

KOMERCIJALNA BANKA AD SKOPJE



R E P O R T
ON THE PERFORMANCE OF
KOMERCIJALNA BANKA AD SKOPJE
IN 2009
(SUMMARY)

Skopje, February, 2010

I. CONDITIONS IN WHICH THE BANK PERFORMED ITS ACTIVITIES¹

During 2009, the impact from the global economic crisis on the domestic economy kept on, which was manifested through unfavourable movements in the real sector, deterioration of the payment balance, decreased external capital and financial inflows and increased pressures on the foreign currency reserves as a result of psychological factors. Due to the expressed concern under deteriorated external liquidity, the credit rating agency Standard & Poor's downgraded the long-term credit rating of Macedonia for foreign and local currency from "BB+" to "BB" and from "BBB-" to "BB+". Standard & Poor's also confirmed the mark "B" for the short-term credit rating of Macedonia for foreign currency and downgraded the short-term credit rating for local currency from "A-3" to "B" likely downgraded (negative). But, in September 2009 the agency Standard and Poor's raised Macedonia's credit rating outlook from negative to stable as a results of reduced external risks, even they are not completely removed. From the other side, Japan credit rating agency has affirmed its BB+ rating with stable outlook and has confirmed expectation of „Standard & Poor's“ for maintaining futher credit capability. The ratings are primarily supported by the country's continued efforts for various economic reforms, prudent fiscal policies, as well as decreased trade deficit and maintaning FX reserves at the level of four-months coverage of the import.

1. **The economic environment** in 2009 is characterized by continuous decrease of inflation, which followed by the index of the life costs in the period January – November 2009 marked -0.7%, representing statement of deflation of the economy. The condition which is present for several months continuously is unfavourable, thus showing liquidity deterioration in the economy and confirms the necessity for relaxing the monetary policy and increasing of the credit support of the real sector. As at the end of the second quarter of this year, the growth rate of the GDP is negative and it is -1.4%, thus representing widening of the drop of the domestic economy.² Such results derive from the negative trends in the real sector, whereas the industrial production in the period January - October 2009 shows decrease of 11.3% compared to the same period last year. The decline of the industrial production is mostly conditioned by the decline of production of basic metals. The volume of exchange of goods in the period January – October 2009 is for 27.8% lower compared to the same period last year, whereas the total value of the export is EUR 1,583.3 million, and the import is EUR 2,936.4 million. The coverage of the import by export is 54%, and the trade deficit in the period January-October 2009 is EUR 1,353 million.

Key economic events in 2009

- NBRM commenced realization of the agreement with MasterCard International Incorporated for national settlement of non-cash payments in the trade network of the Republic of Macedonia and withdrawal of funds from banks or from ATM with MasterCard cards issued by business banks in the Republic of Macedonia.
- The Board of Directors of the World Bank approved EUR 19.3 million for the Project for conditional money transfers in the Republic of Macedonia for the purpose of strengthening the efficiency of the social aid system;

¹ The Summary is based on the detailed Report on Performance of Komercijalna Banka AD Skopje in 2009.

² The data as at 30.09.2009 is not disclosed yet.

- an agreement with the European Investment Bank was signed for EUR 100 million loans for enterprises intended for SMEs, which in the time of crisis are faced with difficulties in receiving financial support from banks;
- in order to encourage the development of the financial markets, the increase of the number of financial instruments and encouraging competition in the financial sector, the Ministry of Finance introduced government securities with EUR clause;
- eight issuing of denacionalization bonds was completed, in the amount of EUR 23 million,
- the Securities Exchange Commission promoted the project for introduction of electronic submission of financial reports and current information by the shareholding companies to the SEC;
- the SEC approved new trading rules of the Macedonian Stock Exchange with several remarks upon which the MSE should comply within the period of 90 days. The implementation of the rules sets fundament for realization of the E-trade Project;
- The Gudebook for issuing of shares was promoted in order to give incentive to the shareholding companies with special reporting obligations to issue new shares;
- Several regulations were passed on the governance of Investment fund management companies;
- Two brokerage houses were deprived from their licenses for performing securities services (Publikum AD Skopje and Dinev broker AD Skopje) ;
- "KB publikum - balansiran" is a newly opened investment fund, which obtained approval for foundation from the Securities Commission, and founder of the fund is the Funds Management Company "KB publikum invest";
- the Agency for supervision of fully funded pension insurance issued the first license for management of voluntary pension funds to AD "Nov penziski fond", and "Open volontaru pension fund NLB pension plus" obtained conditional approval to pre-registration.
- Approval was passed to KB Prvo Penzisko Drustvo AD Skopje for second issuing of shares through private offer;
- The SEC did not accept the MSE's request for increase of the fees chargeable to the market participants and the proposal for introduction of new fees for new services, considering that in conditions of global financial crisis the increased fees would additionally deteriorate the conditions at the market of securities and would have negative influence on the investors. Also the MSE would additionally weaken its weak competitiveness compared to the regional markets;
- The Budget for 2010 was passed in December, thus planned revenues are in the amount of 143,334 million denars, planned expenditures are in the amount of 153,796 million denars, or 2.8% more compared to 2009.

2. The instruments of the **monetary policy** in the reporting period were redirected from the domain of regulating the inflation to regulation of the FX market. In order to maintain the stability of local currency, NBRM intervened with net-sale of the foreign currency, thus, as at 30.11.2009 the gross foreign currency reserves were EUR 1,580 million and they show decrease of EUR 80 million compared to December 2008. Expectation of further deterioration of conditions in the external sector resulted in increasing of the interest rate of the NBRM treasury bills from 7% to 9%. Additional pressure on the interest rates in the reporting period was made by the auctions conducted of three-month and six-month government bills, thus, in conditions of higher offer than demand, the interest rates thereof were higher in terms of the basic interest rate and moved from 8.99% to 9.43%. Due to more favorable movements on the f/x market in the second half of the year and the forecasts for more stable macroeconomic environment in the course of 2010, the NBRM decreased its reference interest rate to 8% and also the interest rate of collateral loan from the NBRM was decreased to 9.5%. Also, in the reporting period, the Ministry of Finance for the first time conducted auction of three-month and twelve-month government bills with

FX clause, and on 1 July issued Eurobond in the amount of EUR 175 million and interest rate of 10%.

Also, NBRM adopted many measures in terms of keeping the stability of foreign currency rate, the price and financial stability in the economy, as follows: increasing the rate of mandatory reserve in foreign currency from 10% to 13%, increasing the rate of mandatory reserve in denars with foreign currency clause from 10% to 20%, amendment to the Decision on managing the liquidity risk for the purpose of creating bigger flexibility of banks in liquidity management and short-term liquidity fluctuations etc. In February, NBRM started to conduct auctions of foreign currency deposits, as a new instrument through which banks were given the possibility to place the foreign currency assets with concurrent decrease of their credit risk exposure.

In 2009, the trend of gradual impeding of the monetary and credit growth was continued. In November, the total deposits showed the annual growth of 7.2%. Foreign currency deposits showed annual growth of 20.9%, while the denar deposits shows continuous decline and as of November reached 5.2%. The sector analyses shows that households' deposits in November marked annual growth rate of 13.2%, while corporate deposits (both private and public) have decreased by 11.8% on an annual basis. The credit growth in November was reduced to 4.1% in terms of the previous year, whereas the foreign currency loans showed higher growth dynamics in terms of the denar ones.

In 2009 many decisions and regulations were passed by NBRM out of which more important are the following:

- Decision on amendments and supplements to the Decision on credit risk management;
- Decision on amendments and supplements to the Decision on the methodology for determining the capital adequacy of banks;
- Decision on exchange operations;
- Decision on amendments and supplements to the Decision on the chart of account of banks;
- Decision on the manner and the procedure for implementation and application of the bank's program for prevention of money laundering and terrorist financing
- New Decision on mandatory reserve;
- Decision on amendments and supplements to the Decision on liquidity risk management etc.

In the reporting period Komercijalna Banka AD Skopje performed its activities in conditions defined by the Macroeconomic Policy of the Government of the Republic of Macedonia for 2009, the Aims and Objectives of the Monetary Policy of NBRM and by the Program of the Bank's Business Policy Measures and Activities for the current year.

- In 2009, the Bank kept on performing its activities successfully despite the negative effects of the global economic crisis on the domestic economy, and as confirmation of the rating and the successful operation the Bank was awarded the following prizes:
 - ✓ the prize for the Best Bank in Macedonia for 2009 by the renowned New York magazine Global Finance according to the following criteria: growth of assets, profitability, strategic relations, services to clients, competitive prices and new products;
 - ✓ special prize for the most active participant from Macedonia in the Trade Facility Programme by the European Bank for Reconstruction and Development out of many participating banks in the Trade Facility Programme in Europe;
 - ✓ prize for Best Corporate Governance from the non-government organization "Transparency – Zero Corruption"

- ✓ National prize for social responsibility of enterprises for 2008, within the Project “Transparency and Ethical Management” realized with support of the Ministry of Economy and USAID and three plates for the best social responsibility practice in large companies such as: in the category Relationship with suppliers/consumers for the project “Products suitable for citizens” , in the category Environment for the project “Environment Protection” and in the category Investing in community for the project “Investing in community – organizational culture of the community”.
- ✓ status of a Super Brand for 2009, based on the quality, responsibility and prominence of the Bank, as well as the emotional connection with its clients.

II. REALIZATION OF THE BANK'S BALANCE SHEET

1. The total resources of the Bank as at December 31, 2009 reached the total amount of 60.8 billion denars and noted an increase of 10.1%, while the Plan for 2009 was 100.5% realized.

Review of the Liabilities of the Bank (without commission operations)

(In million denars)

	31.12.2008	Plan 2009	31.12.2009	Index	
				4:2	4:3
1	2	3	4	5	6
Short-term and long-term borrowings	977.7	1,352.0	1,581.1	161.7	116.9
Deposits	47,014.4	50,992.0	51,217.0	108.9	100.4
Share capital and reserves	4,885.9	5,883.0	5,882.3	120.4	99.9
Other liabilities ³	2,304.2	2,216.7	2,095.1	90.9	94.5
Total liabilities	55,182.2	60,443.7	60,775.5	110.1	100.5

The growth of the resources is mainly a result of the increased deposits. Namely, total deposits of the Bank represent 84.3% of the total liabilities and compared to December 2008 have increased by 4.2 billion denars, while the plan for 2009 is realized with 100.4%. From the maturity aspect, the decrease is marked only with demand deposits by 5.4% and realization of the plan for 2009 with 87.6%, while the short-term deposits noted an increase of 21.2% and realization of the Plan for 2009 with 111.0% and the long-term deposits increased by 45.2% while the plan was realized with 137.8%. Within the demand deposits a decline noted the non-financial corporate deposits and retail deposits, while the growth of both short-term and long-term deposits is due to the increase of the retail deposits and non-financial corporate deposits.

Maturity structure of the total Bank's deposits

(in million MKD)

	31.12.2008	Plan 2009	31.12.2009	Index	
				4:2	4:3
1	2	3	4	5	6
Demand deposits	23,072.1	24,909.0	21,829.6	94.6	87.6
Short-term deposits	22,428.6	24,488.0	27,189.6	121.2	111.0
Long-term deposits	1,513.6	1,595.0	2,197.8	145.2	137.8
TOTAL DEPOSITS	47,014.3	50,992.0	51,217.0	108.9	100.4

³ As at 31.12.2008 this amount incorporates unallocated profit in the amount of 1,377.6 million denars, while as at 31.12.2009 incorporates current gross profit in the amount of 1.074,0 million denars

Currency structure of the total Bank's deposits

(in million MKD)

	31.12.2008	Plan 2009	31.12.2009	Index	
				4:2	4:3
1	2	3	4	5	6
MKD deposits	22,959.4	24,850.0	21,617.6	94.2	87.0
FX deposits	24,054.9	26,142.0	29,599.4	123.0	113.2
TOTAL DEPOSITS	47,014.3	50,992.0	51,217.0	108.9	100.4

The **currency structure** of the Bank's deposits shows increased participation of foreign currency deposits compared to the denar deposits. They noted an increase of 23.0% compared to 31.12.2008 and reached the participation of 57.8% while the participation of denar deposits is 42.2%.

Short-term and long-term borrowings noted 61.7% increase due to growth of liabilities upon used loans from MBDP, other banks and from the Ministry of finance. Within this item the liabilities upon long-term FX loans serviced through domestic banks decreased due to payment of installments of foreign credit lines as follows: ICDF Taiwan, Italian credit line, DEG credit line, KFW and CEB credit line. Also, installments were paid upon denar loans from the new Agricultural credit fund processed through the Ministry of finance for short-term lending to corporate clients, long-term denar loans from MBDP and the Ministry of finance (IFAD credit line), as well as one installment from the primary issuing referring to liabilities upon denar loans from the NBRM with maturity exceeding 5 years.

Share capital and reserves as at 31.12.2009 reached the amount of 5,882.3 million denars and compared to 31.12.2008 noted an increase of 20.4% and the Plan was realized with 99.9% due to allocation of part of the profit for 2008 into reserves in the amount of 996.4 million MKD.

2. In the course of the reported year, the **total placements** of the Bank realized volume and dynamics adequate to the resources. They reached the amount of 60.8 billion denars thereby noting an increase of 10.1% compared to December 2008 due to increase of loans, cash and deposits to NBRM which have significant participation, as well as due to increase of property and other assets and investments in associates, which have smaller participation. The annual plan is realized with 100.5%.

Review of the Bank's Assets

(in million MKD)

	31.12.2008	Plan 2009	31.12.2009	Index	
				4:2	4:3
1	2	3	4	5	6
Money in cash and Deposits with the NBRM	15,068.6	17,786.7	16,591.1	110.1	93.3
Assets held for trading	222.0	205.0	30.5	13.8	14.9
Placements in and short-term loans to other banks	1,375.3	1,216.0	1,330.6	96.8	109.4
Loans	34,919.0	37,840.0	38,665.7	110.7	102.2
Investments in securities	721.2	576.0	501.4	69.5	87.0
Investments in associates	49.7	65.0	88.8	178.7	136.6
Property	1,666.9	1,863.0	1,738.2	104.3	93.3
Other assets	1,159.5	892.0	1,829.2	157.8	205.1

Total assets	55,182.1	60,443.7	60,775.5	110.1	100.5
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Total net-loans representing dominant part of the Bank's assets with 63.6% participation noted an increase of 10.7% and realization of the plan with 102.2%. Within their frames short-term loans, due receivables and bad claims noted an increase of 1.2% and realization of the plan for 91.0%, while the long-term loans shows higher dynamic of growth of 15.2% and realization of annual plan with 107.7%.

Review of total net loans

(in million MKD)

		31.12.2008	Plan 2009	31.12.2009	Index	
					5:3	5:4
1	2	3	4	5	6	7
1	Short-term loans, due receivables and bad and doubtful claims	11,212.0	12,476.0	11,351.5	101.2	91.0
2	Long-term loans	23,707.0	25,364.0	27,314.2	115.2	107.7
	Total net loans	34,919.0	37,840.0	38,665.7	110.7	102.2

Within the frame of total gross loans gross loans to non-financial corporate entities shows dominant participation and noted an increase of 11.6% compared to December 2008 and the plan was realized with 102.5%, while gross retail loans have increased by 3.7% and the plan for 2009 is realized with 91.7%. Impairment provisions in 2009 marked 15.8% increase due to implementation of the new Decision on credit risk management and methodology of the NBRM, while the plan for 2009 was realized with 101.4%.

Currency structure of total loans

(in million MKD)

		31.12.2008	Plan 2009	31.12.2009	Index	
					5:3	5:4
1	2	3	4	5	6	7
1	Denar loans and denar loans with fx clause	36,380.9	39,825.0	39,642.1	109.0	99.5
2	FX loans	2,374.7	2,396.0	3,466.9	146.0	144.7
3	Impairment provisions	-3,836.6	-4,381.0	-4,443.3	115.8	101.4
	Total net loans	34,919.0	37,840.0	38,665.7	110.7	102.2

The currency structure of total loans noted dominant participation of denar vs fx loans, whereby the fx loans noted higher increase compared to the denar loans.

Money in cash representing 22.7% of the total assets of the Bank noted an increase of 9.0% due to significant increase of the FX cash, while the denar cash dropped as a result of smaller amount of purchased treasury bills. The annual plan for 2009 is realized with 90.9%.

Deposits with the NBRM representing 4.6% of total assets increased by 15.8% due to the increase of Mandatory FX reserve, while the annual plan was realized with 107.2%. Within the frame of this item as of May 31th 2009 the Bank allocated special deposit upon prescribed limited growth of retail loans.

Property of the Bank representing 2.9% of the total assets increased by 4.3% due to procurement of working assets, while the plan for 2009 is realized with 93.3%.

Other assets representing 3.0% of Bank's total assets increased by 57.8% and the plan for 2009 were realized with 205.1%. Within this item dominant part represent collected assets

upon unpaid claims in the amount of 1,139.6 million denars and the remaining amount refers to calculated interest, bad and doubtful claims from interest and impairment losses. *Investments in associates* representing insignificant part of total assets, have increased by 78.7% due to funding equity of the Bank in the investment fund KB Publikum, increased equity in KB Prvo penzisko drustvo AD and share in profit/loss in associates, while the Plan for 2009 is realized with 136.6%.

Opposite to this, *short-term loans to other banks* representing 2.2% of the total assets dropped by 3.2% due to payment of liquidity loan to a domestic bank, while the plan was 109.4% realized.

Trading assets and investments in securities having insignificant participation in the total assets have also decreased compared to December 2008, while the annual plan for 2009 is realized with 14.9% and 87.0% respectfully.

III. FINANCIAL HIGHLIGHTS

The unfavourable economic conditions deriving from the global economic crisis, as well as implementation of the new Decision on credit risk management and Methodology of the NBRM have reflection on the Banks' performance. Thus, the realized *financial result* for the period 01.01-31.12.2009 reached *the amount of 1,074.0 million MKD* represents 69.3% of the financial result in the same period of the last year, whereby the Plan for 2009 was realized with 89.4%.

Income statement (In million MKD)

	Realization 01.01- 31.12.2008	Plan 2009	Realization 01.01- 31.12.2009	Index 4:2	Index 4:3
1	2	3	4	5	6
Net interest income	2,011.9	2,275.0	2,082.0	103.5	91.5
Net fee & commission income	956.5	985.7	715.9	74.8	72.6
Net FX gains	101.1	0.0	91.3	90.2	0
Other income	230.0	204.6	206.7	89.9	101.0
Total administrative expenses	1,329.8	1,461.9	1,521.6	114.4	104.1
Other expenses	439.1	302.8	281.1	64.0	92.8
Impairment provision	528.6	649.0	3,617.6	684.3	557.4
Release of impairment provision	240.2	60.3	3,350.5	0	0
Bad debts provision	307.9	89.1	47.8	15.5	53.6
Gross profit before tax	1,550.1	1,201.0	1,074.0	69.3	89.4

IV. RISK MANAGEMENT & SUPERVISORY STANDARDS

The modern concept of banking in the market economy cannot be performed successfully without adequate approach in the risk management, as well as strict adherence to the supervisory standards which are regulated by the Law and represent the fundament of a successful performance of every bank.

- ❖ Successful management of the **credit risk** is based on maintenance of high quality credit portfolio of the Bank with adequate industry and geographical dispersion.

As at 31.12.2009, bank's asset exposed to credit risk is 68,241.4 million MKD and compared to 31.12.2008 notes increase for 7.15%.

Impairment of the financial instruments which are exposed to credit risk as at 31.12.2009, which means determining of the impairment of the active balance sheet assets items and the special reserve of the off balance sheet assets items is prepared according to new regulative of the NBRM which come it to force since 01.01.2009.

Impairment and classification of the credit risk exposure as at 31.12.2009 is separated:

- on individual basis, for any exposure that is considered individually important items, (total exposure to a client exceeding 0.007% of the total credit risk exposure of the Bank);
- on group basis, for retail credit portfolio;

Compared to 31.12.2008, the amount of the additional impairment for the period 01.01.09-31.12.09 is 501.7 million MKD. *** 4

- ❖ The management of the **FX risk** refers to monitoring, measuring, quantification and control of the Open FX position, which is the basic indicator for the level of Bank's exposure to FX risk. During 2009 the Bank has continuously monitored and managed with FX risk which resulted with positive net FX gains, stable level of aggregate open FX position within the frames of legal limit of 30%.
- ❖ **The liquidity risk** was monitored by the Bank in the course of 2009 through fulfillment of obligation of the compulsory reserves in denars and in foreign currency, interest rates of Treasury and Government bills, monitoring the stability and concentration of the deposit base, analyses of the residual and expected maturity and currency structure of the assets and liabilities of the Bank, etc. Calculation of the internal liquidity indicators and liquidity ratio, as well as the Bank's solvency was subject of continuous monitoring through calculation of the Bank's capital and the capital adequacy ratio.

⁴ Improvement or worsening of the quality of the credit portfolio as at 31.12.2009 expressed through classification in risk categories A, B, V G and D at the client level is not comparable with 31.12.2008, because according to new methodology, classification is prepared at the credit exposure level.

According to the criteria from the Decision for credit risk management, the portfolio which is impaired on individually significant level is classified in risk categories A, B, V, G i D at the credit exposure level. The portfolio ranked on a group basis is not expressed with letters A, B, V, G I D.

In order to provide a comparable data for continually monitoring the portfolio quality for each risk category and clients during 2009, we will examine the methods for quarter classification comparativeness.

- In the course of 2009 the Bank fulfilled the obligation for allocation of denar and foreign currency mandatory reserve. Fulfillment of Denar mandatory reserve oscillated from 2,004.5 million denars to 3,006.5 million denars, while the fulfilment of FX mandatory reserve oscillated from 2,462.9 million denars to 2,818.6 million denars.

- the average interest rates of the treasury and government bills are significantly higher, compared to the same period of the previous year, which is result of the continually bidding of the free cash and the increasing of the state role in the assets allocation. In the second semester the reduced average interest rate of the government bills is due to the auction of government securities with foreign exchange clause which interest rate is lower than interest rate of the MKD government bills.

- In terms of stability and concentration of the deposit base, it can be concluded that the Bank has no significant concentration of the deposits by clients - depositors-legal entities and the percent of participation of the 20 largest depositors in the average deposit base oscilated from 7.51% in June to 8.87% in March.

- In the period January – December 2009 the Bank had a stable liquidity position and positive liquidity gap in all time-bands except in the time-band of 8-30 days where from time to time a negative liquidity gap which successfully managed had.

- Starting from 31.01.2009, the Bank calculates internal liquidity indicators (form LP) on monthly bases. The limits for these indicators are defined in the Policy for undertaking and managing liquidity risk of Komercijalna Banka A.D Skopje. In the period 31.01.-31.07.2009 some of the internal liquidity indicators weren't adjusted with the internal limits, so, starting at August 31, 2009 the Bank made revision of the internal limits and adjustment with the internal liquidity indicators.

- Starting from 28.02.2009, the Bank calculates: Liquidity ratio up to 30 days, as relation between assets in denars and in foreign currency and liabilities in denars and in foreign currency which is due to next 30 days (LR30) and Liquidity ratio up to 180 days, as relation between assets in denars and in foreign currency and liabilities in denars and in foreign currency which due to next 180 days (LR 180). In the period March-December 2009, the Bank is in compliance with the dynamic of compliance of the liquidity ratios established by NBRM, except for March 2009 regarding LR 30 (foreign currency) and LR 180 (foreign currency). An explanation for this incompliance was sent to NBRM and already in April 2009 the Bank had overcame this incompliance.

- According to the methodology of the NBRM the Own assets with 31.12.2009 reached the amount of 5,731,5 million MKD and compared to 31.12.2008 when they were total 4,784,8 million MKD shows increase for 19,79% as a result of the allocation of the profit to final account for 2008. Capital adequacy ratio as of 31.12.2009 is 10.64% and compared to 31.12.2008 shows increase of 0.74 percentage points. The capital adequacy ratio was within the frames of the legally established limit (over 8%).

- ❖ The successful risk management includes monitoring and management of operational risks which is risk of losses as a result of inappropriate or weak internal processes, people and systems or external events. This definition includes legal risk as well.

Komercijalna Banka AD Skopje, in its everyday operation continually follows records and analyzes the events that had caused damage or are potential operative risk. Based on gathered information and analyses made, the Bank undertakes certain measures for mitigation and elimination of the loss events consequences and for elimination/limitation and control of the risk in the future.

Most significant risk events which had some effects in 2009 refer to: three robberies for which the caused damage was reimbursed entirely, misuse (forgery) of bank cards for which the Inter-banking procedure is in process and the Bank expects the minimum material expense, damage of assets where the settlement of loss is about 90% and other material insignificant events.

Reputation risk is current or future risk which can influence the profit or own funds of the bank due to unfavourable observing by customers, creditors, shareholders, investors and regulatory bodies.

Reputation risk is very important for bank's activities. Although managing this risk is a complex task, because it's specific nature, the Bank undertakes all the measures and activities for its minimization and elimination. Managing reputation risk is concern and task of all employees, organizational units and bodies of the Bank.

In the period January-December 2009, the Bank had no significant exposure of reputation risk.

- ❖ Market risk management means management of the Bank's investment portfolio and simultaneous adherence to the Bank's principles, safety on the invested funds, regulating and maintaining liquidity and profitability of the Bank, diversification of the risks etc.

During 2009, the Bank has fulfilled the defined limits and successfully managed the market risk. Participation of the Bank's investment portfolio in the Bank's total activities during the period January – December 2009 is from 1.06% on October 31, 2009 to 3.31% on January 31, 2009.

Movement of the investment portfolio structure by type during the period January – December 2009 is as follow: held for trading (HFT): from 2.32% to 28.44%, held to maturity (HTM): from 17.67% to 65.23% and available for sale (AVS): from 18.50% to 58.79%.

During the period January – December 2009, the Bank has not exceed the limitation defined in item 29 in the Decision on the methodology for determining capital adequacy (Official Gazette No. 159/2007), i.e. the Bank has no obligation to hold adequate capital requirements for covering market risk. The highest participation of 0.89% is realized in January and February.

Currency structure of the trading book during the period January – December 2009 shows participation of over 90% on denar items.

- ❖ *Basis for interest rate risk management represents the Decision on the interest rates and the effects from its implementation on Income Statement. In 2009 several changes and amendments are made, from which the most important are as follows:*
 - The interest rates on denar loans and denar loans with f/x clause to legal entities are increased for 0.5 percentage points. Also, the interest rates for existing f/x and revolving f/x loans in EUR and CHF are increased, as well as the interest rates for forfeiting. Starting from 01.05.2009 the interest rates are additionally increased for 0.5 percentage points for existing and 2.0 percentage points for newly approved denar loans to legal entities.

- By the Decision no. 02-1630-2506 from 29.12.2009 the following has been completed:
 - decrease on the interest rate of 0,5% annually, for all the newly approved denar loans by which the credit exposure of the clients is increased after 01.05.2009;
 - decrease on the interest rate of 0,5% annually, for all persisting denar loans approved to clients classified in A risk category and loans approved to the clients for the first time in the bank, but have collateral -mortgage minimum 120%; as well as
 - decrease of the interest rate of 1% annually, for all persisting denar loans approved to clients classified in A risk category and loans approved to the clients for the first time in the bank, but have collateral -mortgage minimum 120% for the loans which means increase of the indebtedness of the companies on the basis of loans, measured in relation to current balance of the loans, that the companies use as of 30.04.2009.

The decrease of the aforementioned Decision will be applied as of 01.01.2010

- additional increase was made (except the increase on interest rate with Decision No. 02-1630-296/24.02.2009) on the interest rates for cash loans, denar loans and denar loans with f/x clause collateralized with real property mortgage, as well as for the rest of the citizens loans, except for the loans collateralized with pledge of deposit or pledge of securities.
- decrease is made on the interest rates for citizens denar loans and loans with EUR clause, collateralized with real property mortgage. This Decision will be applied as of 01.01.2010, except for the interest rates for loans with EUR clause, which will be applied as of 31.01.2010.
- Increase of the credit interest rates on the credit balance of the current accounts and credit cards.
- Credit interest rate is introduced for the new Bank's products-Visa Gold Standard, Visa Gold Revolving and Visa Corporate. As well as for the other credit cards issued by the Bank, for these Visa products the deposit interest will not be calculated on the denar accounts.
- For the interest rates to deposits from legal entities amendment is made on the existing maximal interest rates for term deposits. On that occasion the identical interest rates for both ways of interest payment shall be applied (deposits with interest payment on the maturity date and deposits with monthly interest payment).
- The Bank completed the precision for the deposits with identified purpose with maturity term longer than the terms determined by the Bank for time denar and foreign currency deposits of legal entities. The interest payable on these deposits shall be at the interest rate applicable for the longest term as set by the Bank.
- Deposit interest rates on term denar and f/x savings in Euro were increased. By the Decision no. 02-1630-2506 from 29.12.2009 linearly, up to 0.5 p.p., the interest rates for denar savings was decreased, as well as the interest rates on part of Euro f/x savings.

As at 31.12.2009 the average risk weighted loan interest rate is 7.06 %, the average risk weighted deposit interest rate is 3.58 %, while the interest margin is 3.48%.

2. In its operations, the Bank strictly adhered to the prescribed legal framework (standards) of the credit exposure and its investments, whereby they were completely fulfilled in regards to:

- the capital required for establishing of the Bank, which, according to the law, should be MKD 310,000,000;
- the capital required for performing the following activities: international lending, factoring, financing of commercial transactions, trading with FX resources, securities, financial derivatives, managing with resources and securities portfolio in account of clients, providing services – property custodian and trading, and placement of new issued securities, which, according to the law, should be MKD 560,000,000;
- the Bank's own funds in relation with the basic capital, which according to article 64 for the Banks Law should not be less than the basic capital:
- The Bank fulfills the supervisory standard according to article 15 from the Bank Law (total nominal amount of shares without voting right shouldn't be largest than 10%),
- the capital adequacy rate is 10.64% and it is within the prescribed minimum of 8%;
- the Bank fulfills the standard for exposure towards individual subject and connected subjects with them, which should not exceed 25% of the Bank's own funds;
- The Bank doesn't have exposure toward branch which should not exceed 10% of the Bank's own funds;
- the Bank does not have exposure higher than the prescribed 10% of the own funds towards shareholder of the Bank with qualified participation and connected individuals with them, which direct or indirect have no less than 5% of the total number of shares or issued shares with voting rights witch give the opportunity for influence in the Banks managing process;
- the exposure towards the Managing Body of the Bank, the members of the Board of Directors and other Bank's bodies, as well as employees with special rights and responsibilities is 2.88% of the Bank's own funds, in relation to the legal provision according to which it should not exceed 3% of the own funds;
- Total exposure toward branch, shareholders with qualified participation and individuals with special rights and responsibilities is 2.88% and it is under the limit of 65% of the Bank's own funds;
- the Bank have large exposure towards individual and individuals connected with them which is equal or largest than 10% of the own funds, but total amount of large exposures is 4 times of the own funds and don't exceed prescribed eight-time amount of own funds;
- the Bank does not have any loan approved or other type of credit exposure for purchase of Bank's shares or upon pledge of Bank's shares from the Borrower;
- the Bank does not have shares with other bank and does not use the legal opportunity to acquire up to 5% of the shares from other bank;
- Bank fulfills the standard from the article 75 to purchase own shares to 10% of the nominal value of total shares, but amount of the purchased own shares should not exceed the amount of unallocated profit;

- The Bank's property in buildings, land, equipment and capital parts in other banks, non-banking financial organizations and non-financial institutions is 39,43% of the own funds and is within the prescribed 60% of the own funds;
- The aggregate amount of capital parts with non- financial institutions is 0% of the own funds compared to the prescribed one of 30% of the own funds;
- The Bank had not control in any non-financial institution;
- The Bank fulfills the obligation for obligatory reserve in denars and FX and in December 2009 according to the Methodology of NBRM, National Bank should pay back amount of 501 thousand EUR for obligatory reserve in FX;
- The open FX position of the Bank (daily open FX position) it is within the prescribed 30% of the Bank's own funds;
- The Bank fulfils the standard of the Companies Act according to which the mandatory common reserve of the Bank may not be lower than 15% of the profit until the reserves reach the amount which is equal to one fifth of the capital.

V. CORPORATE LENDING ACTIVITIES

As one of the main activity of Komercijalna Banka AD Skopje corporate lending is performed in accordance with the Business and Credit Policy of the Bank, aims and objectives of the Monetary Policy of the Central Bank and the other law regulations and internal acts of the Bank strictly respecting the principles of profitability, efficiency and security of the placements with acceptable credit risk.

In 2009 apart from the financial crisis and global changes in the financial sector, as well as more conservative, more restrictive approach and more carefully analysis of the potential influence on the credit portfolio, the Bank continued with implementation of interest rate policy of lower interest rates for clients who regularly service their obligation and those which had been identified as first-class clients.

1. In the sphere of lending to legal entities, the Bank's activities were directed toward active monitoring, supporting and participating in the growth of profitability and efficiency of the clients, which also influence the success of the Bank and its significant market share in the banking sector in the Republic of Macedonia.
 - a) The analysis of the total used denar loans to legal entities in 2009 shows participation of short-term loans of 79.0%, in terms of 21.0% participation of used long-term loans.

The number of loans regarding the used short-term denar loans of the Bank⁵ (including branches that have authorization to perform those activities) is 2,809, in the total amount of 20,406.7 million of denars, being decrease of value of 13.3% compared to last year.

From the aspect of structure of short term loans by areas 39.8% belong to loans used in trade, 27.0% in manufactory, 12.1% in electricity, gas and water supply, 6.4% in constructions, 4.3% in agriculture, hunting, forestry and fishing, 3.5% in transport, and the rest in other areas.

In the domain of denar long-term lending, the number of loans under disbursed long-term loans from the Bank's assets⁶ is 361 in total amount of 5,427.6 million denars, which is for

⁵ Total used short-term denar loans include denar loans with FX clause

37.4% less than the amount of the same period last year. This amount also includes 9 loans approved and disbursed in branch Prilep in total amount of 78.1 million MKD, 11 loans approved and disbursed in branch Ohrid in total amount of 59.4 million MKD and 17 loans in branch Kumanovo in the total amount of 37.5 million denars.

b) In 2009, the Bank continued to approve F/X loans from the assets of foreign credit lines and F/X loans from other resources.

In this period, active credit lines were Revolving fund of the Italian Credit line placed through Macedonian Bank for Development Promotion and Credit line from the EIB. In the reporting period the Bank had signed Frame Agreement for participation in the program for lending to small and medium size enterprises and priority projects by the credit line from EIB in amount of 100 million Eur. According to that Agreement, in the process of approving loans by this credit line, the Bank would participate with 25% own funds, while 75% of the funds are from EIB.

From the Revolving fund of the Italian Credit line were approved 7 loans in total amount of 2,425 thousand EUR (5 long-term loans in the amount of 1,725 thousand EUR and 2 short-term loans in the amount of 700 thousand EUR). From the credit line from EIB in December was withdrawn first instalment in total amount of 8.5 million EUR, out of which 6.4 million EUR are from EIB and the rest from the Bank's funds. From the first instalment the Bank approved total 16 loans. In the last quarter of 2009 there were approved another loans by this credit line and they will included in the following instalments in 2010. Despite the approving, the Bank realized administration of the approved FX loans by the credit lines ICDF Taiwan, Fund of the European Council, EIB and Italian commodity credit line.

In the reporting period the Bank was also approving F/X loans and denar loans with FX clause for payments in the country and abroad, total 13 loans approved out of which 9 short-term FX loan and 4 long-term loans. Also, in the reported period was realized restructuring of one loan and prolongation of 6 loans.

2. In 2009, the Bank continued its activities and measures for collection of the claims from its clients having the status of problem loans. Thus, in the course of 01.01-31.12.2009 the Bank collected total amount of 685.7 million denars, out of which 93.4% are collected claims from account records and 6.6% are collected claims from off-balance sheet records.

VI. INTERNATIONAL OPERATIONS

In the reporting year, the Bank continued to exercise the international banking activities. At the same time, as a result of global economic crisis in 2009 the activities of international payment operations and Guaranties and Letters of Credit operations noted a decrease.

1. Total turnover in the international payment operations per payment instruments realized by the Bank reached 2,629.3 million US\$, being 17.2% decrease in terms of value, while per number of transactions it noted a decrease of 10.2%.

Apart from the realized operations by payment instruments, the Bank has realized turnover from other services (sending cheques on payment, inflow transmission to other banks in the country, funds transmission – from non-residents to domestic companies and sending cheques on payment for citizens) in total amount of 260.5 million US\$, representing a decrease of 7.3% compared to 2008.

2. Within the **Guaranties and Letters of Credit operations**, the Bank regularly executed its commitments towards clients, whereby the cooperation with the EBRD continued in the domain of confirmation of Guaranties and L/C-s issued by the Bank.

⁶ Long-term loans include denar loans with FX clause

In the reporting period, the operations with Guarantees and Letters of Credit are characterized by increasing the number of opened FX guaranties for 12.8%, but decreasing the value for 40.1%, while the accepted guaranties noted decreasing the number and value.

In the reported period, 692 import L/Cs were issued in the total amount of USD 89.9 million US\$, out of which: 33 L/Cs in the amount of 3.4 million US\$ were confirmed with own funds, 48 L/Cs in the amount of 28.0 million US\$ were confirmed with credit line covered by denar loan, 35 L/Cs in the amount of 2.7 million US\$ were confirmed by EBRD covered by denar loan, 89 L/Cs in the amount of 6.2 million US\$ were non-confirmed with own funds, 18 L/Cs in the amount of 0.8 million US\$ were confirmed by a credit line secured by deposit in cash and 466 L/Cs in the amount of 48.8 million US\$ were non-confirmed secured by a denar loan.

Also, 152 export L/Cs from foreign banks were accepted in the total amount of 30.2 million US\$, whereby the value of the issued import L/Cs was 16.1% high compared to 31.12.2008, when the value of accepted export L/Cs was 18.6% less compared to 31.12.2008.

Under the opened import letters of credit in the reporting period 750 payments were executed in the total amount of 74.9 million US\$ and 195 reimbursements were realized under export letters of credit in the total amount of 27.0 million US\$.

3. In the field of **foreign exchange operations**, total realized turnover from purchase and sale of currencies, cheques and credit letters reached 248.4 million US\$, being an increase of 4.8% compared to 2008. In this context, purchase of currencies, cheques and credit letters makes 99.2 million US\$ or 39.9%, noting 14.7% increase, while selling of currencies, checks and loan letters realized 149.2 million USD or 60.1%, which is 0.9% decrease compared to the previous year.

4. In 2009, Komercijalna Banka AD Skopje continued its activities related to forfeiting the claims under international trade operation instruments and as at 31.12.2009 it realized 30 forfeiting operations in total amount of EUR 784.7 thousand, out of which 18 were collected in 2009, while 12 should be collected in 2010. In this regard, in 2008, there were total 17 forfeiting operations realized, out of which 16 in total amount of EUR 855.3 thousand and one in total amount of US\$ 107.7 thousand.

VII. LIQUIDITY AND FINANCIAL MARKET

1. Liquidity

In the course of 2009 due to the financial crisis, changes of the deposit base were manifested through transformation of denar deposits into f/x deposits, thus resulting with decrease of denar deposits. The NBRM monetary policy was tightened through introduction of liquidity rates and new manner of calculation of the obligation for Mandatory reserve in denars and in foreign currency. Such conditions imposed selling of foreign currencies and using of inter-banking borrowings. The average statement of the Bank's account was 2,558.5 million denars, and the average statement of the cash in cashier was 461.5 million denars.

The Bank continually fulfilled the obligation for allocation of denar mandatory reserve in volume higher than the prescribed, therefore the fulfillment oscillated from 100.66% to 114.22%. It should be marked that as of July 2009 the obligation for denar mandatory

reserve is calculated with new method, whereby the basis for calculation incorporates 10% of the average statement of the denar liabilities, 20% of the average statement of the liabilities in denars with f/x clause and 23% of the basis for calculation of the Mandatory reserve in foreign currency.

Foreign currency liquidity and currency structure in 2009 was maintained with consistent respect to the limits prescribed for management and quantification of open FX position and in dependence with the level of the denar liquidity and the conditions at the foreign currency market in the Country. The aggregate foreign currency position was maintained on a stable level within the legal frames.

The average allocation of foreign currency mandatory reserve was 2,664.6 million denars and it increases permanently because of the continual increase of the amount of foreign currency deposits. Starting at 16.10.2009, NBRM pays compensation to the allocated assets of foreign currency mandatory reserve with rate of 0.1% on the annual level. The f/x mandatory reserve, as well as the denar mandatory reserve, is also calculated with new method, whereby the f/x mandatory reserve represents 77% of the basis for calculation of f/x mandatory reserve which incorporates 13% of the average statement of the f/x liabilities.

During 2009 the Bank subscribed treasury bills and government bonds, and approved loans to other Banks. Also, the Bank utilized loans from other banks, but did not utilize collateral credit from the NBRM.

2. The activities from the domain of **investments in securities** in the reporting period were realized through: participation of the Bank in the auctions of treasury bills issued by the Central Bank, purchase of government bills, investments in securities, payment of dividends to the shareholders – proprietors of shares issued by the Bank, opening of custodian accounts and trading with securities at the Macedonian Stock Exchange.

a) Investments in securities issued by the NBRM and Republic of Macedonia

In the period 01.01-31.12.2009 the Bank continued to participate in the auctions of treasury and government bills, whereas value of the purchased treasury bills on behalf of the Bank and value of government bills on behalf of the Bank shows decrease compared to the same period last year, while the value of purchased government bills on behalf of customers is increased.

b) Long-term securities

- The investments of the Bank in equities available for selling as at 31.12.2009 amounted 79.8 million denars, out of which 75.5 million denars represent equity investments in shares issued by financial companies, 1.6 million denars represent equity investments in shares issued by foreign financial companies and 2.6 million denars represent equity stakes in loss making companies.

- **Investments of the Bank in associates** on 31.12.2009 amounts 71.5 million denars out of which 56.2 million denars are investments in KB Prvo penzisko drustvo and 15.3 million denars are investments in KB Publikum invest AD Skopje.

In 2009 they noted an increase as a result of additional capitalization of KB Prvo penzisko drustvo and net increasing of the Bank's stake for 6.5 million denars, as well as increased investments with purchasing stakes issued by Open-end investment fund KB Publikum Balanced.

- **Investments of the Bank intended for trading** as at 31.12.2009 noted an increase as a result of purchasing stakes issued by Open-end investment fund KB Publikum Balanced in amount of 6.2 million denars which statement as of 31.12.2009 amounts 6.4 million denars, whereby the realized gain upon fair value of the assessed stakes amounted 160 thousand denars. In the reporting period, the Bank sold its equity investment in

Tutunska banka AD Skopje and realized gain of 629 thousand denars. At the same time the Bank holds the equity investment in Makedonija turist AD Skopje, Fersped AD Skopje, Alkaloid AD Skopje and Ohridska Banka AD Ohrid, which as at 31.12.2009 amounted 21.1 million denars. Due to valuation of the investments according to their market value, the unrealized gain amounted 1.7 million denars.

- Value of the **traded bonds held by maturity** as at 31.12.2009 reached the amount of 120.0 million denars out of which the value of government bonds by deposited FX savings is 105.2 million denars and the value of bonds for denationalization is 14.8 million denars. Value of the *traded bonds held to maturity* is decreased as a result of realized repayment in amount of 54.8 million denars.

- As at 31.12.2009, the total market value of the **portfolio of structured bonds for trading** issued by the Republic of Macedonia is 2.0 million denars (for the deposited FX deposits of citizens is 1.7 million denars, while for denationalization it is 0.3 million denars), and compared to the end of 2008, it is decreased for 1.8 million denars as a result of realized repayment. In 2009 the Bank purchased continuous bonds on behalf in the amount of 2.1 million denars, and as at 31.12.2009 their value was 1 million denars.

- Investments in **corporate bonds for trading** (issued by NLB Tutunska Banka) on 31.12.2009 amounts 305.8 million denars.

➤ **Payment of dividends**

Pursuant to the Decision for the confirmation of the Decision for the use and distribution of the not distributed profit to 31.12.2008 and the Decision for the date setting for the dividend payment for 2008, in 2009 from the total calculated dividend for 2008 in amount of MKD 355.8 million MKD 352.6⁷ million is paid (legal entities MKD 251.2⁸ million and individuals MKD 101.5⁹ million).

Amount of the dividend per ordinary share is 190.00 MKD, while per preference share is 99.50 MKD.

➤ **Trading with securities on the Macedonian Stock Exchange**

In the period 01.01-31.12.2009, in circumstances of decreased turnover and oscillations at the Macedonian Stock Exchange, with the total turnover realized with securities in the amount of 1.429 million denars (or market share of 13.6%) and realized 8,063 transactions (or market share of 23.4%) Komercijalna Banka AD Skopje kept the leading position in the financial intermediation at the capital market in all segments of trading.

➤ **Shares issued by Komercijalna Banka AD Skopje**

Komercijalna Banka AD Skopje has issued total 2,014,067 ordinary and preference shares. Preference shares can be converted into ordinary shares according to the Decision by the Shareholding Assembly. On 31.12.2009 the number of ordinary shares is 1,998,130, while the number of preference shares is 15,937.

In the reported period the average traded price of Komercijalna Banka ordinary shares was 2,651.74 denars (50.8% lower than in 2008), while the average traded price of the preference shares was 3,015.61 denars or 49.6% lower compared to 2008. In this period total realized trading volume was 259,181 ordinary shares and 3,672 preference shares with nominal value of 1,000 MKD.

⁷ 99.10% of the calculated dividend for 2008.

⁸ 99.94% of the calculated dividend for 2008 for legal entities

⁹ 99.96% of the calculated dividend for 2008 for individuals

➤ Custodian accounts

According to the provisions of the Law on FX operations, the Bank keeps custodian accounts for portfolio investments, securities purchase in the Republic of Macedonia by non-residents, legal entities and individuals. Total number of custodian accounts under the Bank management is 527 custodian accounts from non-residents. In 2009, apart from the increased number of custodian accounts the volume of custodian services for legal entities and citizens non-residents decreased. This trend is due to the impact of the world financial crisis and lower liquidity of a number of investors which was in line with the decrease of total turnover at the stock exchange, decreased presence and trading performed by the foreign investors.

3. In the course of the reported period the Bank performed the custody services with 4 domestic investment funds, but because the liquidation of one of them, in this moment the Bank performed this service with 3 investment funds.

Also, the Bank performed the custody service for Open voluntary pension fund NLB pension plus i.e. Open mandatory pension fund NLB Pension fund. At the same time, the Bank performed custody services with 5 foreign banks as a sub custody of assets for the domestic capital market. Unfavorable conditions at the capital market and the fact that the funds are still at the beginning of their operations, resulted with small amount of assets and thus confirmed the expectations for small amount of income realized by the Bank in 2009.

4. In the period 01.01-31.12.2009 on the FX market the Bank realized decreased turnover, while the number of FX purchase agreements is increased. Also, the total FX trading is decreased, as well as the average amount of foreign currency assets placed with foreign banks. The decrease of placed f/x resources in foreign banks is due to restructuring of the assets, whereby a part of the households' deposits which used to be placed in foreign banks have been placed as loans to customers which bear higher interest income.

VIII. VAULT OPERATIONS

In the reported period vault operations showed an increase of total number of active safe deposit boxes of legal entities and individuals and an increase of the number of clients compared to 2008.

In the period January – December 2009, the following activities were undertaken:

- The scope of services performed for collection of cash from locations of the corporate clients has increased due to increased number of locations that are covered by the existing contracts;
- In order to lower the level of cash, the servicing of the ATM's was transferred from the branches to the city branches which have ATM's located within their premises. In this way the monitoring of the cash in the ATM's has been enabled for these organizational units which will also be responsible for the servicing of the ATM itself.

IX. RETAIL BANKING

1. The total **citizens' deposits** with the Bank in the reporting period reached the amount of MKD 36.315,0 million and compared to 31.12.2008, they show an increase of 10.8%.

In the structure of a Bank, saving deposits (denars and FX currencies) take the largest part of citizen's deposit, until current and giro accounts take a small part.

In the reporting period, 12,231 denar saving passbooks and compared to 2008 when 7,799 passbooks were opened this number is increased. Number of newly opened FX

passbooks and accounts is 72,843 and noted a decrease as a result of decreased number of newly opened account to residents.

2. In the course of the reporting period lending to citizens marked a drop of value both of newly approved and used loans. Declining of lending activity in 2009 is a result of the domestic economic conditions, restrictive monetary policy, maintenance of the approving of the loans to citizens within the limits set by the NBRM, the sharpened criteria and increased selective approach in the process of approving new credit exposure in order to minimize the credit risk.

In such circumstances priority in approving of loans had mortgage loans upon immovable property and loans pledged by deposit in order to increase the deposit base.

Namely, in 2009 the Bank approved 6603 loans in total amount of 1,760.1 million denars (41.0% less than in 2008), out of which 6568 loans in total amount of 1,755.9 million denars were disbursed or 42.2% less than in 2008. In the structure of approved and disbursed loans dominate share have consumer loans (50.3%), housing loans (18.6%), loans upon pledge of deposit (15.0%) and loans upon mortgage of immovable property and bill of exchange (10.1%), while the other kinds of loans have smaller participation.

Regarding to the loan collection in the last period, ordinary methods and activities were taken: telephone contacts with the debtors in order to inform them for the due outstanding obligations, written information and warnings, activation of the administrative interdictions to the endorser in order to realize the collection in regular way, deposit activation, initiate a procedure for forcing collection of the obligation, activities to file for penalty charges in case of discovered forged documents and other. In the reporting period, the Bank collected bad debt claims from citizens under disbursed loans in total amount of 26.6

3. Operations with banking cards in the reporting period has been aimed at the expansion of POS terminals' network, increase of ATMs' number and increase of number of issued debit and credit cards.

As at 31.12.2009 the total number of issued bank cards is 248.592 cards and notes increase of 19.7%, whereupon significant increase is evident both in new Visa electron debit cards, but as well in new types of credit cards like Visa Classic Revolving for individuals and Visa Business Revolving cards for legal entities. In this period the bank has begun with issuing of Gold cards from the brand Visa: Visa Gold Revolving and Visa Gold Standard. In December the Bank issued first Visa Corporate credit cards for legal entities for medium and large companies. The new Visa cards provoked great interest not only because of the favorable terms for issuing and usage but also because of the promotion campaign which the Bank has started in December of 2008. During that period, all users of VISA debit and credit cards participated in the prize winning game "Shop with Visa of Komercijalna Banka and travel to Dubai".

During the reported period, a new project with MasterCard started, oriented towards e-commerce, for acceptance of MasterCard cards via Internet. Starting with the month of April, 2009, there has been a reduction of the provisions which are being taken from the legal entities with whom the Bank has signed contracts for acceptance of cards with the goal of strengthening against the competition. Also, a number of presentations to legal entities (the new and the constant clients) has been performed, aimed towards increasing of the cards usage, and measures for settlements of claims have been taken, with activation of the deposits, administrative bans and phone calls to clients by the contact centre. In the reported period a new service has been started – SMS banking for all users of cards (individuals and legal entities) who now have the possibility to subscribe to this

service and who will receive a SMS message on their mobile phone for every executed transaction over certain amount, for reissued card, for renewed card, reissued PIN etc.

The number of issued MasterCard cards is still increasing, but not with the same intensity as in the same period in 2008. Because of the favorable terms for usage of the new Bank products, the number of issued cards of the old types (international and domestic cards for individuals) hasn't increased.

Because of the great interest from the holders of non-resident accounts for owning a card with the purpose for easy access to the assets from the accounts, issuing of the first Maestro debit cards for non-residents was started during this period.

Also, in reported period according to Bank's business policy increasing of ATM network continued and they are installed in cities in which Bank is not represented with its own affiliates or branch offices, in companies that have significant number of cards, and in every new opened branch office. Including 31.12.2009 number of installed ATM's reaches 125, as opposed to 115 ATM's in the same period last year. Number of installed POS terminals in period January - December 2009 also notes increase whereupon besides installing of POS terminals on new points of sale, installation of POS terminals is accomplished on points of sale where imprinters were used.

Transactions realized with bank cards issued by Komercijalna Banka in the period 01.01 – 31.12.2009 notes increase related to the same period last year, both in number of transactions realized and related to their value.

Current accounts working in reported period constantly shows increase, referred to number and balance of current accounts. Also, the total inflows of current accounts in this period notes 7% increase and reach amount of 70,934.8 million denars which is result of acceptable package of products that the Bank offers to clients that are taking salary through debit cards and also to the reform "Gross payment" where all companies had a commitment to pay salary to their employees through transaction accounts in business banks. Total disposals on current accounts as authorized amount of overdraft are increased for 4%, whereas spending of them are increased from 30.5% to 35.4%.

According to implementation of the reform of gross payment, in reported period significantly was increased number of companies paying salary to their employees through current accounts and including 31.12.2009 their number reach total 20.755 legal entities.

Also, according to legal change, all inflows mandatory come to citizen transaction accounts, which results with decrease of current accounts with negative overdrafts, whereas positive balances note increasing.

Also, in this segment of working Bank offers service Internet banking for individuals, so that in reported period number of granted subscribes is 7966 to 7747 subscribers from which 1050 individuals are able to make payments through internet. From 01.07.2009 there was introduction of new service SMS banking for which subscription has 34 users.

4. The activities of the **Customer relationship management** unit as a separate organizational part in the Bank include the work with Special segmented group of customers and the work of the Contact centre.

In the period 01.01-31.12.2009, the activities concerning Customer relationship management field of work were the following: distribution of products and services to the previously mentioned clients, segmentation of special group of clients – 38 legal entities and 113 citizens, analyze of the products and services usage by those clients and prepare of informative materials and product packages offers.

During the above mentioned period the Contact centre supported inbound and outbound calls, its permanent quality control, education and training of employees etc. The inbound calls regard calls from the customers about the products and services of the Bank in the

domain of retail banking and in the mentioned period the calls were mostly directed to the credit card area, different kind of loans and savings. The outbound calls were realized through campaigns for payment collection and also through informing customers for different situations (loan approval, credit card approval etc).

X. DOMESTIC PAYMENT OPERATIONS

During 2009 the Bank continues realizing its activities in domestic payment operations, whereas in terms of decreased economic activity in the country and changes in Bank's Tariff it is evident that activities as number of newly opened accounts, processed transactions, volume of payments and collected fee show also decreasing trend. Opposite to this, the number of total opened accounts is increased by 4%, the number of active accounts for 2%, non-active accounts for 6%, and the number of closed accounts is increased for 12%, processed transactions to legal entities for 3% and processed transactions to citizens for 15%.

As at 31.12.2009, the Bank opened total 713,528 accounts in terms of total 3,293,371 accounts authorized in the Unique Register of Transaction Accounts.

In 2009, the Bank has closed total 1,734 accounts of legal entities and individuals (accounts for freelance professional and accounts for relief organizations). In the same period last year the number of closed accounts was 1,546. Out of the total closed accounts, 895 were accounts closed with decision of competent body, 323 were closed according to Law on Payment Operations, 512 were accounts closed by written notice from legal entities and the rest for other reasons. In 2009, 1,454 written requirements for status and other changes of data of legal entities were realized, according to their submitted documentation. Also, in the course of the reported year, the Bank received 44,766 decision on enforced collection or four times more than last year.

In the reported period, out of the total processed transactions in Interbanking Payment system, 4.9% are transactions from the Bank's clients.

The largest participation in the total processed transactions of citizens have following transactions: transactions under current accounts (46.3%), transactions under collection of public services' bills (18.4%) and transactions under FX savings (14.7%).

Realization of payments through individual transaction accounts significantly contributed to the decrease of cash payments at the Bank's counters. Also, the increased use of ATM's and POS contributed to the decrease of cash transactions.

The corporate non-cash transactions represent 68.7% and cash transactions represent 31.3% of total corporate transactions.

Apart from the usual and standard services in the domestic payment operations in 2009, the Bank's clients had possibility to use the following services:

- e-payment through Internet,
- fast money transfer through the service Western Union
- fulfilling insurance policies – housing insurance in behalf and for the account of Eurolink AD,
- as of October 2009, the Bank commenced with the issuing of the Report on the daily turnover movement of the clients' accounts, for the needs of the Public Revenues Office,
- issuing PIN for American visas and
- monthly account management.

XI. MARKET SHARE IN DIFFERENT SEGMENTS OF OPERATIONS

1. Market share in the total deposits and placements to legal entities and citizens

(participation in %)

		31.12.2008	31.12.2009
1	Total deposits from citizens	30.4	29.0
	- MKD	27.8	27.6
	- FX	32.3	29.7
2	Total deposits from legal entities	20.2	23.6
	- MKD	24.7	24.7
	- FX	10.6	21.0
3	Total placements to citizens	11.2	11.3
	- MKD	12.0	12.0
	- FX	/	/
4	Total placements to legal entities	30.9	33.1
	- MKD	42.9	44.6
	- FX	6.9	9.9

2. Participation of the Bank in card's operation:

(participation in %)

		December 2008	December 2009
A	Cards issuing		
1	Total number of cards in circulation	19.8	19.3
	- debit	32.3	34.3
	- credit	26.5	30.2
2	Total number of commercials in the country who acquire banking cards	30.9	35.4
3	Number of realized transactions	23.2	23.5
	- debit	40.1	39.7
	- credit	12.6	20.7
4	Value of realized transactions	19.4	19.2
	- debit	31.7	31.1
	- credit	10.0	19.8
B	Cards acquiring		
1	Number of devices that acquire cards	19.9	21.2
	1.1 on sale places	20.0	21.4
	1.2 on ATMs	15.1	15.0
2	Number of realized transactions	23.1	20.5
	2.1 on sale places	25.6	19.0
	2.2 for withdrawal of cash	21.5	21.5
3	Value of realized transactions	18.5	18.2
	3.1 on sale places	17.7	14.0
	3.2 for withdrawal of cash	18.8	19.1

3. Participation of the Komercijalna Banka A.D. Skopje in the operations of trading with securities in the Republic of Macedonia:

(participation in %)

		December 2008	December 2009
1	Participation of Komercijalna Banka A.D. Skopje in the realized turnover on the Macedonian Stock exchange	3.6	10.3
2	Participation of Komercijalna Banka AD Skopje in the total number of transactions	13.7	11.9

4. Participation of the KB Prvo Penzisko Drustvo in the second pension fund in Republic of Macedonia

(participation in %)

		December 2008	December 2009
1	Number of insurers		
	- Voluntary	54.4	54.4
	- Obligatory	50.8	52.3
2	Participation of Komercijalna Banka A.D. Skopje in the total net assets of the second pension fund	55.4	54.2

Participation of Komercijalna Banka AD Skopje in payment operations on the level of the banking system of Republic of Macedonia:

		December 2008	December 2009
1	Domestic payment operations		
	- per value	24.6	25.0
	Inter banks payment operations	13.7	12.2
	Intern payment operations	39.3	41.8
	- per number of orders	23.0	22.8
	Inter banks payment operations	17.3	19.3
	Intern payment operations	27.5	25.8
2	Number of opened accounts	22.3	21.7
3	Number of blocked accounts	16.9	13.5
4	Value of orders in MIPS	12.1	10.1
5	Number of orders in MIPS system	3.2	5.4

		31.12.2008	31.12.2009
I	Per order of proprietor of account – credit transfers		
	Per number of paper order	19.0	17.0
	Per value of realized transactions	22.0	20.1
II	Per user of repayment – Debit transfers		
1	Number of realized transactions	14.0	15.9
2	Value of realized transactions	71.0	71.0
III	Depositing and payment of cash		
1	Number of realized transactions		
	- Depositing	22.0	17.2
	- Payment	14.0	6.7
2	Value of realized transactions		
	- Depositing	14.0	9.2
	- Payment	15.0	6.8

XII. INFORMATION TECHNOLOGY

Most significant activities in the area of information technology in the year 2009 are as follows:

- finalization and *stabilization of the software for support of the pursue of the NBRM Resolution for implementation of the Methodology for evidencing and evaluation of the financial objects and preparation of the financial reports* which is in effect since 01.01.2009. Electronic preparation of the whole set of regulatory reports is made, which according to the NBRM Resolution for electronic transfer of reports should be transferred daily, monthly or quarterly to NBRM.
- parameterization and implementation of a *new methodology for high risk evaluation* with integrated scoring schema and more sophisticated analysis during classification of the credit portfolio;
- *testing and implementation of the Business intelligence solution*, as also the training for its use and technical support in the area of Risk Management and financial reports according to the IFRS standard
- *Adding new functionalities in the e-banking application:*
 - o web application for accepting and processing foreign currency payment orders via Internet for domestic companies and nonresidents
 - o web solution for accepting and processing payment orders PP53;
 - o implementation of strong password policy requiring change of password on every 3 months;
 - o option for paying of Neotel's (internet service provider) bills;

- Production of software solution for sending SMS to the Bank's clients in case of: authorizations over the agreed amount, new cards issued, renewed cards, reissuing of a lost/stolen card or reissuing of a PIN number;
- Production of software solutions according the new changes in the *Law for Prevention of Money Laundering and Terrorism Financing* and specific requests from the Office for Prevention of Money Laundering and Terrorism Financing concerning the content and electronic format of the applications for cash, additional and suspicious transactions
- Production of *interfaces for connecting* the Bank's information system to the solution provided by the supplier INVEST 2 for the service "bank keeper of the investment and pension funds property" , managing their portfolio and managing private portfolios of residents and nonresidents. The web portal is installed and integrated in test environment;
- Production of *software solution for offering new Bank's services for*:
 - o bills payment for JKP Ilinden, Neotel, Solidarnost Vinica, Komunalec Negotino, Plavaja Radovis, Vodovod Kocani, Komunalec Kavadarci, Stara Bolnica Bitola, JKP Skopska Crna Gora and many brunches of EVN in different cities in Macedonia;
 - o single and programmable payment for buying shares in the investment funds KB Publikum, Moj Fond, KD Fondovi and Sava Invest;
 - o issuing insurance policies from the insurance companies Sigal, Eurolink and Euroins;
 - o bills payment , accepting and processing files for standing orders from the VIP mobile operator.
- Solution for daily calculation of residual maturity structure according to the methodology for daily calculation of liquidity rates The solution is finalized with the possibility of electronic authorization, conclusion and forwarding for further processing with the Risk Management Head Office;
- Preparation and implementation of a solution for evidencing foreign exchange credit lines;
- Implementation of a software solution covering the payment operations of the Investment funds;
- Installation of two new central disk systems of the high class IBM DS8100, in the Bank's main and backup computer center and data migration to the new disk systems without any discontinuity in the work of the Bank's information system. With this migration a noticeable improvement of the performance, capacity and quality Long-Distance data replication is achieved;
- Migration of the bank's central network node onto new core switches CISCO 6500 without any discontinuity in the work of the Bank's information system .
- A highly complex, *independent software system for managing Bank's security information and events(SIEM) called ArcSight ESM (Event Security Manager) is*

implemented , by the help of which the Bank's information system security has reached a higher level and the requirements of NBRM revisions are met ;

- 200 new personal computers, 25 local servers, 110 laser printers, 20 passbook printers, 40 scanners, 13 new ATMs are purchased and installed ;
- A large number of servers are migrated from the real to virtual environment. With this, the intensive development of the virtual server environment was made, as a modern concept of providing a quality and low-budget infrastructural support, as for the production but also for the requirements of developing and testing;
- Migration to a newer software versions of: Microsoft Exchange Server 2007, Delphi 7, SQL Express, SharePoint Portal Server 2007, Symantec Endpoint Security and others.
- Migration of the Swift system according to the required level of software upgrading for Swift Distributed Architecture of SwiftNet, WEB Station and security hardware modules (HSM boxes - firmware upgrade) and software upgrades necessary for the new SWIFT standards since 21 November 2009. Also, replacement and full installation of the backup computer center equipment is made (server + hardware security module);
- Implementation of a solution for chip cards authentication and online application for managing high risk transaction at the ATMs and on the Bank's POS terminals;
- Certification and implementation of EMV application is made by which VISA card acceptance is enabled at the Bank's POS terminals;
- A complete informatics, infrastructural support by installing work stations, networking and setting up video surveillance for the Bank's new branch offices in Rasadnik, Novo Lisice, Cair, Pehcevo, and the renovated ones in Butel, Suto Orizari and Vodnjanska was done.

XIII. MARKETING ACTIVITIES

In spite of the worsen macroeconomic conditions, the marketing activities in 2009 were realized in direction of continuous follow up of new trends in banking operations and competition, considering the possibilities for modification of the existing and development of new products for all target groups, improving the distribution channels and continuous implementation of marketing communication activities, sponsorships and donations. According to the market needs and the determined marketing goals, the marketing activities were directed towards supporting the Bank's operation with citizens and support to these products and services.

In 2009, several promotional campaigns were realized in cooperation with marketing agencies, including:

- Wide promotional campaign "The right Visa for you" for promoting the issuance and use of the Bank's Visa cards supported by the prize winning game „Shop with Visa of Komercijalna Banka and travel to Dubai! “
- Campaign for promotion of savings and payment operations with slogan "Great news! Reduced costs in the domestic payment up to 66% now" and "Great news! Increased interest rates on deposits"
- Appropriate communication activities for launching the Visa Gold Standard and Visa Gold Revolving credit cards for individuals.

Also, in the reported period, series of activities were conducted toward continuous improvement of the corporate image of the Bank. Among them, noteworthy are the development of the Bank's Brand Manual, which is a written document that accurately specifies the rules for preparation and use of all internal and external printed materials, the initiation of complete redesign of the Bank's website, as well as activities for preparation of design for re-branding of the Bank's ATMs, branches and city-branches, as new and modern communication tools.

In order to inform our clients accurately and on time, the data on the Bank's web site, info-kiosk and contact-center were continuously updated, while the text for the Bank's contact-center was fully processed and re-recorded.

As an integral part of the marketing and promotional activities, many cultural and art events were supported in the reported period, such as: the Ohrid Summer Festival, the Children Art Colony "The Young Bitola Montmartre", the Struga Poetry Evenings, the Galicnik Wedding manifestation, the May Opera Evenings, the children festival "Zlatno slavejce", as well as projects of many music artist from the country and abroad. Besides the financial support of culture and art projects, in 2009 the Bank financially supported sports and participated in the realization of many humanitarian projects.

XIV. COMPLIANCE OF THE BANK'S OPERATIONS AND ANTI MONEY LAUNDERING ACTIVITIES

In the previous year, one of the primary tasks of the Bank was ensuring compliance of the Bank's activities and protection against money laundering operations.

In order to ensure complied bank activities, the following measures have been undertaken:

- Following on changes and amendments of new regulation and assessment of its influence on Bank's activities,
- Reporting to all organizational units of the Bank on new regulation and its influence on activities of the organizational units,
- Regular reporting to the Board of Directors and Supervisory Board about the compliance function, and introducing them on new regulation and amendments on regulation and its influence to the Bank's activities,
- Active participation in preparation of internal acts of the Bank, actually theirs compliance with the new regulation,
- Giving opinions and help in current application of the regulation during accomplishing the bank activities .

Besides insuring legal working within the Bank, in the reporting period, activities for protection of money laundering. In order to protect the Bank of such activities, and keeping the good reputation and avoiding reputational risk the following activities have been made:

- Compliance of internal acts of the Bank with the regulation and standards,
- Achieving availability of international lists of persons, organizations and lists which are suspected to be connected with terrorism and its financing,
- Adopting unified way for identification of the clients on a level of financial system of the country which shall ensure profilation of the clients from the aspect of money laundering and financing terrorism,
- Introduction of information technology support in a way of accomplishing the new regulation requests
- Active participation during preparation of draft acts from the anti money laundering area,
- Ccooperation during investigations ,

- Cooperation for expertise help,
- Achieving high level communication with public institutions, respecting the regulation and protection of the law on protection of personal data and business secret,
- Taking actions in accordance with passed temporary measures and court decisions and
- Regular training of the employees on the anti money laundering procedures

XV. ORGANIZATION AND PERSONNEL

The organizational chart of Komercijalna Banka AD Skopje is comprised of: 8 divisions, 31 departments (out of which 6 are independent departments), one organization unit for Internal Audit, 90 services (out of which 60 in the Head Office and 30 in the branches), one organization service under Board of Directors, 21 sections, Secretariat of the Board of Directors of the Bank, 8 branches and 52 city branches.

The internal organization of the Bank is set out to fulfill daily tasks through 167 posts positions of different profiles. As at 31 December 2009, the total number of the Bank's employees was 1.231, out of which 1.018 employees are in the Head Office of the Bank and 213 in the Branches.

In 2009, the Bank continued to invest in professional training of its employees. A great number of employees attended various seminars, conferences, financial institutions, training, courses and other in the country and abroad for gaining additional knowledge from the modern banking and that knowledge and experience are passed to other employees, as follows: the Bank sent 81 employees for professional training in the country; the Bank sent 66 employees for professional training abroad. At the same time, scholarships for post graduate studies were approved to 24 employees and scholarships for doctor's degree was approved to 1 student. Professional training is also carried out by professional literature, purchased in the country and abroad, which is available for the employees in the Bank's library.

According to the Remuneration Policy of Komercijalna Banka AD Skopje which is based on principles and regulations of corporate governance applied in the Bank's operations, with aim to ensure good performance and realization of aims and strategy of the Bank, established on the basis of system of awards and the criteria which will be used to remunerate the members of Board of Directors, persons with special rights and responsibilities employees of the Banka and other employees of the Bank.

Compensation for members of the Supervisory Board determined by a separate act is approved by Assembly of shareholders. Remuneration of Board of Directors and persons with special rights and responsibility - employees of the Bank is consisted of salary, other compensations established with the Manager Agreement, acts passed by authorized bodies of the Bank or by law and other regulation and annual compensation as a variable amount which is approved on the basis of Decision on distribution of profit adopted by the Shareholders Assembly and payed in current year for previous year.

In the course of 2009, the Bank's activities were managed by: 3 members of the Board of Directors, 6 members of the Supervisory Board, 5 members of the Audit Committee, 1 member of IT Supervisory Committee and managerial team according to organization structure. For their services they were paid total amount of: 156,718.9 thousand denars for gross salaries for the Board of Directors and persons with special rights and responsibilities, 8,228.4 thousand denars for gross awards from gain for members of Board of Directors and persons with special rights and responsibilities for 2008 but payed in 2009, 1,163.3 thousand denars for presence at meetings to members of Supervisory Board, 337.9 thousand denars for the meetings of the Audit Committee and 11.3 thousand denars for the member of the IT Supervisory Committee.

As at 31 December 2009 total approved credits and other forms of exposure to these persons is 165,179 thousand denars.

XVI. INTERNAL AUDIT

Internal audit of the Bank aims to make permanent and complete control of legality, regularity and accuracy of the operations of the Bank under the Banking Law, the Statute of the Bank and other internal regulations of the Bank.

In 2009 carried the 29 regular and 5 additional audits. Audits are conducted in separate organizational units of the Bank, holders of revised processes and findings, identified weaknesses and recommendations for overcoming them are continuously informed the authorities of the Bank through written reports and they are fully implemented.

- Internal audit in 2009 streamlined its activities to the regular review of:
 - processes of monitoring and managing credit, liquidity and currency risk
 - accuracy and reliability of financial reports,
- consistency in the implementation of the Program for the Prevention of Money Laundering,
- continuous monitoring of compliance with the supervisory standards and a new methodology for calculating the adequacy of capital
- review the adequacy of support system and controls in application solutions within the integrated information system of the Bank.

Besides achieving the targets in the annual audit plan during the 2009 internal audit was actively involved in the implementation of significant projects including:

- implementation of the new methodology NBRM for recording and evaluation of accounting data and preparing financial statements,
- harmonization of internal regulations of the Bank with the requirements of the methodology, which is carried out verification of all internal guides for accounting records and conducted detailed and extensive testing of new software tools and Smart Modeler PCA within the implemented methodology
- monitoring tests conducted on the Plan of continuity of operations of the Bank in the area of IT systems
- Regular consultative activities and giving an opinion on certain issues of operations,
- involvement in activities for consideration of the draft regulation on NBRM with their comments, observations and opinions to the draft texts submitted,
- participation in seminars, trainings and workshops in the field of auditing and finance in the country,
- membership in foreign professional organizations: Institute of certified auditors, the Internal Auditors Association of the Republic and the ISACA (Information System Audit and Control Association).

XVII. FINANCIAL DEPARTMENT

During 2009 apart from the regular, the Bank undertook intensified activities for completing the Project for implementation of Methodology for record keeping and evaluation of the accounting items and preparation of financial statements, as well as implementation of the amendments of the new Chart of Accounts for banks, adopted by NBRM.

The process of the realization of the project included:

- Coordination of the engaged employees of the Bank, giving a directions, opinions and suggestions for a successful unification and control of the implementation of

the Chart of Accounts prescribed with Decision of NBRM (remapping and adjustment of all balance sheet items),

- Reclassification of the Balance sheet, Income statement and other internal statements of the Bank in accordance with the Methodology and for the needs of reporting to the managing bodies of the Bank,
- Control of the supplements and amendments of the Instructions for accounting procedures of all processes of the Bank with the supplements in the accounting plan for the Banks and demands of the methodology,
- Adjustment of the schemes for the contents of financial reports of the Bank in accordance with the new demands of the methodology and supplements of the accounting plan of the Bank,
- Reclassification of the Balance sheet and Income statement for 2008 in accordance with the Methodology,
- Activities for successful making of the quarter statements also as whole set of financial statements for the year that ends on 31 December 2009.

Also within the frames of financial activities during 2009 other activities were performed as follows:

- Improvement and implementation of the applicative solution for recording of buyers and suppliers,
- Following and appropriate implementation of supplements and amendments of fiscal legislation,
- Participation in the working group for leasing activities of the Bank,
- Adjustment of the statement schemes with the new Regulation for the form and contents of the annual report for Banks and other financial organizations,
- Participation on seminars from the domain of financial reports and financial regulations etc..

XVIII. BRANCH NETWORK MANAGEMENT DEPARTMENT

Branch Network Management Department in co-operation with adequate banks' organizational units, in the frameworks of its activities, has completed the following activities in the reported period:

- daily communication with Bank's branches for all questions and problems during the current work and taking measures for their determination
- coordination between organizational units for fast and on-time delivery of data and maintaining uniform working in the most of the working processes,
- daily monitoring on total work of the Bank's branches with purpose of fast and effective pointing and salvation of occurred failures,
- mediating between organizational Bank's units and branches during realizing specific activities,
- in accordance with Bank's acts for operative risk and established system of communication, the Branch network department put information about damage event in the specific Bank's application and writes a report for damage events, acclaimed and utilized loans,
- uniting the projection for outflows and inflows, realization for remunerated loans and interest for legal entities and new Branch's placements,
- analyzing the economic adequacy of transforming the city-branches into Bank's branches or their affiliating to the Bank's branches,

- coordination of all activities in the process of opening new city-branches under competence of Bank's branches
- inspecting the possibilities for new Branches' real estate property in cooperation with adequate Bank's organizational unit. Realizing the Branches' supplies with work materials,
- Arranging Basic working contracts and change of contracts for authorized Branches' signatories,
- updating the changes in the Bank's acts in the branch network area,
- active participation in preparing the numerous reports for branch network activities and
- Advising the Branches about changes into regulations and further information the area of international department from the foreign banks, as well as anything else about Branches' current work needs.

XIX. OPERATIONS OF THE BANK'S BRANCHES

The branches that operate within the business network of Komercijalna Banka AD Skopje are as follows: Prilep, Ohrid, Veles, Strumica, Kocani, Stip, Kumanovo and Kavadarci.

The branches took part in almost all segments of the Bank's operation as integral parts of the Bank increasing the resources under all bases, increasing the number of clients from the respective regions of their operation, modernization and enhancement of the non-cash payment, improvement of the quality and enhancement of the forms and types of services used by the clients of the Bank, credit support to clients within the frames of authorizations and other activities.

1. PARTICIPATION OF THE BRANCHES IN THE BANK'S BALANCE SHEET & INCOME STATEMENT

The Bank's Balance Sheet includes the resources and placements of the branches in Prilep, Ohrid, Veles, Strumica, Kocani, Stip, Kumanovo and Kavadarci. The dynamic of the total Bank's resources in 2009 was influenced by the participation of the resources of Prilep Branch with 6.4%, Ohrid Branch with 2.5%, Veles Branch with 1.6%, Strumica Branch with 1.9%, Kocani and Kavadarci Branches with 1.5% participation, Stip Branch with 1.7% and Kumanovo Branch with 3.5%.

The Income Statement of the Bank for the period 01.01.-31.12.2009 shows the effects from the operation of the Bank's branches in Prilep, Ohrid, Veles, Strumica, Kocani, Stip, Kumanovo and Kavadarci.

It should be noted that all the branches except Kumanovo and Kavadarci realized positive financial results: Prilep 65.2 million denars, Ohrid 15.3 million denars, Veles 23.2 million denars, Strumica 40.1 million denars, Kocani 30.3 million denars and Stip 35.5 million denars.

2. PARTICIPATION OF BRANCHES IN THE BUSINESS ACTIVITIES OF THE BANK

a) *Corporate lending* of branches is realized within the frames of their abilities and in accordance with the authorities given in Section 19 of the Credit Policy and Procedures of the Bank and other acts regulating these issues.

The participation of the branches in the total amount of disbursed short-term loans to legal entities is as follows: Prilep 3.2%, Ohrid 1.6%, Veles 1.8%, Strumica 4.9%, Kocani 0.8%, Stip 0.9% and Kumanovo 0.3%.

Within the frames of short-term loans by sectors it should be pointed that the branches Prilep, Ohrid Kocani & Stip had approved and disbursed loans mostly in the sector of industry and mining, the branches Veles and Kumanovo in the sector of trade, while the branch Strumica the largest part of the loans was approved in the sector agriculture, hunting and forestry.

Within the frames of long-term lending in 2009 only the branches Prilep, Ohrid & Kumanovo have approved long-term denar loans to legal entities and their participation in the total approved long-term loans is as follows: Prilep 1.4%, Ohrid 1.1% and Kumanovo 0.7%. The structure of the long-term loans by sectors shows the largest participation of the loans in the sector construction in branch Prilep, in Ohrid Branch – in the sector trade and Kumanovo Branch – in the sector industry and mining.

The Branches of Komercijalna Banka AD Skopje have their own Operative Credit Committees.

- Operative Credit Committee of the **Branch Prilep**, in the period January-December 2009 held 100 meetings where it passed: 369 decisions, 215 Draft-Decisions and 3 conclusions.
- Operative Credit Committee of the **Branch Ohrid** held 192 meetings where it passed 219 decisions and 192 conclusions.
- In 2009 the Operative Credit Committee of the **Branch Veles** held 92 meetings where it passed 125 decisions out of which 34 decisions for denar guarantees, 3 decisions for frame revolving credit limit, 51 decisions for short-term loans, 4 decisions for long-term loans, 16 decisions for prolongation of loans, 16 decision Letters of credit and one decision for credit card.
- In 2009 the Operative Credit Committee of the **Branch Strumica** made 96 decisions for corporate lending and 5 for lending to citizens.
- In the **Branch Kocani**, the Operative Credit Committee held 71 meetings where it passed 103 decisions for approving of loans, frame revolving credit limit, guaranties, loan prolongations, guaranties prolongations etc.
- In the **Branch Stip**, the Operative Credit Committee held 125 meetings where it passed 192 decisions from which 183 decisions for approving of loans to legal entities and 9 for approving loans to citizens.
- In the **Branch Kumanovo**, the Operative Credit Committee held 84 meetings where it passed 117 decisions for approving loans, frame revolving credit limits, guaranties and issuing cards.
- Operative Credit Committee of the **Branch Kavadarci**, in 2009 held 8 meetings and passed 8 decisions for approving loans.

2.2 Retail banking of branches mainly comprises taking savings deposits from citizens, opening checking accounts, denar and FX passbooks and MasterCard and VISA cards and lending to citizens.

2.2.1 The largest part of the citizens' deposits in branches has been taken as savings deposits, while the assets on the checking accounts show lower participation.

In the reporting period the participation of the newly opened denar passbooks of branches is as follows: Prilep 16.0%, Ohrid, Strumica and Stip 3.1% each, Veles 3.9%, Kocani 2.4%, Kumanovo 3.3% and Kavadarci 4.4%. The participation of the newly opened FX

passbooks and accounts of branches is as follows: Prilep 7.9%, Ohrid and Kumanovo 2.9% each, Veles 1.7%, Strumica 5.8%, Kocani 3.4%, Stip 4.1% and Kavadarci 3.9%.

2.2.2 The activity of branches regarding **lending to citizens** was realized within their abilities and in accordance with the authorities given in Section 19 of the Credit Policy and Procedures of the Bank and other acts regulating these issues for the purpose of lending to citizens and corporate lending.

In the reporting period all the branches except the branch Kavadarci noted decrease of the value of disbursed loans, and their participation in total disbursed loan was between 1,7% (Kumanovo) and 6.8% (Prilep).

According to the structure of approved loans, consumption loans have dominant part in all branches.

2.2.3 Within the bank card operation, the Bank's branches have been actively involved in popularization of these products on regional level. Depending on the conditions in the region of operation, the number of the newly issued bank cards in the bank's branches was from 697 cards in Ohrid Branch to 5.698 cards in Prilep Branch.

2.3 In the domain of the **international banking**, branches of Komercijalna Banka AD Skopje execute their payments by transfer through the Bank's accounts in the domestic and foreign banks, and they have a remarkable participation in the foreign currency market.

In the reported period the total turnover in the international payment operations amounts: Prilep 56,966 thousand US\$, Ohrid 66,380 thousand US\$, Veles 55,760 thousand US\$, Strumica 85,350 thousand US\$, Kocani 215,297 thousand US\$, Stip 218,189 thousand US\$, Kumanovo 76,248 thousand US\$ & Kavadarci 170,559 thousand US\$, while the total turnover on the FX market amounts: Prilep 35,429 thousand US\$, Ohrid 39,726 thousand US\$, Veles 39,228 thousand US\$, Strumica 55,925 thousand US\$, Kocani 128,244 thousand US\$, Stip 128,244 thousand US\$, Kumanovo 33,888 thousand US\$, and Kavadarci 73,728 thousand US\$.

2.4 During 2009, branches of Komercijalna Banka AD Skopje continued its exercising of the **domestic payments operations** within the frame of their current operations, thus noting the following participation:

- Branch Prilep: newly opened accounts (8.1%), total opened accounts (10.5%), processed transactions to legal entities (6.2%), processed transactions to citizens (8.9%), inflows value (6.4%) and outflows value (5.1%);

- Branch Ohrid: newly opened accounts (2.0%), total opened accounts (2.3%), processed transactions to legal entities (1.7%), processed transactions to citizens (2.5%), inflows value (2.7%) and outflows value (5.9%);

- Branch Veles: newly opened accounts (2.1%), total opened accounts (1.7%), processed transactions to legal entities (2.3%), processed transactions to citizens (1.9%), inflows value (3.6%) and outflows value (1.2%);

- Branch Strumica: newly opened accounts (4.4%), total opened accounts (3.1%), processed transactions to legal entities (3.0%), processed transactions to citizens (2.3%), inflows value (5.1%) and outflows value (3.1%);

- Branch Kocani: newly opened accounts (3.6%), total opened accounts (3.1%), processed transactions to legal entities (2.2%), processed transactions to citizens (2.5%), inflows value (2.7%) and outflows value (2.7%);
- Branch Stip: newly opened accounts (2.9%), total opened accounts (2.4%), processed transactions to legal entities (3.7%), processed transactions to citizens (2.6%), inflows value (3.6%) and outflows value (5.5%);
- Branch Kumanovo: newly opened accounts (3.0%), total opened accounts (1.4%), processed transactions to legal entities (1.5%), processed transactions to citizens (2.7%), inflows value (3.3%) and outflows value (3.5%);
- Branch Kavadarci: newly opened accounts (2.7%), total opened accounts (1.9%), processed transactions to legal entities (1.9%), processed transactions to citizens (2.5%), inflows value (2.2%) and outflows value (1.3%);

2.5 In the course of 2009, branches maintained **liquidity** at the level which enables continuous performance of their financial activity, followed by the statement of the sub account for functional activity and for holding certain amount of funds in the treasury, within the frames of the prescribed treasury maximum.

2.6 Personnel structure of the Branches as at 31.12.2009

As at December 31, 2009 total number of employees in the branches of Komercijalna Banka AD Skopje is 213 out of which: in Prilep 89 employees (7.2% participation), in Ohrid 30 employees (2.4% participation), in Veles 14 employees (1.1% participation), in Strumica 18 employees (1.5% participation), in Kocani 13 employees (1.1% participation), in Stip 21 employees (1.7% participation), in Kumanovo 16 employees (1.3% participation) and Kavadarci 12 employees (1.0% participation). The largest number of the employees have university graduate and advanced school graduates, while the smallest number is the employees with secondary school graduates. The branches Stip and Kumanovo have two employees with master's degree.

XX. REPORT ON CORPORATE GOVERNANCE IN KOMERCIJALNA BANKA AD SKOPJE

1. Structure and performance of the Bank's bodies

In the course of 2009 year the Bank performed its activities through the Bank bodies: Shareholders' Assembly, Supervisory Board, Board of Directors, Risk Management Committee, Audit Committee, Credit Committee and Information technology Committee.

1.1 Stated at 31.12.2009 year, Bank is consisted of 5038 shareholders.

Within its competencies, the **Bank's Assembly** performs all the duties set by the law regulations and the Bank's Statute. The Assembly held one regular session in the reported year. At the regular meeting of the Assembly held on 25.03.2009 year, the Bank's Annual Statement and financial reports for 2008 were adopted. At the same time, all the proposed materials for performance of the Bank in 2008 were considered and adopted, the Program for Measures and Activities of the Bank's Business Policy for 2009, Corporate governance code and Decision for adopting of the Report for compliance of the Banks' performance and managing with the Corporate governance code for the companies listed on the Macedonian stock exchange.

1.2 During 2009 year according Banking Law and Bank Statute, the **Supervisory board** was performed through 6 (six) members: Sava Dimitrova - President, Phd Taki Fiti - Deputy President, Michael Harold Taylor - member, Zvone Taljat - member, Simon Naumoski - member and Aleko Angelovski - member.

	Sava Dimitrova, President
age	60
sex	female
profession	General Manager of Evropa AD Skopje
Data for material compensations and other rights under work agreements	
citizenship	Macedonian
Date of first nomination	22.03.2006
Duration of mandate	4 years
Data for membership in other management bodies	Member of Board of directors in Evropa AD Skopje
Data for membership in other Audit committees	
Compensation for membership in Board of directors	For the participation on the sessions is paying out average wage per employee in Republic of Macedonia in the previous three months.

	Taki Fiti, Deputy President
age	59
sex	male
profession	Professor on University"St.Cyril and Methodius"-Faculty of economics-Skopje
Data for material compensations and other rights under work agreements	
citizenship	Macedonian
Date of first nomination	22.03.2006
Duration of mandate	4 years
Data for membership in other management bodies	
Data for membership in other Audit committees	
Compensation for membership in Board of directors	For the participation on the sessions is paying out average wage per employee in Republic of Macedonia in the previous three months.

	Michael Harold Taylor, member
age	40
sex	male
profession	Banker specialist, EBRD
Data for material compensations and other rights under work agreements	
citizenship	UK
Date of first nomination	22.03.2007
Duration of mandate	3 years
Data for membership in other management bodies	
Data for membership in other Audit committees	Member of Board of Directors of Kazinvest Bank Kazakhstan, Member of Board of Directors Far East Bank , Vladivostok, Russia
Compensation for membership in Board of directors	For the participation on the sessions is paying out average wage per employee in Republic of Macedonia in the previous three months.

	Zvone Taljat, member
age	60
sex	male
profession	Manager of Publikum Holding DOO Ljubljana
Data for material compensations and other rights under work agreements	
citizenship	Slovenian
Date of first nomination	25.03.2008
Duration of mandate	4 years
Data for membership in other management bodies	
Data for membership in other Audit committees	Member of Board of Directors of Privredna banka, Deputy President , OR osiguranje AD Novi Sad
Compensation for membership in Board of directors	For the participation on the sessions is paying out average wage per employee in Republic of Macedonia in the previous three months.

	Simon Naumovski, independent member
age	68
sex	male
profession	General Manager of "Vitaminka"
Data for material compensations and other rights under work agreements	
citizenship	Macedonian
Date of first nomination	22.03.2006
Duration of mandate	4 years
Data for membership in other management bodies	Member of Board of directors of Vitaminka AD Prilep Member of Board of directors of Vedrina Prilep Member of Board of Chamber of Commerce of Republic of Macedonia
Data for membership in other Audit committees	
Compensation for membership in Board of directors	For the participation on the sessions is paying out average wage per employee in Republic of Macedonia in the previous three months.

	Aleko Angelovski, independent member
age	71
sex	male
profession	pensioner
Data for material compensations and other rights under work agreements	
citizenship	Macedonian
Date of first nomination	22.03.2006
Duration of mandate	4 years
Data for membership in other management bodies	Member of Board of directors in Basketball federation of Republic of Macedonia.
Data for membership in other Audit committees	Member of Audit committee of Chamber of Commerce RM
Compensation for membership in Board of directors	For the participation on the sessions is paying out average wage per employee in Republic of Macedonia in the previous three months.

Michael Harold Taylor is a financial expert, Zvone Taljat is a member with a long-term experience in the financial area and Simeon Naumovski and Aleko Angelovski are independent members in the Board.

While electing the independent members there are respected all the criteria for independence defined by Banking Law. Independent members and with them connected persons are not employees neither are people with special rights and responsibilities in the Bank, they are not shareholders with qualified participation in the Bank neither are proxies of a shareholder with a qualified participation in the Bank, they don't work, and in the last 3 years haven't been employees in the auditing company, which in that period made an auditing of the Bank's performance and in the last 3 years didn't have a material interest of business relation with the Bank in amount up to 3.000.000,00 denars.

Michael Harold Taylor cause of the leaving on other function in EBRD, on 15.10.2009 year, submit a retirement from the function member of the Supervisory Board of Komercijalna banka AD Skopje. In November and December 2009, the Supervisory board was performed its function through 5 (five) members : (which is minimal number of members determined by Banking law)

- Sava Dimitrova attended 11 meetings during 2009 year
- D-r Taki Fiti attended 12 meetings during 2009 year
- Michael Harold Taylor attended 2 meetings during 2009 year
- Zvone Taljat attended 6 meetings of Supervisory Board during 2009 year
- Simon Naumovski attended 11 meetings during 2009 year and
- Aleko Angelovski attended 12 meetings during 2009 year.

The Supervisory Board, during 2009, held regular 12 meetings and passed the following documents: 117 decisions, 12 policies, 1 program, 2 rules of procedure, 7 plans, as well as 40 information and 60 reports were reviewed, and other current issues under its competence.

The Supervisory Board debate for essence questions from the sphere of action of the Bank, make a monthly review of the liquidity and economic and financial situation and take necessary measures for prevention of the capital of the Bank and collection of problem loans.

Within its competencies according to the provisions of the Bank Statute, the Supervisory Board passed the following policies and decisions:

- Decision on amendments and supplements to the Credit Policy and procedures;
- Decision on amendments and supplements to the Policy for stock investment;
- Decision on interest rate;
- Decision on the fees for the Bank's services;
- Policy for information system security ;
- Policy for interest rate risks management in the portfolio of the Bank's activities;
- Decision on determination the total exposure of Bank to other clients and with them related entities and their amendments and supplements;
- Decision on amendments and supplements to the Policy for liquidity risk management;
- Decision on amendments and supplements to the Policy for credit risk management;
- Decision on quantification mode of impairment loss – special reserve which derives from the country risk and determining exposure limits of Komercijalna Banka AD Skopje towards particular countries,
- Decision on increasing the additional capital of the Bank,
- Decision on amendments and supplements to the Program for the money laundering prevention;

- Book of regulations of Komercijalna banka AD Skopje for personal data protection;
- Book of regulations for renewal of the working processes and providing business continuity;
- Business continuity Plan for the Bank

The Supervisory Board accepted Elaborates for write-off , Decisions for collection, and settlement of claims and for correction of the value of the Bank's property acquired under outstanding claims, has accepted the information for purchase of claims from certain clients, Annual and Semi-annual report on the Bank performance, adopted the reports on performance of Risk Management Committee , Reports of the audits carried out by the Internal Audit, Reports from the Department for compliance on Banks working and money laundering prevention, as well as other information and reports of its competence.

1.3 Board of directors of the Bank is comprised of 3 (three) members, with the duration of mandate of 6 (six) years:

- Hari Kostov, Chief Executive Officer and President of Board of directors,
- Ilija Iloski , Chief Operative Officer and
- Maja Stevkova Sterieva, Chief Financial Officer.

Decision on nomination of members of Board of directors is passed by the Supervisory board on 25.03.2008 year.

Apart from the activities which Bank has been executed continued according the Banking Law, Bank's Statute and other Banks' acts, in the course of the reported year , Board of directors made 3841 decisions for approving short-term denar loans, decisions for approving long-term loans, loans for permanent working capital, decisions for issuance of denar and FX guarantees, decisions for approving short-term FX loan to resident as a cover for opening a letters of credit, decisions for approving short-term FX loan as a cover for opening letters of credit, decision for approving framework revolving loans; loans for residential construction; customer loans for purchasing cars; customer loans with non-identified purposes; loans for specialization and education in the country, loans for approving loans secured by fx of denar deposit; loan secured by pledged promissory notes, decisions for approving credit limit and issuing MasterCard and Visa credit cards etc.

During 2009, the Board of directors also passed the following guidelines:

- Guideline for performance of ATM network
- Guideline for accounting procedures and acts for the processes of liquidity management, for stock investment and custody services;
- Guideline for opening and closing of the accounts of legal entities and citizens who make registered activities in Komercijalna banka AD Skopje;
- Guideline for operations with the Banks cards in Komercijalna banka AD Skopje;
- Guideline for regulation of the relations between Bank and its branches;
- Guideline for performance of payments related to all material delivery, investments and other material costs for the other services;
- Plan-Program for professional improvement of employees of the Bank for 2010 year;
- Collective Agreement for the Bank

1.4 Risk Management Committee is consisted of 5 (five) members with duration of mandate of 6 (six) years: Hari Kostov - President; Maja Stevkova-Sterieva - Deputy President; Suzana Moskovska - member, Biljana Maksimovska - Popovik - member and Teodora Guskova - Prodanova – member.

All members of Risk Management Committee are selected from the persons with special rights and responsibilities, employed in Bank and they fulfill all the conditions determinate in the Banking law and have experience in the banking performances at least 3 years.

The Decision for nomination of members of Risk Management Committee is passed by Supervisory Board on 25.03.2008 year.

Risk Management Committee in 2009 held 52 meetings, where it was taken 1081 decisions, 47 conclusions, audited 104 information's and adopted 141 reports and 18 reviews.

The Committee followed the overall operation of the Bank, took care of the implementation of the policies and procedures for evaluation of loans and their managing, followed the implementation of the credit policy and procedures and approved credit exposure to separate clients and connected people-entities with them in the frame of limits determinate by Decision of Supervisory Board. The Committee decided for prolongation of the terms of maturity of Bank's claims two and more than two times.

Risk Management Committee during 2009 audited and adopted 38 draft-decisions and other acts and purposes them to the Supervisory Board.. According the Banking Law and Banks' Statute, Risk Management Committee submitted monthly reports on its operations to the Supervisory Board.

1.5 Audit Committee is consisted of 5 (five) members with duration of mandate of 2 (two) years. In the procedure of nomination of members of this Committee the principle of transparency has been applied.

The Decision for nomination of members of Audit Committee is passed by Bank's Assembly on 20.11.2007 year and published in the regulated term.

Members of Audit Committee are: Sava Dimitrova, Phd Taki Fiti, Aleko Angelovski, Phd Blazo Nedev and Marjan Andonov. Phd Blazo Nedev and Marjan Andonov are independent members of the Committee.

While electing the members of Audit Committee there are respected criteria for independence defined by Banking Law. Independed members and with them connected persons are not employee neither are persons with special rights and responsibilities in the Bank, they are not shareholders with qualified participation in the Bank nor are proxies of a shareholder with a qualified participation in the Bank, they don't work, nor in the last 3 years haven't been employees in the auditing company, which in that period made a auditing of the Banks performance and in the last 3 years didn't have a material interest of business relation with the Bank in amount up to 3.000.000,00 denars.

During 2009, the Audit Committee held 4 regular meetings, and adopted the Decision on amendments and supplements to the Decision for nomination of the Audit Company for Komercijalna banka AD Skopje; than adopted the Financial reports of Komercijalna banka AD Skopje for 2008, audited by Auditing Company PriceWatherhouseCoopers-Skopje, reviewed Information for credit risk, Reports for operations of the Risk Management Committee and Reports of the Internal Audit for maiden audits during 2009 year.

The Audit Committee made 1 conclusion, few recommendations and consultations hereunder, thus providing timely undertaking of measures and activities for adjustment of the accounting procedures with the law regulations on adequacy of the overall system of internal control of the Bank.

1.6 **Bank's Credit Committee** is consisted of 5 (five) members with a duration of mandate 4 (four) years: Ilija Iloski - President, Maja Stevkova-Sterieva - Deputy President, Biljana Maksimovska Popovik - member, Gabriela Stojanovska-member and Suzana Moskovska-member.

The Decision for nomination of members of Credit Committee is passed by Supervisory Board on 25.03.2008 year.

Bank's Credit Committee during 2009 year, held 52 meetings where it passed 2.324 decisions and 5 conclusions. At the meetings, the Committee considered and accepted many information, credit analysis, quarterly reviews and reports (monthly and quarterly), such as: executive procedures for collection of claims, on the total amount of collected claims of the Bank from legal entities and individuals, statement of the placements of some of the clients, clients classifications by the risk category with a plan of measures and activities, overdrafts on the checking accounts and Master Card cards with a plan of measures and activities for their collection etc.

Also, Credit Committee considered and accepted Draft-Decisions that were submitted for adoption to the Risk Management Committee and Draft-Decisions that were submitted for adoption to the Supervisory Board of the Bank.

2. The **organizing structure** of Komercijalna Banka AD Skopje is comprised of:

- 8 divisions,
- 6 independent departments
- 25 departments
- 90 services (out of which 60 in the Head office and 30 in the branches)
- 21 sections (17 in the Head office and 4 in the branches)
- 1 (one) independent section under Board of Directors;
- 1 (one) independent organization unit for internal audit,
- Secretariat of the Board of Directors of the Bank,
- 8 branches (Prilep, Ohrid, Veles, Strumica, Kocani, Stip , Kumanovo and Kavadarci),
- 52 city-branches (out of which 2 City-Branches I, 12-city-branches throughout the Republic under the Bank and 3 under the Branches and 35 city – branches in Skopje.)

The organizing scheme is in Appendix I from the Annual Report.

3. Stated at 31.12.2009 year the Bank is consisted of 5.038 shareholders. There are no changes in the ownership structure of the Bank's capital that refer to the shareholders with qualified majority over 5%, .

The total number of issued shares stated at 31.12.2009 is 2.014.067 from which total number of issued shares with voting right is 1.998.204 shares. The European Bank for Reconstruction and Development is the only shareholder with qualified participation in the Bank, i.e. owns 5,935% from the total number of shares and 5,982% from the total number of shares with voting rights.

Michael Harold Taylor was a member in the Supervisory Board until 15.10.2009 as a representative from the shareholder with qualified participation in the Bank.

4. Use of the Bank's Corporate Governance Code

The Corporate Governance Code for Komercijalna banka AD Skopje, is adopted on a regular meeting of Supervisory Board during 2009 year. With the Code, the Bank has established the basis principle of corporate governance as a sum of mutually relations between the Board of Directors, other persons with special rights and responsibilities in the

Bank, Supervisory Board, Banks' shareholders and the other interested parties. Code is consisted of the obligatory elements defined by the Decision on basic principles of corporate governance, passed by National Bank.

During its performances, Bank support the principles of corporate governance defined by the Code such as: guaranteed of the rights and interests of shareholders, transparency of the ownership structure, delegation of the responsibilities, regular and efficiency control and audit, respect of the regulations, ethical standards and practices, independence and objectivity and the other principles.

The Bank's performance is complied with the parts of Corporate governance Code related to the procedure of Bank's Assembly, voting procedure shareholders rights, cooperation between the Board of Directors and Supervisory Board, type, terms and ways of delivering the information's and documents from the Board of Directors to the Supervisory Board and way of acting in the situations where there is conflict of interest.

Banks bodies fulfill the obligations, responsibilities and way of performance defined in the Code. Members of the Banks bodies during their regular operations use the law regulation, by-law regulation, Statute of the Bank and the other Banks internal acts.

The election of members of Bank's bodies is made following the criteria and rules for nomination and election defined in the Corporate Governance Code according law and by-law regulation.

5. Policy for prevention of conflict of interest

The Bank in 2009 year performed its operations according the Policy for prevention of conflict of interest (passed by the Supervisory Board in 2008) which defines principles for identification of the potential conflicts of interests as well as defining the measures and activities that should be undertaken in cases when there is a conflict of interest.

Pursuant to Policy, the Bank established procedures for monitoring the potential recourses of conflict of interests. The Policy defined the obligations and responsibilities of persons with special rights and responsibilities and other employees in the Bank regarding avoidance of the potential conflict of interests.

Direct leaders of the organizational units make hierarchy control of use and attention of the Policy orders and undertake measures and activities for removal and correction of the behavior of employee which is not in compliance with the Policy.

The persons with special rights and responsibilities shall make a written statement on the existence, if any, of a conflict of their personal interest with the interest of the Bank, every six months.

Members of Supervisory Board and Board of Directors are not present at the meetings if their objectivity is being questioned cause of existence of conflict of interest and interest of Bank. Member of the Supervisory Board or Board of Directors shall make a written statement on the existence, if any, of a conflict of their personal interest with the interest of the Bank.

6. Compliance of the bank's performance and managing with the Corporate governance code for the companies listed on the Macedonian Stock Exchange

Komercijalna banka AD Skopje as a member of the Macedonian Stock Exchange has complied its performance with the Corporate Governance Code for the Companies listed

on the Macedonian Stock Exchange and during 2009 year strictly keeps to the ruled principles of the said Code. Namely, in 2009, the Bank:

- published the information about the rights that arise from types and classes of shares issued by the Bank as well as published the amendments of the Bank's Statute at its web page and at the web page of the Macedonian Stock Exchange,
- The Bank held one regular Shareholder Meetings in 2009, and the principle which stipulates that family members of the individuals who are authorized to represent the Bank and their representatives, nor a representative of the member of the Supervisory Board or Board of Directors, can not be appointed as proxies, has been fully met.
- In 2009 there are no shareholders agreements that limit any rights of the shares.
- The ruled procedure for convocation of the Shareholders Meetings, accessibility of the information, the procedure for registering of the attendance as well as the manner of conducting the Meetings in 2009 have been fully met.
- There are no changes in the ownership structure of the Bank's capital that refer to the shareholders with qualified majority over 5%, nor any decisions on a major change of the identity or character of the Bank in 2009.
The participation of the foreign capital in the Bank stated at 31.12.2009 is 50,49% of the Bank's capital. The European Bank for Reconstruction and Development is the only shareholder with qualified participation in the Bank, i.e. owns 5,935% from the total number of shares.
- By the Code of Ethics, adopted in 2008 year, the Bank established professional standards and corporate values used by members of Supervisory Board, Board of Directors, other persons with special rights and responsibilities and which are especially refer to: avoiding corruption and other illegal and unetich behavouing and activities, avoiding a conflicts of interest, transactions with connected people-entities and keeping banks secrets.
- In 2009, the Bank has fully met the principle which stipulates timely and accurate disclosure of all material matters regarding the Bank, its financial situation, performance, as well as all price sensitive information at Bank's web site and at the web site of the Macedonian Stock Exchange. By the Disclosure Policy passed by the Supervisory Board of the Bank, are regulated the ways of disclosure of reports and data by the Bank, types of data which are subject of disclosure, form in which they are disclosures, frequency of disclosure and control mechanisms which shall be incorporated during the processes of disclosure.
- The Bank's Supervisory Board realizes efficient system of control to the Bank's management in 2009,

The Supervisory Board held 12 meetings during 2009, and the Report on the performance of this Board contains more details about its activities.

- The Supervisory Board fully met the principle of transparent procedure of the Board's member's nomination and election.
Michael Harold Taylor, member of the Supervisory Board and Zvone Taljat are financial experts. Simeon Naumovski and Aleko Angelovski are independent members in the Supervisory Board,

- The principle which stipulates that the Supervisory Board President is responsible for regular functioning of the Board has been fully met in 2009,
-
- The Director of the Legal Affairs, Problem Loans Workout and Managing Division, who manages the appropriate Department for support of the Board of Directors operation, performs the function of Internal Legal Counsel into the Bank,
-
- According to the Banking Law, the Audit Body as Bank's body, performs the function of Audit Committee,
-
- In 2009, the Bank performed its operations according Policy for remuneration which regulated the founding of the Remuneration Committee. This Committee is consisted of 3 members and it took care of use of the Policy,
-
- In 2009, the Supervisory Board was responsible for achieving the Bank's aims and strategy, taking into consideration the interests of the stakeholders,
-
- The principle which stipulates that the Supervisory Board members are responsible for complying with the laws and other regulations for managing the risks associated with the Bank has been fully met. Namely, the Bank has established efficient system for managing the internal risk and control,
-
- In accordance with the Banking Law, the persons with special rights and responsibilities shall make a written statement on the existence, if any, of a conflict of their personal interest with the interest of the Bank, every six months. In case of conflict of interests, a written statement shall be submitted to the Bank's Supervisory Board and Board of Directors indicating the reason underlying the conflict of the personal with the Bank's interest,

The Bank did not conclude any major transactions. Interested party transactions in 2009 are approved according the Banking Law.

SUMMARY

In 2009, Komercijalna Banka AD Skopje continued to perform its activities successfully.

1. *The total resources* of the Bank as at December 31, 2009 reached total amount of 60.8 billion denars and noted an increase of 10.1%, while the Plan for 2009 was realized at 100.5%.
2. Within unfavourable economic conditions deriving from the global economic crisis, the Bank realized *positive financial result* in the amount of 1,074.0 million denars, that represents 69.3% of the financial result realized in the same period of the last year, whereby the Plan for 2009 was realized with 88%. The Income Statement of Komercijalna Banka AD Skopje reflects the effects of the operations of the Bank's branches, whereby in December 2009 the branches in Ohrid and Kavadarci realized neative financial result, while all the other braches have realized positive financial result from their operations.
4. Komercijalna Banka AD Skopje successfully managed the banking risks and operated in accordance with and fulfils the prescribed legal supervisory standards.
5. The analysis of the total used denar loans to legal entities in 2009 shows a participation of short - term loans of 79.0%, against 21.0% participation of used

long - term loans. In 2009, the Bank also continued to approve F/X loans from the assets of foreign credit lines and F/X loans for payments in the country and abroad.

6. The Bank continued to undertake measures for collection of claims having the status of problem loans, which resulted with collection under all bases in the amount of 685.7 million denars, out of which 93.4% were collected from the balance sheet entries and 6.6% from the off-balance sheet entries.
6. In the domain of foreign exchange operations, the Bank continued to perform its activities even if with decreased volume. The total turnover per payment instruments showed a decrease of the value of 17.2%; the operations with Guarantees and Letters of Credit are characterized by increasing the number of issued guarantees by 12.8% but decreased value by 40.1%, while the accepted guarantees noted decreasing in value and number.
7. The liquidity (denar and FX) was maintained on the level that enabled the Bank to fulfill the obligations prescribed by the law and the obligations towards its clients. The Bank regulated its liquidity through keeping certain amount on the account and in the vault, by approving short-term loans to other banks, subscribing treasury bills and allocating of the mandatory reserve at the NBRM (in FX and in denars).
8. Trading with securities was realized through active participation of the Bank in auctions of treasury bills of the NBRM, auctions of Government bills, investments in long term securities, payment of dividend to shareholders – owners of shares issued by the Bank, opening of custodian accounts, trading with securities on MSE etc.
9. In the period 01.01-31.12.2009 on the FX market the Bank realized decreased turnover, while the number of purchased agreements was increased. Also, the total FX turnover was decreased, as well the average amount of FX placements in foreign banks. The decrease of placed f/x resources in foreign banks is due to restructuring of the assets, whereby a part of the households' deposits which used to be placed in foreign banks have been placed as loans to customers which bear higher interest income.

In the reporting period, in conditions of decreased total turnover and oscillations of the MSE, Komercijalna Banka AD Skopje as member at the Macedonian Stock Exchange realized total turnover in the amount of 1,429 million MKD (market share 13.6%) and realized 8,063 transactions (market share 23.4%).

With that market share Komercijalna banka AD Skopje kept the leading position in the financial intermediation on the capital market.

10. In order to achieve greater efficiency in the vault activities in 2008, the Bank undertook specific operations and successfully answered to the increased needs for liquid fx funds. Also, the number of active vaults for individuals and legal entities as well number of clients is increased.
11. In the retail banking, total deposits from citizens increased by 10.8%, the value of approved loans noted a decrease of 41.0%, as well as decrease of value of used loans by 42.2%, dynamic activities within the cards operations were marked with significant increase of the cards' users of all new types of VISA cards , spreading of the ATM network and increasing the number of current accounts.
12. In area of domestic payment operations in terms of decreased economic activity in the country and changes in Bank's Tariff it is evident that activities such as volume of payments and collected fee, volume of processed transactions and number of newly opened accounts show also decreasing trend. Opposite to this, the total

number of opened accounts, number of active accounts, number of processed cash transactions and transactions to citizens were increased.

13. The Bank had significant activities in the segment of IT support of the banking performance, including the e-banking activities.
14. The Bank had intensive activities in the domain of marketing. The main objective in this segment is undertaking activities covering the marketing-mix of the Bank (products, promotion, distribution channels and marketing research).
15. One of the primary tasks of the Bank in 2009 was undertaking activities for money laundering prevention and working in accordance with the legal framework in this area.
16. The organizational chart of Komercijalna Banka AD Skopje is comprised of: 8 divisions, 31 departments (out of which 6 are independent departments), one organization unit for Internal Audit, 90 services, and one organization service under Board of Directors, 21 sections, Secretariat of the Board of Directors of the Bank, 8 branches and 52 city branches. As at 31 December 2009, the total number of the Bank's employees was 1.231, out of which 1.018 employees are in the Head Office of the Bank and 213 in the Branches. In the course of 2009, the Bank's activities were managed by: 3 members of the Board of Directors, 6 members of the Supervisory Board, 5 members of the Audit Committee, 1 member of IT Supervisory Committee and management team according to organization structure.
17. The Internal audit in the reporting period performed continuous and through control of the legal procedures, accuracy and diligence of the operations, in accordance with the Law on Banks, Banks' Charter and other internal decisions passed by the Bank.
18. During 2009 apart from the regular, the Bank undertook intensified activities for completing the Project for implementation of Methodology for record keeping and evaluation of the accounting items and preparation of financial statements, as well as implementation of the amendments of the new Chart of Accounts for banks, adopted by NBRM. Also within the frames of financial activities other activities were performed.
19. The business network of Komercijalna Banka AD Skopje includes the branches in Prilep, Ohrid, Veles, Strumica, Kocani, Stip, Kumanovo and Kavadarci, as well the city-branches in Skopje and most of the towns in the country. As its integral part, the Bank's branches were included in almost all segments of its operations.
20. In the course of 2009 the Bank performed its activities through the following bodies: Shareholders' Assembly; Supervisory Board; Board of directors; Risk Management Committee; Audit Committee and Credit Committee. Komercijalna banka AD Skopje has complied its performance with the Corporate Governance Code of Komercijalna Banka and Corporate Governance Code for the Companies listed on the Macedonian Stock Exchange

SUPERVISORY BOARD

OPINION
of the Supervisory Board of Komercijalna Banka AD Skopje
for the Report on the performance of Komercijalna Banka AD Skopje
in 2009 (Summary)

The Report on the performance of Komercijalna Banka AD Skopje in 2009 include data for the conditions in which the Bank perform its activity, realization of the Bank's Balance sheet, realized profit, risk management, compliance with the supervisory standards and the Corporate Governance code for the companies listed on the Macedonian stock exchange, data for the financial activities, performance of the Bank's bodies, IT development, internal audit and the other Bank's activities.

The Bank's Report on performance is the integral illustration on the Bank and their branches in 2009 and realized financial results. Through completely presentation into 20 parts in the Report there is data for the banking activities, realization in 2009, statement on the reporting date, realized financial results and market share of the Bank.

Report on the performance of Komercijalna Banka AD Skopje and its branches in 2009 present realization of the planned quantifications, increment of the balance and off-balance sheet assets, as well as positive trend in the structure of the incomes and expenses. Apart from the unfavourable economic conditions deriving from the global economic crisis, the Bank has realized significant financial result.

The Bank's Report for 2009 also presents realization of the banking activities – the basic financial activities and the other activities which contribute for the successful operating, better and more qualitatively managing with the Bank, respecting and compliance with the whole Law regulation.

According to the Law for trading companies and the Corporate Governance code, in the Report are presented all information prescribed with the regulation and there is separated special Report on corporate governance in Komercijalna Banka AD Skopje

In our opinion, the Report on the performance of Komercijalna Banka AD Skopje and its branches in 2009 gives the real and objective illustration for the Bank's performance and their branches in 2009.

SUPERVISORY BOARD
OF THE BANK
PRESIDENT
Sava Dimitrova

DRAFT

Pursuant to Article 48 of the Statute of Komercijalna Banka AD Skopje, the Shareholders Assembly of the Bank, at its General Meeting held on 24.03.2010, made the following

DECISION

on adoption of the Report on the operation of Komercijalna Banka AD Skopje in 2009 and the Opinion of the Supervisory Board

Article 1

The Report on the operation of Komercijalna Banka AD Skopje in 2009 and the Opinion of the Supervisory Board have been adopted.

Article 2

This Decision shall be in effect from the date of its adoption.

CHAIRMAN OF THE ASSEMBLY