KOMERCIJALNA BANKA A.D., BEOGRAD

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements (page 3 to 37) of Komercijalna banka A.D., Beograd (the "Group"), which comprise the consolidated balance sheets of Komercijalna banka A.D., Beograd (the "Bank"), Komercijalna banka A.D., Budva and Komercijalna banka A.D., Banja Luka as of December 31, 2006, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

Deloitte doo

Deloitte d.o.o.
Belgrade
April 26, 2007

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

	Notes	2006	2005
Interest income	3.1, 4a	6,724,497	5,420,897
Interest expense	3.1, 4б	(2,090,456)	(1,867,357)
Net interest income		4,634,041	3,553,540
Fee and commission income	3.1, 5a	2,838,085	2,765,124
Fee and commission expense	3.1, 5б	(283,019)	(326,877)
Net fee and commission income		2,555,066	2,438,247
Net gains on the sale of securities	3.8, 3.10	33,453	194,996
Foreign exchange gains/(losses), net	3.2	1,967,130	(452,845)
Dividends and other income from equity investments		76,107	21,774
Other operating income	6	3,433,814	858,824
Losses on impairment and provisions	3.6, 7a	(5,351,577)	(3,386,992)
Other operating expenses	8	(5,872,831)	(4,245,568)
(Losses)/gains on the valuation of assets and liabilities	3.5	(581,737)	1,576,047
PROFIT BEFORE TAX		893,466	558,023
Income taxes	3.15, 9a	(8,246)	(4,621)
Deferred tax income	3.15, 9a	68,151	223,001
Deferred tax expense	3.15, 9a	(14,439)	(50,194)
PROFIT FOR THE YEAR		938,932	726,209

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

Signed on behalf of the Group:

Predrag Mihajlović, Ph.D.
Deputy President of the Executive Board
of Komercijalna banka A.D., Beograd

Ivica Smolić
President of the Executive Board
of Komercijalna banka A.D., Beograd

Srđan Šuput
Director
Komercijalna banka A.D., Banja Luka

Milijana Gregović
Managing Director
Komercijalna banka A.D., Budva

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

	Notes	December 31, 2006	December 31, 2005
ASSETS			
Cash and cash equivalents	10	10,281,599	11,393,093
Deposits with the central bank and securities available for refinancing with the central bank	11	34,078,046	17,961,160
Interest, fee and commission receivable	12	502,253	435,222
Placements with other banks	13	185,558	154,109
Loans and advances to customers	14	53,134,077	37,617,032
Trading securities		328,482	687,144
Securities held-to-maturity	15	139,160	65,012
Equity investments and securities available-for-sale	16	389,203	260,813
Assets held-for-sale		3,525	532
Income tax prepayments		26,746	15,820
Intangible assets	17	58,161	5,324
Investment property	17	3,092,489	-
Property and equipment	17	4,054,352	3,529,304
Other assets and accruals		667,401	4,252,521
Deferred tax assets	9c	366,412	298,261
Total assets		107,307,464	76,675,347
LIABILITIES AND EQUITY			
Liabilities			
Amounts owed to other banks	19	5,498,950	2,504,980
Amounts owed to customers	20	82,626,571	62,013,230
Interest, fee and commissions payable		50,998	36,485
Income tax payables		3,976	-
Liabilities from the distribution of income		4,284	851
Other operating liabilities	21	700,458	887,891
Provisions	22	1,158,150	1,187,312
Other liabilities and accruals	23	1,224,168	963,913
Deferred tax liabilities	9d	64,612	50,194
Total Liabilities		91,332,167	67,644,856
Equity			
Share and other capital	24	12,662,890	6,745,000
Reserves		1,969,210	1,456,512
Retained earnings		1,303,720	701,147
Accumulated translation differences	3.2	39,477	127,832
Total Equity		15,975,297	9,030,491
Minority interests		38	-
Total Liabilities and Equity		107,307,464	76,675,347
OFF-BALANCE-SHEET ITEMS	25	53,230,919	32,156,494

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

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

	2006	2005
SHARE CAPITAL		
Balance, beginning of year	6,735,850	5,364,783
Shares issued pursuant to the Law on the Conversion of Debt with respect to the Refinanced Loans from the Paris and London Club of Creditors	-	523,150
Issuance and distribution of shares from XVII and XVIII issue	-	852,030
Issuance of shares	2,120,780	
Transfer to reserves – un-nominated amount of ordinary shares	-	(1,719)
Transfer to liabilities – un-nominated amount of preference shares	-	(2,394)
Balance, end of year	8,856,630	6,735,850
SHARE PREMIUM		
Share premium based on XIX issuance of shares	3,961,520	-
Balance, end of year	3,961,520	-
TREASURY SHARES		
Acquired treasury shares	164,410	-
Balance, end of year	164,410	-
OTHER CAPITAL		
Balance, beginning of year	9,150	7,980
Increase due to transfer of an apartment from the Housing Development Fund	-	1,170
Balance, end of year	9,150	9,150
BANK'S RESERVES		
Reserve for potential losses		
Balance, beginning of year	542,748	434,384
Transfer from retained earnings	350,000	367,122
Transfer to other reserves	(51,176)	(258,758)
Balance, end of year	841,572	542,748
Other reserves		
Balance, beginning of year	306,269	40,065
Transfer from retained earnings		5,727
Transfer from the reserve for potential losses	51,176	258,758
Transfer of un-nominated amount of capital	926	1,719
Balance, end of year	358,371	306,269
Balance, end of year	1,199,943	849,017
REVALUATION RESERVES		
Balance, beginning of year	607,495	-
Adjustment to appraisal of property and equipment	21,632	623,072
Transfer of the appraisal effects to retained earnings	(12,120)	(15,577)
Effects of remeasurement of available-for-sale securities to their fair value	152,260	-
Balance, end of year	769,267	607,495

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

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

	2006	2005
ACCUMULATED TRANSLATION DIFFERENCES		
Balance, beginning of year	127,832	84,125
Decrease during the year	(88,355)	43,707
Balance, end of year	39,477	127,832
RETAINED EARNINGS		
Balance, beginning of year	701,147	372,018
Acquired treasury shares	164,410	-
Transfer to the Bank's reserves for potential losses	(350,000)	(372,849)
Transfer of the appraisal effects from revaluation reserves	12,120	15,577
Transfer to share capital	(42,078)	-
Adjustments:		
- Transfer to liabilities for remuneration to the members of the Board of Directors, Supervisory Board and the Bank's management	(34,529)	(29,600)
- Dividends paid to the priority shareholders for FY 2004	(48,930)	-
- Dividends paid to the priority shareholders for FY 2005	(37,352)	(10,208)
- Recognition of deferred tax assets from previous year	-	
Net profit for the year	938,932	726,209
Balance, end of year	1,303,720	701,147
TOTAL EQUITY	15,975,297	9,030,491

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

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

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from operating activities	9,856,063	7,992,515
Interest receipts	6,368,475	4,955,256
Fee and commission receipts	3,144,005	2,718,067
Receipts from other operating income	267,476	297,410
Receipts from dividends and equity investments	76,107	21,782
Cash payments from operating activities	(7,771,433)	(5,967,022)
Interest payments	(1,897,206)	(1,662,808)
Fee and commission payments	(282,845)	(326,723)
Payments to, and on behalf of employees	(2,683,543)	(1,864,481)
Taxes, contributions and other duties paid	(543,342)	(422,883)
Payments from other operating expenses	(2,364,497)	(1,690,127)
Net operating cash flows before changes in placements and deposits	2,084,630	2,025,493
Net decreases in placements and increases in deposits	24,548,901	19,276,976
Decrease in securities and other trading assets and short-term securities held-to-maturity	372,864	-
Increase in deposits from banks and other financial institutions	2,948,175	154,774
Increase in deposits from customers	21,227,862	19,122,202
Net increases in placements and decreases in deposits	(34,690,591)	(19,687,068)
Increase in loans and placements to banks and other financial institutions	(15,843,718)	(5,111,480)
Increase in loans and advances to customers	(18,846,873)	(14,059,267)
Increase in securities and other trading assets and short-term securities held-to-maturity	-	(516,321)
Net cash (used in)/from operating activities before income tax	(8,057,060)	1,615,401
Income taxes paid	(15,475)	(20,440)
Dividends paid and remuneration to the members of the Board of Directors, Supervisory Board and the Bank's management	(159,489)	(40,192)
Net cash (used in)/from operating activities	(8,232,024)	1,554,769
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	183,734	84,553
Proceeds from long-term investments in securities	-	3,122
Proceeds from the sale of equity investments	183,734	68,914
Proceeds from the disposal of property and equipment	-	12,517
Cash outflows from investing activities	(732,110)	(1,122,106)
Purchases of long-term securities	(129,954)	-
Purchases of equity investments	-	-
Purchases of property and equipment	(602,156)	(1,122,106)
Net cash used in investing activities	(548,376)	(1,037,553)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	6,082,341	2,406,749
Proceeds from the issuance of shares	6,082,341	1,375,179
Proceeds from long-term borrowings	-	1,031,570
Cash outflows from financing activities	(273,999)	(358,784)
Repayments of long-term borrowings	(231,302)	-
Repayments of short-term borrowings	(42,697)	(358,784)
Net cash from financing activities	5,808,342	2,047,965
TOTAL CASH INFLOWS	40,671,039	29,760,793
TOTAL CASH OUTFLOWS	(43,643,097)	(27,195,612)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(2,972,058)	2,565,181
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,393,093	9,246,230
Foreign exchange gains	11,479,965	4,683,956
Foreign exchange losses	(9,619,401)	(5,102,274)
CASH AND CASH EQUIVALENTS, END OF YEAR	10,281,599	11,393,093

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

1. THE BANK'S ESTABLISHMENT AND OPERATING POLICY

These financial statements are consolidated financial statements of Komercijalna banka A.D., Beograd (the "Bank"), Komercijalna banka A.D., Budva and Komercijalna banka A.D., Banja Luka, representing Komercijalna banka A.D., Beograd Group.

Komercijalna banka A.D., Beograd was originally established on December 1, 1970, and was subsequently reorganized and transformed into a shareholding company on May 6, 1992.

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 in accordance with the Republic of Serbia Law on Banks, is to operate based on principles of liquidity, security of placements and profitability.

In accordance with the Articles of Association and the Bank's Shareholders Assembly Decision, in 2003, the branch in Budva was transformed into a separate legal entity – Affiliation in Montenegro under a name Komercijalna banka A.D., Budva. Komercijalna banka A.D., Budva is wholly-owned subsidiary of Komercijalna banka A.D., Beograd.

On June 30, 2006, the Bank's Shareholders Assembly enacted the Decision on Foundation of bank in Bosnia and Herzegovina, situated in Banja Luka under the name Komercijalna Banka A.D., Banja Luka. Komercijalna banka A.D., Beograd holds 99.995% of equity interests in Komercijalna banka A.D., Banja Luka.

At December 31, 2006 the Group had 3,137 employees (December 31, 2005: 2,767 employees).

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, the Republic of Serbia Ministry of Finance determined and issued the Framework and IAS that were to be applied as of December 31, 2002, and upon which both the previous and the newly-enacted Law on Accounting and Auditing were based.

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

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

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

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

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.

The Group has not retrospectively applied new accounting policies (Notes 3.1 and 3.14 to the financial statements) as required under the provisions of IAS 8, "Net Income and Loss For the Period, Fundamental Errors and Changes in Accounting Policies," in accordance which the financial statements, including comparative figures for the previous period, are restated as if the new accounting policy had always been applied, with a corresponding adjustment made to the opening balance of retained earnings.

The Bank estimates allowances for the impairment of financial instruments in accordance with the internally adopted methodology based on the National Bank of Serbia Decision on the Classification of Balance Sheet and Off-Balance Sheet Exposures (Note 3.6). Such a policy departs from the requirements of IAS 39, "Financial Instruments: Recognition and Measurement," regarding the estimation of the allowances for the impairment and provisions for estimated unrecoverable financial instruments based on discounted expected future cash flows by using the original effective interest rate. Application of the internally adopted methodology might result in significant differences in the estimated amounts of the allowances for impairment and provisions for contingent liabilities, as compared to the respective amounts that would had been determined in accordance with IAS 39 (Note 7a). Taking into consideration that positive effects on the Bank's financial position and financial performance are expected from the full aplication of IAS 39, management of the Bank has decided to use more conservative approach in its financial statements for 2006, and accordingly has applied accounting policy that is based on the National Bank of Serbia Decision on the Classification of Balance Sheet and Off-Balance Sheet Exposures.

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

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

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

Komercijalna banka A.D., Budva and Komercijalna banka A.D., Banja Luka maintain their books of account and prepare their financial statements in accordance with the accounting regulations prevailing in the Republic of Montenegro and Republic of Srpska. For the purpose of preparation of consolidated financial statements, certain reclassifications have been made to the financial statements of Komercijalna banka A.D., Budva and Komercijalna banka A.D., Banja Luka in order to comply with the presentation requirements prescribed by the relevant regulations in effect in the Republic of Serbia.

The effects of intra-group transactions have been eliminated in the preparation of the accompanying consolidated financial statements.

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

2.2. Comparative Figures

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

- In 2005, the Group's management estimated allowances for the impairment of financial instruments in accordance with the relevant NBS Regulations effective at that time. Such a policy results in departures from the amounts which would be determined, had the allowances for the impairment of financial instruments been estimated based on discounted expected future cash flows by applying the original effective interest rate, as required by IAS 39, "Financial Instruments: Recognition and Measurement."
- In the comparative figures for the year ended December 31, 2005, loan origination fees are credited to income when the respective service has been performed. According to the provisions of IAS 18, "Revenue" and IAS 39, "Financial Instruments: Recognition and Measurement," these fees are considered as being an integral part of generating an ongoing involvement with the resultant financial instrument, and should be deferred and recognized as an adjustment to the effective interest yield.

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

Consolidated financial statements for FY 2005 do not include assets, liabilities, results of operations and cash flows of subsidiaries (Note 16). Equity investments in aforementioned subsidiaries are stated at cost. Financial statements of these subsidiaries are not consolidated, as it is a management opinion that their assets, liabilities, results of operations and cash flows are not materially significant for the Group's consolidated assets, liabilities, results of operations and cash flows.

2.3. Use of Estimates

The presentation of the financial statements requires the Group'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. Income and Expense Recognition

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign Exchange Translation

Financial statements of Komercijalna banka A.D., Budva and Komercijalna banka A.D., Banja Luka are originally expressed in EUR and in CM, respectively. Assets and liabilities of are translated into dinars at the official rates of exchange prevailing at the balance sheet date, while revenues, expenses, and gains and losses are translated by applying the average exchange rate for the year. The resulting foreign currency translation adjustments are reported separately under the equity.

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

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

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

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

3.3. Property and Equipment

Land and buildings are carried at their fair value, as determined by certified appraisers, and are decreased by the accumulated depreciation, and any possible impairment loss. The appraisal of the buildings was performed by an independent appraiser based on the respective asset's market value for existing use. Appraisals are performed with sufficient regularity such that the carrying amount of the asset does not materially differ from that which is determined by applying the principle of fair value at the balance sheet date. The appraisal surplus is credited to equity under the heading of revaluation reserves (Note 3.12). The appraisal deficit is recognized in the Statement of Income as an expense, under losses on the valuation of assets and liabilities.

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

Construction in progress is stated at cost.

Depreciation is provided for on a straight-line basis to the fair value or cost of the property and equipment in order to write them off over their useful lives. Depreciation is calculated using the following prescribed annual rates:

Buildings	2.5%
Computers	20% - 25%
Furniture and other equipment	6.7 - 25%

The depreciation of property and equipment commences at the end of the month when an asset is placed into use.

3.4. Investment Property

Investment property is stated at cost, and is decreased by the accumulated depreciation. Investment property is depreciated at annual rate of 2.5%.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Loans and Advances Originated by the Bank

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

Loans, which are disbursed in dinars and index-linked to the foreign exchange rates or to the officially published coefficients derived from the changes in the consumer price index, are revalued in accordance with the provisions stated under the individual loan agreements, except for balances related to matured installments. 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

The Bank estimates the amount of allowance for impairments and provision for contingent liabilities in accordance with the criteria defined under the Credit Risk Management Policy adopted by the Bank's Board of Directors that is based on the National Bank of Serbia Decision on the Classification of Balance Sheet and Off-Balance Sheet Exposures. Loans, other placements, guarantees, 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 collectability and associated risk exposures, which depends upon the number of days the payments are in arrears, the financial standing of the counterparty, and the quality of the collateral obtained on the exposures. An estimate of the allowances for impairment and the provision for contingent liabilities is calculated by applying the percentages in the range of 1-2%, 5-15%, 20-35%, 40-75% and 100 on the amounts of the particular exposures classified into categories A, B, V, G and D, respectively.

The amounts associated with the on-balance-sheet and off-balance-sheet exposure classified into categories B2 (10%), B3 (15%) V, G and D are presented as allowances against the corresponding assets and provision for contingent liabilities. These amounts of allowances for impairment and provision for contingent liabilities are charged to the Statement of Income.

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 pursuant to the provisions of a court order, or based upon a settlement agreed between the parties involved, or on the basis of a relevant resolution of the Bank's Executive Board or Board of Directors.

3.7. Repurchase Transactions

Securities purchased from the National Bank of Serbia under agreement to resell, pursuant to the provisions of the NBS Agreement on the Sale of Securities with an Obligation to Repurchase are stated at amortized cost at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Trading Securities

Trading securities are comprised of public savings bonds. Trading securities are initially recorded at cost and, as of the balance sheet date, are re-valued to their fair values. All realized gains and losses arising on sale, and any changes in their fair values are shown under "Gains and losses on the sale of securities."

3.9. Securities Held-to-Maturity

Securities held to maturity are stated at amortized cost.

3.10. Securities Available-for-Sale

Securities available-for-sale are comprised of investments in the equity of legal entities.

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 stated at market value, as of the balance sheet date. Gains and losses arising on changes in their fair values are recorded under revaluation reserves. All realized gains and losses arising on the sale are shown under "Gains and losses on the sale of securities."

3.11. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, "Cash and cash equivalents" include cash and balances on the current accounts held with the NBS and other banks.

3.12. Revaluation Reserves

The appraisal surplus resulting from the independent appraisal of fixed assets is credited to revaluation reserves (Note 3.3). The revaluation surplus is transferred directly to retained earnings. The amount of the surplus transferred represents the 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 associated with property is transferred directly to retained earnings when the assets are either 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. Managed Funds and Non-Operating Assets and Funds

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

Non-operating assets mainly comprise receivables from employees and residential housing units stated under buildings, which are owned by the Bank and have been rented out to Bank employees. Non-operating funds are included under other capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Employee Benefits

The Group does not have defined benefit plans or share-based remuneration options as of December 31, 2006. As of December 31, 2006, for the first time the Group recognized a provision for retirement benefits and empoloyees' termination of services.

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

3.15. Income Taxes

Current Income Tax

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

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

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.

3.16. Fair Value

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

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

4. INTEREST INCOME AND EXPENSE

a) Interest Income

	Thousands of RSD Year Ended December 31, 2006	2005
Deposits with the central bank and securities available for refinancing with the central bank	789,846	473,699
Placements with other banks	302,342	263,286
Loans and advances to customers	5,627,029	4,676,152
Securities held-to-maturity	5,280	7,760
	6,724,497	5,420,897

b) Interest Expense

	Thousands of RSD Year Ended December 31, 2006	2005
Amounts owed to other banks	231,049	275,888
Amounts owed to customers	1,833,351	1,576,168
Relations with the Central Bank	26,056	15,301
	2,090,456	1,867,357

5. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	Thousands of RSD Year Ended December 31, 2006	2005
Fee and commission income from payment transfers	958,361	818,851
Fee and commission income from other banking services	1,512,493	1,580,131
Fees on issued guarantees and other contingent liabilities	244,587	270,248
Other fee and commission income	122,644	95,894
	2,838,085	2,765,124

b) Fee and Commission Expense

	Thousands of RSD Year Ended December 31, 2006	2005
Fee and commission expense arising from domestic payment transfers	118,019	115,117
Fee and commission expense arising from international payment transfers	21,715	7,457
Other fee and commission expense	143,285	204,303
	283,019	326,877

6. OTHER OPERATING INCOME

	Thousands of RSD Year Ended December 31, 2006	2005
Release of allowances for impairment	3,055,711	560,177
Release of provision for contingent liabilities	72,405	-
Gains on the disposal of property and equipment	14,546	-
Rental income	163,411	2,353
Income from arbitration	58,509	116,797
Other	69,232	179,497
	3,433,814	858,824

7. LOSSES ON IMPAIRMENT AND PROVISIONS

a) Charge for the Year

	Thousands of RSD Year Ended December 31, 2006	2005
Provision charged during the year with respect to balance sheet exposures	5,293,269	3,164,498
Provision for retirement benefits	50,734	222,494
Provision for contingent liabilities	7,574	-
	5,351,577	3,386,992

As disclosed in note 3.6 to the financial statements, as of December 31, 2006 the Bank had estimated the amount of allowance for impairment and provision for contingent liabilities in accordance with the criteria defined under the Credit Risk Management Policy adopted by the Bank's Board of Directors that is based on the National Bank of Serbia Decision on the Classification of Balance Sheet and Off-Balance Sheet Exposures. According to the internally performed computation based on the sample of the loan portfolio, upon which 64 percent of the total allowances for impairment have been formed as of December 31, 2006, it was determined that the policy of credit risk estimation based on the Credit Risk Management Policy, departs from the valuation of impairment allowances of financial instruments formed on the basis of discounted, expected future cash flows by using the original effective interest rate, as required by IAS 39, "Financial Instruments: Recognition and Measurement." On the aforementioned sample upon which the analysis of compliance with IAS 39 requirements has been performed, it has been determined that the allowances for the impairment are overstated by RSD 1,848,786 thousand. Taking into consideration that positive effects on the Bank's financial position and financial performance are expected from the full aplication of IAS 39, management of the Bank has decided to use more conservative approach in its financial statements for 2006, and accordingly has applied accounting policy that is based on the National Bank of Serbia Decision on the Classification of Balance Sheet and Off-Balance Sheet Exposures.

7. LOSSES ON IMPAIRMENT AND PROVISIONS (Continued)

b) Movements in the Balance of Allowances for Impairment

Thousands of RSD
2006

	Placements with Other Banks (Note 13)	Loans and Advances to Customers (Note 14)	Interest, Fees, Commissions Receivable and Other Assets (Notes 12 and 18)	Securities	Total
Balance, beginning of year	1,173,298	7,667,310	1,123,017	803,106	10,766,731
Charged during the year	(81,622)	2,218,696	80,245	20,239	2,237,558
Foreign exchange differences	(16,570)	(202,369)	(24,427)	-	(243,366)
Write-offs	(100)	(26,983)	(1,083)	(13,660)	(41,826)
Other	-	-	(137,392)	-	(137,392)
Balance, end of year	1,075,006	9,656,654	1,040,360	809,685	12,581,705

c) Special reserve for potential losses

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

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.

	Thousands of RSD December 31, 2006
Special reserve for potential losses determined as per the National Bank of Serbian requirements with respect to:	
- balance sheet exposures	13,411,901
- off-balance sheet exposures	911,097
	14,322,998
Allowances for impairment and provision for contingent liabilities determined in accordance with the internally adopted methodology:	
- allowance for impairment	(12,547,182)
- provision for contingent liabilities	(696,758)
	(13,243,940)
Allowances for impairment and provision for contingent liabilities determined in accordance with the internal methodology exceeding the amount of provision as per the NBS Decision	171,764
Provision for potential losses to be shown within reserves	1,250,822
Reserve for potential losses formed from the prior years' profits	(841,572)
Additional provision for potential losses to be set aside as appropriation of retained earnings	409,250

Additionally required provision for potential losses will be set aside as appropriation of the Bank's future profits, upon adoption of the decision on distribution of profit by the Bank's Shareholders Assembly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

8. OTHER OPERATING EXPENSES

	Thousands of RSD	
	Year Ended December 31,	
	2006	2005
Net salaries	1,677,260	1,342,337
Social security costs	779,067	567,483
Other personnel costs	158,085	49,011
Material and energy	334,345	336,062
Donations and sponsorships	7,754	20,208
Rent	290,940	268,808
Insurance premiums	256,103	100,919
Services	106,249	58,787
Advertising and promotions	354,893	135,132
General and administrative expenses	664,110	448,970
Indirect taxes and contributions	516,351	381,759
Depreciation and amortization	326,977	218,279
Maintenance and repairs	273,443	228,114
Other	127,254	89,699
	5,872,831	4,245,568

During 2006, salaries of the Group management amounted to RSD 47,391 thousand. Remunerations paid to the members of the Board of Directors and Supervisory Board during 2006 amounted to RSD 15,806 thousand.

9. INCOME TAXES

a) Income tax componnts

	Thousands of RSD	
	2006	2005
Current income tax	8,246	4,621
Deferred tax income	(53,712)	(172,807)
	(45,466)	(168,186)

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

	Thousands of RSD	
	2006	2005
Profit before tax	893,466	558,023
Income tax at the statutory tax rate	94,333	55,779
Tax effect of non-deductible expenses	34,463	4,615
Tax effects of taxable income not included in the financial Statements	-	745
Tax effects of non-taxable income	(3,266)	(1,195)
Tax credits for capital expenditures	(63,151)	(223,001)
Tax deductions	(107,845)	(5,129)
Tax effects in the statement of income	(45,466)	(168,186)
Effective tax rate	*(5.09%)*	*(30.14%)*

9. INCOME TAXES (Continued)

c) Deferred Tax Assets

Deferred tax assets at December 31, 2006 totaling RSD 366,412 thousand include tax credit carryforwards associated with capital expenditures in the amount of RSD 361,412 thousand up to December 31, 2006. These tax credit carryforwards expire by the fiscal period ended 2016.

d) Deferred Tax Liabilities

Deferred tax liabilities at December 31, 2006 in the amount of RSD 64,612 thousand are associated with the temporary differences arising between the tax bases of property and equipment and the carrying value of such assets.

10. CASH AND CASH EQUIVALENTS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Gold and other precious metals	42	42
Cash on hand	1,913,838	1,673,472
Accounts in dinars with the National Bank of Serbia:		
- giro account	5,907,426	3,079,016
- overnight deposits	-	300,000
Foreign currency accounts with:		
- domestic banks	1,453	1,606
- foreign banks	2,324,875	6,231,794
Cheques in the course of collection:		
- in dinars	-	1,203
- in foreign currency	120,530	103,419
Other	13,435	2,541
	10,281,599	11,393,093

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

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

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Obligatory reserves in foreign currencies with the National Bank of Serbia	23,140,813	16,860,262
Obligatory reserves in foreign currencies with other central banks	706,305	265,648
Securities purchased under agreements to resell	10,230,928	835,250
Treasury bills of the Central Bank of Montenegro	-	42,750
	34,078,046	17,961,160

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

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

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

As of December 31, 2006 securities purchased under agreements to resell in the amount of RSD 10,230,928 thousand relate to 102,000 bonds purchased from the NBS, having 14-day maturities and issued at annual interest rates ranging from 14.2 to 15.7 percent. This transaction is governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

12. INTEREST, FEES AND COMMISSIONS RECEIVABLE

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Due from banks:		
- in dinars	26,797	-
- in foreign currency	8,805	55,012
Due from customers:		
- in dinars	937,408	-
- in foreign currency	535,992	1,089,127
	1,509,002	1,144,139
Less: Allowance for impairment	(1,006,749)	(708,917)
	502,253	435,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

13. PLACEMENTS WITH OTHER BANKS

Thousands of RSD

	December 31, 2006	December 31, 2005
Loans to domestic banks:		
- short-term	121,776	201,710
- long-term	18,599	4,702
Due from Jugobanka A.D., Beograd - in Bankruptcy	973,780	1,074,508
Other obligatory deposits with NBS	130,888	41,431
Other financial placements in dinars	15,521	5,056
	1,260,564	1,327,407
Less: Allowance for impairment	(1,075,006)	(1,173,298)
	185,558	154,109

14. LOANS AND ADVANCES TO CUSTOMERS

Thousands of RSD

	December 31, 2006	December 31, 2005
Up to one year	20,909,345	20,480,369
Current maturities:	9,644,030	4,186,737
Long-term loans	28,932,335	18,598,569
Receivables from customers in dinars based on discounted bills	821,022	1,123,100
Long-term loans to foreign banks	29,988	36,109
Cash cover, for issued letters of credit and guarantees, with foreign banks	120,426	83,629
Time deposits abroad:		
- available funds	1,193,781	73,640
- blocked funds	158,662	197,814
Receivables from customers in dinars from discounted cheques	12,113	17,344
Receivables from customers in foreign currency arising from payments on issued guarantees	794,355	230,687
Receivables from insurance companies	90,745	141,077
Other placements:		
- in dinars	28,303	50,547
- in foreign currency	55,626	64,720
	62,790,731	45,284,342
Less: Allowance for impairment	(9,656,654)	(7,667,310)
	53,134,077	37,617,032

14. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans up to one year in dinars as of December 31, 2006 include loans to retail customers in the amount of RSD 2,487,533 thousand (December 31, 2005: RSD 2,052,877 thousand). Loans up to one year to retail customers include overdrafts on current accounts totaling RSD 1,529,522 thousand (December 31, 2005: RSD 1,201,838 thousand). Overdrafts on current accounts are granted in an amount equaling two-average monthly salaries and one monthly salary subsequent to April 1, 2005 for a period of from three to six months, at a monthly interest rate of 2.20 percent.

Loans up to one year in dinar and foreign currencies are extended for periods of one month up to one year, at monthly interest rates ranging from 0.7% to 2.35%.

Long-term loans in dinar and foreign currencies are mostly extended for periods from two years up to twenty years at annual interest rates ranging from 4.75% to 14.95%.

As of December 31, 2006, long-term loans in dinars include loans to retail customers granted for residential housing purposes, financing of purchases of consumer goods and for other purposes in the amount of RSD 13,764,248 thousand (December 312005: RSD 7,917,528 thousand), having 12 to 260-month maturities at annual interest rates ranging from 4.75% to 14.95%.

The Bank's blocked accounts with foreign banks relate to the deposits placed with U.S. financial institutions which are fully provided for.

The economic sector risk concentrations within the customer loan portfolio as of December 31, 2006 and 2005 are as follows:

		Thousands of RSD
	December 31, 2006	December 31, 2005
Financial institutions	1,601,456	233,741
Chemicals	1,344,646	804,414
Oil and gas	526,773	795,349
Metals	1,887,689	481,872
Food-processing and agriculture	6,951,526	5,075,486
Shipping and civil engineering	3,599,326	20,947
Textiles	673,633	458,420
Retail customers	16,251,781	9,970,405
Trade	11,209,371	9,456,906
Mechanical engineering	1,257,483	2,017,201
Telecommunications	1,608,138	631,698
Governmental institutions	384,799	607,398
Wood processing	215,046	719,102
Other	5,622,410	6,344,093
	53,134,077	37,617,032

Risks and Uncertainties

The Bank's management recorded allowances and provisions for all known and estimated risks as of the date of the financial statements. The Bank's loan portfolio contains a number of customers that are involved in the privatization and/or restructuring processes, which are expected to render either partial or complete recoveries of the Bank's receivables. The receivables from such customers were classified as of the most recent available information on their financial situation, and the expected course of their respective restructuring processes. In the event that such debt recovery efforts prove to be unsuccessful, the respective receivables are primarily collateralized by real estate, industrial land, buildings and equipment. In the instance that the debt recovery actions undertaken by the Bank's management are unsuccessful, additional amounts of allowances for impairment and provisions for contingent liabilities would be required in the forthcoming reporting periods.

15. SECURITIES HELD-TO-MATURITY

		Thousands of RSD
	December 31, 2006	December 31, 2005
Bonds:		
- public debt	2,044	4,187
- on the basis of the Loan for the Economic Development of Serbia	15,762	18,504
- Company "B 92"	134,838	-
Treasury shares	-	42,321
	152,644	65,012
Less: Allowance for impairment	(13,484)	-
	139,160	65,012

Based on the Purchase and Sale Agreement, the Bank bought 13,050 A Series coupon bonds issued by the Radio-Diffuse entity "B 92", with an individual par value of RSD 10 thousand, maturity period of two years (with the possibility of premature repurchase) and annual interest rate of 7%.

16. EQUITY INVESTMENTS AND SECURITIES AVAILABLE-FOR-SALE

		Thousands of RSD
	December 31, 2006	December 31, 2005
Equity investment in wholly-owned, unconsolidated companies:		
- 1+2, Frankfurt am Main, Germany	-	2,017
- Maksimal, Kruševac, Serbia	-	790
Equity investment in other banks and other financial institutions	193,478	140,188
Equity investment in companies and other legal entities	990,310	919,308
	1,183,788	1,062,303
Less: Allowance for impairment	(794,585)	(801,490)
	389,203	260,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

17. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY

	Land and Buildings	Equipment	Construction in Progress	Total	Investment Property	Intangible assets
Cost						
Balance, beginning of year	3,107,816	1,393,613	62,587	4,564,016	-	7,804
Appraisal effects	17,806	-	-	17,806	3,826	-
Additions	1,851	102,235	702,176	806,262	3,368,508	57,744
Transfers	358,105	358,165	(716,270)	-	-	-
Disposals	(24,317)	(94,197)	-	(118,514)	-	-
Foreign exchange fluctuations	(4,712)	(5,614)	(68)	(10,394)	-	(1,022)
Other	-	(383)	-	(383)	(223,481)	-
Balance, end of year	3,456,549	1,753,819	48,425	5,258,793	3,148,853	64,526
Accumulated Depreciation and Amortization						
Balance, beginning of year	225,340	809,372	-	1,034,712	-	2,480
Charge for the year	58,505	207,886	-	266,391	56,364	4,221
Disposals	(3,037)	(89,306)	-	(92,343)	-	-
Foreign exchange fluctuations	(482)	(3,437)	-	(3,919)	-	(326)
Other	-	(400)	-	(400)	-	(10)
Balance, end of year	280,326	924,115	-	1,204,441	56,364	6,365
Net Book Value:						
- as of December 31, 2006	3,176,223	829,704	48,425	4,054,352	3,092,489	58,161
- as of December 31, 2005	2,882,476	584,241	62,587	3,529,304	-	5,324

As a result of incomplete cadastral books, the Group's property stated in the amount of RSD 777,332 thousand as of December 31, 2006 (December 31, 2005: RSD 1,857,230 thousand) has not been duly recorded in the cadastral register. The Bank's management is undertaking actions to obtain the appropriate property registration documents.

At December 31, 2006 the Group was using equipment acquired under finance lease agreements having a net book value of RSD 114,129 thousand (December 31, 2005: RSD 112,068 thousand).

The Group has not pledged as collateral any of its property as of December 31, 2006.

As of December 31, 2006, investment property is coprised of rented buildings in the amount of RSD 3,092,489 thousand and mainly relates to a purchased and subsequently partly rented out commercial building in downtown Belgrade based on the terms of a Purchase and Sale Agreement entered into on December 26, 2005 between the Bank and Politika A.D., Beograd. Liabilities stated under the aforecited agreement have been settled through the compensation with the Bank's receivables from the entity, Politika A.D., Beograd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

18. OTHER ASSETS AND ACCRUALS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Goods and property:		
- received in lieu of debt settlement	61,368	1,058
- property held-for-sale	157,725	344,547
- other property	-	3,183,263
Receivables from employees	31,633	12,538
Advances paid	37,074	36,675
Accrued interest	87,120	38,394
Rent prepayments for a period of over one year	78,792	90,115
Other accrued expenses	23,084	17,467
Receivables from customers in local currency arising on paid guarantees and acceptances	-	462,878
Other receivables and assets	224,216	479,686
	701,012	4,666,621
Less: Allowance for impairment	(33,611)	(414,100)
	667,401	4,252,521

19. AMOUNTS OWED TO OTHER BANKS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Demand deposits	1,833,435	1,328,940
Short-term deposits	3,543,363	996,109
Short-term loans	-	1,697
Long-term deposits	85,313	22,394
Long-term loans	6,551	51,761
Liabilities to the NBS in foreign currency	439	11,713
Other	29,849	92,366
	5,498,950	2,504,980

Demand deposits in dinars and foreign currency are generally non-interest-bearing ones, except as arranged under specific contractual terms. Short-term deposits in dinars primarily represent the deposits of insurance companies of RSD 889,805 thousand and are placed for a period of thirty to ninety days, at monthly interest rates ranging from 1 to 1.25 percent, as well as the deposits of banks in bankruptcy of RSD 303,745 thousand placed at annual interest rates ranging from 6.5 to 12 percent. Short-term deposits in foreign currencies mainly include deposits of banks in bankruptcy placed at annual interest rates ranging from 2 to 3.5 percent.

20. AMOUNTS OWED TO CUSTOMERS

	December 31, 2006	December 31, 2005
		Thousands of RSD
Retail customers:		
Demand deposits	21,753,608	18,456,132
Short-term deposits	26,753,160	18,915,906
Long-term deposits	4,755,745	2,810,648
Legal entities:		
Demand deposits	15,021,385	13,471,526
Short-term deposits	10,645,544	5,003,840
Long-term deposits	476,897	161,448
Short-term loans in foreign currency	498,322	551,168
Long-term loans in foreign currency	2,570,018	2,606,818
Other financial liabilities	151,892	35,744
	82,626,571	62,013,230

The current portion of long-term deposits is stated within short-term deposits.

The demand deposits in dinars of enterprises, governmental institutions and other legal entities, mainly comprise current account balances. Those deposits are ordinarily non-interest bearing ones, except as contractually arranged under specifically defined terms.

The demand deposits in foreign currency of enterprises and governmental institutions are also ordinarily non-interest bearing ones, except as arranged under specific contractual terms.

The short-term corporate deposits in dinars carry monthly interest rates ranging from 0.71 to 1.3 percent, depending upon the maturity dates.

The demand deposits of retail customers in dinars and foreign currency carry an annual interest rate of 2.38 percent, and a rate ranging from 1 to 1.45 percent, respectively.

Short-term deposits of retail customers in foreign currency carry annual interest rates in the range of from 9 to 17 percent, and in the range from 1.80 to 5 percent, respectively.

Long-term deposits of retail customers in dinars and foreign currency carry annual interest rates in the range of from 18 to 20 percent, and in the range of from 3.20 percent to 5.90 percent, respectively.

Long-term loans in foreign currency are stated net of current maturities in the amount of RSD 498,322 thousand as of December 31, 2006 (December 31, 2005: RSD 508,472 thousand). The current maturities are included under short-term loans in foreign currency. Long-term loans are denominated in EUR and include the following (including current portion thereof):

- Drawndown funds extended pursuant to the terms of concession loans approved by the Government of the Republic of Italy to the Government of Serbia and Montenegro, with the aim of realizing development programs for small and medium-sized enterprises through the local banking system in the amount of RSD 851,858 thousand (December 31, 2005: RSD 354,269 thousand). The funds are granted with up to 8-year maturities, calculated from the date of the drawdown of each installment, having a grace period of two years, and bearing an annual interest rate of 1 percent in addition to an annual fee of 0.5 percent.

20. AMOUNTS OWED TO CUSTOMERS (Continued)

- Liabilities to the NBS with respect to loans from the European Investment Bank (EIB) in the amount of RSD 1,398,938 thousand as of December 31, 2006 (December 31, 2005: RSD 1,458,450 thousand). These loans carry annual interest at rates ranging from 2.145 percent to 4.38 percent, in addition to an annual fee of 0.5 percent. The Bank's participation in the loans extended to customers that have been financed from these sources must exceed 20%. These loans are granted for periods of seven years from the date of each drawdown, with a grace period of two and three years.
- Liabilities to European Fund for Southeast Europe in the amount of RSD 138,250 thousand as of December 31, 2006 (December 31, 2005: RSD 277,875 thousand), relate to a credit line approved in the amount of EUR 6.5 million, which was extended to finance loans to small and medium-sized enterprises, at an annual interest rate of EURIBOR+2%. The credit line is repayable in equal, semi-annual installments over a period of four years from the date of each drawdown. These funds were previously approved by Kreditanstalt fuer Wiederaufbau, Frankfurt and purusuant to the Transfer Agreement of December 15, 2005 all rights and liabilities from previous agreements transferred to the European Fund for Southeast Europe.

- The credit lines extended by Italian, German and Hungarian banks were extended for purposes of financing imports in the amount of RSD 480,625 thousand (December 31, 2005: RSD 726,790 thousand). These loans are repayable over periods of from two to five years at annual interest rates ranging from the six-month EURIBOR+1% up to the three-month EURIBOR+3%.

21. OTHER LIABILITIES FROM OPERATIONS

		Thousands of RSD
	December 31, 2006	**December 31, 2005**
Taxes, contributions and other duties payable	72,111	109,070
Salaries	-	61,204
Payables to suppliers	184,981	113,821
Advances received	8,638	2,153
Liabilities based on funds held on escrow accounts	158,000	256,500
Other liabilities	276,728	345,143
	700,458	887,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22. PROVISIONS

	December 31, 2006	December 31, 2005
		Thousands of RSD
Provision for contingent liabilities	705,922	771,345
Provision for litigation	401,072	415,967
Provision for retirement benefits	50,761	-
Provision for potential losses based on operational risk	395	-
	1,158,150	1,187,312

The movements in the provisions were as follows:

	December 31, 2006	December 31, 2005
		Thousands of RSD
Provision for contingent liabilities		
Balance, beginning of year	771,345	546,499
Charged during the year	7,574	224,727
Release of provision	(72,405)	-
Effects of changes in exchange rates	(592)	119
Balance, end of year	705,922	771,345
Provision for litigation		
Balance, beginning of year	415,967	-
Charged during the year	(14,895)	415,967
Balance, end of year	401,072	415,967
Provision for retirement benefits		
Balance, beginning of year	-	-
Charged during the year	50,734	-
Effects of changes in exchange rates	27	-
Balance, end of year	50,761	-
Provision for potential losses based on operational risk		
Balance, beginning of year	-	-
Transfer from other assets	395	-
Balance, end of year	395	-

23. OTHER LIABILITIES AND ACCRUALS

	December 31, 2006	December 31, 2005
	Thousands of RSD	
Accrued interest:		
- in dinars	1,834	2,417
- in foreign currency	492,416	313,261
Deferred income in dinars	112,544	122,944
Accrued expenses	17,992	6,331
Liabilities based on prepaid installments by retail customers	110,646	116,593
Other accruals in dinars	4,638	33,517
Deferred fee and commission income	378,221	-
Long-term liabilities for finance lease	71,149	99,899
Other	34,728	268,951
	1,224,168	963,913

24. SHARE CAPITAL

The Bank's share capital was created from the initial investment of shareholders, subsequent share issuances, as well as from revaluations performed in the period up to December 31, 2002.

The Bank's shareholders are entitled to take part in the management of the Bank commensurately with their interest in the total amount of the Bank's ordinary shares. Shareholders' rights are based on the ownership of ordinary shares that is in proportion to each shareholder's interest in the aggregate amount of the Bank's outstanding ordinary shares. The shareholders may group their interests and exercise their rights based on the total amount of shares the group owns, provided that they submit to the Bank, a notification on the joining of interests indicating the name of the individual authorized to represent the group of shareholders.

The Bank's General Assembly is comprised of shareholders whom are entitled to participate in the management of the Bank. Such management rights of the Bank's shareholders are realized either directly or through appropriate representatives. The entitlement to a vote in the Bank's General Assembly is held by shareholders who own one ordinary share.

New Share Issuances During the Year Ended December 31, 2006

During 2006, the Bank performed its nineteenth share issue offering for professional investor EBRD London in the aggregate amount of RSD 2,120,780 thousand, or 212,078 shares having an individual par value of RSD 10 thousand. EBRD London paid the amount of EUR 330.06 per share. Share premium recorded in the financial statements based on nineteenth share issue amounted to RSD 3,961,520 thousand.

Subsequent to performed nineteenth share issue, equity share of the Republic of Serbia in the Bank's ordinary shares with voting rights amounted to 40.31%, while equity share of EBRD London is 25.00%.

As of December 31, 2006 the Bank's share capital is comprised of 848,312 ordinary shares of an individual par value of RSD 10 thousand and of 37,351 preference shares of an individual par value of RSD 10 thousand.

Bank's basic earnings per share for the year 2006 amounted to RSD 1,079 (FY 2005: RSD 825).

24. SHARE CAPITAL (Continued)

Liabilities Convertible into Share Capital

The Bank's liabilities which may be subject of a future share issuance based on conversion of the Bank's debt into share capital, in accordance with the Law on the Regulation of Relations between the Federal Republic of Yugoslavia and Legal Entities and Banks Situated on the Territory of the Federal Republic of Yugoslavia, who were the Original Debtors or Guarantors to the Paris and/or London Club of Creditors as of December 31, 2006 amounted to RSD 5,122 thousand, or USD 36,800.44 and EUR 36,891.72 and are presented within long-term borrowings from banks.

Potential liabilities in the amount of EUR 630,883.52 or RSD 49,840 thousand, may be subject to debt to equity conversion based on the Law on the Settlement of Public Debt of the Federal Republic of Yugoslavia Arising on Foreign Currency Public Savings. This amount represents the difference between the amount of the Bank's total liabilities with respect to the settlement of the restricted foreign currency public savings, the amount already converted into share capital, as well as the amount that was offset on the basis of the agreement with the Republic of Serbia Ministry of Finance in December 2002.

Capital Adequacy and Ratios Prescribed by the Law on Banks and Other Financial Institutions, Articles 26 and 27

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

The Bank is also required to maintain certain ratios pertaining to the volume of its activities and composition of risk assets in compliance with the Law on Banks and with the NBS requirements. As of December 31, 2006, all ratios were within their prescribed limits.

25. OFF-BALANCE SHEET ITEMS

		Thousands of RSD
	December 31, 2006	December 31, 2005
Managed funds	3,939,833	2,488,813
Guarantees and other contingent liabilities	20,431,660	16,726,196
Other off-balance-sheet items	28,859,426	12,941,485
	53,230,919	32,156,494

a) Managed Funds

The funds managed on behalf of third parties primarily represent funds received from foreign donors to finance micro loans, as well as the loans extended by the governmental institutions.

25. OFF-BALANCE SHEET ITEMS (Continued)

b) Guarantees and Other Contingent Liabilities

	December 31, 2006	December 31, 2005
	Thousands of RSD	
Payment guarantees:		
- in dinars	2,588,509	1,352,351
- in foreign currency	3,764,263	4,877,753
Performance bonds:		
- in dinars	1,752,815	1,878,297
- in foreign currency	391,229	319,306
Letters of credit in foreign currency	585,116	518,239
Acceptances in dinars	1,594,999	2,005,411
Loan commitments	9,679,320	5,720,898
Other contingent liabilities	75,409	53,941
	20,431,660	16,726,196

At December 31, 2006 the Group estimated a provision for potential losses with respect to guarantees and other contingent liabilities in the amount of RSD 705,922 thousand (December 31, 2005: RSD 771,386 thousand). In the balance sheet this provision is presented under liabilities (Note 22).

At December 31, 2006, commitments for unused extended loans include the amount of RSD 7,853,456 thousand (December 31, 2005: RSD 5,149,260 thousand) relating to the unused overdrafts on current accounts and payment cards.

There were no forward foreign exchange commitments as of December 31, 2006.

c) Other Off-Balance-Sheet Items

As of December 31, 2006, other off-balance-sheet items include the Republic of Serbia Bonds in foreign currency in the amount of RSD 8,630,281 thousand (December 31, 2005: RSD 9,572,687 thousand) accounted for by the Bank on behalf of the Republic of Serbia. These bonds, issued based on foreign currency public savings have maturities up to 2016. The nominal value of bonds includes interest computed at an annual interest rate of 2%. In addition, other off-balance-sheet items include received collateral, records of received guarantees and funds for securing receivables, and letters of credit, etc.

d) Litigation

As of December 31, 2006, as per the Group's Legal Department's estimation, value of pending legal proceedings filed against the Group totaled RSD 1,589,505 thousand. The management recognized a provision for litigation in the amount of RSD 401,072 thousand (Note 22). The aforementioned amount does not include the potential amount of penalty interest which could be determined upon the conclusion of such legal proceedings. The Group's management does not anticipate any significant further negative effects on the Group's financial statements as a result of the pending litigation.

26. RISK MANAGEMENT POLICIES

Pursuant to the Group's labor organization policies and the Decision with respect to Risk Management, the Group determines the relevant policies and procedures for its management of risk. Risk management policies define the main principles and aims with regard to the management of the specific types of risks to which the Group is exposed in its operations, as well as the system for the management of such risks. The Department for Risk Management is primarily responsible for the management and minimization of various risks in coordination with the other organizational units, which are responsible for the execution of all business transactions. The Risk Management Department coordinates all of the preventive measures designed to neutralize business risk, and prepares the prescribed reports.

Credit Risk

The Group's exposure to credit risk, which is defined as the risk that the Group will not be able to collect loans and other receivables together with interest in accordance with the agreed terms and as a result, will suffer a loss, is continuously monitored by the performance of the following activities:

- an analysis of the credit capabilities of the counterparties and the form of collateral obtained,
- an analysis of the daily and monthly repayments of loans and interest due,
- a quarterly evaluation of the degree of the inherent risk in the loan portfolio, and the risks associated with the specific exposures, based on the prescribed standards, and an estimation of the allowances for impairment and provision for contingent liabilities,
- a recognition of allowances and provisions for each individual customer.

The Group minimizes its credit risk primarily by performing:

- an evaluation of the ability of the counterparties to discharge their obligations when due,
- an evaluation of the profitability and required returns on specific business transactions and groups of transactions,
- obtaining mortgages from the counterparties and other forms of collateral,
- insurance of credit exposures,
- diversification of its loan portfolio to an increasing number of clients,
- contractually including foreign currency clauses so that it can maintain the real value of loans and other debt instruments.

Liquidity Risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan withdrawals and margins. The Group 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 maturity and interest rates of assets and liabilities is fundamental to the management of the Group. 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 Group and its exposure to changes in interest and exchange rates.

26. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

The Group manages its liquidity risk through the constant monitoring of the maturities of its assets and liabilities. The management believes that the diversification of deposits by variety of the types, and the number of customers, as well as the historical experience of the Group, all provide adequate assurance that its deposits represent a stable and reliable source of funding.

The table below summarizes components of the Group's assets and liabilities components into their relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

Thousands of RSD

	Less Than One Month	From One to 3 Months	From 3 to 12 Month	Over One Year	Total
As of December 31, 2006					
ASSETS					
Cash and cash equivalents	10,281,557	-	-	42	10,281,599
Balances with the central bank	34,078,046	-	-	-	34,078,046
Interest, fee and commission receivable	502,253	-	-	-	502,253
Placements with other banks	136,559	263	22,303	26,433	185,558
Loans and advances to customers	7,035,044	5,048,109	18,373,045	22,677,879	53,134,077
Trading securities	328,482	-	-	-	328,482
Securities held-to-maturity	3,905	-	135,255	-	139,160
Equity investments and securities available-for-sale	-	-	-	389,203	389,203
Assets held-for-sale	-	-	3,525	-	3,525
Income tax prepayments	-	-	26,746	-	26,746
Intangible assets	-	-	-	58,161	58,161
Investment property	-	-	-	3,092,489	3,092,489
Property and equipment	-	-	-	4,054,352	4,054,352
Other assets and accruals	311,457	58,064	244,241	53,639	667,401
Deferred tax assets	-	-	-	366,412	366,412
Total assets	52,677,303	5,106,436	18,805,115	30,718,610	107,307,464
LIABILITIES AND EQUITY					
Amounts owed to other banks	3,278,140	978,753	1,134,136	107,921	5,498,950
Amounts owed to customers	47,745,706	10,721,560	16,963,374	7,195,931	82,626,571
Interest, fees and commission payable	50,998	-	-	-	50,998
Liabilities from profit	-	-	-	4,284	4,284
Current income taxes payable	-	3,976	-	-	3,976
Other liabilities from operations	542,458	-	158,000	-	700,458
Provisions	-	-	-	1,158,150	1,158,150
Other liabilities and accruals	635,389	-	483,028	105,751	1,224,168
Deferred tax liabilities	-	-	-	64,612	64,612
Equity	-	-	-	15,975,297	15,975,297
Total liabilities and equity	52,252,691	11,704,289	18,738,538	24,611,946	107,307,464
Net Liquidity Gap:					
- as of December 31, 2006	424,612	(6,597,853)	66,577	6,106,664	-

26. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

The Group's liquidity, as characterized by its ability to settle its liabilities as they become due, depends upon the structure of the Group's deposits and the compatibility of its cash flows as they relate to the receipts and payments of funds. The structure of the Group's assets and liabilities components as classified into their relevant maturities at December 31, 2006 indicates the existence of significant liquidity gaps in the periods of up-to-one-month and from-one-to-three months. The primary reason for these gaps lies in the fact that the short-term funding sources with maturities of up to one month, have been committed for longer periods of time. The Group's management judges that by monitoring such tendencies and by constantly reconciling the inflows and outflows, and by securing additional funding sources when required, it can achieve a solid Group liquidity level.

Items with indefinite maturities are included in the "Over-one-year" category.

Interest Rate Risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk requires special treatment under existing circumstances of frequent interest rate movements and the irregular relationship between capital supply and demand. Interest rate risk is unfavorable when there is fluctuation in the price of a loan in relation to the level of the effective interest rates on deposits, and the potential of a reduction in the optimal difference between the average interest rates on loans on one side, and deposits on the other.

26. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

In addition to the common base of interest rates on both assets and liabilities, the Group contractually defines variable interest rates, both on its short-term and long-term transactions with customers.

Thousands of RSD

	Interest Bearing Items	Non-Interest Bearing Items	Total
As of December 31, 2006			
ASSETS			
Cash and cash equivalents	5,256,956	5,024,643	10,281,599
Balances with the central bank	10,602,554	23,475,492	34,078,046
Interest, fee and commission receivable	-	502,253	502,253
Placements with other banks	40,394	145,164	185,558
Loans and advances to customers	52,850,538	283,539	53,134,077
Trading securities	-	328,482	328,482
Securities held-to-maturity	139,160	-	139,160
Equity investments and securities available-for-sale	-	389,203	389,203
Assets held-for-sale	-	3,525	3,525
Income tax prepayments	-	26,746	26,746
Intangible assets	-	58,161	58,161
Investment property	-	3,092,489	3,092,489
Property and equipment	-	4,054,352	4,054,352
Other assets and accruals	-	667,401	667,401
Deferred tax assets	-	366,412	366,412
Total assets	68,889,602	38,417,862	107,307,464
LIABILITIES AND EQUITY			
Amounts owed to other banks	3,780,760	1,718,190	5,498,950
Amounts owed to customers	67,056,908	15,569,663	82,626,571
Interest, fees and commission payable	-	50,998	50,998
Liabilities from profit	-	4,284	4,284
Current income taxes payable	-	3,976	3,976
Other liabilities from operations	-	700,458	700,458
Provisions	-	1,158,150	1,158,150
Other liabilities and accruals	-	1,224,168	1,224,168
Deferred tax liabilities	-	64,612	64,612
Equity	-	15,975,297	15,975,297
Total liabilities and equity	70,837,668	36,469,796	107,307,464
Interest Sensitivity Gap:			
- as of December 31, 2006	(1,948,066)	1,948,066	-

26. RISK MANAGEMENT POLICIES (Continued)

Currency Risk

The principle of the Group'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 Group's components of monetary assets and liabilities:

Thousands of RSD

	EUR	USD	Other currencies	Total Foreign currencies	Local Currency	Total
As of December 31, 2006						
ASSETS						
Cash and cash equivalents	1,796,518	672,370	2,700,340	5,169,228	5,112,371	10,281,599
Balances with the central bank	20,378,741	3,319,769	148,608	23,847,118	10,230,928	34,078,046
Interest, fee and commission receivable	98,218	1,172	8,981	108,371	393,882	502,253
Placements with other banks	130,890	-	36,048	166,938	18,620	185,558
Loans and advances to customers	9,097,966	258,950	1,143,702	10,500,618	42,633,459	53,134,077
Trading securities	328,482	-	-	328,482	-	328,482
Securities held-to-maturity	15,762	-	-	15,762	123,398	139,160
Equity investments and securities available-for-sale	72,744	-	-	72,744	316,459	389,203
Assets held-for-sale	-	-	-	-	3,525	3,525
Income tax prepayments	-	-	-	-	26,746	26,746
Intangible assets	4,844	-	31,984	36,828	21,333	58,161
Investment property	-	-	-	-	3,092,489	3,092,489
Property and equipment	87,572	-	91,057	178,629	3,875,723	4,054,352
Other assets and accruals	102,037	567	2,299	104,903	562,498	667,401
Deferred tax assets	-	-	-	-	366,412	366,412
Total assets	32,113,774	4,252,828	4,163,019	40,529,621	66,777,843	107,307,464
LIABILITIES AND EQUITY						
Amounts owed to other banks	1,772,452	178,488	1,660,226	3,611,166	1,887,784	5,498,950
Amounts owed to customers	55,603,567	4,252,832	1,955,252	61,811,651	20,814,920	82,626,571
Interest, fees and commission payable	2,775	588	87	3,450	47,548	50,998
Liabilities from profit	-	-	-	-	4,284	4,284
Current income taxes payable	3,976	-	-	3,976	-	3,976
Other liabilities from operations	190,928	25,681	29,217	245,826	454,632	700,458
Provisions	9,581	-	739	10,320	1,147,830	1,158,150
Other liabilities and accruals	546,303	1,346	23,333	570,982	653,186	1,224,168
Deferred tax liabilities	386	-	-	386	64,226	64,612
Equity	-	-	-	-	15,975,297	15,975,297
Total liabilities and equity	58,129,968	4,458,935	3,668,854	66,257,757	41,049,707	107,307,464
Net Balance Sheet Position:						
- As of December 31, 2006	(26,016,194)	(206,107)	494,165	(25,728,136)	25,728,136	-

Placements in dinars, which are index linked to foreign exchange rates (mainly EUR) are presented under assets in the local currency. The total amount of placements, net of allowance for impairment with foreign currency clause as of December 31, 2006 amounted to RSD 32,381,998 thousand. Simultaneously, the total amount of deposits with foreign currency clause amounted to RSD 3,332,798 thousand.

27. EXCHANGE RATES

The official exchange rates for the major currencies used in the translation of the balance sheet components denominated in foreign currencies as of December 31, 2006 and 2005, as well as average exchange rates for 2006 and 2005 used for the translation of income statement components were as follows:

	In RSD			
	Exchange rate as of December 31,		Average exchange rate	
	2006	2005	2006	2005
EUR	79.0000	85.5000	84.1560	82.9147
USD	59.9757	72.2189	n/a	n/a
CM	40.3921	43.7155	40.7504*	42.3936

* Average exchange rate for KM for 2006 for the period September – December 2006