,441,312	109.2	TOTAL (1+2)	47,823,581	61,149,557	127.9

FOREX SUB-BALANCE (shown in EUR)

ASSETS (in 000 din)				LIABILITIES (in 000 din)			
DESCRIPTION	AS AT 31. 12. 2005	AS AT 31. 12. 2006	INDEX (3:2)	DESCRIPTION	AS AT 31. 12. 2005	AS AT 31. 12. 2006	INDEX (3:2)
1	2	3	4	1	2	3	4
1. Short-term forfx assets	314,947	375,553	119.2	1. Short-term forex liabilities	495,333	684,792	138.3
2. Long-term forex assets	64,563	73,071	113.2	2. Long-term forex liabilities	64,007	89,253	139.4
TOTAL (1+2)	379,510	448,624	118.2	TOTAL (1+2)	559,340	774,045	138.7



Growth in foreign currency operations was also registered in 2006 and thus continued the increasing trend of the preceding five years. Foreign exchange assets rose in 2006 by 9.2%, and foreign exchange obligations by 27.9%. At the close of 2006, foreign exchange assets totalled EUR 448.6 million and were by EUR 69.1 million above that recorded in the preceding year, while obligations in foreign currency grew in the same period by EUR 214.7 million and totalled EUR 774.0 million, which mostly related to households' savings in foreign currency.



In 2006, households' savings in foreign currency went up by EUR 174.4 million, or by 39.6%. Total forex savings at 2006-end equalled EUR 615.0 million, which makes 79.5% of total foreign exchange liabilities of the Bank.

8.4.2. Registered Volume of International Payment Transactions

Overall volume of international payment transactions in 2006 reached a level of EUR 1,938.1 million, which was an increase against the preceding year of EUR 296.3 million, and/or 18.0%.



In international payment transactions, the recorded inflow was EUR 1,032.2 million, and outflow EUR 905.9 million.

8.5. Dinar Sub-Balance

8.5.1. Dinar Sub-Balance Structure

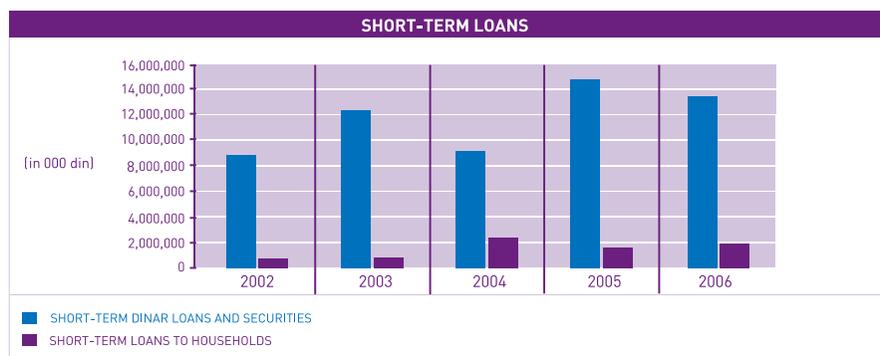
ASSETS				LIABILITIES			
	(in 000 din)				(in 000 din)		
DESCRIPTION	AS AT 31. 12. 2005	AS AT 31. 12. 2006	INDEX (3:2)	DESCRIPTION	AS AT 31. 12. 2005	AS AT 31. 12. 2006	INDEX (3:2)
1	2	3	4	1	2	3	4
1. Short-term dinar assets	27,158,294	38,710,822	142.5	1. Short-term dinar liabilities	16,612,924	23,438,048	141.1
2. Long-term dinar assets	11,663,787	21,076,841	180.7	2. Long-term dinar liabilities	1,420,879	1,636,363	115.2
3. Fixed Assets	3,529,170	6,989,545	198.1	3. Capital and reserves	8,941,969	15,994,552	178.9
TOTAL	42,351,251	66,777,208	157.7	TOTAL	26,975,772	41,068,963	152.2

Total assets in dinars as at 31 December 2006 equalled 66,777.2 million dinars, which was in relation to the beginning of the year a growth of 57.7%, while total dinar liabilities, at the level of 41,068.9 million dinars, rose in 2006 by 52.2%.

8.5.2. Short-Term Dinar Loans and Securities

(in 000 din)

DESCRIPTION	AS AT 31.12.2002	AS AT 31.12.2003	AS AT 31.12.2004	AS AT 31.12.2005	AS AT 31.12.2006	% SHARE
1	2	3	4	5	6	7
1. To companies-corporate	4,847,926	8,271,954	7,780,411	12,704,904	11,298,345	82.3
2. To other customers	910,736	222,201	207,354	204,400	268,610	2.0
3. To public sector	79,440	3,127	10,006	874	102,490	0.7
4. To households	663,004	959,842	2,456,006	1,599,176	1,938,994	14.1
5. To banks	251,851	856,417	692,871	100,042	903	0.0
6. Securities and other	2,630,644	2,045,528			121,354	0.9
TOTAL	9,383,601	12,359,069	11,146,648	14,609,396	13,730,696	100.0

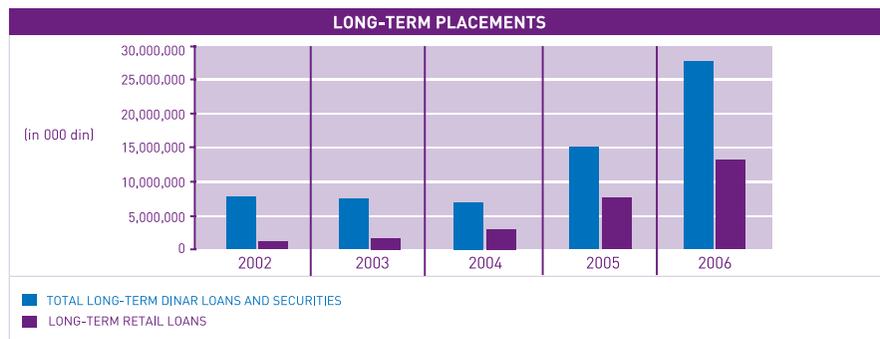


Out of total short-term placements in dinars at 2006-end, 82.3% or 11,298.3 million dinars related to the loans approved for the needs of performing the economic activity, while 2.0% or 268.6 million dinars related to other customers. A more significant increase was recorded in the case of short-term retail placements which at the close of 2006 accounted for 14.1% or 1,938.9 million dinars.

8.5.3. Long-Term Dinar Loans and Securities

(in 000 din)

DESCRIPTION	AS AT 31. 12. 2002	AS AT 31. 12. 2003	AS AT 31. 12. 2004	AS AT 31. 12. 2005	AS AT 31. 12. 2006	% SHARE
1	5	6	7	7	7	8
1. Corporate loans	6,769,925	6,407,910	5,081,354	5,917,541	15,347,193	54.0
2. Retails loans	849,481	1,411,624	2,169,432	7,652,644	12,737,493	44.8
3. Securities	206,777	62,776	251,173	1,269,158	318,502	1.2
TOTAL	7,826,183	7,882,310	7,501,959	14,839,343	28,403,188	100.0



Within long-term dinar placements, corporate loans totalled 15,347.2 million or 54.0%, long-term securities amounted to 319.0 million dinars or 1.2%, and retail loans 12,737.5 million dinars or 44.8%

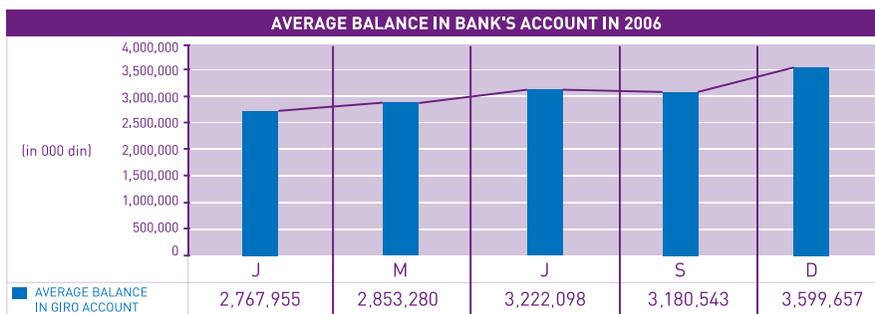
Long-term retail loans totalled 12,737.5 million dinars, which proves the Bank's determination to work and cooperate with retail customers in both directions (raising of savings, retail lending) aimed at strengthening confidence on the part of these customers in the Bank and at raising the market share in this segment of operations.

8.5.4. Dinar Liquidity

Dinar liquidity of the Bank was stable and satisfactory thanks to the activities and measures undertaken in liquidity management and permanent monitoring in that area of the Bank's operation.

Principal motivation for depositing assets with the Bank was the safety of its operation, liquidity and quality of services, and not the interest rate level. The Bank was able to attract new deposits thanks to its solvency, liquidity, safe operation. Also, development and improvement of E-bank led to a larger number of customers and a higher level of deposits.

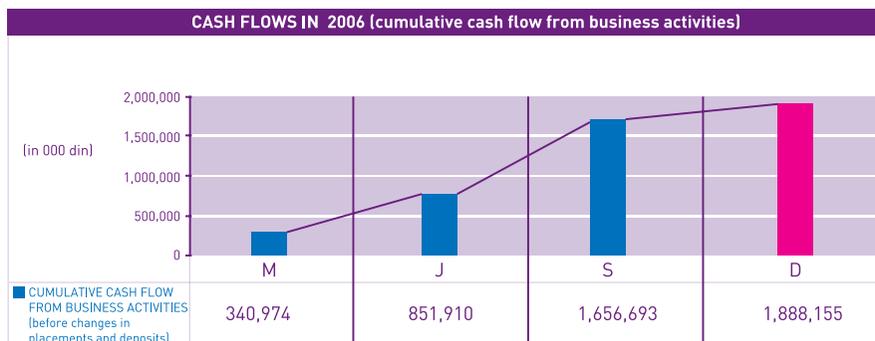
Dinar liquidity, viewed through average balance in the Bank's giro account in 2006, was satisfactory.



It arises from the above data that average balance in the Bank's giro account^{1/} in 2006 was 3,149.6 million dinars. Such average balance in the giro account enabled a smooth and safe operation and stable daily liquidity.

Cash flows, as part of liquidity, also allowed the Bank to fully meet its obligations in this area.

^{1/}Giro account balance also includes the reserve requirement assets in dinars.



8.6. Equity, Fixed Assets and Investment in Original Capital

In 2006, the Bank carried out an issue of ordinary shares (chapter 5.2.). Also, by earmarking a part of the profit for reserves, in accordance with the decisions made by the Meeting of Shareholders, the Bank was increasing its equity in order to operate more safely and to reach the reserve level in accordance with domestic and European standards.

The value of property, and/or operating assets of the Bank increased in the course of 2006 thanks to the implementation of the development plans intended to improve the network of branches and branch offices and ensure the business premises, and also owing to the investment made in IT equipment.

ASSETS (in 000 din)				LIABILITIES (in 000 din)			
DESCRIPTION	AS AT 31. 12. 2005	AS AT 31. 12. 2006	INDEX (3:2)	DESCRIPTION	AS AT 31. 12. 2005	AS AT 31. 12. 2006	INDEX (3:2)
1	2	3	4	1	2	3	4
1 NON-CURRENT ASSETS	3,529,170	6,989,545	198.1	1 SHARE CAPITAL	6,735,850	8,856,630	131.5
1.1. Intangible invest.	90,115	21,333	23.7	1.1. Ordinary shares	6,362,340	8,483,120	133.3
1.2. Buildings	2,824,591	3,124,424	110.6	1.2. Priority shares	373,510	373,510	100.0
1.3. Equipment	426,857	583,165	136.6	2 ISSUE PREMIUM AND OWN SHARES	-	3,797,110	-
1.4. Other	187,607	3,260,623	1.738.0	3 REVALUATION RESERVES	607,494	769,267	126.6
2 INVESTMENT IN BANKS AND COMPANIES	727,255	1,762,116	242.3	4 RESERVES FROM PROFIT	843,290	1,193,290	141.5
				5 NON-DISTRIBUTED PROFIT AND OTHER CAPITAL	746,185	1,378,255	184.7
TOTAL (1+2)	4,256,425	8,751,661	205.6	TOTAL (1+2+3+4+5)	8,932,819	15,994,552	179.1

Total capital of the Bank, which as at 31 December 2006 equalled 15,994.5 million dinars, registered a growth of 79.1% against the preceding year.

8.6.1. Share Capital

CLASS OF SHARES	NO. OF SHAREHOLDERS	VALUE (IN 000 DIN)	%
I ORDINARY SHARES	577	8.483.120	95.8%
II PRIORITY SHARES	492	373.510	4.2%
TOTAL (I+II)	1.069	8.856.630	100%

Komercijalna banka has altogether 1,069 shareholders, of which number 577 shareholders with the controlling right and 492 shareholders holding priority shares which entitle them to priority in the payment of dividends. Total share capital consists of: 95.78% of ordinary and 4.22% of priority shares.

Ordinary (controlling) shares worth in total 8,483.1 million dinars are held by 577 shareholders. Bank shareholders have 848,312 votes in the Meeting, which is in compliance with the Bank's Statute, and/or 1 share =1 vote.

8.6.2. Fixed Assets and Intangible Investments

(in 000 din)

DESCRIPTION	VALUE 31. 12. 2006	% SHARE
1. BUILDINGS	3,124,424	44.8
2. OPERATING EQUIPMENT	583,165	8.4
3. INVESTMENT REAL PROPERTY	3,260,623	46.8
4. LAND	0	0.0
I TOTAL FIXED ASSETS	6,968,212	99.7
II INTANGIBLE INVESTMENTS	21,333	0.3
TOTAL (I+II)	6,989,545	100.0

The value of Bank's assets (fixed assets) amounts to, as at 31 December 2006, to 6,989.5 million dinars, which represents against the preceding year an increase of 3,460.4 million dinars or 98.1%.

8.6.3. Investment in Original Capital of Banks and Companies

(in 000 din)

DESCRIPTION	VALUE 31. 12. 2006	% SHARE
1. IN BANKS	1,548,998	87.9
2. IN COMPANIES	213,118	12.1
TOTAL (1+2)	1,762,116	100.0

Investment in original capital in other banks and companies, shown at present value as at 31.12.2006, amount to 1,548.9 million dinars and 213.1 million dinars, respectively.

8.6.4. Compliance of the Bank Operations with the Prescribed Parameters

The new Law on Banks envisages, inter alia, the following:

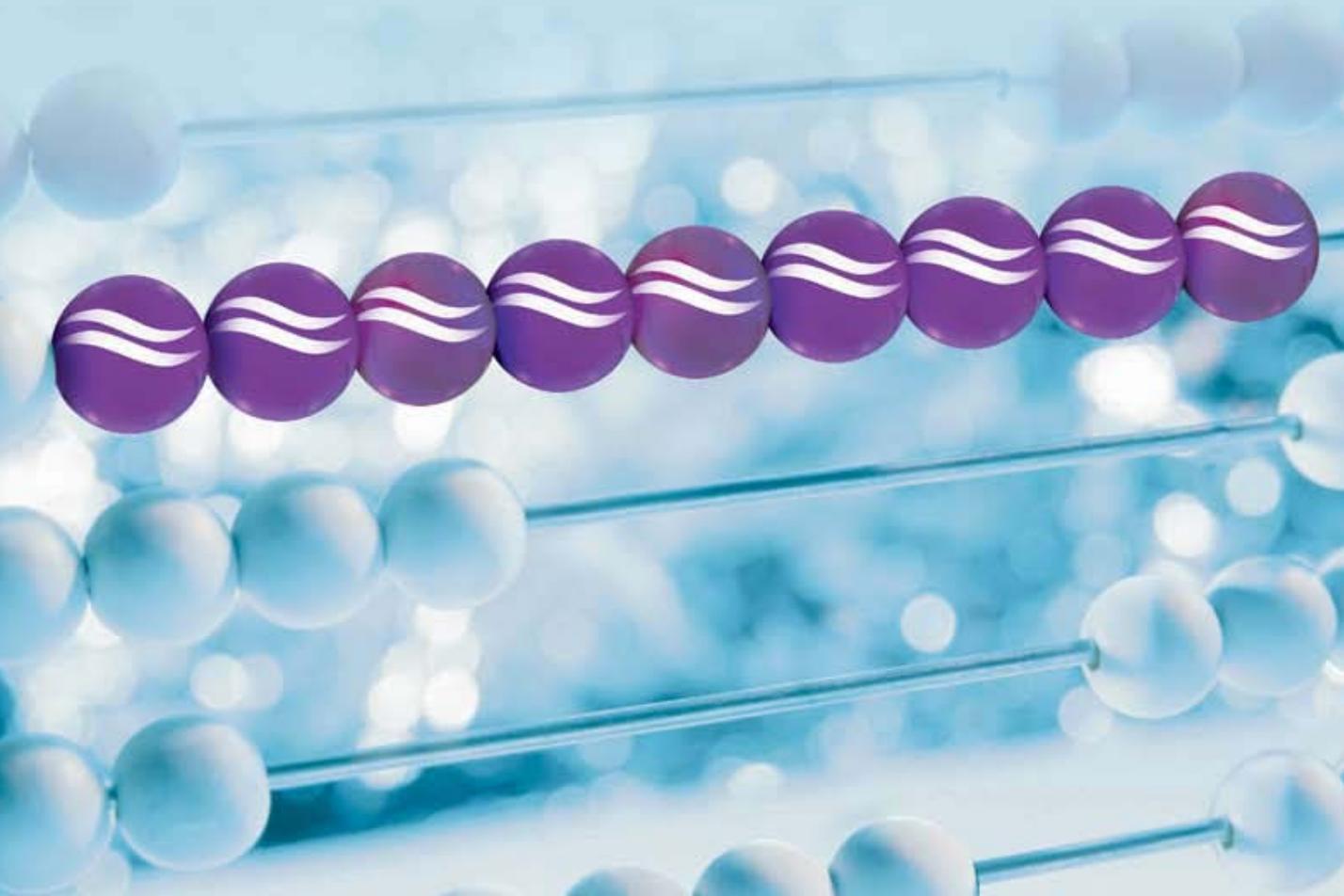
- the amount of cash portion of banks' capital has to be at least EUR 10.0 million,
- that capital adequacy indicator, expressed as capital/risky assets ratio has to be at least 12%,
- that a large loan is understood to be the loan exceeding 10% of the Bank's capital. The parameter of large credits understands that total large credits may be maximum 400% of the Bank's capital,
- that investments in entities not belonging to the financial sector, and in fixed assets may be maximum 60% of the Bank's capital.

	DESCRIPTION	PRESCRIBED	31. 12. 2005	31. 03. 2006	30. 06. 2006	30. 09. 2006	31. 12. 2006
1.	CASH PORTION OF CAPITAL	MIN: 10.0 million EUR	80.5 million EUR	83.8 million EUR	155.4 million EUR	162.9 million EUR	156.4 million EUR
2.	CAPITAL ADEQUACY INDICATOR (NET CAPITAL / NET RISK ASSETS)	MIN 12%	15.37%	15.52%	23.63%	20.22%	17.29%
3.	PERMANENT INVESTMENT INDICATOR	MAX 60%	46.55%	44.50%	49.10%	52.89%	33.95%
4.	INDICATOR OF LARGE AND LARGEST LOANS IN RELATION TO CAPITAL	MAX 400%	62.50%	62.30%	22.60%	12.08%	27.31%
5.	LIQUIDITY INDICATOR	MIN 1%	4.23%	3.91%	3.79%	4.04%	3.73%
6.	EXCHANGE RISK INDICATOR	MAX 30%	8.27%	22.72%	28.78%	29.44%	24.30%

The above data show compliance of the Bank's operation with domestic standards concerning the quality of balance sheet, and/or with the requirements as set forth in the new Law on Banks.

PROFIT AND LOSS STATEMENT

9



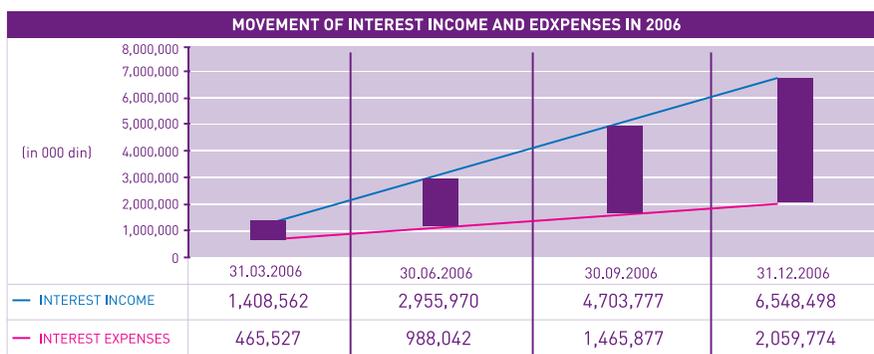
9. PROFIT AND LOSS STATEMENT IN 2006

(in 000 din)

ITEM NAME	2005	2006	INDEX
1	2	3	4=3/2
INCOME AND EXPENSES IN REGULAR OPERATIONS			
Interest income	5,302,228	6,548,498	123.5
Interest expenses	1,850,660	2,059,774	111.3
Interest gain	3,451,568	4,488,724	130.0
Interest loss	-	-	
Fee and commission income	2,610,575	2,632,557	100.8
Fee and commission expenses	313,125	260,944	83.3
Fee and commission gain	2,297,450	2,371,613	103.2
Fee and commission loss	-	-	
Net gain from the sale of securities and participations	194,996	33,453	17.2
Net loss from the sale of securities and participations	-	-	
Net income from Exchange differentials	-	1,985,851	
Net expenses on Exchange differentials	450,223	-	
Net income from placements in related legal entities per equity method (in consolidated balance sheet only)	-	-	
Net expenses on placements in related legal entities per equity method (in consolidated balance sheet only)	-	-	
Income from dividends and participations	21,774	76,107	349.5
Other operations income	854,566	3,351,956	392.2
Expenses on indirect write-off of placements and provisioning	3,367,338	5,256,110	156.1
Other operations expenses	4,065,530	5,609,717	138.0
Income from the alteration of the value of property and obligations	2,561,679	1,577,197	61.6
Expenses on the alteration of the value of property and obligations	985,632	2,158,934	219.0
PROFIT FROM REGULAR OPERATIONS	513,310	860,140	167.6
LOSS FRO REGULAR OPERATIONS	-	-	
PROFIT FROM OPERATION BEING SUSPENDED	-	-	
LOSS FROM OPERATION BEING SUSPENDED	-	-	
PROFIT BEFORE TAX	513,310	860,140	167.6
LOSS BEFORE TAX	-	-	
Profit tax	-	-	
Gain from created deferred tax assets and decrease of deferred tax obligations	223,001	68,151	30.6
Loss on created deferred tax assets and decrease of deferred tax obligations	49,940	14,287	28.6
PROFIT	686,371	914,004	133.2
LOSS	-	-	
NET PROFIT BELONGING TO MINORITY INVESTORS (in consolidated balance sheet only)	-	-	
NET PROFIT BELONGING TO THE PARENT LEGAL ENTITY'S OWNERS (in consolidated balance sheet only)	-	-	
EARNING PER SHARE	-	-	
Basic earning per share	1	1	100.0
Decreased (diluted) earning per share	-	-	

9.1. Interest Income and Expenses

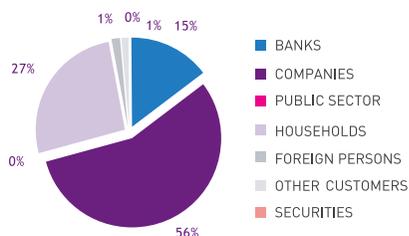
Interest income in 2006 totalled 6,548.5 million dinars, while total interest expenses equalled 2,059.8 million dinars, so that net interest income was 4,488.7 million dinars. The Bank managed to successfully overcome the interest rate risk, which represents the unfavourable alteration of the credit price in relation to the level of deposit interest rates, on one side, and the possibility of reducing the optimal difference between average lending and deposit rates of interest, on the other.



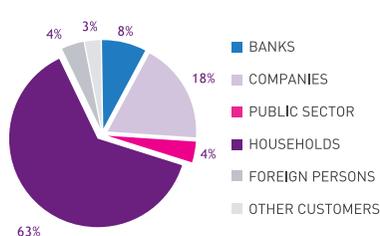
Apart from minimizing the interest risk, at setting lending and deposit interest rates the Bank was adjusting its interest rates with the movements in the market.

In addition to the above base for setting the lending and deposit rates, the Bank was also protecting itself against the interest risk by applying variable interest rates. Protection against interest risk was implemented by way of contracting variable rather than fixed interest rates on credits

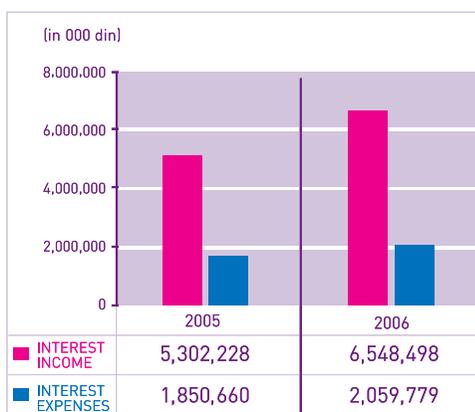
INTEREST INCOME PER SECTORS IN 2006



INTEREST EXPENCES PER SECTORS IN 2006



Within interest income, the largest share represents income generated by interest on corporate loans (3,646.8 million dinars or 55.7%), while in total interest expenses the largest share relates to the interest paid on retail customers' assets (1,299.1 million dinars or 63.1%), which was mostly households' savings in foreign currency.

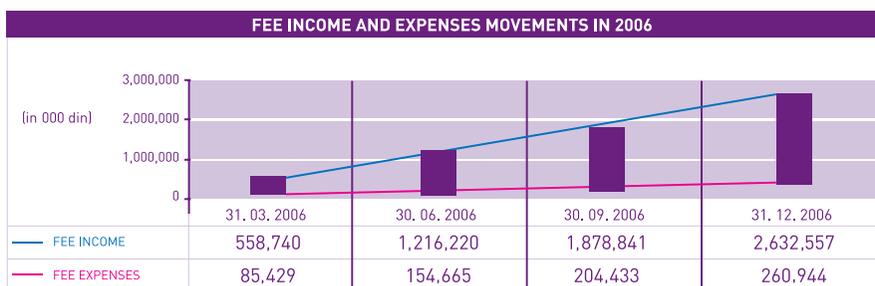


Lending interest income in 2006 totalled 6,548.5 million dinars, and deposit interest expenses equalled 2,059.8 million dinars so that net interest income was at the level of 4,488.7 million dinars or 30% up against the same period of the preceding year.

If compared with the past year, lending interest income rose by 1,246.3 million dinars or 23.5%, while deposit interest expenses went up by 209.1 million dinars or 11.3%.

9.2. Fee Income and Expenses

In total income generated in 2006, fee and commission income was 2,632.6 million dinars, while fee and commission expenses were at the level of 260.9 million dinars.



Fee income and expenses, shown cumulatively, also had harmonized movements.

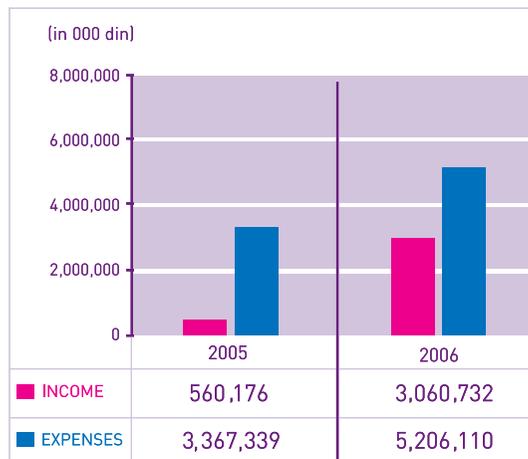


In relation to the past year, banking services fee and commission income increased by 22.0 million dinars or by 0.8%, while fee and commission expenses dropped by 52.2 million dinars or 16.7%.

Net fee and commission income in 2006 amounted to 2,371.6 million dinars and was by 6.7% higher than in the preceding year.

9.3. Income and Expenses under Credit Risk Assessment in 2006

In 2006, the Bank harmonized its balance sheet with domestic and international standards. Also was implemented the business policy of the protection against credit risk as one of the most important conditions for safe operation of the Bank. It was for this reason that the Bank devoted particular attention to the securing of balance and off-balance assets against potential risks, and/or the Bank made allowances and earmarked special reserves on the basis of realistically assessed credit portfolio risk.



Total allowances for balance and off-balance assets amounted in 2006 to 5,206.1 million dinars, while income generated by collected receivables for which individual allowances had been made and provisioning for potential losses totalled 3,060.7 million dinars. In this way, net expenses on the basis of the credit portfolio assessment were 2,145.4 million dinars.

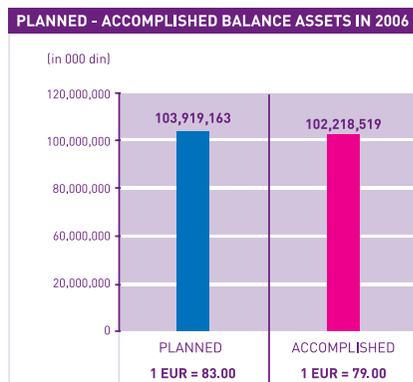
9.4. Profit Realized from Operations in 2006



After covering all expenses, the Bank realized in 2006 a profit from operations at the level of 860.1 million dinars. If compared with the preceding year, this profit amount represented an increase of 346.8 million dinars or 67.6%.

9.5. Implementation of the Business Plan for 2006

At the close of 2006, total balance assets were at the level of 102,218.5 million dinars, and realized profit at the level of 860.1 million dinars, which was within the framework planned by the Bank's Business Plan and Strategy for the next three years:



Growth of assets lower by 1.6% than planned resulted from the projected exchange rate of the dinar vis-à-vis the EURO; namely, the projected exchange rate was EUR 1 = 83 dinars, while actual rate was EUR 1 = 79 dinars.

IMPLEMENTATION OF THE BUSINESS PLAN IN 2006 BALANCE SHEET

(in 000 din)

ASSETS				
	Item name	PLAN 31.12.06	IMPLEMENTED 31.12.06	INDEX (4:3)
1.	2	3	4	5
1.	Cash and cash equivalents	7,975,000	8,026,663	100.6
2.	Deposits and placements with the Central Bank	30,246,196	33,371,741	110.3
3.	Placements to customers and banks	53,221,480	50,077,112	94.1
4.	Other receivables	5,072,700	3,774,791	74.9
5.	TOTAL PLACEMENTS (1+2+3+4)	96,515,376	95,250,307	98.7
6.	Fixed assets and investment real property	7,403,780	6,968,212	94.1
7.	TOTAL LIABILITIES	103,919,164	102,218,519	98.4

(in 000 din)

LIABILITIES				
	Item name	PLAN 31.12.06	IMPLEMENTED 31.12.06	INDEX (4:3)
1	2	3	4	5
1.	Obligations to customers and banks	81,938,784	83,157,360	101.5
3.	Other obligations	5,773,161	3,017,885	52.3
4.	TOTAL OBLIGATIONS (1+2+3)	87,831,445	86,223,967	98.2
5.	Total equity and reserves	16,087,719	15,994,552	99.4
6.	TOTAL LIABILITIES	103,919,164	102,218,519	98.4

In 2006, ROE is 9.7%, which is the optimal financial performance taking into account the overall economic conditions for operation of domestic banks.

**KOMERCIJALNA BANKA A.D.,
BEOGRAD**

**Financial Statements
December 31, 2006 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Komercijalna Banka A.D., Beograd

We have audited the accompanying financial statements (page 3 to 38) of Komercijalna banka A.D., Beograd (the "Bank"), which comprise the balance sheet as of December 31, 2006, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of the banks. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and the Law on Accounting and Auditing of the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

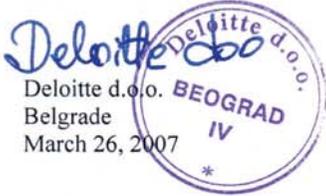
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Komercijalna Banka A.D., Beograd (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Komercijalna banka A.D., Beograd as of December 31, 2006, and its financial performance, changes in equity and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia, regulations of the National Bank of Serbia governing financial reporting of the banks and basis for the preparation and presentation of the financial statements disclosed in the Note 2 to the financial statements.



STATEMENT OF INCOME
Year Ended December 31, 2006
(Thousands of RSD)

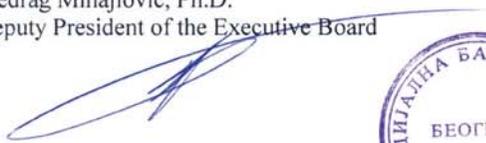
	Notes	2006	2005
Interest income	3.1, 4a	6,548,498	5,302,228
Interest expense	3.1, 4b	(2,059,774)	(1,850,660)
Net interest income		4,488,724	3,451,568
Fee and commission income	3.1, 5a	2,632,557	2,610,575
Fee and commission expense	3.1, 5b	(260,944)	(313,125)
Net fee and commission income		2,371,613	2,297,450
Gains on the sale of securities	3.8, 3.10	33,453	194,996
Foreign exchange gains/(losses), net	3.2	1,985,851	(450,223)
Dividends and other income from equity investments		76,107	21,774
Other operating income	6	3,351,956	854,566
Losses on impairment and provisions	3.6, 7	(5,256,110)	(3,367,339)
Other operating expenses	8	(5,609,717)	(4,065,529)
(Losses)/gains on the valuation of assets and liabilities	3.5	(581,737)	1,576,047
PROFIT BEFORE TAX		860,140	513,310
Deferred tax income	3.15, 9a	68,151	223,001
Deferred tax expense	3.15, 9a	(14,287)	(49,940)
PROFIT FOR THE YEAR		914,004	686,371

The accompanying notes form
an integral part of these financial statements.

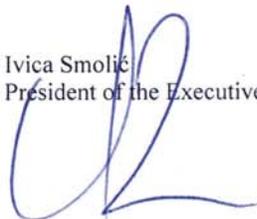
These financial statements were approved by the Executive Board of Komercijalna banka A.D., Beograd on February 26, 2007.

Signed on behalf of Komercijalna banka A.D., Beograd:

Predrag Mihajlović, Ph.D.
Deputy President of the Executive Board




Ivica Smolić
President of the Executive Board



BALANCE SHEET
As of December 31, 2006
(Thousands of RSD)

	Notes	December 31, 2006	December 31, 2005
ASSETS			
Cash and cash equivalents	10	8,026,663	10,341,929
Deposits with the central bank and securities available for refinancing with the central bank	11	33,371,741	17,695,512
Interest, fee and commission receivable	12	483,487	424,858
Placements with other banks	13	149,508	331,498
Loans and advances to customers	14	49,927,604	36,591,252
Trading securities	3.8	328,483	687,144
Securities held-to-maturity	15	139,160	22,689
Equity investments and securities available-for-sale	16	1,762,116	727,255
Assets held-for-sale		3,525	532
Income tax prepayments		26,746	15,752
Intangible assets	17	21,333	-
Investment property	17	3,092,489	-
Property and equipment	17	3,875,723	3,439,055
Other assets and accruals	18	643,530	4,223,616
Deferred tax assets	9b	366,412	298,261
Total assets		<u>102,218,520</u>	<u>74,799,353</u>
LIABILITIES AND EQUITY			
Liabilities			
Amounts owed to other banks	19	3,829,558	2,509,884
Amounts owed to customers	20	79,327,802	60,271,629
Interest, fee and commissions payable		48,722	35,594
Liabilities from the distribution of income		4,284	851
Other operating liabilities	21	648,776	843,511
Provisions	22	1,147,830	1,185,130
Other liabilities and accruals	23	1,152,769	960,845
Deferred tax liabilities	9c	64,226	49,940
Total Liabilities		86,223,967	65,857,384
Equity			
Share and other capital	24	12,662,890	6,744,999
Revaluation reserves		1,962,557	1,450,785
Retained earnings		1,369,106	746,185
Total Equity		<u>15,994,553</u>	<u>8,941,969</u>
Total Liabilities and Equity		<u>102,218,520</u>	<u>74,799,353</u>
OFF-BALANCE-SHEET ITEMS	25	<u>50,732,993</u>	<u>31,942,292</u>

The accompanying notes form
an integral part of these financial statements.