

**VOJVOĐANSKA BANKA A.D., NOVI SAD**

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

**VOJVODANSKA BANKA A.D., NOVI SAD**

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*Translation of the auditors' report issued in the Serbian language*

**INDEPENDENT AUDITORS' REPORT**

**To the Board of Directors and Shareholders of Vojvodanska banka A.D., Novi Sad**

We have audited the accompanying consolidated financial statements (page 3 to 47) of Vojvodanska banka A.D., Novi Sad (the "Bank"), which comprise the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

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

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

(Continued)

*Translation of the auditors' report issued in the Serbian language*

**INDEPENDENT AUDITORS' REPORT**

**To the Board of Directors and Shareholders of Vojvođanska banka A.D., Novi Sad (Continued)**

*Opinion*

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

*Emphasis of Matter*

Without qualifying our opinion, we draw attention that the Bank is required to maintain certain minimum or maximum ratios with respect to its activities and composition of risk assets in compliance with the Law on Banks and with the National Bank of Serbia Regulations. As of December 31, 2006, the following ratios were not within their prescribed limits:

- Capital assets ratio amounted to 87.51% (prescribed maximum 60% of the core capital),
- Open foreign currency position amounted to 102.08% (prescribed maximum 30% of the core capital),
- Ratio of exposures to a single counterparty that is a related party of the Bank amounted to 5.58% (prescribed maximum 5% of the core capital), which referred to overnight deposit placed with NBG Serbia.
- Ratio of exposures to a single counterparty amounted to 34.57% (prescribed maximum 25% of the core capital), which referred to the investment in shares of domestic bank.

Belgrade, April 30, 2007

Miroslav Tončić  
Certified Auditor

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

	<b>Notes</b>	<b>2006</b>	<i>Unaudited</i> <b>2005</b>
Interest income	3.1, 4a	2,817,622	3,000,943
Interest expense	3.1, 4b	(1,811,669)	(1,097,897)
<b>Net interest income</b>		<u>1,005,953</u>	<u>1,903,046</u>
Fee and commission income	3.1, 5a	1,446,543	1,354,598
Fee and commission expense	3.1, 5b	(102,300)	(141,385)
<b>Net fee and commission income</b>		<u>1,344,243</u>	<u>1,213,213</u>
Net gains on the sale of securities	3.10	83,833	49,340
Foreign exchange gains, net	3.2	124,703	245,862
Dividends and other income from equity investments		55,325	33,030
Other operating income	6	4,265,108	8,139,149
Losses on impairment and provisions	3.6, 8a	(1,885,739)	(7,216,011)
Other operating expenses	7	(4,879,519)	(4,915,295)
Gains on the valuation of assets and liabilities, net	3.4, 3.5, 3.8, 9	1,063,064	830,617
<b>PROFIT BEFORE TAX</b>		1,176,971	282,951
Income taxes	3.13, 10a	(2,346)	-
Deferred tax expense	3.13., 10v	(51,609)	-
<b>PROFIT FOR THE YEAR</b>		<u>1,123,016</u>	<u>282,951</u>
<b>MINORITY INTERESTS</b>		<u>227</u>	<u>-</u>
<b>INTEREST ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		<u>1,122,789</u>	<u>282,951</u>
<b><i>Earnings per share in RSD</i></b>			
<i>Basic earnings per share</i>		<u>2,444.54</u>	<u>675.04</u>

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

These consolidated financial statements were approved by the management of Vojvodanska banka A.D., Novi Sad and submitted to the National Bank of Serbia, Center for Credit Worthiness Assessment on April 30, 2007.

Signed on behalf of Vojvodanska banka A.D., Novi Sad:

Marinis Stratopoulos	Zoran Radonjić	Vlastimir Vuković	Milorad Nikić	Slobodan Pena
President of the Executive Board (from February 13, 2007)	Deputy President of the Executive Board (from February 13, 2007)	Deputy President of the Executive Board	Executive Director of Business Support	Deputy Director of Accounting

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

	<u>Notes</u>	<u>2006</u>	<i>Unaudited</i> <u>2005</u>
<b>ASSETS</b>			
Cash and cash equivalents	3.11, 11	3,932,155	3,788,637
Deposits with the central bank and securities available for refinancing with the central bank	12	11,149,597	6,187,086
Interest, fee and commission receivable	13	214,026	98,468
Placements with domestic banks	14	1,343,471	1,044,841
Loans and advances to customers	3.5, 15	19,173,083	17,308,083
Trading securities	3.8, 16	3,877,253	2,733,947
Securities held-to-maturity	3.9, 17	1,124,953	994,973
Equity investments and securities available-for-sale	3.10, 18	243,255	171,541
Intangible assets	3.3, 19	93,668	105,335
Investment property	3.4, 19	437,426	331,096
Property and equipment	3.3, 19	4,469,056	4,805,107
Other assets and accruals	20	267,816	976,822
Deferred tax assets	3.13, 10v	107,332	-
<b>Total assets</b>		<u>46,433,091</u>	<u>38,545,936</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts owed to domestic banks	21	2,117,853	465,412
Amounts owed to customers	22	34,427,909	29,554,695
Interest, fee and commissions payable	23	138,280	51,632
Debt securities issued		239	199
Income taxes payable		2,346	-
Other operating liabilities	24	350,256	572,399
Provisions	25	1,185,152	474,485
Other liabilities and accruals	26	208,741	385,959
Deferred tax liabilities	3.13, 10v	158,941	-
<b>Total Liabilities</b>		38,589,717	31,504,781
<b>Equity</b>	27		
Share and other capital		4,846,601	5,084,265
Minority interests		31,470	-
Bank's reserves		1,011	27,973
Revaluation reserves		1,661,245	1,688,597
Retained earnings		1,303,047	240,320
<b>Total Equity</b>		<u>7,843,374</u>	<u>7,041,155</u>
<b>Total Liabilities and Equity</b>		<u>46,433,091</u>	<u>38,545,936</u>
<b>OFF-BALANCE-SHEET ITEMS</b>	28	<u>57,439,820</u>	<u>55,051,770</u>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**Year Ended December 31, 2006**  
**(Thousands of RSD)**

	<b>2006</b>	<i>Unaudited</i> <b>2005</b>
<b>SHARE CAPITAL</b>		
Balance, beginning of year	5,045,908	12,274,484
Opening balance adjustment	(228,008)	-
Opening balance, adjusted	4,817,900	12,274,484
Shares issued based on conversion of liabilities to equity	-	874,859
Repurchased treasury shares	(20)	-
Profit/loss	-	(8,943)
Transfers within equity	-	(8,213,933)
Other	-	119,441
Balance, end of year	<u>4,817,880</u>	<u>5,045,908</u>
<b>SHARE PREMIUM</b>		
Balance, beginning of year	1,301	-
Opening balance adjustment	(1,301)	-
Opening balance, adjusted	-	-
Other	-	1,301
Balance, end of year	<u>-</u>	<u>1,301</u>
<b>OTHER CAPITAL</b>		
Balance, beginning of year	37,056	28,721
Opening balance adjustment	(8,335)	-
Opening balance, adjusted	28,721	28,721
Profit/loss	-	(3,059)
Other	-	11,394
Balance, end of year	<u>28,721</u>	<u>37,056</u>
<b>BANK'S RESERVES</b>		
Balance, beginning of year	27,973	1,966
Opening balance adjustment	(26,962)	-
Opening balance, adjusted	1,011	1,966
Transfers within equity	-	3,514
Profit/loss	-	823
Other	-	21,670
Balance, end of year	<u>1,011</u>	<u>27,973</u>
<b>RESERVES FOR POTENTIAL LOSSES</b>		
Balance, beginning of year	-	-
Provision for potential losses	2,097,637	-
Additional provision for potential losses to be set aside as appropriation of retained earnings	(2,097,637)	-
Balance, end of year	<u>-</u>	<u>-</u>
<b>REVALUATION RESERVES</b>		
Balance, beginning of year	1,688,597	56,244
Opening balance adjustment	(56,222)	-
Opening balance, adjusted	1,632,375	56,244
Effects of property and equipment appraisal	-	1,660,372
Effects of remeasurement of available-for-sale securities to their fair value	71,836	-
Decrease in revaluation reserves based on transfer of portion of effects of buildings depreciation to retained earnings	(67,984)	-
Increase in revaluation reserves based on appraisal effects of a buildings	25,018	-
Transfers within equity	-	(56,909)
Other	-	28,890
Balance, end of year	<u>1,661,245</u>	<u>1,688,597</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)**  
**Year Ended December 31, 2006**  
**(Thousands of RSD)**

	<u>2006</u>	<i>Unaudited</i> <u>2005</u>
<b>RETAINED EARNINGS/(ACCUMULATED LOSSES)</b>		
Balance, beginning of year	240,320	(8,406,397)
Opening balance adjustment	(8,867)	-
Opening balance, adjusted	<u>231,453</u>	<u>(8,406,397)</u>
Transfers within equity	-	8,233,984
Adjustments of opening balance retained earnings:		
- deferred income based on loan origination fees, guarantees and letters of credit granted in previous years	(15,768)	-
- provision for employee benefits	(103,411)	-
- transfer of portion of depreciation from revaluation reserves	67,984	-
Other	-	129,782
Profit/loss	-	282,951
Net profit for the year	<u>1,122,789</u>	<u>-</u>
Balance, end of year	<u><u>1,303,047</u></u>	<u><u>240,320</u></u>
<b>MINORITY INTERESTS</b>		
Balance, beginning of year	-	-
Opening balance adjustment	32,555	-
Opening balance, adjusted	<u>32,555</u>	<u>-</u>
Other	(1,312)	-
Net profit for the year	<u>227</u>	<u>-</u>
Balance, end of year	<u><u>31,470</u></u>	<u><u>-</u></u>
<b>TOTAL EQUITY</b>	<u><u>7,843,374</u></u>	<u><u>7,041,155</u></u>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2006**  
**(Thousands of RSD)**

	<b>2006</b>	<i>Unaudited</i> <b>2005</b>
<b>Cash receipts from operating activities</b>	<b>4,750,744</b>	<b>3,842,967</b>
Interest receipts	2,821,011	1,731,768
Fee and commission receipts	1,629,542	1,416,572
Receipts from other operating income	244,866	661,597
Receipts from dividends and equity investments	55,325	33,030
<b>Cash payments from operating activities</b>	<b>(6,798,250)</b>	<b>(5,010,755)</b>
Interest payments	(1,797,147)	(959,856)
Fee and commission payments	(111,480)	(149,848)
Payments to, and on behalf of employees	(1,988,254)	(1,588,439)
Taxes, contributions and other duties paid	(531,244)	(436,133)
Payments from other operating expenses	(2,370,125)	(1,876,479)
<b>Net operating cash flows before changes in placements and deposits</b>	<b>(2,047,506)</b>	<b>(1,167,788)</b>
<b>Net (increases)/decreases in placements and increases in deposits</b>	<b>3,309,766</b>	<b>(1,727,369)</b>
(Increase)/decrease in placements with other banks and financial institutions	(5,416,276)	970,090
Increase in loans to customers	(587,496)	(4,008,901)
Decrease/(increase) in trading securities and short-term securities held-to-maturity	350,803	(3,079,993)
Increase in deposits from customers	7,352,882	5,409,257
Increase/(decrease) in deposits from banks and other financial institutions	1,609,853	(1,017,822)
<b>Net cash used in operating activities before income tax</b>	<b>1,262,260</b>	<b>(2,895,157)</b>
<b>Cash (outflows)/inflows from investing activities</b>	<b>(59,522)</b>	<b>13,611</b>
Proceeds from the sale of equity investments	31,278	44,194
Proceeds from investments in securities	-	49,183
Purchases of intangible assets, property and equipment	(90,800)	(79,766)
<b>Cash (outflows)/inflows from financing activities</b>	<b>(624,320)</b>	<b>2,522,300</b>
Proceeds/(repayments) of long-term borrowings	(487,812)	3,047,307
Decrease in securities	(19)	(157,830)
Repayments of short-term borrowings	(136,489)	(367,177)
<b>Total cash inflows</b>	<b>8,060,510</b>	<b>6,378,878</b>
<b>Total cash outflows</b>	<b>(7,482,092)</b>	<b>(6,738,124)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>578,418</b>	<b>(359,246)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>3,788,637</b>	<b>3,514,493</b>
Foreign exchange (losses)/gains	(434,900)	633,390
<b>Cash and cash equivalents, end of year</b>	<b>3,932,155</b>	<b>3,788,637</b>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**1. BANK'S ESTABLISHMENT AND OPERATING POLICY**

Vojvodanska banka A.D., Novi Sad (the "Bank") was established as an independent bank on January 1, 1990 following the transformation of Vojvodanska banka - Associated Bank, Novi Sad.

On December 30, 2001, based on its Articles of Association and the Decision of the Bank's General Assembly, the Bank consummated a merger with Srpska razvojna banka A.D., Belgrade and Užička banka A.D., Užice.

In December 2006, in accordance with the terms of the Agreement on the Purchase and Sale of Share Capital, the National Bank of Greece became the majority owner of the Bank's share capital through the acquisition of an equity interest of 99.43%. The aforementioned acquisition is duly registered in the Central Securities Depository and Clearing House, as of December 12, 2006.

The Bank is registered in the Republic of Serbia to provide a wide range of banking services associated with payment transfers, credit and deposit activities in the country and abroad, and is to operate in accordance with the Republic of Serbia Law on Banks.

As of December 31, 2006, the Bank is comprised of a Head Office situated on Trg Slobode 7, in Novi Sad, twenty-five branch offices including inactive branch offices located in Priština and Podgorica, eighty-seven sub-branches (four inactive) and 101 external teller locations (sixteen inactive) (December 31, 2005: twenty-five branch offices, sixty-two sub-branches and twenty-six external teller locations).

The total number of Bank employees as of December 31, 2006 was 2,439 (December 31, 2005: 2,558 employees). The Bank's tax identification number is 101694252.

**2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

**2.1 Basis for Consolidation**

The consolidated financial statements as of, and for the year ended December 31, 2006 represent the consolidation of the financial statements of Vojvodanska banka A.D., Novi Sad and the following domestic subsidiaries:

	<b>% of Equity Interests</b>
1 Vobex d.o.o., Novi Sad	100%
2 Imos a.d., Šid	51.55%

All intercompany balances and transactions between the aforelisted subsidiaries have been eliminated upon consolidation.

The Bank's consolidated financial statements for FY 2006 do not include financial statements of the following enterprises due to the reasons described below:

- Vobing d.o.o., Novi Sad (decision on the process of liquidation was enacted on January 10, 2005),
- VOB C.I.T, Novi Sad (draft decision on discontinuation of operations of the aforementioned entity was enacted on January 13, 2006),
- Modna konfekcija Tamiš Jaša Tomić A.D. Tamiš – in bankruptcy (Bank has no control over this entity, the entity is in bankruptcy),

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2.1 Basis for Consolidation (Continued)**

- Jugins a.d., Novi Sad (Bank is not entity's owner; on January 4, 2006 the entity merged with Globos osiguranje a.d., Beograd),
- Metalprogres, Zrenjanin (equity interest in this entity is below 50%; Bank has no control over this entity),
- Dipos, Beograd (Bank sold this investment during 2006)
- Bank-Trade, Užice (the Bank has no equity interests in this entity as of December 31, 2006).

The entity Novobanis, Thessalonica was not included in consolidation in FY 2006 and 2005 (equity interest as of December 31, 2006 and 2005 amounted to 68% and 100%, respectively), due to the fact that the aforementioned entity had no operating activities in 2006 and 2005.

Opening balance adjustments presented in the consolidated statement of changes in equity in the period from January 1 through December 31, 2006 arose as a consequence of changes in the scope of consolidation.

The consolidated financial statements as of, and for the year ended December 31, 2005 represent the consolidation of the financial statements of Vojvodanska banka A.D., Novi Sad and the following domestic subsidiaries:

	<b>% of Equity Interests</b>
1 Vobex d.o.o., Novi Sad	100%
2 Imos a.d., Šid	51.55%
3 Vobing d.o.o., Novi Sad	100%
4 VOB C.I.T., Novi Sad	100%
5 Modna konfekcija Tamiš Jaša Tomić A.D. Tamiš - in bankruptcy	59.57%
6 Bank-Trade, Užice	100%
7 Jugins a.d., Novi Sad	51.55%
8 Metalprogres, Zrenjanin	31.45%
9 Dipos, Beograd	50%

**2.1. Basis of Preparation and Presentation of Consolidated Financial Statements**

Pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46 of June 2, 2006), legal entities and enterprises incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose consolidated financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006****2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2.1. Basis of Preparation and Presentation of Consolidated Financial Statements (Continued)**

Pursuant to its Decision numbered 011-00-738-2003-01 of December 30, 2003, the Republic of Serbia Ministry of Finance determined and issued the Framework and IAS that were to be applied as of December 31, 2002, and upon which both the previous and the newly-enacted Law on Accounting and Auditing were based.

The amendments to the IAS and to the newly-issued IFRS released after the adoption of the previous Law on Accounting and Auditing, have not been published and officially enacted in the Republic of Serbia, and accordingly, they have not been applied in the preparation of the accompanying consolidated financial statements.

The management is assessing the impact of the changes to the IAS, the newly-issued IFRS and to the interpretations to the consolidated financial statements. Although the majority of these changes are not applicable to the Bank's operations, the Bank's management does not express an explicit and unreserved statement in the accompanying consolidated financial statements of compliance with IAS and IFRS, which have been applied in the periods presented in the accompanying consolidated financial statements.

The accompanying consolidated financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Institutions" (Official Gazette of the Republic of Serbia no. 8 of January 23, 2007). Such statements represent the complete set of consolidated financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, "Presentation of Financial Statements" and IAS 7, "Cash Flow Statements," and differ in some respects, from the presentation of certain amounts as required under the aforementioned standards.

The Bank has not retrospectively applied new accounting policies (Notes 3.1, 3.6 and 3.15 to the financial statements) as required under the provisions of IAS 8, "Net Income and Loss For the Period, Fundamental Errors and Changes in Accounting Policies," in accordance which the consolidated financial statements, including comparative figures for the previous period, are restated as if the new accounting policy had always been applied, with a corresponding adjustment made to the opening balance of retained earnings.

In accordance with the above-described matters, these consolidated financial statements as of, and for the year ended December 31, 2006 cannot be described as having been prepared in accordance with International Financial Reporting Standards.

In the preparation of the accompanying consolidated financial statements, the Group has adhered to the accounting policies described in Note 3, which are in conformity with the accounting, banking and tax regulations prevailing in the Republic of Serbia.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2.1. Basis of Preparation and Presentation of Consolidated Financial Statements (Continued)**

The accompanying consolidated financial statements include sub-balances of the Bank's branches in Priština and Podgorica. On May 20, 2003, the Branch Podgorica lost its working license according to the decision of the Central Bank of Montenegro. The assets of the Branch Podgorica as at December 31, 2006 amounted to RSD 248,515 thousand (FY 2005: RSD 987,804 thousand), representing 0.54% of the Bank's assets. The Branch operations in 2006 resulted in loss of RSD 67,637 thousand (FY 2005: net income of RSD 206,880 thousand).

The operations of Branch in Priština are out of the Bank's control from 1999. Assets of this branch included in the Bank's consolidated financial statements amount to RSD 102,715 thousand (FY 2005: RSD 192,197 thousand) as at December 31, 2006, representing 0.22% of the Bank's assets. The Branch operation during 2006 resulted in net loss in the amount of RSD 24,540 thousand (FY 2005: net loss of RSD 730 thousand).

The Bank's consolidated financial statements are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia.

**2.2. Comparative Figures**

The accounting policies adopted in the preparation and presentation of the consolidated financial statements for the year ended December 31, 2005 differ from the IFRS requirements in the following significant respects:

- In the comparative figures for the year ended December 31, 2005, loan origination fees are credited to income when the respective service has been performed. According to the provisions of IAS 18, "Revenue" and IAS 39, "Financial Instruments: Recognition and Measurement," these fees are considered as being an integral part of generating an ongoing involvement with the resultant financial instrument, and should be deferred and recognized as an adjustment to the effective interest yield.
- In the comparative figures for the year ended December 31, 2005, the Bank has not retrospectively estimated present value of the future obligations to employees with respect to retirement benefits, which represents a departure from IAS 8, "Net Income or Loss of the Period, Fundamental Errors and Changes in Accounting Policy," pursuant to which the financial statements including comparable information for the previous period, are to be presented as though the new accounting policy had always been in effect, and an adjustment that arises as a result, is stated as an adjustment of the retained earnings at January 1, 2006.

In order to conform the presentation of figures to the current reporting period, certain reclassifications have been made to the amounts reported in the consolidated financial statements for the year ended December 31, 2005.

**2.3. Use of Estimates**

The presentation of the consolidated financial statements requires the Bank's management to make best estimates and reasonable assumptions that effect the: assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the consolidated financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us, as of the date of preparation of the consolidated financial statements. However, actual results may vary from these estimates.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1. Income and Expense Recognition**

Interest income and interest expense, including penalty interest and operating income and expenses are accounted for on an accrual basis. Fees and commissions are accrued when earned or due.

Fee and commission income from loan origination fees is recognized in the statement of income on a proportional basis throughout the repayment period of the loan.

In 2005, fee and commission income from loan origination fees was recognized when collected. The Bank has not retrospectively applied the new accounting policy, which represents a departure from IAS 8, "Net Income or Loss of the Period, Fundamental Errors and Changes in Accounting Policy," pursuant to which the consolidated financial statements including comparable information for the previous period, are to be presented as though the new accounting policy had always been in effect. Adjustment that arose as a result, is stated as an adjustment of the retained earnings at January 1, 2006.

**3.2. Foreign Exchange Translation**

Transactions denominated in foreign currencies are translated into dinars at official exchange rates at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates that are prevailing at the balance sheet date.

Foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the consolidated statement of income.

Off-balance-sheet items denominated in foreign currencies are translated into dinars by applying the official exchange rates that are prevailing at the balance sheet date.

**3.3. Property and Equipment and Intangible Assets**

Buildings are carried at their fair value, as determined by certified appraisers, and are decreased by the accumulated depreciation, and any possible impairment loss. The appraisal of the buildings was performed by an independent appraiser based on the respective asset's market value for existing use. The frequency of revaluations depends upon the changes in fair values of the items of building being revalued. If an asset's carrying value is increased as a result of a revaluation, the increase is to be credited directly to equity under the heading of revaluation surplus. If an asset's carrying value is decreased as a result of an appraisal, the decrease is recognized in the Statement of Income as an expense, under losses on the valuation of assets and liabilities.

Equipment at December 31, 2006 is stated at cost less accumulated depreciation. Cost represents the prices billed by suppliers together with all costs incurred in bringing the asset to the location and condition necessary for its intended use.

Construction in progress is stated at cost.

Intangible assets are comprised of investment in software, concessions, patents, licenses and similar rights, as well as investment in leased business premises.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.3. Property and Equipment and Intangible Assets (Continued)**

Depreciation and amortization are provided for on a straight-line basis to the cost of property, plant and equipment and intangible assets in order to write them off over their useful lives. Depreciation and amortization are calculated using the following rates:

Buildings	2% - 4%
Computers and IT equipment	20.0%
Furniture and other equipment	6.7% - 14.3%
Automobiles	14.3% - 15.5%
Other	6.7% -20%
Intangible assets	20.0%

Depreciation and amortization of property, equipment and intangible assets commence when an asset is placed into use.

**3.4. Investment Property**

The Bank's investment property is real estate property arising in lieu of debt settlement, if such property was not disposed of in the period of one year from the acquisition date, and is stated at fair value at the balance sheet date. Changes in fair value of the investment property are included under "Gains/losses on the valuation of financial assets and liabilities." Investment property held for sale in accordance with the Housing Law is amortized on annual basis whereas amortization is charged to equity.

**3.5. Loans and Advances Originated by the Bank**

Loans and advances originated by the Bank are stated at the amount of principal outstanding, less allowance for impairment, which are based on an evaluation of specifically-identified exposures and also cover losses that are inherent in the Bank's loan portfolio. The Bank's management applies internally adopted methodology based on the NBS requirements in its evaluation of the risks and resulting estimations of the allowances (Note 3.6).

Loans, which are disbursed in dinars and index-linked to the foreign exchange rates or to the officially published coefficients derived from the changes in the consumer price index, are revalued in accordance with the provisions stated under the individual loan agreements. The effects of such revaluation are included under gains and losses on the valuation of financial assets.

**3.6. Allowances for Impairment and Provisions for Contingent Liabilities**

As of December 31, 2006, allowances for loan impairment are determined as the difference between the carrying amount and the present value of the future cash flows as discounted at the effective or original contractual interest rate, where appropriate based on the requirements of IAS 39 "Financial Instruments: Recognition and Measurement". Estimated amount of allowance for impairment and provisions is charged to the consolidated statement of income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.6. Allowances for Impairment and Provisions for Contingent Liabilities (Continued)**

Special reserve for potential losses is determined in accordance with the requirements of the relevant NBS Regulation. Loans, other placements, guarantees, and other on- and off-balance-sheet exposures are classified into the categories A, B, V, G and D, in accordance with the evaluation of their collectability and associated risk exposures, which depends upon the number of days the payments are in arrears, the financial standing of the counterparty, and the quality of the collateral obtained on the exposures. An estimate of the allowances for impairment and the provision for contingent liabilities is calculated by applying the percentages of 1%, 5%, 25%, 50% and 100% on the amounts of the particular exposures classified into categories A, B, V, G and D, respectively.

Difference between the amount of special reserve for potential losses calculated in accordance with the National Bank of Serbia Decision on the Classification of Balance Sheet and Off-Balance Sheet Exposures, and the amount of allowances for impairment and provision for contingent liabilities estimated in accordance with the internally adopted methodology, is presented as reserve within the equity and is charged to retained earnings.

Special reserve for potential losses is set aside as appropriation of retained earnings. If current year profit and retained earnings from prior years' are not sufficient to cover estimated amount of special reserve, the difference is recognized as additionally required provision.

As of December 31, 2005, allowance for impairment and provision for contingent liabilities have been determined in accordance with the relevant NBS regulations that were in effect at that time. The Bank has not retrospectively applied newly adopted internal methodology for the calculation of impairment losses, which represents a departure from IAS 8, "Net Income or Loss of the Period, Fundamental Errors and Changes in Accounting Policy," pursuant to which the consolidated financial statements including comparable information for the previous period, are to be presented as though the new accounting policy had always been in effect, and each adjustment or correction that arises as a result, is to be stated as an adjustment of the retained earnings at the beginning of the period.

A write-off of uncollected receivables is performed either pursuant to a court order, or based on a settlement agreed between the parties involved, or otherwise, on the basis of a resolution of the Bank's Board of Directors, as further approved by the Shareholders' Assembly.

**3.7. Repurchase Transactions**

Securities purchased from the National Bank of Serbia under agreement to resell, pursuant to the provisions of the NBS Agreement on the Sale of Securities with an Obligation to Repurchase, have been stated at amortized cost as of the date of preparation of the financial statements.

**3.8. Trading Securities**

Trading securities are comprised of securities held to earn income in a short period of time. Trading securities are comprised of public foreign currency savings bonds, Bonds for Economic Development of Serbia, shares of banks and enterprises, as well as other securities issued by banks and enterprises.

As of December 31, 2006, the Bank transferred the portion of enterprises shares in dinars, as well as shares of foreign bank and classified as securities available-for-sale. During 2006, fair value of these securities was not changed, and there were no pattern of trading with these securities on a stock exchange.

Changes in fair value of securities are credited or charged to the consolidated statement of income within "Gains/(losses) on the valuation of financial assets."

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.9. Securities Held-to-Maturity**

Securities held-to-maturity are comprised of public debt bonds and issued bills of exchange initially recorded at cost and whereas as of the balance sheet date have been stated at amortized cost.

**3.10. Securities Available-for-Sale**

Securities available-for-sale are comprised of investments in the equity of other legal entities, shares of enterprises and banks in dinars and in foreign currencies. Equity investments for which an active market and reliable market values do not exist are stated at cost less allowances for impairment. Equity investments that relate to the listed securities of other legal entities are re-valued at fair value monthly. Gains and losses arising on changes in fair value of securities available-for-sale are recorded under revaluation reserves. All realized gains and losses arising on the sale are shown under "Gains and losses on the sale of securities."

**3.11. Cash and Cash Equivalents**

For purposes of the Consolidated Cash Flow Statement, "Cash and cash equivalents" include cash, cheques in the course of collection, balances on current accounts held with other banks, giro account balances and other cash equivalents.

**3.12. Revaluation Reserves**

The appraisal surplus resulting from the independent appraisal of property is credited to revaluation reserves (Note 3.3). The revaluation surplus is transferred directly to retained earnings difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. The revaluation surplus included under equity is transferred directly to retained earnings when the assets are derecognized, retired or disposed of.

Gains and losses arising on changes in fair values of securities available-for sale are also recorded under revaluation reserves (Note 3.10).

**3.13. Income Taxes**

**Current Income Tax**

Current income tax represents the amount calculated in accordance with the Income Tax Law effective in the Republic of Serbia. The annual corporate income tax is payable at the rate of 10% on the tax base reported in the annual income tax return, as reduced by any applicable tax credits. The taxable base includes the profit stated in the statutory statement of income, as adjusted for permanent differences that are specifically defined under local tax rules.

The effective tax regulations in the Republic of Serbia do not allow any tax losses of the current period to be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than ten ensuing years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.13. Income Taxes (Continued)****Deferred Income Taxes**

Deferred income tax is determined using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities components, and their carrying values in the consolidated financial statements. The currently-enacted tax rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

**Indirect Taxes and Contributions**

Indirect taxes and contributions include property taxes and other taxes and contributions paid pursuant to republic and municipal regulations.

**3.14. Managed Funds and Non-Operating Assets and Funds**

The Bank manages funds on behalf of, and for the account of third parties, and charges fees for this service. These items are not included on the Bank's consolidated balance sheet.

**3.15. Employee Benefits**

In accordance with regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

The Bank does not have defined benefit plans or share-based remuneration options as of December 31, 2006. As of December 31, 2006, the Bank recognized a provision for retirement benefits.

The Bank has not retrospectively estimated present value of the future obligations to employees with respect to retirement benefits, which represents a departure from IAS 8, "Net Income or Loss of the Period, Fundamental Errors and Changes in Accounting Policy," pursuant to which the consolidated financial statements including comparable information for the previous period, are to be presented as though the new accounting policy had always been in effect. An adjustment that arose as a result, is stated as an adjustment of the retained earnings at January 1, 2006.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.16. Fair Value**

The accompanying consolidated financial statements are prepared on an historical cost basis, including adjustments and provisions made to reduce assets to their estimated recoverable amounts.

It is the policy of the Bank to disclose the fair value information of those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts. Sufficient market experience, stability and liquidity do not exist for the purchase and sale of loans and other financial assets or liabilities, given that published market information is not readily available. Hence, fair value cannot reliably be determined. In the opinion of management, the reported recoverable amounts represent the most valid and useful reporting values in accordance with the Law on Accounting and Auditing of the Republic of Serbia and the regulations of the National Bank of Serbia which govern the financial reporting of banks.

**4. INTEREST INCOME AND EXPENSE**

**a) Interest Income**

	<b>Thousands of RSD</b>	
	<b>Year Ended December 31,</b>	
	<b>2006</b>	<i>Unaudited</i> <b>2005</b>
	<u>2006</u>	<u>2005</u>
Deposits with the central bank	270,898	211,842
Placements with other banks	103,721	26,580
Loans and advances to customers	2,260,180	2,627,249
Securities	182,823	135,272
	<u>2,817,622</u>	<u>3,000,943</u>

**b) Interest Expense**

	<b>Thousands of RSD</b>	
	<b>Year Ended December 31,</b>	
	<b>2006</b>	<i>Unaudited</i> <b>2005</b>
	<u>2006</u>	<u>2005</u>
Amounts owed to other banks	381,240	61,872
Amounts owed to customers	1,415,445	958,966
Relations with the central bank	14,984	77,059
	<u>1,811,669</u>	<u>1,097,897</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**5. FEE AND COMMISSION INCOME AND EXPENSE**

**a) Fee and Commission Income**

	<b>Thousands of RSD</b>	
	<b>Year Ended December 31,</b>	
	<i>Unaudited</i>	
	<b>2006</b>	<b>2005</b>
Fee and commission income arising from domestic and international payment transfers	988,599	698,655
Loan origination fees	136,477	222,486
Fees for the rental of safety-deposit boxes	15,457	14,737
Fee and commission income earned on other banking services	127,559	161,060
Cheques processing	12,653	38,180
Commissions earned on the purchase and sale of foreign currencies	9,273	14,562
Fees arising from card operations	55,352	21,837
Fees on issued guarantees and other contingent liabilities	74,963	70,585
Brokerage fees	26,133	28,931
Other fee and commission income	77	83,565
	<u>1,446,543</u>	<u>1,354,598</u>

**b) Fee and Commission Expense**

	<b>Thousands of RSD</b>	
	<b>Year Ended December 31,</b>	
	<i>Unaudited</i>	
	<b>2006</b>	<b>2005</b>
Fee and commission expense arising from domestic payment transfers	58,363	61,959
Fee and commission expense arising from international payment transfers	3,580	4,735
Cheques processing	12,376	31,999
Commissions arising from foreign currency purchases	20,801	33,647
Other fee and commission expense	7,180	9,045
	<u>102,300</u>	<u>141,385</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**6. OTHER OPERATING INCOME**

	<b>Thousands of RSD</b>	
	<b>Year Ended December 31,</b>	
	<b>2006</b>	<i>Unaudited</i> <b>2005</b>
Release of allowances for impairment	3,918,788	2,629,831
Release of provision for contingent liabilities	168,477	2,497,721
Recovery of receivables previously provided for	20,334	14,430
Gains on the disposal of property and equipment	18,409	17,882
Write-off of liabilities	15,258	19,813
Rental income	59,883	55,842
Income from previous years	-	1,618,579
Income based on the agreement on transfer of receivables and payables	-	958,144
Other income	63,959	326,907
	<u>4,265,108</u>	<u>8,139,149</u>

Income from previous years for 2005 in the amount of RSD 1,618,579 thousand mostly relates to recording of interest income on loans financed by the Paris and London Club of Creditors. During 2005, the Bank computed and recorded interest from previous years within activities related to the process of preparation of the court procedures against the Bank's clients, who have not yet fulfilled their liabilities toward the Bank and in order to avoid legal obsolescence of claims.

From the total amount of income from debt assignment for the year 2005 of RSD 958,144 thousand, the amount of RSD 758,870 thousand arose as a result of the Contract on debt Assignment entered into between the Bank and the Republic of Serbia dated December 30, 2005. Pursuant to the Contract, all Bank's receivables and liabilities from business relations with former banks with "mixed ownership", were transferred to the Republic of Serbia.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**7. OTHER OPERATING EXPENSES**

	<b>Thousands of RSD</b>	
	<b>Year Ended December 31,</b>	
	<b>2006</b>	<i>Unaudited</i> <b>2005</b>
	<hr/>	<hr/>
Materials	152,738	123,153
Services	7,626	8,936
General and administrative expenses	65,317	123,153
Rent of fixed assets	87,416	81,574
Advertising and marketing	138,836	57,243
Automatically transfer of data	47,938	13,343
Telecommunications and transportation	123,632	97,705
Cleaning services	27,864	23,470
Insurance premiums	75,616	40,263
Property security	104,546	82,212
Transportation of employees	28,020	24,515
Losses on the disposal of property, equipment, intangible assets securities and equity investments	1,811	50,692
Maintenance	56,239	51,032
Net salaries	1,340,894	1,040,308
Taxes and contributions on salaries	614,716	481,575
Other personnel costs	51,039	38,364
Depreciation and amortization	256,699	157,128
Indirect taxes and contributions	534,548	414,158
Expenses from previous years	954	335,608
Expenses based on the agreement on transfer of receivables and payables	-	354,172
Expenses arising on forced collection due to unfavorable outcome of legal proceeding	55,675	-
Court expenses	45,665	38,400
Write-off of uncollectible receivables	1,039,877	1,021,468
Other expenses	21,853	256,823
	<hr/>	<hr/>
	<b>4,879,519</b>	<b>4,915,295</b>

Write-off of receivables of RSD 1,039,877 thousand (FY 2005: RSD 1,021,468 thousand), mainly relates to discounts given to the Bank's customers, initially financed from Paris and London Creditors' funds and loans granted by IFC, with whom the Bank signed individual loan refinancing contracts. The most significant amounts of write-offs relate to the following customers: Naftna industrija Srbije (RSD 773,904 thousand), Tehnotex DD, Sombor (RSD 81,030 thousand) and Yugoslavia commerce (RSD 36,109 thousand).

From the total amount of expenses from previous years of RSD 335,608 thousand recorded during 2005, the amount of RSD 284,961 thousand relates to recognized interest expenses on loans granted by IBRD and Paris Club of Creditors (Italy and Spain) in the process of debt conversion into state shares. In addition, the amount of RSD 29,671 thousand relates to expenses arose as a result of transfers of all ownership rights on repurchased debts to the London Club of Creditors from the commercial banks to the Republic of Serbia.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**8. LOSSES ON IMPAIRMENT AND PROVISIONS, Net**

**a) Charge for the Year**

	<b>Thousands of RSD</b>	
	<b>Year Ended December 31,</b>	
		<i>Unaudited</i>
	<b>2006</b>	<b>2005</b>
Provisions charged during the year:		
- loans to banks and customers	893,070	5,472,869
- interest and fees	68,444	1,333,815
- equity investments and securities	32,769	87,885
- other assets	74,124	321,442
	<u>1,068,407</u>	<u>7,216,011</u>
Provision for potential losses:		
- contingent liabilities	246,484	-
- employee benefits	20,239	-
- litigation	467,397	-
- other contingent liabilities	83,212	-
	<u>817,332</u>	<u>-</u>
	<u>1,885,739</u>	<u>7,216,011</u>

**b) Movements in the Balance of Allowances for Impairment**

	<b>Thousands of RSD</b>				
	<b>2006</b>				
	<b>Loans to Banks and Customers</b>	<b>Interest, Fees and Commissions</b>	<b>Securities and Equity Investments</b>	<b>Other Assets</b>	<b>Total</b>
	<i>(Notes 14 and 15)</i>	<i>(Note 13)</i>	<i>(Notes 16, 17 and 18)</i>	<i>(Note 20)</i>	
Balance, beginning of year	36,779,112	2,313,547	534,018	652,572	40,279,249
Charged during the year	893,070	68,444	32,769	74,124	1,068,407
Foreign exchange differences	(1,793,181)	(112,798)	14,435	-	(1,891,544)
Release of provisions	(3,225,428)	(432,290)	(29,950)	(231,120)	(3,918,788)
Write-off - carve out	(15,395,142)	-	-	-	(15,395,142)
Other write-offs	(1,515,787)	(1,113,631)	(5,822)	(32,380)	(2,667,620)
	<u>15,742,644</u>	<u>723,272</u>	<u>545,450</u>	<u>463,196</u>	<u>17,474,562</u>

**c) Special reserve for potential losses**

As of December 31, 2006, the Bank has determined special reserve for potential losses in accordance with the National Bank of Serbia requirements, and performed classification of risk-bearing balance sheet and off-balance sheet exposures into prescribed categories.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**8. LOSSES ON IMPAIRMENT AND PROVISIONS, Net (Continued)**

**c) Special reserve for potential losses (Continued)**

In accordance with the National Bank of Serbia Decision on the classification of balance sheet and off-balance sheet exposures, difference between the amount of special reserve for potential losses calculated in accordance with the National Bank of Serbia requirements, and the amount of allowance for impairments and provision for contingent liabilities estimated in accordance with the internally adopted methodology, is presented as reserve within the equity and is charged to retained earnings.

	<b>Thousands of RSD</b>
	<b>December 31,</b>
	<b>2006</b>
Special reserve for potential losses determined as per the National Bank of Serbian requirements with respect to:	
- balance sheet exposures	19,039,399
- off-balance sheet exposures	569,905
	<u>19,609,304</u>
Allowances for impairment and provision for contingent liabilities determined in accordance with the internally adopted methodology (IAS 39):	
- allowance for impairment	(17,474,562)
- provision for contingent liabilities	(510,893)
	<u>(17,985,455)</u>
Allowances for impairment and provision for contingent liabilities determined in accordance with the internal methodology exceeding the amount of provision as per the NBS Decision	473,788
Provision for potential losses to be shown within reserves	2,097,637
Reserve for potential losses formed from the prior years' profits	<u>-</u>
Additional provision for potential losses to be set aside as appropriation of retained earnings	<u><u>2,097,637</u></u>

Additionally required provision for potential losses in the amount of RSD 2,097,637 thousand will be set aside as appropriation of the Bank's current and future profits.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**9. GAINS ON THE VALUATION OF FINANCIAL ASSETS AND LIABILITIES, NET**

	<b>Thousands of RSD</b>	
	<b>Year Ended December 31,</b>	
	<b>2006</b>	<i>Unaudited</i> <b>2005</b>
Gains on the change in value of:		
- investment property	5,378	45,203
- placements indexed to the retail price index	30,393	906
- placements with foreign currency clause	254,643	770,803
- securities	1,338,402	716,783
- precious metals	304	1,312
- liabilities with foreign currency clause	58,965	10,862
	<u>1,688,085</u>	<u>1,545,869</u>
Losses on the change in value of:		
- property and equipment	(10,318)	(654,228)
- placements with foreign currency clause	(572,832)	(21,750)
- securities	(1,361)	(3,767)
- liabilities	(40,510)	(35,507)
	<u>(625,021)</u>	<u>(715,252)</u>
	<u>1,063,064</u>	<u>830,617</u>

**10. INCOME TAXES**

**a) Components of Income Taxes**

	<b>Thousands of RSD</b>
	<b>2006</b>
Current income tax	2,346
Deferred income taxes	51,609
	<u>53,955</u>

**a) Numerical reconciliation between tax expense and the product of the accounting results multiplied by the applicable tax rate**

	<b>Thousands of RSD</b>
	<b>2006</b>
Profit before tax	<u>1,176,971</u>
Income tax at the statutory tax rate of 10%	117,697
Tax effect of non-deductible expenses	148,907
Unrecognized tax credits based on capital expenditures	(2,346)
Recognized capital losses carryforwards	(1,893)
Recognized tax losses carryforwards	(270,464)
Untaxable dividend income	(2,395)
Other	64,449
	<u>53,955</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**10. INCOME TAXES (Continued)**

**c) Components of Deferred Tax Assets/(Liabilities)**

	<b>Thousands of RSD</b>
	<b>2006</b>
<b>Deferred tax assets</b>	
Temporary differences on property, equipment and intangible assets	<u>107,332</u>
	<u>107,332</u>
<b>Deferred tax liabilities</b>	
Temporary differences on property, equipment and intangible assets	<u>158,941</u>
	<u>158,941</u>
<b>Net</b>	<u>(51,609)</u>

**d. Unrecognized deferred tax assets based on tax loss carryforwards and tax credit carryforwards as of December 31, 2006**

Summary of tax loss carryforwards and tax credit carryforwards for which the Bank has not recognized deferred tax assets as of December 31, 2006 was as follows:

<b>Origination Year</b>	<b>Expiration Year</b>	<b>Thousands of RSD</b>		
		<b>Tax Losses</b>	<b>Tax Credits</b>	<b>Total</b>
2002	2007	968,993	28,594	997,587
2003	2013	-	25,580	25,580
2004	2014	612,415	9,501	621,916
2005	2015	-	13,757	13,757
2006	2016	-	19,950	19,950
	<b>Total</b>	<u>1,581,408</u>	<u>97,382</u>	<u>1,678,790</u>

In 2006 the Bank has not recognized deferred tax assets due to uncertainty whether sufficient taxable profit will be available in the future against which the unused tax losses may be utilized by the Bank.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**11. CASH AND CASH EQUIVALENTS**

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Cash on hand:		
- in dinars	510,879	535,788
- in foreign currencies	329,352	428,140
Giro account	2,878,526	2,423,186
Gold and other precious metals	4,660	4,397
Other cash and cash equivalents:		
- in dinars	40	-
Cheques in the course of collection	53,451	59,918
Accounts in foreign currencies with:		
- National Bank of Serbia	9,792	38,661
- domestic banks	1	3,645
- foreign banks	145,454	294,902
	<u>3,932,155</u>	<u>3,788,637</u>

The Bank's obligatory reserves represent the minimum deposits set aside in accordance with the NBS Regulation on the "Obligatory Reserves of Banks to be Held with the NBS." Pursuant to the relevant decisions published in the Republic of Serbia Official Gazettes numbered 48/2004, 86/2004, 90/2004, 136/2004, 46/2005, 69/2005, 77/2005, 80/2005, 86/2005, 91/2005, 95/2005, 102/2005, 109/2005, 28/2006, 39/2006, 49/2006 and 73/2006, the obligatory reserve is to be calculated on the basis of the average amount of dinar deposits, borrowings and other related liabilities in effect during a period of one month to which a ranging from 15 percent to 60 percent is applied, depending on maturity and source of funding, and subsequently maintained on the Bank's giro account. In 2006, the annual interest rate earned on the Bank's obligatory reserve account was ranging from 2.5 percent to 3 percent.

**12. DEPOSITS WITH THE CENTRAL BANK AND SECURITIES AVAILABLE FOR REFINANCING WITH THE CENTRAL BANK**

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Obligatory reserves in foreign currencies	6,049,597	5,620,486
Securities purchased under agreements to resell	5,100,000	566,600
	<u>11,149,597</u>	<u>6,187,086</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

## 12. DEPOSITS WITH THE CENTRAL BANK AND SECURITIES AVAILABLE FOR REFINANCING WITH THE CENTRAL BANK (Continued)

The obligatory reserves in foreign currencies represent the minimum deposits set aside in accordance with the NBS Regulation on the "Obligatory Reserves of Banks to be Held with the NBS." The obligatory reserve is to be calculated on the basis of the average amount of deposits, borrowings and other related liability balances in foreign currencies, or that have been index-linked to the dinar-euro exchange rate existing during a period of one calendar month, to which a rate ranging from 20 percent to 100 percent is applied, depending on type and maturity of related liabilities.

In accordance with the Addendum and Amendments to the NBS Decision on Interest Rates (Official Gazette numbered 46/2005) of June 10, 2005, deposits placed in foreign currencies with the National Bank of Serbia are non-interest bearing ones.

The Bank is required to maintain an average daily balance on its foreign currency accounts held with the NBS, in an amount not lower than the calculated amounts of the obligatory reserves.

As of December 31, 2006 securities purchased under agreements to resell in the amount of RSD 5,100,000 thousand (FY 2005: RSD 566,600 thousand) relate to bonds purchased from the NBS, having 14-day maturities and issued at annual interest rates ranging from 14 to 15.5 percent. This transaction is governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

## 13. INTEREST, FEES AND COMMISSIONS RECEIVABLE

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Matured interest:		<i>Unaudited</i>
- in dinars	495,058	609,181
- in foreign currencies	377,970	1,704,766
	<u>873,028</u>	<u>2,313,947</u>
Fee and commission receivable:		
- in dinars	62,425	96,067
- in foreign currencies	1,845	2,001
	<u>64,270</u>	<u>98,068</u>
Less: Allowance for impairment	<u>(723,272)</u>	<u>(2,313,547)</u>
	<u>214,026</u>	<u>98,468</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**14. PLACEMENTS WITH DOMESTIC BANKS**

	<b>Thousands of RSD</b>	
	<b>December 31,</b>	<i>Unaudited</i>
	<b>2006</b>	<b>December 31,</b>
	<b>2005</b>	
Short-term loans and placements in dinars	4,596	576
Long-term loans in foreign currencies financed by IBRD	441,052	477,429
Long-term loans and other financial placements in dinars	25,801	51,622
Receivables from NBS in dinars	6,984	4,020
Suspense accounts:		-
- giro account	(9,159)	(5,069)
- foreign currency accounts with other banks	8	-
Short-term deposits with domestic banks in foreign currencies	1,343,000	1,026,000
Placements with domestic banks:		
- banks undergoing liquidation and bankruptcy proceedings	183,146	309,415
- other assets – under litigation receivables	15,403	18,999
Placements with banks from former SFRY	25,178	27,847
Frozen foreign currency deposits with foreign banks	933	11,209
Other	279	648
	<u>2,037,221</u>	<u>1,922,696</u>
Less: Allowance for impairment	<u>(693,750)</u>	<u>(877,855)</u>
	<u>1,343,471</u>	<u>1,044,841</u>

Short-term deposits with domestic banks in foreign currencies in the amount of RSD 1,343,000 thousand (FY 2005: RSD 1,026,000 thousand) were placed for a period of seven days, at annual interest rates ranging from 5% to 15%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**15. LOANS AND ADVANCES TO CUSTOMERS**

	<b>Thousands of RSD</b>	
	<b>December 31,</b>	<i>Unaudited</i> <b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Up to one year:		
- in dinars	9,205,846	8,261,175
- in foreign currencies	7,483,596	14,770,189
Current maturities:		
- in dinars	2,070,879	1,911,047
- in foreign currencies	407,865	293,121
Long-term loans:		
- in dinars	5,719,735	5,009,027
- in foreign currencies	8,295,458	19,815,598
Other financial placements:		
- in dinars	50,354	41,435
- in foreign currencies	303,822	626,579
Receivables arising from payments on issued guarantees	413,710	554,575
Short-term deposits with foreign banks in foreign currency	270,712	1,926,594
	<u>34,221,977</u>	<u>53,209,340</u>
Less: Allowance for impairment	<u>(15,048,894)</u>	<u>(35,901,257)</u>
	<u>19,173,083</u>	<u>17,308,083</u>

Loans to enterprises are primarily extended for purposes of financing the following: daily liquidity requirements, the acquisition of current assets, imports, investments, agricultural production, and the rescheduling of previously-approved loans. Short-term loans have been approved at maturities ranging from thirty days of up to one year, whereas long-term loans have been extended at 1- to 30-year maturities. The interest on the short-term loans that have been indexed with foreign currency clause, is calculated based on annual interest rates ranging from 3.8% to 21%. The interest on the short-term loans originated in dinars is contractually-revalued on the basis of the increases in the retail price index, and ranges from 5.5% to 9.95% on an annual basis. The interest on long-term loans that have been indexed with foreign currency clause, is calculated at annual interest rates ranging from 7% to 9.25%, whereas the long-term loans extended in foreign currencies is calculated at annual interest rates ranging from 3.558% to 8%. The interest on the long-term loans originated by the Paris and London Clubs of Creditors, is calculated based on annual interest rates ranging from 3.75% to 7%.

At December 31, 2006, the retail loans (net) in the amount of RSD 6,586,312 have primarily been extended as: cash loans, overdraft loans, loans based on the use of credit cards, as well as car loans. Long-term cash loans are extended upon the placement of a deposit in the amount of 20% and at annual interest rates ranging from 12.5% to 18%, the overdrafts on current accounts are approved at monthly interest rates ranging from 2% to 2.2%, VISA and DINA credit cards are approved at monthly interest rates ranging from 1.8% to 2.21%, and the long-term car loans are extended at monthly interest rates ranging from 0.79% to 1.4%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**15. LOANS AND ADVANCES TO CUSTOMERS (Continued)**

**Loan Concentration**

The economic sector risk concentration within the customer loan portfolio, net is as follows:

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Manufacturing	5,895,503	3,817,196
Mining and energy	1,134,026	1,834,610
Trade	2,518,393	1,807,306
Agriculture and hunting	1,429,810	1,068,345
Civil engineering	579,364	548,945
Finance	270,712	1,926,594
Governmental institutions	301,964	473,315
Telecommunications	343,328	215,623
Services and tourism	80,330	58,365
Forestry	19,823	23,984
Fishing	13,518	8,077
Citizens	6,586,312	5,108,892
Other	-	416,831
	<u>19,173,083</u>	<u>17,308,083</u>

The Bank's Shareholder Assembly, through Decision dated February 27 and March 17, 2006, adopted the Resolution issued by the Government of the Republic of Serbia 05 No. 021-4468/2004-002 dated July 1, 2004, whereby the Deposit Insurance Agency (the "Agency") is authorized to act on behalf of the Republic of Serbia purchasing fully provided receivables, against particular debtors, from banks in which state owned shares are in the process of being sold. In addition, the Bank's Shareholder Assembly adopted the Decision of the Board of Directors of the Agency numbered O. Br. PB 23-26 of February 17, 2006, on the purchase of fully provided receivables of Vojvodanska banka A.D., Novi Sad from debtors, listed in agreed specification. The aforementioned Decision is realized through signing of the Contract on purchase in full of impaired claims – bad debts.

In accordance with the Resolution issued by the Government of the Republic of Serbia, the purchase of the Bank's receivables in the total amount of RSD 15,395,142 thousand as of December 31, 2005, which has been approved by the Republic of Serbia, the Ministry of the Economy, the Ministry of Finance and the Agency, is made for the total amount of RSD 28, i.e. at a price of RSD 1 per total receivable of each individual debtor.

Other financial placements in foreign currencies stated at December 31, 2006 in the amount of RSD 303,822 thousand (FY 2005: RSD 626,579 thousand) primarily relate to receivables under litigation based on loans received from the IFC (RSD 217,173 thousand), as well as other receivables under litigation which were fully provided in previous years.

Short-term deposits with foreign banks in foreign currencies in the amount of RSD 270,712 thousand (FY 2005: RSD 1,926,594 thousand) were placed for a period of five days, at annual interest rates ranging from 3.2% to 5.13%, depending upon the type of currency deposited.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**16. TRADING SECURITIES**

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
	<hr/>	<hr/>
In dinars:		
- Securities of State Union of Serbia and Montenegro	-	4,217
- Matured securities of the Republic of Serbia	-	391,777
- Shares of banks:		
- AIK banka a.d., Niš	1,968,047	1,026,618
- Agrobanka a.d., Beograd	10,299	-
- JUBMES banka a.d., Beograd	61,866	19,430
- Panonska banka a.d., Novi Sad	25,805	16,330
- Shares of enterprises	29,566	59,989
- Commercial papers issued by enterprises	196	196
- Bills of exchange of issued by enterprises	621	9,099
In foreign currency:		
- Republic of Serbia bonds based on foreign currency public savings	1,066,047	943,287
- Bonds for Economic Development of Serbia	328,133	265,766
- Shares of banks:		
- NLB Razvojna banka a.d., Banja Luka	390,470	-
- EuroAxis bank, Moscow	-	13,155
- Other securities	106	-
	<hr/>	<hr/>
	3,881,156	2,749,864
Less: Allowance for impairment	<u>(3,903)</u>	<u>(15,917)</u>
	<hr/>	<hr/>
	3,877,253	2,733,947
	<hr/>	<hr/>

As of December 31, 2006, the Bank transferred trading securities to securities available-for-sale, shares of Ateks A.D., Beograd (RSD 2,801 thousand), Globos (RSD 39,279 thousand), Imos, Šid (RSD 31,984 thousand) and Inomag (RSD 15,256 thousand), as well as shares of EuroAxis bank, Moscow (RSD 10,925 thousand). During 2006, fair value of the aforementioned securities was not changed, and there were no patterns of trading on a stock exchange with these securities.

**17. SECURITIES HELD-TO-MATURITY**

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
	<hr/>	<hr/>
Up to one year:		
- Public debt bonds of former Federal Republic of Yugoslavia	66,998	66,998
- Bills of exchange issued by enterprises	1,057,955	863,520
Over one year:		
- Public debt bonds of former Federal Republic of Yugoslavia	-	66,998
	<hr/>	<hr/>
	1,124,953	997,516
Less: Allowance for impairment	<u>-</u>	<u>(2,543)</u>
	<hr/>	<hr/>
	1,124,953	994,973
	<hr/>	<hr/>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**17. SECURITIES HELD-TO-MATURITY (Continued)**

Public debt bonds of former Federal Republic of Yugoslavia originate from the year 1999. Public debt was established through transformation of unpaid loans for primary agriculture production according to the Law on transformation of loans granted for primary agriculture into the state public debt (Official Gazette of FRY no, 12/98). Debt is to be paid in 14 equal semi-annual installments, commencing on June 30, 2001, at annual interest rate of 8%.

As of December 31, 2006, bills of exchange issued by enterprises in the amount of RSD 1,057,955 thousand (FY 2005: RSD 863,520 thousand) represent investments with maturities from 15 days to 13 months, at annual discounted rates ranging from 20.20% to 25.10%.

**18. EQUITY INVESTMENTS AND SECURITIES AVAILABLE-FOR-SALE**

	<b>Thousands of RSD</b>	
	<b>December 31,</b>	<i>Unaudited</i> <b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Equity investment in dinars:		
- subsidiaries	25,657	-
- related parties	21,953	-
- enterprises	220,270	225,386
- other banks and financial institutions	179,512	95,089
Shares of enterprises in dinars	89,419	-
Equity investment in foreign currency:		
- subsidiaries	7,883	8,531
- foreign banks and financial institutions	229,183	358,093
Shares of banks in foreign currency	10,925	-
	<u>784,802</u>	<u>687,099</u>
Less: Allowance for impairment	<u>(541,547)</u>	<u>(515,558)</u>
	<u><u>243,255</u></u>	<u><u>171,541</u></u>

As of December 31, 2006 and 2005, the Bank has equity investments in dinars in the following related parties: Vobing, Novi Sad (RSD 573 thousand, equity share of 100%), VOB C.I.T., Novi Sad (RSD 10,000 thousand, equity share of 100%), Modna konfekcija Tamiš Jaša Tomić A.D. Tamiš – in bankruptcy (RSD 15,084 thousand, equity share of 59.57%) and Imos, Šid (RSD 31,984 thousand, equity share of 51.5%). The aforementioned equity shares were fully provided for in previous years. As of December 31, 2006, the Bank did not consolidate the aforementioned enterprises due to the reasons disclosed in Note 2.1.

As of December 31, 2006, the Bank has equity investment in related party Metalprogres, Zrenjanin in the amount of RSD 21, 953 thousand (equity share of 31.45%).

As of December 31, 2006, the Bank's equity investment in related party in foreign currency relate to investment in Novobanis, Thessalonica in the amount of RSD 7,883 thousand (equity share of 68%).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**19. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY**

	Thousands of RSD							
	Land	Buildings	Equipment	Construction in Progress and Advances	Total	Investment Property	Intangible assets	Total
<b>Cost</b>								
Balance, beginning of year	3,166	6,631,457	1,200,394	42,017	7,877,034	419,267	472,440	8,768,741
Opening balance adjustment	-	(119,810)	(4,067)	-	(123,877)	-	(1,261)	(125,138)
Balance beginning of year, adjusted	3,166	6,511,647	1,196,327	42,017	7,753,157	419,267	471,179	8,643,603
Additions	-	115	27,666	127,141	154,922	2,186	4,594	161,702
Transfers	-	(624)	61,418	(90,455)	(29,661)	29,661	-	-
Increase based on property received in lieu of debt settlement	-	-	-	-	-	112,415	-	112,415
Appraisal effects	-	27,784	-	-	27,784	5,378	-	33,162
Disposals	(1,226)	(13,421)	(64,669)	-	(79,316)	(14,155)	(41,851)	(135,322)
Write-offs	(472)	-	(328)	(2,705)	(3,505)	(30,421)	-	(33,926)
Other	-	-	791	-	791	-	-	791
Balance, end of year	<u>1,468</u>	<u>6,525,501</u>	<u>1,221,205</u>	<u>75,998</u>	<u>7,824,172</u>	<u>524,331</u>	<u>433,922</u>	<u>8,782,425</u>
<b>Accumulated Depreciation and Amortization</b>								
Balance, beginning of year	-	2,164,285	907,642	-	3,071,927	88,171	367,105	3,527,203
Opening balance adjustment	-	79,854	30,732	-	110,586	-	-	110,586
Balance beginning of year, adjusted	-	2,244,139	938,374	-	3,182,513	88,171	367,105	3,637,789
Charge for the year	-	130,866	94,488	-	225,354	-	31,345	256,699
Disposals	-	(2,718)	(53,117)	-	(55,835)	(1,272)	(30,461)	(87,568)
Removals from the books of accounts	-	-	(328)	-	(328)	-	-	(328)
Appraisal effects	-	2,766	-	-	2,766	-	-	2,766
Decreases	-	-	-	-	-	-	(27,783)	(27,783)
Transfers	-	(48)	-	-	(48)	-	48	-
Other	-	-	483	211	694	6	-	700
Balance, end of year	<u>-</u>	<u>2,375,005</u>	<u>979,900</u>	<u>211</u>	<u>3,355,116</u>	<u>86,905</u>	<u>340,254</u>	<u>3,782,275</u>
<b>Net Book Value:</b>								
- as of December 31, 2006	<u>1,468</u>	<u>4,150,496</u>	<u>241,305</u>	<u>75,787</u>	<u>4,469,056</u>	<u>437,426</u>	<u>93,668</u>	<u>5,000,150</u>
- as of December 31, 2005	<u>3,166</u>	<u>4,467,172</u>	<u>292,752</u>	<u>42,017</u>	<u>4,805,107</u>	<u>331,096</u>	<u>105,335</u>	<u>5,241,538</u>

As a result of incomplete cadastral books, the Bank's property stated in the amount of RSD 265,648 thousand as of December 31, 2006 has not been duly recorded in the cadastral register. The Bank's management is undertaking actions to obtain the appropriate property registration documents.

As of December 31, 2006, the Bank's buildings with the net book value of RSD 152,149 thousand are under a mortgage lien, by which all of the aforementioned buildings were acquired from the third parties with the registered mortgage.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**20. OTHER ASSETS AND ACCRUALS**

	<b>Thousands of RSD</b>	
	<b>December 31, 2006</b>	<i>Unaudited</i> <b>December 31, 2005</b>
Advances:		
- in dinars	13,008	11,204
- in foreign currencies	1,360	2,025
Receivables from sales	48,119	12,989
Prepaid taxes and contributions	4,252	14,060
Receivables from employees:		
- in dinars	9,263	57,592
- in foreign currencies	12,351	2,428
Receivables arising on reimbursement of expenses	35,678	37,101
Receivables from NBS and other banks and financial institutions	2,787	2,836
Receivables from retail customers	70,521	65,407
Receivables in dinars for guarantee and acceptance payments:		
- in dinars	100,967	173,928
- in foreign currencies	35,826	15,353
Receivables from NBS and Pokrajinski sekretarijat	-	634,177
Other receivables from operations – over 60 days	22,010	31,500
Other receivables from operations – under litigation	9,613	14,085
Receivables arising on turnover of property in dinars	12,283	2,445
Receivables from rental of property	6,294	4,841
Receivables from purchases and sale of securities	9,695	-
Other receivables:		
- in dinars	48,327	144,871
- in foreign currencies	13,473	8,834
Accruals:		
- in dinars	72,908	87,182
- in foreign currencies	27,445	3,497
Receivables arising on tangibles received in lieu of debt settlement	153,884	296,433
Other assets	2,184	1,407
Inventories and other office stationary	18,764	5,199
	<u>731,012</u>	<u>1,629,394</u>
Less: Allowance for impairment	<u>(463,196)</u>	<u>(652,572)</u>
	<u><u>267,816</u></u>	<u><u>976,822</u></u>

Receivables from the National Bank of Serbia and Pokrajinski sekretarijat stated at December 31, 2005 in the amount of RSD 634,177 thousand relate to the foreign exchange losses accrued on borrowings from the International Bank for Reconstruction and Development (IBRD), which should be reimbursed by these institutions. In 2006, the Bank removed from its books of accounts these receivables (Note 22.).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**21. AMOUNTS OWED TO DOMESTIC BANKS**

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Demand deposits:		
- in dinars	507,455	159,272
- in foreign currencies	5,397	14,072
Short-term deposits:		
- in dinars	1,492,000	141,295
- in foreign currencies	15,800	31,029
Short-term borrowings in dinars	6,140	-
Long-term borrowings in dinars	74,920	89,678
Short-term liabilities to NBS:		
- in dinars	4,264	833
- in foreign currencies	5,877	23,733
Other short-term financial liabilities in dinars	5,500	5,500
Other long-term financial liabilities in dinars	500	-
	<u>2,117,853</u>	<u>465,412</u>

Short-term deposits with domestic banks are extended for periods of 30 up to 90 days, at annual interest rates ranging from 8.5% to 14.6%.

Long-term borrowings in dinars of RSD 74,920 thousand (FY 2005: RSD 89,678 thousand) relate to liabilities to the National Bank of Serbia based on loans received for the purpose of financing of farming and cattle production, as well as agriculture and food-processing, issued for a period of 15 years, including grace period of 5 years, at an annual interest rate of 0.5%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**22. AMOUNTS OWED TO CUSTOMERS**

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Demand deposits:		
- in dinars	12,593,277	9,100,628
- in foreign currencies	6,984,610	5,603,037
Short-term deposits:		
- in dinars	6,613,789	4,345,513
- in foreign currencies	5,897,907	6,987,456
Long-term deposits:		
- in dinars	98,014	124,421
- in foreign currencies	1,039,094	701,293
Long-term borrowings:		
- in dinars	-	1,663
- in foreign currencies	606,705	1,851,297
Other financial liabilities:		
- in dinars	789	2,023
- in foreign currencies	98,014	337,410
Current portion of long-term borrowings in foreign currencies	353,914	499,954
Current portion of long-term deposits:		
- in dinars	29,548	-
- in foreign currencies	112,248	-
	<u>34,427,909</u>	<u>29,554,695</u>

A breakdown by customer type is provided in the table below:

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Public enterprises	2,946,236	3,266,474
Enterprises	14,332,322	8,619,175
Other customers	2,192,097	2,502,843
Foreign entities and banks	1,082,444	2,468,776
Retail customers	13,874,810	12,697,427
	<u>34,427,909</u>	<u>29,554,695</u>

Demand deposits in dinars of enterprises and retail customers are mainly comprised of current account balances. Demand deposits of enterprises in dinars and in foreign currencies are ordinarily non-interest bearing ones, except as contractually arranged under specifically defined terms.

Current accounts of retail customers are non-interest bearing ones. The demand deposits of retail customers in foreign currencies carry annual interest rates ranging from 0.1% to 1%, depending upon the currency deposited.

Short-term deposits of enterprises in dinars carry annual interest rates in the range of from 0.06% to 19.5%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**22. AMOUNTS OWED TO CUSTOMERS (Continued)**

Short-term deposits of retail customers in foreign currencies carry annual interest rates in the range of from 0.6% to 5.5%, depending of the currency deposits.

As of December 31, 2006 and 2005, the structure of long-term borrowings in foreign currencies (including current portions) is as follows:

<u>Creditor</u>	<b>Thousands of RSD</b>	
	<b>December 31, 2006</b>	<i>Unaudited</i> <b>December 31, 2005</b>
In dinars:		
Ministry for Agriculture, Forestry and Water	-	1,663
	-	1,663
In foreign currencies:		
- Republic of Serbia	6,937	-
- International Finance Corporation (IFC)	575,642	872,207
- International Bank for Reconstruction and Development (IBRD)	-	634,177
- Reintegration Fund of Europe Council	229,987	298,693
- Banca Agricola Mantovana	13,785	132,107
- HBOR Zagreb	5,148	11,142
- Bankgesellschaft Berlin Aktiengesellschaft, Berlin	34,155	247,955
- Hungarian export-import bank Ltd, Budapest	-	8,390
- Westdeutsche Landesbank AG Düsseldorf	94,965	137,037
- Development Fund of the Republic of Montenegro	-	9,543
	<u>960,619</u>	<u>2,351,251</u>
	<u>960,619</u>	<u>2,352,914</u>

Long-term loans in foreign currencies stated at December 31, 2006 in the amount of RSD 575,642 thousand (FY 2005: RSD 872,207 thousand), represent liabilities for loans financed by the International Finance Corporation issued for a period of 4 years, at interest rate equal to six-month LIBOR as increased by 2% per annum. On November 26, 2004, the Bank concluded the Agreement on debt refinancing with the International Finance Corporation and former members of Vojvodanska banka – Associated bank. In accordance with the Agreement, the loan should be repaid in 8 semi-annual installments, by which the first installment is due on December 15, 2005.

Based on agreements on transfer of receivables based on the loans granted by the International Bank for Reconstruction and Development (YU 1477 and YU 1801) of May 31, 2006, entered into between the Republic of Serbia represented by the Deposit Insurance Agency, Beograd and the Bank, the Bank removed from its accounting records liabilities to the Republic of Serbia based on the aforementioned loans, as well as receivables from Pokrajinski sekretarijat Vojvodine and the National Bank of Serbia in the amount of RSD 634,177 thousand (Note 20).

The long-term loan in the amount of RSD 229,987 thousand (FY 2005: RSD 298,693 thousand), was approved by the Reintegration Fund. The original contract between the Bank and Reintegration Fund was concluded on August 24, 1990. During 2002, the Bank has reprogrammed the terms of the contract and according to the new terms, repayment period is 9 years with the interest rate of 3.558% per annum.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**22. AMOUNTS OWED TO CUSTOMERS (Continued)**

As of December 31, 2006, long-term loans in foreign currencies in the amount of RSD 13,785 thousand (FY 2005: RSD 132,107 thousand) represent liabilities for loans approved by Banca Agricola Mantovana for a period of 6,5 years and interest rate equal to six-month EURIBOR as increased by 0.75% per annum, as well as for a period of 3 years and the aforementioned interest rate.

As of December 31, 2006, long-term loans in foreign currencies in the amount of RSD 5,148 thousand (FY 2005: RSD 11,142 thousand) represent liabilities for loans approved by HBOR Zagreb for a period of 5 years, at an annual interest rate of 6.8%.

As of December 31, 2006, long-term loans in foreign currencies in the amount of RSD 34,155 thousand (FY 2005: RSD 247,955 thousand) represent liabilities for loans approved by Bankgesellschaft Berlin Aktiengesellschaft, Berlin for a period of 5 years and 9 months, at interest rate equal to six-month EURIBOR as increased by 1.5% per annum.

As of December 31, 2006, long-term loans in foreign currencies in the amount of RSD 94,965 thousand (FY 2005: RSD 137,037 thousand) represent liabilities for loans approved by Westdeutsche Landesbank AG Düsseldorf for a period of 6 years and 10 months, at interest rate equal to six-month EURIBOR as increased by 2.1875% per annum.

**23. INTEREST, FEE AND COMMISSIONS PAYABLE**

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Matured interest:		
- in dinars	131,519	45,525
- in foreign currencies	2,468	1,098
	<u>133,987</u>	<u>46,623</u>
Fee and commissions payable in dinars	4,293	5,009
	<u>138,280</u>	<u>51,632</u>

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**24. OTHER OPERATING LIABILITIES**

	<b>Thousands of RSD</b>	
	<b>December 31, 2006</b>	<i>Unaudited</i> <b>December 31, 2005</b>
Net salaries	62,479	51,971
Liabilities for taxes and contributions	61,215	56,543
Advances received:		
- in dinars	9,553	8,670
- in foreign currencies	5,892	11,003
Payables to suppliers:		
- in dinars	116,019	55,358
- in foreign currencies	6,118	252
Other liabilities to banks based on payment transfers	4,721	419
Liabilities to customers in dinars for unsettled payments	42,296	38,512
Liabilities to the Central Securities Depository and Clearing House	5,094	7,095
Liabilities based on collected consumed electricity by citizens	5,796	4,661
Other liabilities:		
- in dinars	30,670	318,760
- in foreign currencies	403	19,155
	<u>350,256</u>	<u>572,399</u>

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**25. PROVISIONS**

	<b>Thousands of RSD</b>	
	<b>December 31,</b>	<i>Unaudited</i> <b>December 31,</b>
	<b>2006</b>	<b>2005</b>
<b><i>a) Provision for contingent liabilities</i></b>		
Balance, beginning of year	474,485	2,954,970
Opening balance adjustment	(34,549)	-
Opening balance, adjusted	439,936	2,954,970
Charged during the year	246,484	-
Release of provision	(168,477)	(2,497,721)
Foreign exchange fluctuations	(7,050)	17,236
Balance, end of year	<u>510,893</u>	<u>474,485</u>
<b><i>b) Provision for retirement benefits</i></b>		
Balance, beginning of year	-	-
Adjustment to opening balance of retained earnings	103,411	-
Charged during the year	20,239	-
Balance, end of year	<u>123,650</u>	<u>-</u>
<b><i>c) Provision for litigation</i></b>		
Balance, beginning of year	-	-
Charged during the year	467,397	-
Balance, end of year	<u>467,397</u>	<u>-</u>
<b><i>d) Other contingent liabilities</i></b>		
Balance, beginning of year	-	-
Charged during the year	83,212	-
Balance, end of year	<u>83,212</u>	<u>-</u>
Total:	<u>1,185,152</u>	<u>474,485</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**26. OTHER LIABILITIES AND ACCRUALS**

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
Accrued interest:		
- in dinars	38,557	102,415
- in foreign currencies	69,632	48,356
Deferred liabilities for accrued expenses in dinars	548	969
Accrued and collected interest:		
- in dinars	320	670
- in foreign currencies	1,885	-
Accrued income	221	42
Deferred income from loan origination fees	91,584	-
Other liabilities:		
- in dinars	321	-
Other accruals:		
- in dinars	3,594	135,584
- in foreign currencies	2,079	97,923
	<u>208,741</u>	<u>385,959</u>

**27. SHARE CAPITAL**

As of December 31, 2006 the Bank's share capital is comprised of 481,790 ordinary shares.

The Bank's shareholders are entitled to take part in the management of the Bank commensurately with their interest in the total amount of the Bank's ordinary shares, in the distribution of profit, priority purchase rights of shares from subsequent issuances, priority collection rights in the event of the Bank's bankruptcy or liquidation.

On August 11, 2006, the Bank brought the Decision on distribution of shares without public offer based on conversion of preference shares into ordinary shares, by which 72 priority shares with an individual par value of RSD 10,000 were converted into ordinary shares.

In December 2006, in accordance with the terms of the Agreement on the Purchase and Sale of Share Capital, the National Bank of Greece became the majority owner of the Bank's share capital through the acquisition of an equity interest of 99.43%. The aforementioned acquisition is duly registered in the Central Securities Depository and Clearing House on December 12, 2006.

Basic earning per share for 2006 amounts to RSD 2,444.54 (FY 2005: RSD 493.95).

The Bank's other capital in the amount of RSD 28,721 thousand is formed by conversion of non-business funds in capital as of December 31, 2003.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**27. SHARE CAPITAL (Continued)**

**Capital Adequacy and Other Ratios Prescribed by the Law on Banks**

The Bank is required to maintain a minimum capital adequacy ratio of 12 percent, as established by the NBS, in agreement with the Basel Accord. As of December 31, 2006 and 2005, the Bank's capital adequacy ratio was higher than the prescribed minimum.

The Bank is also required to maintain certain ratios related to the volume of its activities and composition of risk assets in compliance with the Law on Banks and with the NBS Requirements. As of December 31, 2006, the following ratios were not within their prescribed limits:

- Capital assets ratio amounted to 87.51% (prescribed maximum 60% of the core capital),
- Open foreign currency position amounted to 102.08% (prescribed maximum 30% of the core capital),
- Ratio of exposures to a single counterparty that is a related party of the Bank amounted to 5.58% (prescribed maximum 5% of the core capital), which referred to overnight deposit placed with NBG Serbia.
- Ratio of exposures to a single counterparty amounted to 34.57% (prescribed maximum 25% of the core capital), which referred to AIK Banka shares because of significant increase in their market value.

**28. OFF-BALANCE SHEET ITEMS**

	<b>Thousands of RSD</b>	
	<i>Unaudited</i>	
	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>a) Managed funds</b>		
- in dinars	1,683,635	913,852
- in foreign currencies	195,394	370,580
	<u>1,879,029</u>	<u>1,284,432</u>
<b>b) Guarantees, property pledged as collateral and commitments</b>		
Payment guarantees:		
- in dinars	834,225	707,471
- in foreign currencies	828,432	2,306,943
Performance bonds:		
- in dinars	1,589,305	1,513,552
- in foreign currencies	1,165,435	935,360
Uncovered letters of credit issued in foreign currencies	270,243	317,463
Acceptances	630,324	703,558
Undrawn credit facilities	4,045,713	1,521,902
	<u>9,363,677</u>	<u>8,006,249</u>
<b>c) Other off-balance-sheet items</b>		
Foreign currency public savings bonds	1,310,428	1,594,534
Guarantees received as collateral for the settlement of liabilities	2,356,884	2,603,983
Securities placed as collateral for the settlement of liabilities	91,632	1,652,955
Mortgages, pledges, bills of exchange and other guarantees		
– assets placed as collateral for security of placements	39,320,006	35,835,656
Polish loan	2,877,122	3,593,744
Other off-balance-sheet-items	241,042	480,217
	<u>46,197,114</u>	<u>45,761,089</u>
<b>Total off-balance-sheet items</b>	<u>57,439,820</u>	<u>55,051,770</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**28. OFF-BALANCE SHEET ITEMS (Continued)**

The funds managed on behalf of third parties mainly relate to funds received from customers from public sector and at December 31, 2006 amounted to RSD 1,879,029 thousand (FY 2005: RSD 1,284,432 thousand). The funds managed on behalf of third parties primarily include loans from the Economic Development of Serbia (RSD 189,257 thousand), loans of the Development Funds of the Republic of Serbia for loans to registered agricultural farms (RSD 1,123,073 thousand), loans placed from the funds of the Ministry for Agriculture, Forestry and Water (RSD 408,365 thousand) and loans issued by the Bank to its employees or other enterprises through the Bank as an agent. The Bank is compensated for its service by fees chargeable for services provided.

**d) Litigation**

As of December 31, 2006, as per the Bank's Legal Department's estimation, value of pending legal proceedings filed against the Bank totaled RSD 1,225,525 thousand. The management recognized a provision for litigation in the amount of RSD 467,397 thousand (Note 25c). The aforementioned amount does not include the potential amount of penalty interest which could be determined upon the conclusion of such legal proceedings. The Bank's management does not anticipate any significant further negative effects on the Bank's financial statements as a result of other pending litigations.

**e) Agreement on the Renunciation of Rights on the Basis of Guarantees Arising from the IBRD Loans**

In accordance with the provisions of the Agreement on the Renunciation of Rights on the Basis of Guarantees from the IBRD Loans entered into on August 28, 2006 between the Bank, the Government of the Republic of Serbia, JP Putevi Srbije and Panonska banka A.D., Novi Sad, the Bank is wholly exempt from the obligations arising under the loans numbered: YU 1678-0 (Loan for the Province of Kosovo Roads dated March 27, 1979), YU 1678-2 (Loan for the Province of Vojvodina Roads dated April 9, 1979) and YU 2878 (The Second Sector Loan for Roads dated September 30, 1988). Namely, under the terms of the aforesaid agreement, the Government of the Republic of Serbia has renounced all of its rights towards the Bank on the aforementioned basis in the total amount of EUR 77,342 thousand as of January 8, 2002, as well as the respective liabilities which have been transferred to the entity, JP Putevi Srbije, Beograd as the debtor of the Government of the Republic of Serbia, as the creditor.

**29. RISK MANAGEMENT POLICIES**

***Credit Risk***

The Bank takes on exposure to credit risk, which represents the risk that a counterparty will be unable to pay in full the amounts due in a timely manner. The Bank structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to the geographical and industry segments. Such risks are monitored on a periodical basis and are subject to an annual or more frequent review. Exposure to credit risk is managed by the regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing these lending limits where appropriate. Exposure to credit risk is also managed by obtaining collateral.

***Liquidity Risk***

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matures deposits, loan withdrawals, guarantees and margin. The Bank does not seek to maintain cash resources to meet all of these needs estimating that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29. RISK MANAGEMENT POLICIES (Continued)**

*Liquidity Risk (Continued)*

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of varying types. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, the interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank's management judges that the diversification of deposits by the type of deposit placed and the number of customers, as well as the historical experience of the Bank, provide adequate assurance that its deposits represent a stable and reliable source of finance.

The maturities of the Bank's assets and liabilities components, based on the remaining period from the balance sheet date to the contractual maturity date, as of December 31, 2006 are as follows:

	Thousands of RSD 2006				
	Less Than One Month	From One to 3 Months	From 3 to 12 Month	Over One Year	Total
<b>ASSETS</b>					
Cash and cash equivalents	3,932,155	-	-	-	3,932,155
Deposits with the central bank and securities available for refinancing with the central bank	11,149,597	-	-	-	11,149,597
Interest, fee and commission receivable	214,026	-	-	-	214,026
Placements with domestic banks	1,343,471	-	-	-	1,343,471
Loans and advances to customers	4,005,294	1,432,552	5,089,664	8,645,573	19,173,083
Trading securities	3,549,120	-	328,133	-	3,877,253
Securities held-to-maturity	245,513	808,143	68,728	2,569	1,124,953
Equity investments and securities available-for-sale	-	-	-	243,255	243,255
Investment property	-	-	-	437,426	437,426
Property and equipment and intangible assets	-	-	-	4,562,724	4,562,724
Other assets and accruals	267,816	-	-	-	267,816
Deferred tax assets	-	-	107,332	-	107,332
<b>Total assets</b>	<u>24,706,992</u>	<u>2,240,695</u>	<u>5,593,857</u>	<u>13,891,547</u>	<u>46,433,091</u>
<b>LIABILITIES AND EQUITY</b>					
Amounts owed to domestic banks	1,480,391	555,902	-	81,560	2,117,853
Amounts owed to customers	23,589,719	5,664,428	3,429,949	1,743,813	34,427,909
Interest, fees and commission payable	138,280	-	-	-	138,280
Debt securities issued	-	-	-	239	239
Income taxes payable	-	2,346	-	-	2,346
Other operating liabilities	350,256	-	-	-	350,256
Provisions	-	510,893	-	674,259	1,185,152
Other liabilities and accruals	128,582	15,829	32,255	32,075	208,741
Deferred tax liabilities	-	-	158,941	-	158,941
<b>Total liabilities</b>	<u>25,687,228</u>	<u>6,749,398</u>	<u>3,621,145</u>	<u>2,531,946</u>	<u>38,589,717</u>
<b>Net Liquidity Gap:</b>					
- as of December 31, 2006	<u>(980,236)</u>	<u>(4,508,703)</u>	<u>1,972,712</u>	<u>11,359,601</u>	<u>7,843,374</u>
- as of December 31, 2005	<u>(2,827,323)</u>	<u>(2,398,491)</u>	<u>(356,148)</u>	<u>12,623,117</u>	<u>7,041,155</u>

The Bank's liquidity, as characterized by its ability to settle its liabilities as they become due, depends upon the structure of the Bank's deposits and the compatibility of its cash flows as they relate to the receipts and payments of funds. The structure of the Bank's assets and liabilities components as classified into their relevant maturities at December 31, 2006 indicates the existence of significant liquidity gaps in the periods of up-to-one-month and from-one-to-three months. The primary reason for these gaps lies in the fact that the short-term funding sources with maturities of up to one month, have been committed for longer periods of time.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**29. RISK MANAGEMENT POLICIES (Continued)**

*Interest Rate Risk*

	<b>Thousands of RSD</b>		
	<b>Interest</b>	<b>Non-Interest</b>	
	<b>Bearing</b>	<b>Bearing</b>	
	<b>Items</b>	<b>Items</b>	<b>Total</b>
	<b>Items</b>	<b>Items</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	2,896,859	1,035,296	3,932,155
Deposits with the central bank and securities available for refinancing with the central bank	5,100,000	6,049,597	11,149,597
Interest, fee and commission receivable	214,026	-	214,026
Placements with domestic banks	1,343,471	-	1,343,471
Loans and advances to customers	18,741,715	431,368	19,173,083
Trading securities	1,066,047	2,811,206	3,877,253
Securities held-to-maturity	1,124,953	-	1,124,953
Equity investments and securities available-for-sale	-	243,255	243,255
Investment property	-	437,426	437,426
Property and equipment and intangible assets	-	4,562,724	4,562,724
Other assets and accruals	-	267,816	267,816
Deferred tax assets	-	107,332	107,332
<b>Total assets</b>	<b>30,487,071</b>	<b>15,946,020</b>	<b>46,433,091</b>
<b>LIABILITIES AND EQUITY</b>			
Amounts owed to domestic banks	1,818,235	299,618	2,117,853
Amounts owed to customers	21,239,932	13,187,977	34,427,909
Interest, fees and commission payable	138,280	-	138,280
Debt securities issued	239	-	239
Income taxes payable	-	2,346	2,346
Other operating liabilities	-	350,256	350,256
Provisions	-	1,185,152	1,185,152
Other liabilities and accruals	-	208,741	208,741
Deferred tax liabilities	-	158,941	158,941
<b>Total liabilities</b>	<b>23,196,686</b>	<b>15,393,031</b>	<b>38,589,717</b>
<b>Interest Sensitivity Gap:</b>			
- as of December 31, 2006	7,290,385	552,989	7,843,374
- as of December 31, 2005	10,860,388	(3,819,233)	7,041,155

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29. RISK MANAGEMENT POLICIES (Continued)**

*Interest Rate Risk (Continued)*

Annual interest rates on both assets and liabilities are shown as follows.

	<u>Dinars</u>	<u>EUR</u>	<u>USD</u>
<b>Assets</b>			
Obligatory reserve with the NBS in dinars	2.5% -3%	-	-
Securities purchased under agreements to resell	13.75%-17.5%	-	-
Short-term loans and deposits placed to domestic banks	-	5% - 5.15%	-
Loans and advances to customers up to one year:			
- corporate customers	24.2% -28.8%	3.8%-21%	-
Loans and advances to customers over one year:			
- corporate customers	1%-14.76%	7%-9.25%	-
- retail customers	2%-2.2% monthly	4% - 26.52%	-
<b>Liabilities</b>			
Demand deposits:			
- corporate and bank customers	In accordance with terms of agreement	In accordance with terms of agreement	
- retail customers	0% - 1%	0.1% - 1%	0.1% - 1%
Short-term deposits:			
- corporate customers	0.06% - 19.5%	-	-
- retail customers	7.5% - 20.5%	2% - 6%	1.8% - 4.7%
Long-term borrowings:			
- International Finance Corporation	-	6M LIBOR+2%	-
- Reintegration Fund	-	3.558%	-
- Banca Agricola Mantovana	-	6M EURIBOR+0.75%	-
- HBOR Zagreb	-	6.8%	-
- Bankgesellschaft Berlin Aktiengesellschaft, Berlin	-	6M EURIBOR+1.5%	-
- Westdeutsche Landesbank AG Düsseldorf	-	6M EURIBOR+2.1875%	-
- National Bank of Serbia	0.5%	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2006**

**29. RISK MANAGEMENT POLICIES (Continued)**

*Currency Risk*

The principle of the Bank's currency risk management policy is to establish and maintain its total foreign currency receivables (foreign currency assets) at the level of the amount of its total foreign currency payables (foreign currency liabilities).

The following table summarizes the net foreign currency position of the Bank's components of monetary assets and liabilities:

	Thousands of RSD 2006					
	EUR	USD	Other currencies	Total Foreign currencies	Local Currency	Total
<b>ASSETS</b>						
Cash and cash equivalents	365,603	37,076	135,371	538,050	3,394,105	3,932,155
Deposits with the central bank and securities available for refinancing with the central bank	6,049,597	-	-	6,049,597	5,100,000	11,149,597
Interest, fee and commission receivable	22,247	1,627	1,766	25,640	188,386	214,026
Placements with domestic banks	1,343,011	8	-	1,343,019	452	1,343,471
Loans and advances to customers	2,997,412	979,940	511,049	4,488,401	14,684,682	19,173,083
Trading securities	1,784,756	-	-	1,784,756	2,092,497	3,877,253
Securities held-to-maturity	-	-	-	-	1,124,953	1,124,953
Equity investments and securities available-for-sale	381	10,925	-	11,306	231,949	243,255
Investment property	-	-	-	-	437,426	437,426
Property and equipment and intangible assets	-	-	-	-	4,562,724	4,562,724
Other assets and accruals	24,064	3,859	9,997	37,920	229,896	267,816
Deferred tax assets	-	-	-	-	107,332	107,332
<b>Total assets</b>	<u>12,587,071</u>	<u>1,033,435</u>	<u>658,183</u>	<u>14,278,689</u>	<u>32,154,402</u>	<u>46,433,091</u>
<b>LIABILITIES AND EQUITY</b>						
Amounts owed to domestic banks	27,039	27	8	27,074	2,090,779	2,117,853
Amounts owed to customers	13,729,050	1,006,912	356,530	15,092,492	19,335,417	34,427,909
Interest, fees and commission payable	1,871	244	353	2,468	135,812	138,280
Debt securities issued	239	-	-	239	-	239
Income taxes payable	-	-	-	-	2,346	2,346
Other operating liabilities	11,941	407	65	12,413	337,843	350,256
Provisions	-	-	-	-	1,185,152	1,185,152
Other liabilities and accruals	65,385	7,968	243	73,596	135,145	208,741
Deferred tax liabilities	-	-	-	-	158,941	158,941
<b>Total liabilities</b>	<u>13,835,525</u>	<u>1,015,558</u>	<u>357,199</u>	<u>15,208,282</u>	<u>23,381,435</u>	<u>38,589,717</u>
<b>Net Balance Sheet Position:</b>						
- as of December 31, 2006	<u>(1,248,454)</u>	<u>17,877</u>	<u>300,984</u>	<u>(929,593)</u>	<u>8,772,967</u>	<u>7,843,374</u>
- as of December 31, 2005	<u>(2,405,502)</u>	<u>400,155</u>	<u>416,638</u>	<u>(1,588,709)</u>	<u>8,629,864</u>	<u>7,041,155</u>

At December 31, 2006 loans to customers that are indexed to the RSD: EUR exchange rate and the respective interest receivables are presented under assets in the foreign currencies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30. RELATED PARTY TRANSACTIONS**

The table below summarizes the total balance sheet exposures to related parties:

		<b>Thousands of RSD</b>	
		<b>December 31,</b>	<i>Unaudited</i> <b>December 31,</b>
		<b>2006</b>	<b>2005</b>
<b>Related Party</b>	<b>Type of Transaction</b>		
Private individuals	Loans, interests and other receivables	491,018	32,299
	Allowance for impairment	<u>(3,661)</u>	<u>(525)</u>
		487,357	31,774
NBG S.A. - Branch Beograd	Time deposits	<u>316,000</u>	<u>-</u>
	<b>Receivables, net</b>	<b><u>171,357</u></b>	<b><u>31,774</u></b>

Remunerations paid to the members of the Executive Board during 2006 amounted to RSD 14,901 thousand (FY 2005: RSD 8,237 thousand).

**31. EXCHANGE RATES**

The official exchange rates for the major currencies used in the translation of the balance sheet items denominated in foreign currencies, were as follows:

	<b>December 31,</b>	<b>In RSD</b> <b>December 31,</b>
	<b>2006</b>	<b>2005</b>
USD	59.9757	72.2189
EUR	79.0000	85.5000
GBP	117.8577	124.5085
CHF	49.1569	54.9380