

VOJVODANSKA BANKA A.D., NOVI SAD

**Financial Statements
For the Year Ended December 31, 2007
and Independent Auditors' Report**

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Translation of the auditors' report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and a Shareholder of Vojvodanska banka A.D., Novi Sad

We have audited the accompanying financial statements (page 3 to 42) of Vojvodanska banka A.D., Novi Sad (the "Bank"), which comprise the balance sheet as of December 31, 2007 and the related income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

(Continues)

Translation of the auditors' report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and a Shareholder of Vojvodanska banka A.D., Novi Sad (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Vojvodanska banka A.D., Novi Sad as of December 31, 2007, and its financial performance, changes in equity and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia, regulations of the National Bank of Serbia governing financial reporting of banks and basis for the preparation and presentation of the financial statements disclosed in the Note 2 to the financial statements.

Belgrade, February 29, 2008

Gordana Radić Đorđević
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2007
(Thousands of RSD)

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Interest income	3.1,4a	3,702,784	2,815,891
Interest expense	3.1,4b	<u>(1,592,936)</u>	<u>(1,796,110)</u>
Net interest income		2,109,848	1,019,781
Fee and commission income	3.1,5a	1,590,207	1,446,543
Fee and commission expense	3.1,5b	<u>(108,950)</u>	<u>(102,300)</u>
Net fee and commission income		1,481,257	1,344,243
Net gains on the sale of securities	3.10	2,205,240	83,833
Foreign exchange gains, net	3.2	163,784	126,846
Dividends and other income from equity investments		56,118	55,325
Other operating income	6	1,066,081	4,252,325
Impairment losses and provisions	3.6,8.a	<u>(1,537,513)</u>	<u>(1,885,882)</u>
Other operating expenses	7	<u>(4,093,089)</u>	<u>(4,834,094)</u>
Gains on the valuation of assets and liabilities, net	3.4,3.5,3.8,9	<u>601,367</u>	<u>1,063,064</u>
PROFIT BEFORE TAXATION		2,053,093	1,225,441
Current income taxes	3.13,10.a	<u>(143,753)</u>	<u>(2,346)</u>
Deferred tax expense, net	3.13.,10.c	<u>(14,953)</u>	<u>(51,609)</u>
PROFIT		<u>1,894,387</u>	<u>1,171,486</u>
Earnings per share			
Basic earnings per share (in RSD)		<u>3,672</u>	<u>2,550</u>

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

These financial statements were approved by the Executive and Management Board of Vojvodanska banka A.D., Novi Sad and submitted to the National Bank of Serbia, Center for Credit Worthiness Assessment on February 29, 2008.

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

Marinis Stratopoulos	Vlastimir Vuković	Efstratia Fountoukou	Valentina Dragojlović
President of the Executive Board (from February 13, 2007)	Deputy President of the Executive Board	Chief Financial Officer (From January 1, 2008)	Head of Accounting (From January 1, 2008)

BALANCE SHEET
As of December 31, 2007
(Thousands of RSD)

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Cash and cash equivalents	3.11,11	2,376,090	3,933,637
Deposits with the central bank and securities available for refinancing with the central bank	12	21,102,837	11,149,598
Interest, fee and commission receivable	13	194,065	217,221
Placements with domestic banks	14	1,512,419	1,343,471
Loans and advances to customers	3.5,15	25,648,802	19,191,880
Trading securities	3.8,16	1,100,128	3,877,253
Securities held-to-maturity	3.9,17	1,107,847	1,124,953
Equity investments and securities available-for-sale	3.10,18	350,090	258,509
Intangible assets	3.3,19	93,013	93,578
Investment property	3.4,19	372,906	437,426
Property and equipment	3.3,19	4,207,006	4,374,473
Other assets and prepayments	20	1,507,566	217,910
Deferred tax assets	3.13,10c	86,074	107,331
Total assets		<u>59,658,843</u>	<u>46,327,240</u>
LIABILITIES AND EQUITY			
Liabilities			
Amounts owed to domestic banks	21	3,330,197	2,111,213
Amounts owed to customers	22	37,899,700	34,433,962
Interest, fee and commissions payable	23	55,363	94,390
Debt securities issued		239	239
Current income taxes payable		141,602	2,346
Other operating liabilities	24	1,635,430	275,639
Provisions	25	1,149,905	1,185,152
Other liabilities and accruals	26	1,374,644	208,420
Deferred tax liabilities	3.13,10c	152,637	158,941
Total Liabilities		45,739,717	38,470,302
Equity	27		
Share and other capital		8,946,741	4,846,601
Reserves		14	14
Revaluation reserves		1,665,864	1,661,245
Retained earnings		3,306,507	1,349,078
Total Equity		<u>13,919,126</u>	<u>7,856,938</u>
Total Liabilities and Equity		<u>59,658,843</u>	<u>46,327,240</u>
OFF-BALANCE-SHEET ITEMS	28	<u>64,656,985</u>	<u>57,439,151</u>

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

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2007
(Thousands of RSD)

	<u>2007</u>	<u>2006</u>
SHARE CAPITAL		
Balance, beginning of year	4,817,900	4,817,900
Share issue	4,100,000	-
Share premium	120	-
Treasury shares	(20)	(20)
Revoked previously repurchased treasury shares	20	-
	<u>8,918,020</u>	<u>4,817,880</u>
OTHER CAPITAL		
Balance, beginning of year	28,721	28,721
Balance, end of year	<u>28,721</u>	<u>28,721</u>
BANK'S RESERVES		
Balance, beginning of year	14	14
Balance, end of year	<u>14</u>	<u>14</u>
RESERVES FOR POTENTIAL LOSSES		
Balance, beginning of year	-	-
Reserves for potential losses per balance and off-balance sheet items	2,278,583	2,097,637
Additional provision for potential losses to be set aside as appropriation of retained earnings	<u>(2,278,583)</u>	<u>(2,097,637)</u>
Balance, end of year	<u>-</u>	<u>-</u>
REVALUATION RESERVES		
Balance, beginning of year	1,661,245	1,632,375
Effects of remeasurement of available-for-sale securities to their fair value	67,661	71,836
Decrease in revaluation reserves based on transfer of portion of effects of buildings depreciation to retained earnings	(63,042)	(67,984)
Increase in revaluation reserves based on buildings' appraisal effects	<u>-</u>	<u>25,018</u>
Balance, end of year	<u>1,665,864</u>	<u>1,661,245</u>
RETAINED EARNINGS		
Balance, beginning of year	1,349,078	228,787
Opening balance adjustments of 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)
Portion of depreciation transferred from revaluation reserves	63,042	67,984
Profit for the year	<u>1,894,387</u>	<u>1,171,486</u>
Balance, end of year	<u>3,306,507</u>	<u>1,349,078</u>
TOTAL EQUITY	<u>13,919,126</u>	<u>7,856,938</u>

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

CASH FLOW STATEMENT
Year Ended December 31, 2007
(Thousands of RSD)

	<u>2007</u>	<u>2006</u>
Cash receipts from operating activities	5,518,383	4,752,576
Interest receipts	3,723,903	2,848,965
Fee and commission receipts	1,587,864	1,629,893
Receipts of other operating income	150,498	218,393
Receipts from dividends and equity investments	56,118	55,325
Cash payments from operating activities	(6,346,385)	(6,776,203)
Interest payments	(1,587,441)	(1,797,090)
Fee and commission payments	(108,177)	(111,480)
Payments to, and on behalf of employees	(2,082,179)	(1,974,881)
Taxes, contributions and other duties paid	(568,492)	(531,244)
Payments of other operating expenses	(2,000,096)	(2,361,508)
Net cash receipts from operating activities		
prior to changes in placements and deposits	(828,002)	(2,023,627)
(Increases) in placements and increases in deposits, net	(5,697,503)	3,309,766
Increase in placements with banks and other financial institutions	(3,446,484)	(5,416,276)
Increase in loans and advances to customers	(4,655,352)	(624,982)
(Increase)/decrease in trading securities and short-term securities held-to-maturity	(1,133,264)	350,803
Increase in deposits from customers	3,959,365	7,390,368
(Decrease)/increase in deposits from banks	(421,768)	1,609,853
Net cash used in operating activities before income tax	-	(1,286,139)
Cash provided by/(used in) investing activity	(7,961)	(58,902)
Proceeds from the sale of equity investments	-	67,391
Proceeds from sale of intangible and fixed assets	180,223	-
Cash used for purchase of intangible and fixed assets	(163,018)	(126,293)
Purchase of equity interest and investments	(25,166)	-
Net cash provided by/(used in) financing activities	5,577,828	(623,942)
Inflows from increase in capital	4,100,000	-
Net cash provided by short-term borrowings	1,818,770	-
Net proceeds from securities	20	-
Repayment of long-term loans and subordinated liabilities	(340,962)	(487,434)
Repayment of short-term loans	-	(136,489)
Debt securities issued	-	(19)
Total cash inflows	15,995,369	14,170,191
Total cash outflows	(16,951,007)	(13,566,896)
Net (decrease)/increase in cash and cash equivalents	(955,638)	603,295
Cash and cash equivalents, beginning of year	3,933,637	3,686,981
Foreign exchange losses, net	(601,909)	(356,639)
Cash and cash equivalents, end of year	<u>2,376,090</u>	<u>3,933,637</u>

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

*All amounts are expressed in thousands of RSD, unless otherwise stated.***1. BANK'S ESTABLISHMENT AND OPERATING POLICY**

Vojvođanska banka A.D., Novi Sad (the "Bank") was established on January 1, 1990 by the transformation of Vojvođanska banka - Associated Bank, Novi Sad.

On December 30, 2001, based on its Articles of Incorporation 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, by acquiring an equity interest of 99.43%. The aforementioned acquisition was duly registered with the Central Securities Depository and Clearing House, as of December 12, 2006.

Based on the Decision on Amendment of the Articles of Incorporation, numbered 1.0-10340/2, and Decision on the increase in capital, numbered 1.0-10340/3 as of November 29, 2007, the Bank's share capital increased through a new share issuance comprised of 410,000 ordinary shares having the individual par value of RSD 10,000 thousand. The entire share issue was purchased by the National Bank of Greece, Athens.

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.

At December 31, 2007, the Bank comprised of the Central Office located in Novi Sad, 24 affiliates, including the inactive affiliates in Priština and Podgorica, 62 branch offices (four inactive ones), 82 counters and 24 points-of-sale (December 31, 2006: 25 affiliates, 87 branch offices and 101 counter).

The Bank is headquartered in Novi Sad, at the street address of Trg Slobode number 7.

As of December 31, 2007, the Bank had 2,337 employees (2006: 2,408 employees). The Bank's tax identification number is 101694252.

At December 31, 2007, the Bank had control over the following enterprises that are not consolidated in the accompanying financial statements:

	<u>% of Ownership</u>
Vobex d.o.o., Novi Sad	100%
VOB C.I.T., Novi Sad	100%
Modna konfekcija Tamiš Jaša Tomić A.D. Tamiš - in bankruptcy	59.57%
Imos A.D., Šid	51.55%
Novobanis, Solun	68%

With the exception of enterprises Imos A.D., Šid and Vobex d.o.o., Novi Sad, all of the aforementioned related parties are currently in the process of bankruptcy or liquidation.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts are expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS****2.1. Basis of Preparation and Presentation of 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 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.

Pursuant to its Decision numbered 011-00-738-2003-01 of December 30, 2003 (Official Gazette of the Republic of Serbia, number 133/03), the Republic of Serbia Ministry of Finance determined and issued the Framework and IAS that were applied as of December 31, 2002, and upon which both the previous and the Law on Accounting and Auditing from 2006 were based.

The amendments to the IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), upon the aforementioned date, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia with reference to the issuance of International Financial Reporting Standards (number 401-00-11/2008-16) as published in the Official Gazette of the Republic of Serbia number 16 of February 12, 2008 and therefore could not be applied in preparation of accompanying financial statements of the Bank for the year 2007.

In accordance with the aforementioned, and with regards to the potentially material effects which the departures of the IAS applied prior to February 12, 2008, from the newly-issued IFRS and the amended and revised IAS and interpretations might have on the fairness and objectivity on financial reporting, the accompanying financial statements cannot be described as having been prepared in accordance with IFRS and IAS.

In addition, the accompanying 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 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.

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

These financial statements include only the receivables, payables, results of operations, changes in equity and cash flows of the Bank, without those of its subsidiaries. Pursuant to the Law on Accounting and Auditing (See Official Gazette of the Republic of Serbia no. 46 of June 2, 2006), the Bank is obligated to prepare consolidated financial statements and to submit them to the National Bank of Serbia, Center for Credit Worthiness Assessment up to the end of April 2008.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts are expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)****2.1. Basis of Preparation and Presentation of Financial Statements (Continued)**

The Bank will not prepare the consolidated financial statements for the year ended December 31, 2007, since the related parties are immaterial for the Bank's financial statements at the aforementioned date.

The Bank's 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 Bank's audited financial statements prepared for the year ended December 31, 2006 served as comparative information in the accompanying financial statements.

2.3. Use of Estimates

The presentation of the financial statements requires from 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 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 financial statements. However, actual results may vary from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**3.1. Interest, Fee and Commission Income and Expenses**

Interest income and interest expense, including penalty interest and other operating income and expenses arising on the interest-bearing assets and/or interest-bearing liabilities, are recorded in the income statement on an accrual basis. Fee and commission income and expense arising on banking services are recognized in full when earned.

Fee and commission income from loan origination fees, guarantees and letters of credit approved to corporate and retail customers, are deferred and recognized in the income statement on a proportional basis throughout the repayment period of the loan, guarantees and letters of credit. Loan origination fees are presented within fee and commission income.

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.

Net 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts are expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.2. Foreign Exchange Translation (Continued)**

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

Receivables and payables arising from exchange operations with domestic and foreign banks are recorded as of the trading date and are presented under the headings of placements with domestic banks, other assets, other operating liabilities and other liabilities and accruals.

3.2. Property, Equipment and Intangible Assets

Buildings are carried at their fair value at December 31, 2007, as determined by certified appraisers in 2005, and are subsequently 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 income statement as an expense, under losses on the valuation of assets and liabilities.

Equipment at December 31, 2007 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 investments in software, licenses and similar rights, as well as investments in business premises under long-term lease.

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%
Motor vehicles	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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts are expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.4. Investment Property**

The Bank's investment property relates to the building property received 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 investment property are included under "Gains/losses on the valuation of financial assets and liabilities."

3.5. Loans

Loans and advances originated by the Bank are stated at the amount of principal outstanding, less allowance for impairment, which are based on the 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, disclosed in Note 3.6., in its evaluation of the risks and resulting estimations of the allowances.

The effects of non-application of effective interest rate in accordance with IAS 39, "Financial Instruments: Recognition and Measurement," requiring that loans be measured at amortized cost by applying the effective interest rate method, in the management's opinion, are not material for loans and advances to customers and the financial statements on the whole, as the Bank places its assets at variable interest rates, while the one-off compensations collected in advance are deferred throughout the loan repayment period (Note 3.1.).

Loans, which are disbursed in dinars and index-linked to the EUR exchange rate or to the retail price growth, 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, 2007, 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 interest rate in accordance with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement," for the corporate customers which meet the criteria prescribed by the internal methodology, whereas, for all other placements, the allowance for impairment is estimated on portfolio basis. The difference between the stated amounts of receivables and their recoverable amounts, is charged to the income statement in the period to which it relates.

Special reserve for potential losses is determined in accordance with the requirements of the relevant NBS Regulation. Loans, placements and other balance sheet and off-balance-sheet exposures are classified into the categories A, B, V, G and D, in accordance with the evaluation of their collectibility 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts are expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.6. Allowances for Impairment and Provisions for Contingent Liabilities (Continued)**

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.

The 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, further approved by the Shareholders' Assembly.

3.7. Repurchase Transactions

Securities purchased from the National Bank of Serbia under agreements 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 at the balance sheet date.

3.8. Trading Securities

Trading securities and other placements held for trading comprise of securities which the Bank acquired or incurred principally for the purpose of selling or repurchasing them in the near term. Trading securities include shares of banks and enterprises, as well as other securities issued by banks and corporate entities.

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

3.9. Securities Held-to-Maturity

Securities held-to-maturity are comprised of discounted 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, related parties, shares of corporate entities 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 adjusted to 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/(losses) on the sale of securities."

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts are expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.11. Cash and Cash Equivalents**

For purposes of the 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. Taxes and Contributions**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.

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 include property taxes, taxes and contributions paid by employer to or on behalf of employees, as well as other taxes and contributions paid pursuant to republic and municipal regulations, presented within Other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts are expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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 these services. These items are not included in the Bank's balance sheet.

3.15. Employee Benefits

In accordance with regulatory requirements, the Bank is obliged 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 and there are no identified liabilities thereof as of December 31, 2007. As of the aforementioned date, the Bank made provisions with reference to retirement benefits adjusting them by the amount of retirement benefits paid to employees who accepted early retirement pursuant to the restructuring program.

3.16. Fair Value

The accompanying 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.

3.17. Contingent Liabilities and Assets

A provision for contingencies shall be recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Otherwise, a contingent liability is disclosed in notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

An entity shall not recognize a contingent asset within balance sheet and income statement, as contingent asset are to be disclosed in Notes to the financial statements, unless the possibility of an inflow of resources embodying economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

4. INTEREST INCOME AND EXPENSE

a) Interest Income

	Year Ended December 31,	
	2007	2006
Deposits with the central bank	712,429	270,898
Placements with banks	50,297	103,721
Loans and advances to customers	2,764,861	2,258,449
Securities	175,197	182,823
	<u>3,702,784</u>	<u>2,815,891</u>

b) Interest Expense

	Year Ended December 31,	
	2007	2006
Amounts owed to banks	195,445	365,681
Amounts owed to customers	1,386,711	1,415,445
Relations with the Central Bank	10,780	14,984
	<u>1,592,936</u>	<u>1,796,110</u>

5. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	Year Ended December 31,	
	2007	2006
Fee and commission income from domestic and foreign payment transfers	1,036,305	988,599
Loan origination fees	199,263	136,477
Fees for the rental of safety-deposit boxes	15,876	15,457
Fee and commission for other banking services	110,562	127,559
Cheques processing	11,812	12,653
Commissions earned on the purchase and sale of foreign currencies	9,715	9,273
Fees arising from card operations	70,133	55,352
Fees on issued guarantees and other contingent liabilities	76,303	74,963
Brokerage fees	60,224	26,133
Other fee and commission income	14	77
	<u>1,590,207</u>	<u>1,446,543</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

5. FEE AND COMMISSION INCOME AND EXPENSE (Continued)

b) Fee and Commission Expense

	Year Ended December 31,	
	2007	2006
	<u> </u>	<u> </u>
Fee and commission expense arising from domestic payment transfers	72,394	58,363
Fee and commission expense arising from international payment transfers	6,533	3,580
Cheques processing	10,768	12,376
Commissions arising from foreign currency purchases	4,181	20,801
Other fee and commission expense	15,074	7,180
	<u>108,950</u>	<u>102,300</u>

6. OTHER OPERATING INCOME

	Year Ended December 31,	
	2007	2006
	<u> </u>	<u> </u>
Release of allowances for impairment (Note 8b)	879,805	3,946,742
Release of provisions for off-balance sheet items (Note 25)	39,083	168,477
Release of provisions for litigations (Note 25)	31,264	-
Recovery of receivables previously provided for	4	20,334
Gains on the disposal of property and equipment	42,623	18,409
Write-off of liabilities	1,826	15,258
Rental income	62,643	59,150
Other income	8,833	23,955
	<u>1,066,081</u>	<u>4,252,325</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

7. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2007	2006
Materials	142,667	140,360
Services	4,518	7,180
General and administrative expenses	104,279	65,205
Rentals of fixed assets	93,367	87,416
Advertising and marketing	253,776	138,826
Automatic data transfer	66,170	47,938
Telecommunications and transportation	110,848	123,315
Cleaning services	31,574	27,864
Insurance costs	77,073	75,616
Securing property	113,311	104,546
Transportation of employees	34,873	28,020
Loss on the disposal of property, equipment, intangible assets, securities and equity investments	1,828	1,811
Maintenance	52,456	55,977
Net salaries and benefits	1,477,946	1,325,693
Taxes and contributions on salaries	586,449	611,068
Other personnel costs	26,223	48,629
Depreciation and amortization	258,014	251,851
Indirect taxes and contributions	583,100	534,194
Forced collection arising from an adverse outcome of a litigation	-	55,675
Court expenses and court experts	45,316	45,665
Write-off of uncollectible receivables	1,099	1,039,823
Other	28,202	17,422
	<u>4,093,089</u>	<u>4,834,094</u>

8. IMPAIRMENT LOSSES AND PROVISIONS, Net

a) Charge for the Year

	Year Ended December 31,	
	2007	2006
Provisions charged during the year:		
- loans to banks and customers	972,509	893,213
- interest and fees	60,270	68,444
- equity investments and securities	2,965	32,769
- other assets	64,723	74,124
	<u>1,100,467</u>	<u>1,068,550</u>
Provision for potential losses:		
- off-balance sheet items (Note 25)	47,227	246,484
- employee benefits (Note 25)	389,819	20,239
- litigation	-	467,397
- other contingent liabilities	-	83,212
	<u>437,046</u>	<u>817,332</u>
	<u>1,537,513</u>	<u>1,885,882</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

8. IMPAIRMENT LOSSES AND PROVISIONS, Net (Continued)

b) Movements on Accounts of Allowance for Impairment of Receivables

					2007
	Loans and Advances to Banks and Customers (Notes 14 and 15)	Interest, Fees and Commissions (Note 13)	Securities and Equity Investments (Notes 16, 17 and 18)	Other Assets (Note 20)	Total
Balance, beginning of year	15,781,328	725,215	531,015	466,119	17,503,677
Charge for the year	972,509	60,270	2,965	64,723	1,100,467
Foreign exchange fluctuations	(297,054)	(6,046)	(14,329)	(241)	(317,670)
Hedges	703	2	-	(1,247)	(542)
Fair value adjustment	-	-	9,276	-	9,276
Release of allowance for impairment (Note 6)	(790,116)	(61,772)	(1,002)	(26,915)	(879,805)
Transfers/other	31,460	5,912	472	(42,129)	(4,285)
Balance, end of year	<u>15,698,830</u>	<u>723,581</u>	<u>528,397</u>	<u>460,310</u>	<u>17,411,118</u>

c) Special reserve for potential losses

As of December 31, 2007, 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.

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.

	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
Special reserve for potential losses determined as per the National Bank of Serbian requirements with respect to:		
- balance sheet exposures	18,945,391	19,039,399
- off-balance sheet exposures	604,536	569,905
	<u>19,549,927</u>	<u>19,609,304</u>
Allowances for impairment and provisions determined in accordance with the internally adopted methodology (IAS39):		
- allowance for impairment of balance sheet items*	(17,411,118)	(17,503,677)
- provision for losses contingent on off-balance sheet items	(519,036)	(510,893)
	<u>(17,930,154)</u>	<u>(18,014,570)</u>
Provisions determined in accordance with IAS 39 exceeding the amount of provision as per the NBS Decision	658,810	502,903
Provisions for potential losses contingent on balance sheet assets and off-balance sheet items	2,278,583	2,097,637
Reserve for potential losses formed in prior years	-	-
Additional provision for potential losses to be set aside as appropriation of retained earnings	<u>2,278,583</u>	<u>2,097,637</u>

* in the Bank's K1 form, the allowance for impairment of balance sheet items amounted to RSD 17,403,516 thousand.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

*All amounts are expressed in thousands of RSD, unless otherwise stated.***8. IMPAIRMENT LOSSES AND PROVISIONS, Net (Continued)****c) Special reserve for potential losses (Continued)**

Additional provision for potential losses in the amount of RSD 2,278,583 thousand will be allocated from the Bank's profit for the period and profits to be earned in the future periods, following the relevant Decision of the Bank's Assembly.

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

	Year Ended December 31,	
	2007	2006
Gains on the change in value of:		
- investment property	-	5,378
- placements indexed to the retail price index	252,275	30,393
- placements with foreign currency clause	858,945	254,643
- securities	427,844	1,338,402
- precious metals	742	304
- liabilities with foreign currency clause	6,146	58,965
	<u>1,545,952</u>	<u>1,688,085</u>
Losses on the change in value of:		
- property and equipment	-	(10,318)
- placements with foreign currency clause	(925,584)	(572,832)
- securities	(9,276)	(1,361)
- liabilities	(9,725)	(40,510)
	<u>(944,585)</u>	<u>(625,021)</u>
	<u>601,367</u>	<u>1,063,064</u>

10. INCOME TAXES**a) Components of income tax**

	2007	2006
Current income tax	143,753	2,346
Deferred income tax	14,953	51,609
	<u>158,706</u>	<u>53,955</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

10. INCOME TAXES (Continued)

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

	<u>2007</u>	<u>2006</u>
Profit before tax	2,053,093	1,225,441
Income tax at the statutory tax rate of 10%	205,309	122,544
Tax effect of non-deductible expenses	40,404	148,907
Recognized tax credits for capital expenditures	(105,792)	(2,346)
Recognized capital losses carried forward	-	(1,893)
Recognized tax losses carried forwards	(11,589)	(270,464)
Untaxable dividend income	(2,382)	(2,395)
Other	32,756	59,602
	<u>158,706</u>	<u>53,955</u>

c) Components of deferred tax assets/(liabilities)

	<u>2007</u>	<u>2006</u>
Deferred tax assets		
Deductible temporary differences on property, equipment and intangible assets	86,074	107,331
Deferred tax liabilities		
Taxable temporary differences on property, equipment and intangible assets	(152,637)	(158,941)
Net	<u>(66,563)</u>	<u>(51,610)</u>

d) Movements in deferred tax assets/(liabilities)

	<u>2007</u>	<u>2006</u>
Deferred tax assets		
Opening balance	107,331	107,331
Decrease in temporary difference in the year	(21,257)	-
	<u>86,074</u>	<u>107,331</u>
Deferred tax liabilities		
Opening balance	(158,941)	(158,941)
Decrease in temporary difference in the year	6,304	-
	<u>(152,637)</u>	<u>(158,941)</u>
Net	<u>(66,563)</u>	<u>(51,610)</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

10. INCOME TAXES (Continued)

e) Unrecognized deferred tax assets based on tax loss carried forward and tax credit carried forward as of December 31, 2007

Summary of tax loss carried forward and tax credit carried forward for which the Bank has not recognized deferred tax assets as of December 31, 2007 was as follows:

<u>Origination Year</u>	<u>Expiration Year</u>	<u>Tax Losses</u>	<u>Tax Credits</u>
2003	2013	-	25,580
2004	2014	6,124,145	9,501
2005	2015	-	13,757
2006	2016	-	19,937
2007	2017	-	8,764
	Total	<u>6,124,145</u>	<u>77,539</u>

In 2007 the Bank did not recognize deferred tax assets due to the uncertainty whether sufficient taxable profit will be available in the future against which the unused tax losses may be utilized by the Bank.

11. CASH AND CASH EQUIVALENTS

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Cash in hand:		
- in dinars	724,472	510,862
- in foreign currencies	654,750	329,325
Giro account	295,254	2,880,092
Other cash and cash equivalents in dinars	500,000	-
Gold and other precious metals	5,360	4,660
Cheques in the course of collection	43,495	53,451
Accounts in foreign currencies with:		
- National Bank of Serbia	6,787	9,792
- domestic banks	-	1
- foreign banks	145,972	145,454
	<u>2,376,090</u>	<u>3,933,637</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, 73/2006, 116/2006, 3/2007 and 93/2007, the obligatory reserve is to be calculated at the rate of 10% (5% as of October 2007 to the deposited dinar savings deposit with over 30-day maturities) on the basis of the average amount of dinar deposits, borrowings and other related liabilities in effect during a period of one calendar month. The obligatory reserve in dinars is allocated on the Bank's giro account. The Bank maintains the average daily balance of the allocated obligatory reserve in dinars in the amount of the calculated obligatory dinar reserve. In 2007, the annual interest rate earned on the Bank's obligatory reserve account amounted to 2.5 percent.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

*All amounts are expressed in thousands of RSD, unless otherwise stated.***11. CASH AND CASH EQUIVALENTS (Continued)**

At December 31, 2007, an amount of RSD 500,000 thousand related to deposited liquidity surpluses held with the National Bank of Serbia. The Bank deposits assets for the periods from 1 to 5 days with an interest rate ranging from 7% to 11% annually.

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

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Obligatory reserves in foreign currencies	9,427,685	6,049,598
Securities acquired in repurchase transactions with the Central Bank	<u>11,675,152</u>	<u>5,100,000</u>
	<u>21,102,837</u>	<u>11,149,598</u>

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" based on the average daily amount of deposits in foreign currency on a monthly level in the preceding month and the savings deposits in foreign currency. The obligatory reserve is calculated at the rate of 45% for the amount of the average daily book balance of the foreign currency assets in the previous calendar month, as well as dinar deposits which are indexed to the currency clause. The amount of the calculated obligatory reserve was decreased by the amount of the long-term housing loans insured with the National Corporation for Housing Loans, by the amount of charity placements allocated from the foreign currency loans obtained from international financial institutions based on the agreement closed prior to December 31, 2004 and by the amount of frozen assets held on the account with a foreign bank, on condition that the aforesaid account was blocked prior to December 31, 2000. The obligatory reserve is calculated at the rate of 100 % for the average daily book balance of foreign currency assets held by a lessor on a special account opened with the Bank; the rate of 20% is applied to the portion of foreign currency subordinated liabilities; the rate of 40% is applied to the portion of the foreign currency base comprised of foreign currency savings deposits placed with banks.

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 of the allocated obligatory reserve in foreign currency in an amount not lower than the calculated amount of the obligatory reserves in foreign currency.

As of December 31, 2007, securities acquired in repurchase transactions with the Central Bank in the amount of RSD 11,675,152 thousand (FY 2006: RSD 5,100,000 thousand) relate to bonds purchased from the NBS, having 14-day maturities and issued at annual interest rates ranging from 9.5% to 10%. This transaction is governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

13. INTEREST, FEES AND COMMISSIONS RECEIVABLE

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Interest receivables:		
- in dinars	505,587	500,196
- in foreign currencies	345,493	377,970
	<u>851,080</u>	<u>878,166</u>
Fee and commission receivable:		
- in dinars	60,195	62,425
- in foreign currencies	6,371	1,845
	<u>66,566</u>	<u>64,270</u>
Less: Allowance for impairment	<u>(723,581)</u>	<u>(725,215)</u>
	<u>194,065</u>	<u>217,221</u>

14. PLACEMENTS WITH DOMESTIC BANKS

	<u>December 31, 2006</u>	<u>December 31, 2005.</u>
Short-term loans and placements in dinars	514,435	4,596
Long-term loans in foreign currencies financed by IBRD	442,294	441,052
Long-term loans and other financial placements in dinars	28,142	25,801
Receivables from NBS in dinars	125	6,984
Suspense accounts:		
- giro account	(32,731)	(9,159)
- foreign currency accounts with other banks	-	8
Short-term deposits with domestic banks in foreign currencies	-	1,343,000
Placements with domestic banks:		
- banks undergoing liquidation and bankruptcy proceedings	175,949	183,146
- other assets –litigation-related receivables	15,228	15,403
Placements with banks from former SFRY	24,546	25,178
Frozen foreign currency deposits with foreign banks	835	933
Other short-term placements with other banks in foreign currency - exchange transactions	1,030,071	-
Other	270	279
	<u>2,199,164</u>	<u>2,037,221</u>
Less: Allowance for impairment	<u>(686,745)</u>	<u>(693,750)</u>
	<u>1,512,419</u>	<u>1,343,471</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

15. LOANS AND ADVANCES TO CUSTOMERS

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Up to one year:		
- in dinars	10,111,757	9,269,358
- in foreign currencies	11,482,888	7,483,596
Current portion of long-term loans:		
- in dinars	3,224,298	2,070,879
- in foreign currencies	484,486	407,865
Over one year:		
- in dinars	11,268,754	5,719,735
- in foreign currencies	3,243,629	8,295,458
Other financial placements:		
- in dinars	86,055	44,323
- in foreign currencies	294,494	303,822
Receivables arising from payments on issued guarantees	464,526	413,710
Short-term deposits with foreign banks in foreign currency	-	270,712
	<u>40,660,887</u>	<u>34,279,458</u>
Less: Allowance for impairment	<u>(15,012,085)</u>	<u>(15,087,578)</u>
	<u>25,648,802</u>	<u>19,191,880</u>

As of December 31, 2007, loans to corporate clients 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. Loans with up to one year maturity were approved for the period ranging from 30 days to one year, whereas the loans with over one year maturity were approved for periods from 1 to 30 years. The interest on loans with up to one year maturities is accrued at rates from 4.2% to 9.95% annually. Loans of up to one year maturities in dinars accrue interest ranging from 9% to 25.9% annually. The interest on over-one year loans with currency clause is charged from 3.5% to 9.25% annually, whereas loans with over one year maturities denominated in foreign currency accrued interest from 3.558% to 9.25% per annum. 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, 2007, loans and advances to retail customers in the (net) amount of RSD 11,103,487 thousand were mostly extended as: cash loans, overdraft loans, loans based on the use of credit cards, car loans, as well as housing loans. Cash loans with over one year maturities were approved upon the placement of a deposit in the amount of 20%, at annual interest rates ranging from 10% to 12.5%, the overdrafts on current accounts are approved at monthly interest rates ranging from 1.53% to 2.0%, while based on the use of VISA credit cards, the interest on overdrafts ranged from 1.5% to 1.8% monthly, i.e., 16.77% to 23.87% annually for overdrafts against the DINA credit card. Housing long-term loans were extended at annual interest rates from 5.95% to 6.50%.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loan Concentration

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

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Processing industry	5,521,173	6,072,592
Mining and energy	889,293	1,134,026
Trade	2,783,420	2,518,393
Agriculture and hunting	1,515,381	1,429,810
Civil engineering	1,137,315	579,364
Finance	1,488,501	1,114,711
Governmental and public institutions	272,056	301,964
Traffic and communications	762,501	343,328
Accommodation industry and tourism	115,224	99,127
Forestry	43,148	19,823
Fishing	17,303	13,518
Retail	11,103,487	5,565,224
	<u>25,648,802</u>	<u>19,191,880</u>

16. TRADING SECURITIES

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
In dinars:		
Shares of banks:		
- AIK banka a.d., Niš	324,478	1,968,047
- Agrobanka a.d., Beograd	14,267	10,299
- JUBMES banka a.d., Beograd	99,935	61,866
- Panonska banka a.d., Novi Sad	-	25,805
- Komercijalna banka a.d. Beograd	5,982	-
Shares of corporate entities	33,070	29,566
Commercial papers issued by corporate entities	196	196
Bills of exchange of issued by corporate entities	-	621
In foreign currency:		
- Republic of Serbia bonds based on foreign currency public savings	-	1,066,047
- Bonds for Economic Recovery of Serbia	-	328,133
- Shares of banks:		
- NLB Razvojna banka a.d., Banja Luka	634,811	390,470
Other securities	104	106
	<u>1,112,843</u>	<u>3,881,156</u>
Less: Allowance for impairment	<u>(12,717)</u>	<u>(3,903)</u>
	<u>1,100,128</u>	<u>3,877,253</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

17. SECURITIES HELD-TO-MATURITY

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Up to one year:		
- Public debt bonds of former Federal Government	-	66,998
- Bills of exchange issued by corporate entities	1,110,812	1,057,955
	<u>1,110,812</u>	<u>1,124,953</u>
Less: Allowance for impairment	(2,965)	-
	<u>1,107,847</u>	<u>1,124,953</u>

As of December 31, 2007, bills of exchange issued by corporate entities in the amount of RSD 1,110,812 thousand (FY 2006: RSD 1,057,955 thousand) represent investments with maturities from 15 days to 12 months, at annual discounted rates ranging from 11.11% to 25.10%.

18. EQUITY INVESTMENTS AND SECURITIES AVAILABLE-FOR-SALE

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Equity investments in dinars:		
- subsidiaries	57,395	57,967
- related parties	21,953	21,953
- corporate entities	319,074	203,612
- other banks and financial institutions	231,860	254,098
Equity investment in foreign currency:		
- subsidiaries	7,906	7,883
- foreign banks and financial institutions	214,831	229,183
Shares of banks in foreign currency	<u>9,786</u>	<u>10,925</u>
	862,805	785,621
Less: Allowance for impairment	(512,715)	(527,112)
	<u>350,090</u>	<u>258,509</u>

As of December 31, 2007, the Bank has equity investments in dinars in the following related parties: Vobex, Novi Sad (RSD 326 thousand, equity share of 100%), VOB C.I.T., Novi Sad (RSD 10,000 thousand, equity share of 100%), Modna konfekcija Tamiš A.D. Jaša Tomić – 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, with the exception of equity share in Imos, Šid were fully provided for in previous years. The subsidiary Vobing, Novi Sad was removed from the Business Register based on the Report on Completion of the Liquidation Procedure of February 27, 2007.

As of December 31, 2007, the Bank had equity investment in the related party Metalprogres, Zrenjanin in the amount of RSD 21,953 thousand (equity share of 30.34%). In addition, as of December 31, 2007, the Bank's equity investment in the related party in foreign currency related to the investment in Novobanis, Thesaloniki totaling of RSD 7,907 thousand (equity share of 68%).

NOTES TO THE FINANCIAL STATEMENTS

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All amounts are expressed in thousands of RSD, unless otherwise stated.

19. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY

	Land	Buildings	Equipment and Other Assets	Construction in Progress and Advances	Total PP&E	Investment Property	Intangible assets	Total
Cost								
Balance, beginning of year	517	6,379,902	1,187,547	46,524	7,614,490	524,331	433,826	8,572,647
Additions	-	-	3,854	74,339	78,193	-	28,847	107,040
Transfers	-	2,461	51,493	(53,954)	-	-	-	-
Transfers from advances	-	-	-	(18,227)	(18,227)	-	-	(18,227)
Sale, disposal and retirements	-	-	(36,719)	-	(36,719)	(89,475)	(2,734)	(128,928)
Other	-	-	1,673	-	1,673	-	-	1,673
Balance, end of year	517	6,382,363	1,207,848	48,682	7,639,410	434,856	459,939	8,534,205
Accumulated Depreciation and Amortization								
Balance, beginning of year	-	2,291,950	947,856	211	3,240,017	86,905	340,248	3,667,170
Charge for the year	-	127,600	101,002	-	228,602	-	29,412	258,014
Sale, disposal and retirements	-	-	(36,004)	-	(36,004)	(24,955)	-	(60,959)
Transfers	-	-	-	(211)	(211)	-	(2,734)	(2,945)
Balance, end of year	-	2,419,550	1,012,854	-	3,432,404	61,950	366,926	3,861,280
Net Book Value:								
- as of December 31, 2007	517	3,962,813	194,994	48,682	4,207,006	372,906	93,013	4,672,925
- as of December 31, 2006	517	4,087,952	239,691	46,313	4,374,473	437,426	93,578	4,905,477

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

*All amounts are expressed in thousands of RSD, unless otherwise stated.***19. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT
PROPERTY (Continued)**

As a result of incomplete cadastral books, the Bank's property stated in the amount of RSD 235,260 thousand as of December 31, 2007 has not been duly recorded in the cadastral register (December 31, 2006: RSD 265,648 thousand). The Bank's management is taking steps to obtain the appropriate property registration documents.

As of December 31, 2007, the Bank's buildings encumbered with mortgage had the net book value of RSD 150,202, and related to building property acquired in forced collection of the Bank's receivables, which had already been under mortgages placed in favor of third parties in the moment of acquisition.

20. OTHER ASSETS AND PREPAYMENTS

	December 31, 2007	December 31, 2006
Advances, deposits and retainers:		
- in dinars	13,700	12,517
- in foreign currencies	1,364	1,360
Receivables from sales	1,519	5,839
Prepaid taxes and contributions	2,107	4,252
Receivables from employees:		
- in dinars	43,528	9,263
- in foreign currencies	12,543	12,351
Receivables arising on reimbursement of expenses	34,051	35,678
Receivables from NBS and other banks and financial institutions	2,787	2,787
Receivables from retail customers	96,673	70,521
Receivables in dinars for guarantee and acceptance payments:		
- in dinars		
- in foreign currencies	128,227	100,967
Receivables from retail customers	-	35,826
Other receivables from operations – over 60 days	-	22,010
Other receivables from operations – under litigation	-	9,613
Receivables arising on turnover of property in dinars	11,019	12,283
Receivables from rental of property and equipment	5,769	6,294
Receivables from purchase and sale of securities	-	9,695
Other receivables from operations:		
- in dinars	60,031	48,726
- in foreign currencies	14,942	13,473
Prepayments	299,325	27,445
Receivables from foreign exchange operations	1,070,100	72,502
Receivables arising on tangibles received in lieu of debt settlement	154,607	153,884
Other assets	2,217	2,184
Inventories and other office stationary	13,367	14,559
	<u>1,967,876</u>	<u>684,029</u>
Less: Allowance for impairment	<u>(460,310)</u>	<u>(466,119)</u>
	<u>1,507,566</u>	<u>217,910</u>

NOTES TO THE FINANCIAL STATEMENTS

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All amounts are expressed in thousands of RSD, unless otherwise stated.

21. AMOUNTS OWED TO DOMESTIC BANKS

	<u>December 31, 2007.</u>	<u>December 31, 2006.</u>
Demand deposits:		
- in dinars	178,739	507,455
- in foreign currencies	8,392	5,397
Short-term deposits:		
- in dinars	1,205,011	1,492,000
- in foreign currencies	-	15,800
Short-term loans in dinars	1,860,000	-
Long-term borrowings in dinars	61,482	74,920
Short-term liabilities to NBS:		
- in dinars	6,305	4,264
- in foreign currencies	10,268	5,877
Other short-term financial liabilities in dinars	-	5,500
	<u>3,330,197</u>	<u>2,111,213</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%.

Short-term loans in dinars in the amount of RSD 1,860,000 thousand relate to loans approved to other banks to meet their daily liquidity requirements. The Bank obtained loans for periods from 1 to 3 days at an interest rate ranging from 7.80% to 9.40% annually.

Long-term borrowings in dinars of RSD 61,482 thousand (FY 2006: RSD 74,920 thousand) relate to liabilities to the National Bank of Serbia based on loans received for the purpose of financing of farming and live stock production, as well as agriculture and food-processing, issued for a period of 15 years, including a grace period of 5 years, at an annual interest rate of 0.5%.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

22. AMOUNTS OWED TO CUSTOMERS

	December 31, 2007	December 31, 2006
Demand deposits:		
- in dinars	12,219,770	12,599,330
- in foreign currencies	7,140,445	6,984,610
Short-term deposits:		
- in dinars	5,155,865	6,613,789
- in foreign currencies	10,108,059	5,897,907
Long-term deposits:		
- in dinars	140,614	98,014
- in foreign currencies	2,222,292	1,039,094
Long-term borrowings:		
- in foreign currencies	291,814	606,705
Other financial liabilities:		
- in dinars	828	789
- in foreign currencies	115,326	98,014
Current portion of long-term borrowings in foreign currencies	312,382	353,914
Current portion of long-term deposits:		
- in dinars	7,247	29,548
- in foreign currencies	185,058	112,248
	<u>37,899,700</u>	<u>34,433,962</u>

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

	December 31, 2007	December 31, 2006
Public enterprises	1,494,550	2,946,236
Corporate entities	13,267,314	14,338,375
Other customers	2,034,800	2,192,097
Foreign entities and banks	2,635,801	1,082,444
Retail customers	18,467,235	13,874,810
	<u>37,899,700</u>	<u>34,433,962</u>

Demand deposits in dinars of corporate entities and retail customers are mainly comprised of current account balances. Demand deposits of corporate entities 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 corporate customers in dinars bear annual interest rates ranging from 7.5% to 14.0%.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

*All amounts are expressed in thousands of RSD, unless otherwise stated.***22. AMOUNTS OWED TO CUSTOMERS (Continued)**

Short-term retail deposits in foreign currency are placed at an interest rate ranging from 2% to 9.0% ("Savings week") per annum depending on the currency.

Long-term deposits of corporate customers denominated in foreign currency are placed at an interest rate ranging from 3.10% to 4.6% annually depending on the currency.

Long-term retail deposits denominated in dinars are placed at an interest rate ranging from 2% to 10% annually.

As of December 31, 2007 and 2006, the structure of long-term borrowings in foreign currencies (including current portions) was as follows:

<u>Creditor</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
In foreign currencies:		
- Republic of Serbia	2,634	6,937
- International Finance Corporation (IFC)	346,418	575,642
- Reintegration Fund of Europe Council	184,540	229,987
- Banca Agricola Mantovana	7,105	13,785
- HBOR Zagreb	-	5,148
- Bankgesellschaft Berlin Aktiengesellschaft, Berlin	-	34,155
- Westdeutsche Landesbank AG Dusseldorf	63,499	94,965
	<u>604,196</u>	<u>960,619</u>

Long-term borrowings in foreign currencies stated at December 31, 2007 in the amount of RSD 346,418 thousand (FY 2006: RSD 575,642 thousand), represent liabilities for borrowings 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.

The long-term borrowing in the amount of RSD 184,540 thousand (FY 2006: RSD 229,987 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.

As of December 31, 2007, long-term borrowings in foreign currencies in the amount of RSD 7,105 thousand (FY 2005: RSD 13,785 thousand) represent liabilities for loans approved by Banca Agricola Mantovana for a period of 6.5 years and an 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, 2007, long-term borrowings in foreign currencies in the amount of RSD 63,499 thousand (FY 2006: RSD 94,965 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

23. INTEREST, FEE AND COMMISSIONS PAYABLE

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Matured interest:		
- in dinars	48,712	87,629
- in foreign currencies	1,585	2,468
	<u>50,297</u>	<u>90,097</u>
Fee and commissions payable in dinars	5,066	4,293
	<u>55,363</u>	<u>94,390</u>

24. OTHER OPERATING LIABILITIES

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Net salaries and benefits	70,917	62,479
Taxes and contributions payable	74,137	59,494
Liabilities for advances, deposits and retainers received:		
- in dinars	8,972	9,494
- in foreign currencies	23,773	5,892
Payables to suppliers:		
- in dinars	149,197	43,271
- in foreign currencies	40,778	6,029
Other liabilities to banks based on payment transfers	5,863	4,721
Liabilities to customers in dinars		
for unsettled payments	157,644	42,296
Liabilities from exchange transactions	1,070,240	403
Other liabilities	33,909	41,560
	<u>1,635,430</u>	<u>275,639</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

25. PROVISIONS

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<i>a) Provisions for off-balance sheet items</i>		
Balance, beginning of year	510,893	439,936
Charged during the year (Note 8a)	47,227	246,484
Release of provision (Note 6)	(39,083)	(168,477)
Foreign exchange fluctuations	-	(7,050)
	<u>519,037</u>	<u>510,893</u>
<i>b) Provisions for retirement benefits</i>		
Balance, beginning of year	123,650	-
Opening balance adjustment of retained earnings	-	103,411
Payments for early retirements	(401,946)	-
Charged during the year (Note 8a)	389,819	20,239
	<u>111,523</u>	<u>123,650</u>
<i>c) Provisions for litigations</i>		
Balance, beginning of year	467,397	-
Release of provision (Note 6)	(31,264)	-
Charged during the year	-	467,397
	<u>436,133</u>	<u>467,397</u>
<i>d) Other contingent liabilities</i>		
Balance, beginning of year	83,212	-
Charged during the year	-	83,212
	<u>83,212</u>	<u>83,212</u>
	<u>1,149,905</u>	<u>1,185,152</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

26. OTHER LIABILITIES AND ACCRUALS

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Accrued interest:		
- in dinars	50,356	38,557
- in foreign currencies	92,842	69,632
Deferred liabilities for accrued expenses in dinars	25,098	548
Accrued and collected interest:		
- in dinars	4,102	320
- in foreign currencies	1,237	1,885
Deferred fee and commission income from loan origination fees, guarantees and letters of credit	153,675	91,584
Deferred income from exchange transactions	1,042,705	3,815
Other accruals	<u>4,629</u>	<u>2,079</u>
	<u>1,374,644</u>	<u>208,420</u>

27. SHARE CAPITAL

As of December 31, 2007, the Bank's share capital comprised of 891,790 ordinary shares with the individual par value of RSD 10,000 (as of December 31, 2006: 481,790 ordinary shares).

The Bank's shareholders are entitled to take part in the Bank's decision-making 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.

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 with the Central Securities Depository and Clearing House on December 12, 2006.

Pursuant to the November 29, 2007 Articles of Incorporation number 1.0-10340/2 and Decision on Increase in Capital, the share capital of the Bank increased through the issuance of 410,000 ordinary shares having the individual par value of RSD 10,000. The National Bank of Greece, Bank purchased the entire share issue, and thereby became its sole owner.

The Bank's other capital in the amount of RSD 28,721 thousand is formed by conversion of non-business funds in the Bank's capital, upon first time adoption of International Financial Reporting Standards as of December 31, 2003.

The earning per share for 2007 amounted to RSD 3,672 (FY 2006: RSD 2,550).

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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. As of December 31, 2007, 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. At December 31, 2007, all ratios related to the volume of activities composition of risk assets complied with the ratios prescribed by the National Bank of Serbia.

28. OFF-BALANCE SHEET ITEMS

	December 31, 2007	December 31, 2006
<i>a) Managed funds</i>		
- in dinars	2,323,610	1,683,635
- in foreign currencies	94,625	195,394
	<u>2,418,235</u>	<u>1,879,029</u>
<i>b) Guarantees, other contingent liabilities and commitments</i>		
Payment guarantees:		
- in dinars	689,674	834,225
- in foreign currencies	123,483	828,432
Performance bonds:		
- in dinars	1,657,571	1,589,305
- in foreign currencies	1,112,284	1,165,435
Nostro letters of credit issued in foreign currencies	178,152	270,243
Sureties and acceptances	464,712	630,324
Irrevocable commitments and undrawn credit facilities	4,930,062	4,045,713
Receivables from exchange rates derivatives	11,338,469	-
	<u>20,494,407</u>	<u>9,363,677</u>
<i>c) Other off-balance-sheet items</i>		
Foreign currency public savings bonds	1,233,696	1,310,428
Guarantees received as collateral for the settlement of liabilities	404,727	2,356,884
Securities placed as collateral for the settlement of liabilities	49,926	91,632
Mortgages, pledges, bills of exchange and other guarantees		
- assets placed as collateral for security of placements	36,398,975	39,320,006
Polish loan	3,427,687	2,877,122
Other off-balance-sheet-items	229,332	240,373
	<u>41,744,343</u>	<u>46,196,445</u>
Total off-balance-sheet items	<u><u>64,656,985</u></u>	<u><u>57,439,151</u></u>

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2007***All amounts are expressed in thousands of RSD, unless otherwise stated.***28. OFF-BALANCE SHEET ITEMS (Continued)**

The funds managed on behalf of third parties mainly relate to funds received from the public sector customers and at December 31, 2007 amounted to RSD 2,418,235 thousand (FY 2006: RSD 1,879,029 thousand). The funds managed on behalf of third parties primarily include loans for the Economic Recovery of Serbia (RSD 88,485 thousand), loans of the Development Fund of the Republic of Serbia for loans to registered agricultural farms (RSD 1,807,549 thousand), loans placed from the funds of the Ministry for Agriculture, Forestry and Water (RSD 414,222 thousand) and loans which companies extend its employees or other companies through the Bank as an agent totaling RSD 107,979 thousand. The Bank charges fees for the services provided.

d) Litigation

As of December 31, 2007, according to the Bank's Legal Department's estimation, the value of legal proceedings filed against the Bank totaled RSD 2,654,146 thousand. The management recognized a provision for litigation in the amount of RSD 436,133 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, or costs of litigations calculated as of December 31, 2007. 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.

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 fully settle 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, matured deposits, loan withdrawals and guarantees. 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.

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.

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*All amounts are expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT POLICIES (Continued)**

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, 2007 were as follows:

	2007				
	Less Than One Month	From One to 3 Months	From 3 to 12 Month	Over One Year	Total
ASSETS					
Cash and cash equivalents	2,376,090	-	-	-	2,376,090
Deposits with the central bank and securities available for refinancing with the central bank	21,102,837	-	-	-	21,102,837
Interest, fee and commission receivable	194,065	-	-	-	194,065
Placements with domestic banks	481,101	1,031,318	-	-	1,512,419
Loans and advances to customers	4,614,863	1,126,460	4,375,932	15,531,547	25,648,802
Trading securities	1,100,128	-	-	-	1,100,128
Securities held-to-maturity	9,975	1,097,872	-	-	1,107,847
Equity investments and securities available-for-sale	-	-	-	350,090	350,090
Investment property	-	-	-	93,013	93,013
Property, equipment and intangible assets	-	-	-	4,579,912	4,579,912
Other assets and prepayments	182	-	51,238	1,456,146	1,507,566
Deferred tax assets	-	-	-	86,074	86,074
Total assets	29,879,241	3,255,650	4,427,170	22,096,782	59,658,843
LIABILITIES AND EQUITY					
Amounts owed to domestic banks	3,268,715	-	-	61,482	3,330,197
Amounts owed to customers	25,444,367	4,736,636	5,063,977	2,654,720	37,899,700
Interest, fees and commission payable	55,363	-	-	-	55,363
Debt securities issued	-	-	239	-	239
Current income taxes payable	-	-	141,602	-	141,602
Other operating liabilities	1,469,906	-	165,524	-	1,635,430
Provisions	-	-	-	1,149,905	1,149,905
Other liabilities and accruals	1,032,835	42,074	84,148	215,587	1,374,644
Deferred tax liabilities	-	-	-	152,637	152,637
Total equity and liability	31,271,186	4,778,710	5,455,490	4,234,331	45,739,717
Liquidity gap:					
- as of December 31, 2007	<u>(1,391,945)</u>	<u>(1,523,060)</u>	<u>(1,028,320)</u>	<u>17,862,541</u>	<u>13,919,126</u>
- as of December 31, 2006	<u>(903,616)</u>	<u>(4,508,703)</u>	<u>1,972,713</u>	<u>11,296,544</u>	<u>7,856,938</u>

The Bank's liquidity, as characterized by its ability to settle its liabilities as they fall 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, 2007 indicates the existence of significant liquidity gaps in the periods from one-to-three months and in the periods from three-to twelve-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 FINANCIAL STATEMENTS

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29. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk

	2007		
	Interest Bearing Items	Non-Interest Bearing Items	Total
ASSETS			
Cash and cash equivalents	651,332	1,724,758	2,376,090
Deposits with the central bank and securities available for refinancing with the central bank	11,675,152	9,427,685	21,102,837
Interest, fee and commission receivable	133,556	60,509	194,065
Placements with domestic banks	482,348	1,030,071	1,512,419
Loans and advances to customers	25,380,382	268,420	25,648,802
Trading securities	-	1,100,128	1,100,128
Securities held-to-maturity	1,107,847	-	1,107,847
Equity investments and securities available-for-sale	-	350,090	390,090
Investment property	-	372,906	372,906
Property, equipment and intangible assets	-	4,300,019	4,300,019
Other assets and prepayments	-	1,507,566	1,507,566
Deferred tax assets	-	86,074	86,074
Total assets	39,430,617	20,228,226	59,658,843
LIABILITIES AND EQUITY			
Amounts owed to domestic banks	3,153,595	176,602	3,330,197
Amounts owed to customers	23,483,775	14,415,925	37,899,700
Interest, fees and commission payable	55,363	-	55,363
Debt securities issued	239	-	239
Current income taxes payable	-	141,602	141,602
Other operating liabilities	-	1,635,430	1,635,430
Provisions	-	1,149,905	1,149,905
Other liabilities and accruals	-	1,374,644	1,374,644
Deferred tax liabilities	-	152,637	152,637
Total liabilities	26,692,972	19,046,745	45,739,717
Interest Sensitivity Gap:			
- as of December 31, 2007	12,737,645	1,181,481	13,919,126
- as of December 31, 2006	7,358,420	498,518	7,856,938

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

All amounts are expressed in thousands of RSD, unless otherwise stated.

29. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

The following table shows annual interest rates for more significant currencies in which financial instruments are denominated:

	<u>RSD</u>	<u>EUR</u>	<u>USD</u>
Assets			
Obligatory reserve with the NBS in dinars	2.5%	-	-
Securities acquired in repurchase transactions with the Central Bank	13.75%-15.5%	-	-
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%	-
Liabilities			
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, (settled in 2007)	-	6.8%	-
- Bankgesellschaft Berlin Aktiengesellschaft, Berlin (settled in 2007)	-	6M EURIBOR+1.5%	-
- Westdeutsche Landesbank AG Dusseldorf	-	6M EURIBOR+2.1875%	-
- National Bank of Serbia	0.5%	-	-

NOTES TO THE FINANCIAL STATEMENTS

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All amounts are expressed in thousands of RSD, unless otherwise stated.

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:

						2007
	EUR	USD	Other Currencies	Total Foreign Currencies	Local Currencies	Total
ASSETS						
Cash and cash equivalents	576,284	84,590	190,140	851,014	1,525,076	2,376,090
Deposits with the central bank and securities available for refinancing with the central bank	9,427,685	-	-	9,427,685	11,675,152	21,102,837
Interest, fee and commission receivable	85,396	1,805	976	88,177	105,888	194,065
Placements with domestic banks	1,029,841	-	-	1,029,841	482,578	1,512,419
Loans and advances to customers	16,725,183	928,338	485,491	18,139,012	7,509,790	25,648,802
Trading securities	634,917	-	-	634,917	465,211	1,100,128
Securities held-to-maturity	-	-	-	-	1,107,847	1,107,847
Equity investments and securities available-for-sale	383	9,787	-	10,170	339,920	350,090
Property, equipment and intangible assets	-	-	-	-	4,672,925	4,672,925
Other assets and prepayments	50,759	4,690	2,703	58,152	1,449,414	1,507,566
Deferred tax assets	-	-	-	-	86,074	86,074
Total assets	<u>28,530,448</u>	<u>1,029,210</u>	<u>679,310</u>	<u>30,238,968</u>	<u>29,419,875</u>	<u>59,658,843</u>
LIABILITIES AND EQUITY						
Amounts owed to domestic banks	18,630	24	7	18,661	3,311,536	3,330,197
Amounts owed to customers	18,900,324	949,397	653,208	20,502,929	17,396,771	37,899,700
Interest, fees and commission payable	1,819	234	85	2,138	53,225	55,363
Debt securities issued	239	-	-	239	-	239
Current income taxes payable	-	-	-	-	141,602	141,602
Other operating liabilities	1,140,531	19	63	1,140,613	494,817	1,635,430
Provisions	-	-	-	-	1,149,905	1,149,905
Other liabilities and accruals	256,745	6,406	968	264,119	1,110,525	1,374,644
Deferred tax liabilities	-	-	-	-	152,637	152,637
Total liabilities	<u>20,318,288</u>	<u>956,080</u>	<u>654,331</u>	<u>21,928,699</u>	<u>23,811,018</u>	<u>45,739,717</u>
Net Balance Sheet Position:						
- as of December 31, 2007	<u>8,212,160</u>	<u>73,130</u>	<u>24,979</u>	<u>8,310,269</u>	<u>5,608,857</u>	<u>13,919,126</u>
- as of December 31, 2006	<u>(1,248,481)</u>	<u>17,877</u>	<u>300,984</u>	<u>(929,620)</u>	<u>8,786,558</u>	<u>7,856,938</u>

At December 31, 2007, dinar loans to customers that are hedged by indexing to the RSD: EUR exchange rate and the respective interest receivables, as well as liabilities with a currency clause, are presented under assets in the foreign currencies.

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December 31, 2007

*All amounts are expressed in thousands of RSD, unless otherwise stated.***30. RELATED PARTY TRANSACTIONS**

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

<u>Related Party</u>	<u>Type of Transaction</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
VOBEX - equity share of 100%	Loans	2,323	2,323
	Allowance for impairment	(2,323)	(2,323)
	Matured receivables	56,112	56,032
	Allowance for impairment	(54,308)	(38,572)
	Interests	5,134	5,134
	Allowance for impairment	(2,283)	(1,943)
	Equity investments	326	326
	Allowance for impairment	(326)	(326)
	Fixed assets	4,059	4,059
	Other receivables	11,887	12,263
	Allowance for impairment	-	(10,701)
	Deposits	(50)	(50)
	Suppliers and other liabilities	(791)	(1,171)
			<u>19,760</u>
IMOS, ŠID equity share of 51.55%	Long-term borrowings	5,157	5,157
	Allowance for impairment of equity investments	-	(258)
	Interest	8	4
	Equity investments	31,984	31,984
	Allowance for impairment	-	(1,599)
	Deposits	(2,189)	(4,832)
		<u>34,960</u>	<u>30,456</u>
Private individuals	Loans, interests and other receivables	651,631	491,018
	Allowance for impairment	(3,005)	(3,661)
		<u>648,626</u>	<u>487,357</u>
NBG banka a.d., Beograd	Other placements and other matured receivables	30,322	316,000
	Allowance for impairment	(1,716)	-
		<u>28,606</u>	<u>316,000</u>
	Receivables, net	<u><u>731,952</u></u>	<u><u>858,864</u></u>

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December 31, 2007

*All amounts are expressed in thousands of RSD, unless otherwise stated.***30. RELATED PARTY TRANSACTIONS (Continued)**

The following table summarizes total income and expenses from related parties:

		Year Ended December 31,	
		2007	2006
VOBEX	Interest income	-	351
	Release of provision	1,000	26,218
	Losses on impairment and provisions	(3,764)	(143)
	Other expenses	-	(2,780)
		<u>(2,764)</u>	<u>23,646</u>
IMOS, ŠID	Release of provision	<u>43</u>	<u>1,736</u>
	(Expenses)/income, net	<u>(2,721)</u>	<u>25,382</u>

As of December 31, 2007, the remunerations paid to the members of the Management Board amounted to RSD 6,692 thousand, while the remunerations paid to the members of the Executive Board amounted to RSD 32,957 thousand (2006: RSD 14,901 thousand paid to the members of the Executive Board and RSD 13,801 thousand paid to the members of the Management Board).

32. POST-BALANCE SHEET EVENTS

In accordance with the Decision of the Bank's Assembly as of January 3, 2008, the Bank enacted the Decision with reference to the merger with the National Bank of Greece a.d. The stipulated date of merger is December 31, 2007, whereas the aforementioned business combination was inscribed in the Central Register of Securities on January 14, 2008. Thereafter, the Bank continued its business operations under the name of Vojvodanska banka a.d., Novi Sad.

32. 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:

	December 31,	In RSD
	2007	December 31,
	<u>2007</u>	<u>2006</u>
USD	53.7267	59.9757
EUR	79.2362	79.0000
GBP	107.3080	117.8577
CHF	47.8422	49.1569