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TRANSLATION

TO THE SHAREHOLDERS OF
KOMERCIJALNA BANKA A.D. BEOGRAD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Komercijalna banka a.d. Beograd (hereinafter: the Group) as at 31 December 2007 and the related consolidated statement of income, consolidated cash flows and consolidated changes in shareholders equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The opening balances are based on the statutory consolidated financial statements of the Group as at and for the period ended 31 December 2006, which were audited by another auditor whose report dated 26 April 2007 expressed an unqualified opinion on those statements.

Management's Responsibility for the 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 (as published in the "Official Gazette of the Republic of Serbia" 46/2006), Banks Law ("Official Gazette of the RS", no. 107/2005) and other relevant by-laws issued by National Bank of Serbia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, 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 have conducted our audit in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006) and International Standards on Auditing as issued by the International Federation of Accountants as well as in accordance with the Decision on External Audit of Banks. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2007, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006) and Banks Law ("Official Gazette of the RS", no. 107/2005) and relevant National Bank of Serbia's by-laws.

Belgrade, 17 April 2008

KPMG d.o.o. Beograd

(L.S.)

Stana Jovanović
Certified Auditor

*This is a Translation of the Original Report on the
Consolidated Financial Statements issued in Serbian Language.*

Belgrade, 17 April 2008



(L.S.)

KPMG d.o.o. Beograd

Stana Jovanović
Stana Jovanović
Certified Auditor

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007

In thousands of RSD	Note	2007	2006
Interest income	3.1, 4	8,123,252	6,724,499
Interest expenses	3.1, 4	(2,712,710)	(2,090,456)
Net interest income		5,410,542	4,634,043
Fee and commission income	3.2, 5	3,357,086	2,838,086
Fee and commission expenses	3.2, 5	(257,136)	(283,005)
Net fee and commission income		3,099,950	2,555,081
Gains on the sale of securities	3.3, 6	77,249	33,453
Foreign exchange gains, net	3.4, 7	457,662	1,967,090
Dividends and other income from equity investments	8	968	76,107
Other operating income	9	1,516,761	291,225
Impairment losses and provisions	3.8, 10	(380,886)	(2,208,823)
Other operating expenses	12	(6,962,150)	(5,872,973)
Gains on the valuation of assets and liabilities	13	5,683,700	1,577,197
Losses on the valuation of assets and liabilities	13	(5,693,150)	(2,158,934)
Operating profit		3,210,646	893,466
Profit before tax		3,210,646	893,466
Income tax	3.12, 14	(27,681)	(8,246)
Deferred tax income	3.12, 15	36,268	68,151
Deferred tax expenses	3.12, 16	(3,633)	(14,439)
Profit after tax		3,215,600	938,932
Profit attributable to minority interest		7	-
Net profit for the year attributable to majority interest		3,215,593	938,932

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

In thousands of RSD	Note	2007	2006
ASSETS			
Cash and cash equivalents	3.10, 17	11,690,330	10,281,599
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	18	37,092,662	34,078,046
Interest and fees receivables	19	442,907	502,253
Loans and advances to banks	3.7, 20	635,690	185,558
Loans and advances to customers	3.7, 21	98,695,792	53,134,077
Securities held for trading	3.9, 22	305,912	328,482
Securities held to maturity	3.9, 22	129,521	139,160
Equity investments and other financial assets available for sale	3.9, 22	586,051	389,203
Non-current assets held for sale	3.6, 23	-	3,525
Income tax prepayments		53,549	26,746
Intangible assets	3.5, 24	261,880	58,161
Investment property	3.5, 24	2,500,029	3,092,489
Fixed assets	3.5, 24	4,841,354	4,054,352
Other assets and accrued income	25	600,191	667,401
Deferred tax assets	3.12, 26	114,780	366,412
Total assets		157,950,648	107,307,464
LIABILITIES AND EQUITY			
Deposits and borrowings from local banks	27	5,443,692	5,498,950
Deposits and borrowings from customers	28	129,309,598	82,626,571
Interest and fees liabilities	29	79,600	50,998
Liabilities from income distribution	30	4,918	4,284
Income tax liabilities		19,410	3,976
Other operating liabilities	30	617,958	700,458
Provisions	3.8, 3.14, 31	1,173,747	1,158,150
Other liabilities and accruals	32	1,823,600	1,224,168
Deferred tax liabilities	3.12	-	64,612
Total liabilities		138,472,523	91,332,167
Share and other capital	33	13,187,635	12,662,892
Reserves	3.8, 34	3,045,925	1,969,065
Retained earnings	35	3,218,887	1,303,796
Translation reserve		25,637	39,506
Total equity		19,478,084	15,975,259
Minority interest		41	38
Total liabilities and equity		157,950,648	107,307,464
Off-balance sheet items	3.11, 35, 37	64,566,121	53,230,919

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

In thousands of RSD	2007	2006
Cash flows from operating activities		
Interest receipts	8,326,485	6,368,475
Fee and commission receipts	3,582,280	3,144,005
Receipts from other operating income	464,328	267,476
Receipts from dividends and equity investments	968	76,107
Cash receipts from operating activities	12,374,061	9,856,063
Interest payments	(2,480,954)	(1,897,206)
Fees and commission payments	(251,278)	(282,845)
Payments of gross salaries and fringe benefits and other personal expenses	(3,145,022)	(2,683,543)
Payments of taxes, contributions and other expenses charged to income	(620,416)	(543,342)
Cash payments for other operating expenses	(2,988,199)	(2,364,497)
Cash outflows from operating activities	(9,485,869)	(7,771,433)
Net cash inflows from operating activities before increases/(decreases) in loans, advances and deposits	2,888,192	2,084,630
Decrease in securities held for trading and held to maturity	109,219	372,864
Increase in deposits from banks and other financial institutions	-	2,948,175
Increase in deposits from customers	47,374,014	21,227,862
Decrease in securities and increase in deposits taken	47,483,233	24,548,901
Increase in loans and advances to banks	(3,451,767)	(15,843,718)
Increase in loans and advances to customers	(45,029,440)	(18,846,873)
Decrease in deposits from banks	(68,656)	-
Increase in loans and advances and decrease in deposits taken	(48,549,863)	(34,690,591)
Net cash inflows/(outflows) from operating activities before income tax	1,821,562	(8,057,060)
Income tax paid	(39,176)	(15,475)
Dividends paid	(101,911)	(159,489)
Net cash from operating activities	1,680,475	(8,232,024)
Cash flows from investing activities		
Proceeds from sale of long-term investments in securities	22,144	-
Proceeds from sale of intangible and fixed assets	175,944	-
Proceeds from sale of equity investments	-	183,734
Outflows from long-term investments in securities	-	(129,954)
Purchases of equity investments	(94,997)	-
Purchases of property and equipment and intangible assets	(813,896)	(602,156)
Net cash from investing activities	(710,805)	(548,376)
Cash flows from financing activities		
Proceeds from the issuance of shares	524,746	6,082,341
Repayment of long term loans and subordinated liabilities	(620,257)	(231,302)
Net cash outflow from short-term loans taken	-	(42,697)
Net cash from financing activities	(95,511)	5,808,342
Net increase/(decrease) in cash and cash equivalents	874,159	(2,972,058)
Cash and cash equivalents at beginning of the year	10,281,599	11,393,093
Foreign exchange gains	16,165,062	11,479,965
Foreign exchange losses	(15,630,490)	(9,619,401)
Cash and cash equivalents at end of the year	11,690,330	10,281,599

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

In thousands of RSD	Share capital	Other capital	Share premium	Treasure shares	Reserve for estimated losses	Other reserves from profit	Revaluation reserves	Translation reserves	Retained earnings	Total
Balance as at 1 January 2006	6,735,850	9,150	-	-	542,748	306,635	607,495	127,466	701,147	9,030,491
Share issues	2,120,780	-	3,961,522	-	-	-	-	-	-	6,082,302
Acquiring of treasure shares	-	-	-	(164,410)	-	-	-	-	164,410	-
Specific provision for estimated losses	-	-	-	-	759,250	-	-	-	(350,000)	409,250
Shortfall amount of reserve for estimated losses	-	-	-	-	(409,250)	-	-	-	-	(409,250)
Transfer from/to	-	-	-	-	(51,176)	51,176	-	-	-	-
Application of IAS 39 and IAS 37 in subsidiaries	-	-	-	-	878	-	-	-	-	878
Foreign currency losses	-	-	-	-	-	(463)	-	-	-	(463)
Translation reserves increase	-	-	-	-	-	-	-	15,931	-	15,931
Translation reserves decrease	-	-	-	-	-	-	-	(66,578)	(37,237)	(103,815)
Adjustment of valuation of fixed assets	-	-	-	-	-	-	21,632	-	-	21,632
Transfer of valuation effects to retained earnings	-	-	-	-	-	-	(12,120)	-	12,120	-
Payment of dividends and earnings to management and employees of the Bank	-	-	-	-	-	-	-	-	(120,811)	(120,811)
Revaluation of investments	-	-	-	-	-	-	152,260	-	-	152,260
Share issue from retained earnings	-	-	-	-	-	-	-	-	(42,078)	(42,078)
Profit for 2006	-	-	-	-	-	-	-	-	938,932	938,932
Balance as at 31 December 2006	8,856,630	9,150	3,961,522	(164,410)	842,450	357,348	769,267	76,819	1,266,483	15,975,259
Balance as at 1 January 2007	8,856,630	9,150	3,961,522	(164,410)	842,450	357,348	769,267	76,819	1,266,483	15,975,259
Adjustment of opening balance	-	-	-	-	-	-	-	(37,313)	37,313	-
Adjusted balance as at 1 January 2007	8,856,630	9,150	3,961,522	(164,410)	842,450	357,348	769,267	39,506	1,303,796	15,975,259
Transfer of retained earnings	-	-	-	-	783,000	-	-	-	(783,000)	-
Payment of dividends and earnings to management and employees of the Bank	-	-	-	-	-	-	-	-	(97,964)	(97,964)
Specific provision for estimated losses	-	-	-	-	2,404,806	-	-	-	(231,066)	2,173,740
Shortfall amount of reserve for estimated losses	-	-	-	-	(2,173,740)	-	-	-	-	(2,173,740)
Foreign currency gains	-	-	-	-	-	19	-	-	105	124
Translation reserves increase	-	-	-	-	-	-	-	55,680	16,993	72,673
Translation reserves decrease	-	-	-	-	-	-	-	(69,549)	(17,390)	(86,939)
Transfer of valuation effects to retained earnings	-	-	-	-	-	-	(31,468)	-	31,468	-
Revaluation of investments	-	-	-	-	-	-	94,243	-	-	94,243
Cancellation and sale of own shares	(120,600)	-	480,933	164,410	-	-	-	-	-	524,743
Tax effects	-	-	-	-	-	-	-	-	(219,655)	(219,655)
Profit for 2007	-	-	-	-	-	-	-	-	3,215,600	3,215,600
Balance as at 31 December 2007	8,736,030	9,150	4,442,455	-	1,856,516	357,367	832,042	25,637	3,218,887	19,478,084



KOMERCIJALNA BANKA AD BEOGRAD

NOTES
TO THE
CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR 2007

Belgrade, April 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

1. BANK'S ESTABLISHMENT AND BUSINESS ACTIVITIES

Komercijalna banka A.D., Beograd (hereinafter: the Parent Bank) was originally established on 1 December 1970, and was subsequently reorganized and transformed into a shareholding company on 6 May 1992.

The Bank's shareholders, with the most significant participation in the ordinary share capital, are presented as follows:

Republic of Serbia	40.31%
EBRD LONDON	25.00%
IBT, BOSTON, USD	4.97%
Jugobanka AD Beograd under bankruptcy	3.79%
INVEJ DOO, Beograd	3.65%
Kompanija Dunav Beograd	3.58%
Evropa osiguranje AD under liquidation	3.06%

The Parent Bank has two subsidiaries (hereinafter: subsidiary banks) with the following interests in them:

- 100% - Komercijalna banka AD Budva, Montenegro and
- 99.99% - Komercijalna banka AD Banja Luka, Bosnia and Herzegovina.

The minority interest in Komercijalna banka AD Banja Luka of 0.01% is held by the Serbia and Montenegro Export Credit Agency from Belgrade.

Consolidated financial statements represent financial reports of Komercijalna banka AD Beograd as the parent bank, of Komercijalna banka AD Budva and Komercijalna banka AD Banja Luka, as subsidiary banks (hereinafter: the Group).

Komercijalna banka AD Budva was founded in November 2002 as an affiliate of Komercijalna banka AD Beograd and was registered in the central register of the Commercial Court in Podgorica on 6 March 2003, and the bank operates since that time as an affiliate. Up to that point the bank operated as a branch office of Komercijalna banka AD Beograd.

Komercijalna banka AD Banja Luka was founded in September 2006 and on 15 September 2006 was registered in the court register of the Fundamental Court in Banja Luka.

The Group's activities include credit, deposit and guarantee operations, and domestic and foreign payment operations in compliance with the Law on Banks. The Group operates in compliance with the principles of liquidity, security and profitability.

As at 31 December 2007 the Group consists of the Belgrade headquarters at Svetog Save 14, the headquarters of Komercijalna banka AD Budva in Budva, the headquarters of Komercijalna banka AD Banja Luka in Banja Luka, 38 branches and 278 sub-branches located throughout the Republic of Serbia, Montenegro and Bosnia and Herzegovina. The Parent Bank has representative offices registered in Frankfurt am Main, Germany and in Zagreb, Croatia.

As at 31 December 2007 the Group had 3,249 employees (31 December 2006: 3,137 employees).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

In 2007 Group members kept their business records and prepared their stand alone financial statements in accordance with local statutory regulations, and other legislation based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as in compliance with regulations prescribed by respective central banks. Stand alone financial statements have been reviewed by an external auditor who issue an unqualified opinion, in accordance with local statutory regulations.

Stand alone financial statements of subsidiary banks were adjusted for financial statement presentation based on accounting regulations effective in the Republic of Serbia for the purpose of preparing the consolidated financial statements.

Functional currencies, EUR for the financial statements of Komercijalna banka AD Budva and BAM for the financial statements of Komercijalna banka AD Banja Luka, are converted into the presentation currency, which is the functional currency of the Parent Bank – dinar (RSD), using officially released foreign currency exchange rates in the Republic of Serbia.

The Group's financial statements comprise banking activities. The balance sheet assets of Komercijalna banka AD Budva amount to 3.95% of the total balance sheet assets of the consolidated balance sheet. The balance sheet assets of Komercijalna banka AD Banja Luka amount to 4.66% of the total balance sheet assets of the consolidated balance sheet. The operating expense of representative offices abroad are disclosed in the Group's financial statements.

The Group's financial statements are presented in Dinars (RSD), rounded to the nearest thousand. Dinars (RSD) are the official currency for reporting in the Republic of Serbia and the functional currency of the Parent Bank. 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 Organizations" (Official Gazette of the Republic of Serbia 8/2007).

During consolidation all related party transactions were eliminated from the balance sheet in the amount of RSD 2,866,666 thousand. Income from related party transactions was eliminated from the income statement in the amount of RSD 311,212 thousand, and expenses were eliminated in the amount of RSD 210,841 thousand (Note 42).

The income statement and cash flow statement were reclassified using the average exchange rate in the Republic of Serbia for 2007 in the amount of RSD 79.9775 for one EURO and RSD 40.6378 for one BAM, while the remaining financial statements (balance sheet, statement of changes in equity and statistical annexes) were reclassified using closing exchange rates as at balance sheet date of RSD 79.2362 for one EURO and RSD 40.5128 for one BAM.

The consolidated financial statements relating to the period 1 January – 31 December 2007 were approved by the Bank's Executive Board on 18 April 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**3.1. Interest income and expense**

Interest income and expenses, including the penalty interest and other income and expenses arising on the interest-bearing assets and liabilities, are recognized in the income statement on an accruals basis. Interest is calculated in accordance with the terms defined in the agreements with lenders and borrowers.

Interest income also includes income arising on risk hedging instruments, mostly by linking payments to the dinar exchange rate with respect to EUR, or retail price index. Income arising on risk hedging instruments is calculated at the end of each month during the repayment period, as well as at the date of payment.

3.2. Fee and commission income/expenses

Fee and commission income and expenses are recognized in the income statement on an accruals basis. Fee and commission income from loan related fees is recognized in the statement of income on a proportional basis throughout the repayment period of the loan.

3.3. Income and expenses from securities

All realized or unrealized gains from changes in the market value of held for trading are charged to income or expenses in the income statement.

Securities held to maturity are stated at amortized cost. Gains and losses arising on changes in amortized value of securities held to maturity are credited to income or charged to expenses.

Securities available for sale are measured after initial recognition at fair value, based on current market prices. Changes in the market value of financial asset available for sale are charged to equity (revaluation reserves) till the moment of securities sale, when they are recognized as income or expenses.

Dividends received in respect of investments in shares of other legal entities are disclosed as income from dividends at the moment of their collection.

With regards to investments in securities of entities which are not quoted on the stock exchange, members of the Group make provisions for the estimated amount of risk.

3.4. Foreign exchange translation

Transactions in foreign currencies are translated into functional currencies at the foreign exchange mid rate set by the inter-banking foreign currency market ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at balance sheet date are translated into functional currencies at the foreign exchange mid rate set by the inter-banking foreign currency market ruling as at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net foreign exchange gains or losses arising on foreign currency transactions and on translation of balance sheet items denominated in foreign currency are reported in the income statements as foreign exchange gains or losses.

Contingent liabilities and commitments denominated in foreign currency as at balance sheet date are translated into functional currencies at the foreign exchange mid rate set by the inter-banking foreign currency market ruling as at that date.

3.5. Property and equipment, investment property and intangible assets**3.5.1. Property and equipment and intangible assets**

Property and equipment and intangible assets are initially recognized at purchase price or cost. For subsequent measurement the Group uses the revaluation method for property, and the purchase value method for equipment.

The fair value of property is evaluated by an independent and certified appraiser. The revaluation is performed regularly, so that the book value does not differ from fair value. Gains from revaluation of property are recognized within equity as revaluation reserves. Losses from revaluation of property are charged against revaluation reserves, arising from revaluation of property. If the reserves are inadequate, the difference is charged to expenses in the period when occurred.

Depreciation is calculated on the cost or the revalued amount of property, equipment and intangible assets on a straight line basis using prescribed annual rates determined by the Group, so that the cost or the revalued amount of assets, after deducting of residual value, are fully depreciated during its useful life.

Buildings	2.5%
Computers	25%
Furniture and other equipment	6.7% - 25%
Intangible assets	9.84% - 25%

Property, equipment and intangible assets are depreciated from the month when put into use. In accordance with internal regulations of the Group, the residual value of properties is deemed to be equal to 30% of its initial value. Residual values are not depreciated.

Depreciation rates and estimated remaining useful life are verified or reviewed annually for depreciation that adequately reflects the actual usage of these assets in the business operations of the Group's members.

3.5.2. Investment property

Investment property is property held to earn rentals or for capital appreciation or both. For subsequent measurement of investment property, the Group uses the fair value model. Investment property is depreciated at annual rate of 2.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Inventories

3.6.1. Inventories are stated at the lower of cost and net realisable value.

Inventories include assets acquired by way of collecting receivables and assets held for sale.

3.6.2. Non-current assets held for sale represent non-current assets whose book value will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets held for sale are stated at the lower of its book value and fair value less selling costs.

3.7. Loans and Advances Originated by the Group

Loans and advances originated by the Group are stated at the amount of principal outstanding, less allowances for impairment, which are based on an evaluation of specifically-identified exposures and also cover losses that are inherent in the Group's loan portfolio not specifically identified. Management applies methodology based on regulations prescribed by respective central banks in its evaluation of the risks and resulting estimations of the allowances (Note 3.8).

For the purpose of determining amortized cost or fair value of loans and advances originated by the Group, based on IFRS, the net present values of future cash flows are discounted at the contractual interest rate, decreased for repaid principle.

Loans, which are disbursed in dinars and index-linked to the foreign exchange rates of EUR or other foreign currencies or to changes in the retail price index, are revalued in accordance with the provisions stated under the individual loan agreements. A difference between the nominal value and the revalued value of the outstanding principle is disclosed under loans and advances. The effects of such revaluation are included under gains and losses on the valuation of financial assets.

3.8. Allowances for Impairment and Provisions for Contingent Liabilities

3.8.1. Assessment of collectibility of receivables

In 2007 the Group adopted the Manual on Assessment and Recognition of Loans, Receivables and Provisions which specifies the criteria for assessment of corporate and retail loans and receivables, in accordance with IAS 39, as well as criteria for assessment and recognition of provisions based on contingent liabilities, in accordance with IAS 37.

Credit risk is identified, measured and assessed based on the borrower's credit rating, regularity in settling obligations and the quality of loan security provided, in accordance with criteria from the Group's internal rating system.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The main elements in assessing loan impairment are as follows:

- are there outstanding liabilities for settling interest and principle payable,
- does the borrower have cash flow difficulties,
- has the borrower's credit rating dropped or has a change occurred with respect to initial contract terms.

The Group's members make an assessment of loan impairment based on individual and portfolio assessment.

The Group's members make an assessment of loan impairment for each individually significant loan. Individual loan assessment specifies the expected cash flows based on loan repayment and those cash flows are discounted using the contracted effective interest rate. The difference between the book value of a loan and its net present value determined by discounting, less the fair value of loan collateral, represents the loan impairment which reduces the value of a placement to its net present value. The Group's members assess expected cash flows in respect of loans and advances, taking into account regularity of loan repayment, the borrower's financial position and quality of collateral, the borrower's capacity to improve performance in case of financial difficulties, forecast revenues, availability of other types of financial support, etc.

Portfolio loan impairments are made by groups of loans that are not individually significant (including credit cards, housing loans, consumer loans...) and by individually significant loans and advance payments when there is no objective evidence of individual impairment. Losses arising on impairments are assessed based on the following information: historical losses in portfolio, current economic conditions, collection of impaired loans and advances.

Members of the Group write off uncollectible receivables based on court decisions, settlement among the parties or based on decisions by authorized bodies of the Group's members.

3.8.2. Specific provision for estimated losses*Komercijalna banka AD Beograd*

The Parent Bank makes reserves or specific provisions from profits for estimated losses on assets and off-balance sheet items against retained earnings.

The specific provision for estimated losses is calculated in accordance with the Decision on Criteria for Classification of Balance Sheet and Off-balance Sheet Assets issued by the National Bank of Serbia. Loans, placements and other exposures of the Bank are classified by categories in accordance with estimated collectibility of a loan and other placements depending on: number of days of overdue payment of principal and interest, financial position of the client and the quality of acquired loan security. The estimated amount of provision for potential losses is calculated applying the percentages in the range 1%-2% for receivables classified under category A, 5%-15% for receivables classified under category B, 20%-35% for receivables classified under category V, 40%-75% for receivables classified under category G and 100% for receivables classified under category D.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The specific provision for estimated losses is decreased for allowance for impairment of balance sheet assets and provisions for losses on off-balance sheet items that, in accordance with the Bank's internal regulations, are computed and charged to expenses, where the determined difference is recorded on a special account under profit reserves which are set up and charged against retained earnings. In the event that the Bank's profits for the year in which specific provision for estimated losses is to be made is inadequate for forming the required amount of this provision, the difference is reported as the amount of the provision lacking.

Komercijalna banka AD Budva

Based on the Decision by the Central Bank of Montenegro on the criteria and procedure for classifying balance sheet assets and forming specific provisions for estimated losses, Komercijalna banka AD Budva adopted a policy for specific provisioning of estimated losses according to the following classification:

- A 1%,
- B 3% to 8%,
- C 20% to 50%,
- D 75% and
- E 100%.

For specific provisions for estimated losses on items classified under categories A, B, C, D and E, provision expenses are disclosed in the income statement and provisions are disclosed in the balance sheet that decrease the nominal value of risk assets, while provisions for off-balance sheet assets are disclosed under equity and liabilities.

For consolidation purposes a calculation of impairment of loans and advances and related provisions based on the Group's internal methodology was performed, with necessary reclassification of impairments and provisions based on regulations effective in the Republic of Serbia.

Komercijalna banka AD Banja Luka

Based on the Decision on minimal standards for managing credit risk and classification of balance sheet assets of a bank issued by the Banking Agency of the Republic of Srpska, Komercijalna banka AD Banja Luka adopted a program on minimal standards for managing credit risk and classification of balance sheet assets of a bank, specifying the following percentages for computing provisions for estimated losses:

- 2% - sound assets,
- 5%-15% special purpose assets,
- 16%-40% sub-standard assets,
- 41%-60% doubtful assets and
- 100% losses.

For consolidation purposes a calculation of impairment of loans and advances and related provisions based on the Group's internal methodology was performed, with necessary reclassification of impairments and provisions based on regulations effective in the Republic of Serbia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Securities

3.9.1. *Securities held for trading*

Securities held for trading are comprised of shares and “old foreign currency savings bonds”, and are disclosed at market value.

3.9.2. *Securities held to maturity*

Securities held to maturity are initially stated at cost and at balance sheet date securities held to maturity are stated at amortized cost, or present value of future cash flows, using the contractual interest rate, since current market interest rate is not available.

3.9.3. *Securities available for sale*

Securities available for sale are comprised of equity investments of other banks, associates and other entities.

Equity investments that relate to the listed securities of other legal entities are stated at market value, as of the balance sheet date. Equity investments for which an active market and reliable market values do not exist are stated at cost less allowances for impairment.

3.10. 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 central bank and other banks, as well as cheques in the course of collection.

3.11. Managed funds for and on behalf of third parties

Assets for business operations conducted on behalf of third parties that are managed by the Group are not included in the Group’s balance sheet, but under off-balance sheet items.

3.12. Taxes and contributions

3.12.1. *Corporate income tax*

The Parent Bank is unable to perform tax consolidation based on regulations effective in the Republic of Serbia.

Current income tax represents the amount calculated in accordance with the Income Tax Law effective in the Republic of Serbia. 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.

Komercijalna banka AD Beograd

The annual corporate income tax is payable at the rate of 10% on the tax base reported in the annual income tax return.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporate Income Tax Law, effective in the Republic of Serbia, prohibits tax losses of the current period from being used to recover the tax paid within a specific carry back period. However, the current year losses may be used to decrease taxable profits for future periods, but not longer than 10 years.

In accordance with the Income Tax Law effective in the Republic of Serbia, the calculated income tax can be reduced for investments in fixed assets used for own operations. Tax credits for investments in fixed assets may be used up to 10 years.

Deferred income tax is determined for temporary differences arising between the tax bases of assets and liabilities components, and their carrying values in the financial statements. 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.

Komercijalna banka AD Budva

Income tax is computed and paid in accordance with the Corporate Income Tax Law (Official Gazette of the Republic of Montenegro 80/04) at a proportional rate of 9% on the tax base.

Taxable profit is determined based on the Bank's reported profit in the income statement adjusted for income and expenses in accordance with the Corporate Income Tax Law.

Montenegrin tax regulations prohibit tax losses of the current period from being used to recover the tax paid within a specific carry back period. However, the current year losses reported in the tax balances may be used to decrease taxable profits for future periods (except where a loss arises on capital losses or gains), but not longer than five years.

Komercijalna banka AD Banja Luka

Income tax is calculated in accordance with tax regulations of the Republic of Srpska.

The tax base which is subject to income tax at a rate of 10% is determined in the Bank's tax balance. The tax base reported in the tax balances is calculated on actual current year profit, reported in the income statement, adjusted for permanent differences as defined by tax regulations in the Republic of Srpska.

Tax regulations in the Republic of Srpska prohibit tax losses of the current period from being used to recover the tax paid within a specific carry back period. Current year losses reported in the tax balance may be used to decrease taxable profits for future periods.

3.12.2. Taxes and contributions not dependant on results

Taxes and contributions that are not dependant on results comprise property tax, value added tax, taxes and contributions for salaries charged to the employer, as well as other taxes and contributions in accordance with Serbian tax legislation and general regulations. These taxes and contributions are reported under other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.13. Fair value**

In the Republic of Serbia, the Republic of Montenegro and the Republic of Bosnia and Herzegovina there is no market experience, stability and liquidity for the sale/purchase of loans and other financial assets and liabilities and the official market information are not available at every moment. For the purpose of fair value determination, future cash flows are discounted at present value using discount rate equal to the contracted interest rate, which discounts present value to nominal value. Provision is made in the amount of the estimated risks that the book value will not be realized.

3.14. Employee benefits

The Bank does not have its own defined benefit plans or share-based remuneration options as at 31 December 2007.

Provision for retirement benefits recognized in the balance sheet as of 31 December 2007 represents the present value of the defined benefit obligation based on employee's years of employment up to the balance sheet date.

Provision for retirement benefits are calculated by independent certified actuary.

3.15. Changes in the accounting policies

In 2007, the Group estimates allowances for the impairment of financial assets and provision for contingent liabilities in accordance with the newly adopted internal methodology, as presented in the note 3.8.1. In 2006, allowances for the impairment of financial assets and provision for contingent liabilities were calculated in accordance with the internally adopted methodology based on the decisions of respective central banks on the classification of balance sheet assets and off-balance sheet items. An adjustment of comparative data for 2006 has not been made to reflect the change in the accounting policy for calculating the allowances for the impairment of financial assets and provision for contingent liabilities. The effects of the change in the accounting policy on the income statement are presented in note 9.

3.16. Segment information

The Group performs most of its operations in the Republic of Serbia. The balance sheet assets of the Parent Bank amount to 91.39% of the consolidated balance sheet assets.

Segment information is presented in note 43.

3.17. Risk management policies

Pursuant to the Group's organizational policies and Management Risk Policies adopted by the Parent Bank's Board of Directors, the Group determines the relevant policies and procedures for its management of risks. 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 subsidiary banks and other organizational units of the Parent Bank, which are responsible for the execution of all business transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Risk Management Department coordinates all of the preventive measures designed to neutralize business risk, and prepares the required reports.

a) 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 is continuously monitored through 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 Group's overall 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, such as pledges, cash deposits, guarantees from other banks, shares, bills of exchange etc.
- 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.

b) Interest rate risk

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 represents the possibility of occurrence of negative effects on the Group's financial results and equity resulting from interest rate fluctuations, with regards to assets and liabilities with interest rates that are sensitive to market fluctuations (interest rate sensitive assets and liabilities).

In managing interest rate risk the members of the Group seek to reconcile interest rate sensitive assets with liabilities by monitoring account balances as per date of maturity when new interest rates are set, by forecasting the impact of market fluctuations in interest rates on the Group's revenues and expenses, by drafting scenarios in the event of significant changes in the market (stress tests) and by setting limits for interest rate risk exposure through an optimal risk coefficient as the ratio between interest rate sensitive assets and liabilities.

Management of interest rate risk provides the Group with uniformity against fluctuations in interest rates on assets and liabilities, with a fixed interest rate margin.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to the common base for determining of interest rates on both assets and liabilities, the Group manages interest rate risk through contractually defined variable interest rates i.e. variable interest rates are agreed instead of fixed interest rates.

v) *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). Also, this principle also pertains to the maturity of foreign currency payables and receivables, and to aggregate maturities and individual currencies. Specialized departments ensure that the total risk sensitive foreign currency balance at the end of each working day does not exceed prescribed amounts and adopted limits.

g) *Liquidity risk and solvency*

The Group manages its liquidity and solvency risk through the constant monitoring of the maturities of its assets and liabilities. In 2007 the Group had very stable liquidity and solvency.

d) *Other risks*

Monitoring and management of other risks, such as:

- market risks,
- operational risk,
- country of origin risk,
- risks arising from processing of cash transactions,
- data security risks,
- money laundering risks,
- risks regarding physical and technical security of the Bank,
- and other risks,

are regulated by internal regulations of the members of the Group and are carried out in the relevant organizational units of the Bank on an ongoing basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

4. INTEREST INCOME AND EXPENSES

a) Interest income

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Loans and advances to banks	121,912	192,721
Obligatory reserve	97,031	95,313
Repo business and placements to NBS	874,439	694,549
Loans and advances to customers	7,019,116	5,736,636
Securities	10,754	5,280
	<u>8,123,252</u>	<u>6,724,499</u>

Suspended interest income for 2007 amounts to RSD 148,761 thousands. Interest income which is not calculated and recognized in the income statements for 2007 amounts to RSD 574,695 thousand and relates to interest on loans and advances to clients under litigation, where interest is no longer calculated or is calculated under off-balance sheet items.

b) Interest expenses

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Banks	270,295	169,031
Corporate clients	571,899	520,759
Retail clients	1,856,705	1,316,432
Foreign entities	13,811	84,234
	<u>2,712,710</u>	<u>2,090,456</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

5. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and commission income

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Fee and commission income from payment transfers and other banking services	2,897,304	2,461,869
Fees on issued guarantees and other contingent liabilities	280,123	243,242
Fees and commissions from transactions with securities	85,727	71,133
Other fees and commissions	93,932	61,842
	<u>3,357,086</u>	<u>2,838,086</u>

b) Fee and commission expenses

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Fees arising from domestic payment transfers	137,457	128,111
Fees arising from international payment transfers	19,492	9,543
Fees arising from exchange operations	-	68,696
Other fees and commissions	100,187	76,655
	<u>257,136</u>	<u>283,005</u>

6. NET GAINS ON SALE OF SECURITIES AND EQUITY INVESTMENTS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Net gains on sale of securities and equity investments	<u>77,249</u>	<u>33,453</u>

7. NET FOREIGN EXCHANGE GAINS FOREIGN EXCHANGE GAINS AND LOSSES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Foreign exchange gains	15,952,763	11,481,621
Foreign exchange losses	<u>(15,495,101)</u>	<u>(9,514,531)</u>
	<u>457,662</u>	<u>1,967,090</u>

8. DIVIDENDS AND OTHER INCOME FROM EQUITY INVESTMENTS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Dividends and other income from equity investments	<u>968</u>	<u>76,107</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

9. OTHER OPERATING INCOME

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Release of allowance for impairment and provisions for contingent liabilities, net	1,165,408	-
Rental income	134,747	4,811
Gains on the disposal of fixed and intangible assets	112,856	163,411
Income from write-offs/decrease of liabilities	8,882	13,536
Income from costs refunds	5,175	3,300
Income from arbitration abroad	16,757	58,509
Other	72,936	47,658
	<u>1,516,761</u>	<u>291,225</u>

Due to change in the accounting policy for calculating the allowances for the impairment of financial assets and provision for contingent liabilities, as disclosed in notes 3.8. and 3.15, the Group realized income from release of allowance for impairment and provisions for contingent liabilities in the amount of RSD 1,165,408 thousand. An adjustment of comparative data for 2006 has not been made to reflect the change in the accounting policy for calculating the allowances for the impairment of financial assets and provision for contingent liabilities.

10. LOSSES ON IMPAIRMENT AND PROVISIONS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Provisions for litigations	85,623	-
Provision for retirement benefits	295,263	50,746
Impairment provisions for on-balance and off-balance sheet assets	-	2,157,304
Other	-	773
	<u>380,886</u>	<u>2,208,823</u>

11. MOVEMENTS IN THE BALANCE OF ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

<u>In thousands of RSD</u>	Loans and advances to banks	Loans and advances to customers	Interest and fees	Securities	Off-balance sheet liabilities	TOTAL
			receivables and other assets			
Balance as at 1 January 2007	1,075,006	9,676,511	1,039,478	809,684	705,944	13,306,623
Charged during the year	363	7,322,002	678,255	(4,233)	119,882	8,116,269
Release during the year	39	7,817,486	731,850	410,475	265,956	9,225,806
Exchange rate differences	15,562	24,112	(106)	(2)	0	39,566
Direct write-offs	0	364,172	70,317	464	0	434,953
Other	0	(3,512)	57,340	0	0	53,828
Balance as at 31 Dec 2007	<u>1,059,768</u>	<u>8,796,255</u>	<u>858,332</u>	<u>394,514</u>	<u>559,870</u>	<u>11,668,739</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

12. OTHER OPERATING EXPENSES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Net wages and salaries	2,192,784	1,663,504
Taxes and contributions on salaries and fringe benefits	876,287	814,557
Other personnel expenses	76,042	133,853
Costs of material and energy	449,061	395,160
Donations and sponsorships	18,985	15,740
Rent	389,282	290,870
Insurance premiums	329,438	256,254
Services	226,781	182,753
Advertising and promotions	344,198	354,868
General and administrative expenses	632,219	529,164
Indirect taxes and contributions	622,049	517,253
Depreciation (Note 3.5.)	379,958	326,932
Capital losses (write-offs)	1,011	9,862
Maintenance and repairs	301,724	271,122
Expenses from arbitration abroad	5,215	2,281
Other expenses	117,116	108,800
	<u>6,962,150</u>	<u>5,872,973</u>

Total gross salaries and other remuneration of Management and members of the Executive Board and the Board of Directors in 2007 of Group members are provided in the table below:

<u>In thousands of RSD</u>	Management	Board of Directors/Executive Board
- Parent Bank	42,705	12,398
- Budva	12,375	2,649
- Banja Luka	7,927	2,780
	63,007	17,827

Liabilities for operating lease of business premises used by the members of the Group are recognized monthly as rent expenses.

Commitments (excluding VAT) for operating leases of 205 business premises with the total area of 31,738.58 sqm as at 31 December 2007 amount to:

<u>In thousands of RSD</u>	
- in 2008	261,143
- from 2009 till the end of 2012	1,035,622
- from 2013	241,817
Total	<u>1,538,582</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

13. GAINS AND LOSSES ON THE VALUATION OF ASSETS AND LIABILITIES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Gains on the valuation of loans and advances	4,949,465	1,292,667
Gains on the valuation of securities	25,851	6,297
Gains on the valuation of liabilities	708,384	278,233
	5,683,700	1,577,197
Losses on the valuation of loans and advances	4,812,938	2,072,070
Losses on the valuation of securities	336,027	-
Losses on the valuation of liabilities	544,185	86,864
	5,693,150	2,158,934
Net gains/(losses) on the valuation of assets and liabilities	(9,450)	(581,737)

Gains/losses on valuation of loans and advances comprise effects of contractual foreign currency clause hedges.

Gains/losses on valuation of securities comprise the effects of marking up/down the value of securities held for trading to fair market value.

Gains/losses on valuation of liabilities comprise effects of contractual foreign currency clause hedges on received deposits from clients.

The bank calculates valuation effects at the end of the month during the financial year and as at transaction date.

14. INCOME TAXES

Each Group member bank determines its income taxes based on local tax regulations. Taxes are not subject to consolidation and are presented separately in the Notes.

14.1. Komercijalna banka AD Beograd

A. Components of income taxes

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Current income tax	-	-
Deferred tax expenses for the year	2,738	14,287
Tax revenues (payments in advance)	(68,154)	(29,177)
Deferred tax income for the year	(34,501)	(68,151)
Total tax (income) / expenses	(99,917)	(83,041)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

14. INCOME TAXES (Continued)

B. Numerical reconciliation between tax expense and the product of the accounting results multiplied by the applicable tax rate

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Profit before tax	2,916,093	860,140
Income tax at the statutory tax rate of 10%	291,609	86,014
Tax effects of non-deductible expenses	96,975	34,384
Tax effects of differences in the depreciation charges	(2,163)	(2,973)
Tax effects of taxable income not included in the financial statements (related parties)	4,770	-
Tax effects of non-taxable income (dividends received from residents)	(97)	(3,266)
Tax credits for investments in property and equipment	-	(63,151)
Tax deductions	(422,857)	104,872
DEFERRED TAX EFFECTS IN THE INCOME STATEMENT	<u>(31,763)</u>	<u>(53,864)</u>
EFFECTIVE INCOME TAX RATE	<u>-</u>	<u>-</u>

Profit tax payment in advance in 2007 in the amount of RSD 68,154 thousand was made in accordance with the Income Tax Law in monthly installments. The Parent Bank will use them in 2008 as advance payments.

Receivables for prepaid income tax as at 31 December 2007 amount to RSD 53,549 thousands.

14.2. Komercijalna banka AD Budva

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Profit reported in income statement	94,528	91,923
Depreciation expense reported in the income statement	17,489	14,112
Expenses included in the income statement that are not recognized for tax purposes	25,393	475
Sub-total	137,410	106,510
Depreciation for tax purposes	(24,456)	(14,890)
Foreign exchange differences	-	-
Taxable profit	112,954	91,620
Tax liability at a rate of 9% (current tax)	10,166	8,246
Deferred tax liabilities	-	-
Total tax	10,166	8,246
Tax liability	<u>1,895</u>	<u>3,976</u>
Effective tax rate	<u>10.75%</u>	<u>8.97%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

14. INCOME TAXES (Continued)

14.3. Komercijalna banka AD Banja Luka

Tax liability

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Profit reported in income statement	96,215	-
Expenses included in the income statement that are not recognized for tax purposes	78,935	-
Taxable profit	175,150	-
Tax liability at a rate of 10%	17,515	-
Deferred tax liabilities	-	-
Total tax	17,515	-
Tax liability	17,515	-
Effective tax rate	18.20%	-

15. GAINS ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Increase in deferred tax assets and decrease in deferred tax liabilities	36,268	68,151
	36,268	68,151

The tax asset arising from the difference in the unrecognized provision for retirement benefits in 2007 amounts to RSD 114,780 thousand.

The tax asset arising from the difference in the unrecognized provision expense of court cases in 2007 amounts to RSD 8,562 thousand.

16. LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITIES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Decrease in deferred tax assets and increase in deferred tax liabilities	3,633	14,439
	3,633	14,439

The computation of the deferred tax difference at the prescribed tax rate on the temporary difference in the value of fixed assets as at 31 December 2007 required the reporting of an additional amount of RSD 3,633 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

17. CASH AND CASH EQUIVALENTS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Cash on hand		
- in dinars	1,390,972	1,291,410
- in foreign currency	1,438,995	622,439
Accounts in dinars with the National Bank of Serbia		
- giro account	1,344,309	4,426,443
- Deposited surpluses of liquid funds	4,776,899	1,480,999
Foreign currency accounts with:		
- local banks	2,284	64,296
- foreign banks	2,683,574	2,262,003
Cheques in the course of collection		
- in dinars	-	-
- in foreign currency	53,255	133,967
Gold and other precious metals	42	42
	<u>11,690,330</u>	<u>10,281,599</u>

Komercijalna banka AD Beograd

The obligatory reserves represent a deposit required by the National Bank of Serbia ("NBS"), which is calculated and deposited with the NBS in accordance with the Decision on Obligatory Reserves of Banks with the NBS and is held on the Bank's giro account. Obligatory reserve in dinars may be used for liquidity purposes. During 2007, the Bank was in compliance with obligatory reserve requirements and the Parent Bank did not use obligatory reserve for liquidity purposes.

In accordance with NBS requirements, the Parent Bank must maintain a minimum average monthly balance on its giro account in the amount of the calculated mandatory dinar reserve, and an average daily balance in the amount of 100% of the calculated mandatory dinar reserve.

The Parent Bank did not exceed prescribed limits in respect of obligatory reserve during 2007. The NBS pays interest on average obligatory reserves in Dinars at an interest rate of 2.5% p.a.

18. DEPOSITS WITH CENTRAL BANKS AND SECURITIES THAT CAN BE REFINANCED BY CENTRAL BANKS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Obligatory reserves with the central banks of Montenegro and Bosnia and Herzegovina	1,678,836	148,673
Obligatory foreign currency reserve with NBS	25,613,826	23,698,445
Securities purchased under agreement to resell with NBS	9,800,000	10,230,928
	<u>37,092,662</u>	<u>34,078,046</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

18. DEPOSITS WITH CENTRAL BANKS AND SECURITIES THAT CAN BE REFINANCED BY CENTRAL BANKS (Continued)**Komercijalna banka AD Beograd**

The obligatory reserve in foreign currency represents a minimum deposit required by the NBS, which is calculated and deposited with the NBS in accordance with the Decision on Obligatory Reserves of Banks with the NBS and is calculated on the average daily amount of foreign currency deposits and certain other foreign currency liabilities in the preceding month. During 2007, the Parent Bank was in compliance with obligatory reserve requirements

The obligatory reserve in foreign currency is non-interest bearing.

Komercijalna banka AD Budva

On 40% of the obligatory reserve the Central Bank calculates monthly interest at a rate of 1% per annum.

Komercijalna banka AD Banja Luka

In accordance with the decision of the Central Bank of B&H in respect of forming and maintaining obligatory reserves, the bank must calculate and maintain an obligatory reserve on deposits and borrowed funds in the amount of 15%. As of 1 January this rate will amount of 18%. This reserve can be used for liquidity purposes. The Central Bank of B&H pays a fee for the total amount of funds held with the Central Bank's account at a rate of 1%.

19. INTEREST AND FEES RECEIVABLES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Due from banks		
- in dinars	27,566	30,762
- in foreign currency	2,864	-
Due from customers		
- in dinars	972,149	951,435
- in foreign currency	260,579	526,044
Less: Allowance for impairment	(820,251)	(1,005,988)
	<u>442,907</u>	<u>502,253</u>

Suspended interest in the amount of RSD 752,472 thousand is not recognized in the consolidated balance sheet as at 31 December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

20. LOANS AND ADVANCES TO LOCAL BANKS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Loans to banks:		
- short-term	590,810	120,197
Current portion of long-term loans	1,585	1,580
- long-term	66,346	20,198
Current portion of long-term loans	(1,585)	(1,580)
Other financial placements in foreign currency		
- placements with Jugobanka a.d. Beograd in bankruptcy		
- other financial placements – Central Securities Depository and Clearing House	958,219	973,779
Other financial placements in dinars	86,976	130,888
Less: Allowance for impairment	(6,893)	15,502
Loans to banks:	<u>(1,059,768)</u>	<u>(1,075,006)</u>
	<u>635,690</u>	<u>185,558</u>

Total amount of allowance for impairment disclosed as at 31 December 2007 relates to impairment of other financial placements with Jugobanka a.d. Beograd in bankruptcy.

21. LOANS AND ADVANCES TO CUSTOMERS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Short-term:		
- in dinars	21,076,942	19,840,852
Current portion of long-term loans	14,700,630	7,329,112
- in foreign currency	25,404,314	4,363,435
Current portion of long-term loans	1,792,718	1,112,464
Long-term:		
- in dinars	44,786,625	31,564,814
Current portion of long-term loans	(14,700,630)	(7,329,112)
- in foreign currency	16,224,166	7,041,487
Current portion of long-term loans	(1,792,718)	(1,112,464)
Short-term:	<u>(8,796,255)</u>	<u>(9,676,511)</u>
	<u>98,695,792</u>	<u>53,134,077</u>

In accordance with NBS requirements, loans and advances to customers include loans and advances to foreign banks.

Short-term loans in dinars and foreign currency are granted for period ranging from 3 months to one year at nominal interest rates ranging from 0.95% to 3.01% per month.

Long-term loans in dinars and foreign currency are granted for period ranging from two to thirty years at nominal interest rates ranging from 3.45% to 25.50% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Analyses of the economic sector risk concentrations within the customer loan portfolio is presented as follows:

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Agriculture, hunting, forestry and water-works	2,747,963	1,897,549
Fishing	9,630	6,329
Mining and stone quarries	129,787	457,405
Processing industry	16,146,749	13,336,211
Production and supply of electrical energy, gas and water	154,393	27,255
Construction	4,169,531	3,324,777
Trading, maintaining of vehicles and households equipment	16,737,769	10,664,192
Hotels and restaurants	345,168	666,141
Transport, warehousing and telecommunications	2,414,254	1,655,447
Financial services	22,094,868	1,475,487
Property – renting and other business transactions	2,485,746	929,058
Governmental institutions	665,180	383,942
Education	13,274	2,214
Healthcare and social sectors	80,480	34,647
Other utilities, service and social activities	639,137	436,332
Retail	26,911,071	15,294,561
Other	2,950,792	2,542,530
	<u>98,695,792</u>	<u>53,134,077</u>

Risks and Uncertainties

The management of members of the Group recorded allowances and provisions for all known and estimated risks as of the date of the financial statements. The Group'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 Group'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 case that the debt recovery actions undertaken by the management of members of the Group are unsuccessful, additional amounts of allowances for impairment and provisions for contingent liabilities would be required in the forthcoming reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

22. SECURITIES

22.1. Securities held for trading

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Securities held for trading:		
- in dinars	115,851	1,616
- in foreign currency	191,677	328,482
Less: Allowance for impairment	<u>(1,616)</u>	<u>(1,616)</u>
	<u>305,912</u>	<u>328,482</u>

22.2. Securities held to maturity

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Bonds in dinars:		
- foreign currency savings bonds of Republic of Serbia		2,043
- companies	130,500	134,839
Bonds in foreign currency:		
- on the basis of the Loan for the Economic Development of Serbia		15,762
Less: Allowance for impairment	<u>(979)</u>	<u>(13,484)</u>
	<u>129,521</u>	<u>139,160</u>

22.3. Equity investments and other securities available for sale

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Other equity investments:		
Kombank invest – in the process of establishment	20,000	-
Equity investments in banks and other financial organizations	268,023	193,523
Equity investments in companies and other legal entities	689,947	990,265
Less: Allowance for impairment	<u>(391,919)</u>	<u>(794,585)</u>
	<u>586,051</u>	<u>389,203</u>

Allowance for impairment in the amount of RSD 391,919 thousand relates to 100% impairment of equity investments for which market value can not be determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

23. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Non-current assets held for sale and discontinued operations	-	3,525
	<u>-</u>	<u>3,525</u>

24. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY

<u>In thousands of RSD</u>	Land and buildings	Equipment	Constructi on in progress	Intangible assets	Total
Cost or valuation					
Balance as at 31 December 2006	3,456,549	1,753,819	48,425	64,526	5,323,319
Purchase	85,764	60,052	459,389	234,724	839,929
Revaluation	-	-	-	-	-
Transfers from/to	101,794	346,958	(448,752)	-	0
Disposals and write-offs	(61,859)	(47,522)			(109,381)
Other	536,719	4,511			541,230
Foreign exchange gains/losses	173	462	16	125	776
Balance as at 31 December 2007	<u>4,119,140</u>	<u>2,118,280</u>	<u>59,078</u>	<u>299,375</u>	<u>6,595,873</u>
Accumulated depreciation					
Balance as at 31 December 2006	280,326	924,115	-	6,365	1,210,806
Depreciation for 2007	64,451	232,876	-	31,114	328,441
Revaluation					0
Disposals and write-offs	(4,450)	(45,976)	-		(50,426)
Other	(285)	3,970	-	0	3,685
Foreign exchange gains/losses	17	100		16	133
Balance as at 31 December 2007	<u>340,059</u>	<u>1,115,085</u>	<u>0</u>	<u>37,495</u>	<u>1,492,639</u>
Net book value as at 31 Dec. 2007	<u>3,779,081</u>	<u>1,003,195</u>	<u>59,078</u>	<u>261,880</u>	<u>5,103,234</u>
Net book value as at 31 Dec. 2006	<u>3,176,223</u>	<u>829,704</u>	<u>48,425</u>	<u>58,161</u>	<u>4,112,513</u>

As at 31 December 2007 the Group was using equipment acquired under finance lease agreements having a net book value of RSD 93,628 thousand, while finance lease liabilities amounted to RSD 71,496 thousand as at 31 December 2007.

The Group has not pledged as collateral any of its property as at 31 December 2007.

As a result of incomplete land register books, the Parent Bank's property stated in the amount of RSD 753,139 thousand as at 31 December 2007 has not been duly recorded in the land register. The Parent Bank's management is undertaking actions to obtain the appropriate property registration documents.

As at 1 January 2005 the Parent Bank booked revaluation (valuation by an independent and certified appraiser) of property. The revaluation method will be used for measurement of property in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

24. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY (Continued)**Investment property**

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Balance as at 1 January 2007, gross	3,148,853	-
Accumulated depreciation	(56,364)	-
Balance as at 1 January 2007, net	3,092,489	3,342,426
Increase (transfer from acc. 341 – sale of business premises in Novi Pazar)	3,283	-
Decrease by transfer to fixed assets (Makedonska 29, Beograd)	(540,001)	(223,481)
Decrease (sale of business premises in Novi Pazar)	(3,283)	26,082
Revaluation	-	3,826
Accumulated depreciation	(52,459)	(56,364)
	<u>2,500,029</u>	<u>3,092,489</u>

As at 31 December 2007 the net result realized from investment properties amounts to RSD 66,424 thousand.

<u>Building</u>	<u>Area in m2</u>	<u>In thousands of RSD</u>		
		<u>Total expenses</u>	<u>Rental income realized</u>	<u>Net result</u>
Beograd, Makedonska 29	13,953.82	65,305	130,950	65,645
Požarevac, Moše Pijade 2	914.23	693	1,472	779

As at 31 December 2007 the subsidiary banks did not report any investment properties.

Intangible assets as at 31 December 2007 comprise:

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Advances paid	159,315	4,935
Other intangible assets (investment in rented business premises)	140,060	59,591
Accumulated depreciation	(37,495)	(6,365)
	<u>261,880</u>	<u>58,161</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

25. OTHER ASSETS AND ACCRUALS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Receivables from sale	832	51,019
Material assets received as collection of receivables	26,482	168,112
Receivables from employees	36,381	31,716
Receivables for prepaid other taxes	554	197
Advances paid	7,992	34,898
Other assets	431,800	276,646
Accrued interest:		
- in dinars	72,869	48,251
- in foreign currency	53,523	37,142
Accrued expenses	104,663	103,591
Other accruals		
- in dinars	2,380	1,863
- in foreign currency	7,886	-
Less: Allowance for impairment	(145,171)	(86,034)
	<u>600,191</u>	<u>667,401</u>

Komercijalna banka AD Beograd

Material assets received as collection of receivables in the amount of RSD 12,705 thousand relate to:

- Business premises in Novi Pazar, Kej skopskih žrtava 44 in the amount of RSD 9.765 thousand (82.95 sqm) and
- Residential premises in Novi Pazar, Halima Rožajca 7 in the amount of RSD 2,940 thousand (131.50 sqm).

For the mentioned property the Bank holds ownership that is not registered in the land registry. The Bank's management is undertaking actions to sell the mentioned property.

In accordance with NBS regulations for material assets received as collection of receivables the Bank is under obligation to dispose of them or to deploy them for its own use within twelve months of the date of acquisition. In the event that the prescribed deadline is exceeded the Bank must make a provision of 100%. Based on exceeding of deadline for disposal the Bank made provisions in the amount of RSD 9,765 thousand as at 31 December 2007.

Komercijalna banka AD Budva

Assets for sale in the amount of RSD 13,777 thousand comprise property acquired as collection of receivables from activation of real-estate property held in escrow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

26. DEFERRED TAX ASSETS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Deferred tax assets	114,780	366,412
Deferred tax liabilities		(64,612)
Tax assets (net)	<u>114,780</u>	<u>301,800</u>

Deferred tax assets include tax credit carry forwards associated with capital expenditures and taxable temporary differences associated with provision for retirement benefits and provision for litigation.

In accordance with IAS 12 „Income tax“, section 71, deferred tax assets and liabilities are presented in the net amount.

27. DEPOSITS AND BORROWINGS FROM LOCAL BANKS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Demand deposits:		
- in dinars	910,324	743,970
- in foreign currency	1,546,298	1,066,345
Short-term deposits:		
- in dinars	1,093,320	1,413,589
- in foreign currency	1,635,992	867,642
Short-term borrowings:		
- in dinars	1,139	
- in foreign currency		
Long-term deposits:		
- in dinars	29,280	1,340,084
- in foreign currency	188,666	7,347
Long-term borrowings:		
- in dinars	4,320	6,551
- in foreign currency	7,924	
Other liabilities:		
- in dinars	9,301	24,175
- in foreign currency	17,128	29,247
	<u>5,443,692</u>	<u>5,498,950</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

28. DEPOSITS AND BORROWINGS FROM CUSTOMERS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Demand deposits:		
- in dinars	18,827,712	15,924,356
- in foreign currency	32,852,641	21,698,209
Short-term deposits:		
- in dinars	27,705,179	7,857,169
- in foreign currency	40,007,264	29,005,388
Short-term borrowings:		
- in dinars	-	-
- in foreign currency	425,018	498,322
Long-term deposits:		
- in dinars	411,376	398,577
- in foreign currency	6,491,936	4,047,444
Long-term borrowings:		
- in foreign currency	2,429,652	3,044,640
Other liabilities in foreign currency	158,820	152,466
	<u>129,309,598</u>	<u>82,626,571</u>

In accordance with NBS regulations, deposits and borrowings from customers include deposits and borrowings from foreign banks.

A breakdown of liabilities toward clients is as follows:

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Public sector	8,502,149	5,927,631
Companies	46,670,672	21,210,409
Foreign entities	1,794,330	2,247,269
Retail customers	72,342,447	53,241,262
	<u>129,309,598</u>	<u>82,626,571</u>

Long-term borrowings of the Parent Bank primarily relate to the following credit lines:

- through the Republic of Srpska for a loan from the European Investment Bank for financing projects of small and medium sized enterprises, as well as financing of infrastructural projects of small and medium scope in the amount of RSD 1,264,347,
- through the Republic of Srpska for a loan from the Italian Government for financing projects of small and medium sized enterprises in the amount RSD 1,221,580 thousand,
- liabilities toward the Republic of Serbia for an European Agency for Reconstruction loan in the amount of RSD 94,512 thousand,
- liabilities toward the European Fund for South-eastern Europe in the amount of RSD 69,371 thousand for a credit line approved in the framework amount of EUR 4 million,
- credit lines from Italian, German and Hungarian banks for financing import of merchandise in the total amount of RSD 194,508 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

28. DEPOSITS AND BORROWINGS FROM CUSTOMERS (Continued)

Long-term borrowings of *Komercijalna banka AD Budva* primarily relate to the following credit lines:

- though the Montenegrin Government for a loan from the Development Fund of Montenegro which the bank provides to end users for periods of up to 3 years in the amount of RSD 9.191 thousand (EUR 116 thousand) and
- through the Montenegrin Government for a long-term loan from the Directorate for the Development of Small and Medium-sized Enterprises in the amount of RSD 7,924 thousand (EUR 100 thousand) that the bank grants to end users for periods of up to 7 years.

Call deposits in dinars primarily relate to transactional deposits of companies and other legal entities. These deposits are non-interest bearing, except in case of specific business arrangements.

Corporate foreign currency call deposits and deposits from foreign entities of the Parent Bank are non-interest bearing, except for specific operations. At *Komercijalna banka AD Budva* interest on corporate deposits ranges between 1.00% to 4.00% per annum. Short-term corporate dinar and foreign currency deposits are deposited at interest rates ranging from 1% to 7%, depending on date of maturity, at a monthly level.

Dinar a vista retail savings deposits are deposited at an annual interest rate of 2.5%. Foreign currency a vista retail savings deposits are deposited at interest rates ranging from 0.25% to 1.2% per annum.

Short-term retail deposits in dinars are deposited at interest rates ranging from 9% to 12.00% per annum, and in foreign currency from 1.7% to 5% per annum.

Long-term retail deposits in dinars are deposited at interest rates ranging from 14.00% to 16.00% per annum, and in foreign currency from 2.65% to 5.90% per annum.

29. INTEREST AND FEES LIABILITIES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Interest and fees liabilities to banks		
- in dinars	14,715	13,497
- in foreign currency	1,375	121
Interest and fees liabilities to customers		
- in dinars	52,632	36,300
- in foreign currency	10,878	1,080
	<u>79,600</u>	<u>50,998</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

30. OTHER OPERATING LIABILITIES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Salaries	68	50
Taxes, contributions and other duties payable	76,301	67,872
Suppliers	197,965	184,968
Advances received	36,302	8,922
Other liabilities bases on funds held on escrow accounts	-	158,000
Other liabilities	307,322	280,646
	617,958	700,458
Liabilities from profit distributions (dividends)	4,918	4,284

31. PROVISIONS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Provision for contingent liabilities	559,983	705,944
Provision for litigation	277,610	401,072
Provision for retirement benefits	336,154	51,134
	1,173,747	1,158,150

Movements in provisions

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Provision for contingent liabilities		
Opening balance	705,944	771,345
Release of provision	(145,961)	(65,401)
Closing balance	559,983	705,944

Provision for litigation

Opening balance	401,072	415,967
Usage	(209,085)	(14,895)
Charge during the year	85,623	-
Closing balance	277,610	401,072

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Provision for retirement benefits		
Opening balance	51,134	
Charged during the year	285,020	51,134
Closing balance	336,154	51,134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

32. OTHER LIABILITIES AND ACCRUALS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Accrued interest:		
- in dinars	8,545	12,328
- in foreign currency	715,829	481,936
Deferred income		
- in dinars	713,484	490,230
- in foreign currency	69,339	593
Accrued expenses	20,474	18,051
Other accruals:		
- in dinars	173,989	149,881
- in foreign currency	72,906	-
Long-term liabilities for finance lease	49,034	71,149
	<u>1,823,600</u>	<u>1,224,168</u>

Accrued pre-collected loan fees – deferred income, for application of effective interest rate in accordance with IAS 39 as at 31 December 2007 in the amount of RSD 477,757 thousand.

33. SHARE CAPITAL

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Share capital with share issue premium and other capital	13,187,635	12,662,892
Minority interest	41	38
	<u>13,187,676</u>	<u>12,662,930</u>

Komercijalna banka AD Beograd

In accordance with the articles of association the Group's equity consists of share capital and reserves of the Bank.

The Parent Bank's share capital is formed from initial shareholders' contributions and subsequent issues of new shares, as well as through revaluation up to 31 December 2002. Shareholders hold the rights to manage the Bank, as well as the right to share in its profits.

The new issue of ordinary shares was made on 16 November 2007:

- XX share issue – 72,000 shares issued (nominal value per share of RSD 10 thousand), with grounds for issue being share capital increase with right of prior purchase of shares

On 31 December 2007 the value of share capital consists of 873,603 shares, with a nominal value of RSD 10 thousand and following breakdown:

- 836,252 ordinary shares and
- 37,351 preferential shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

33. SHARE CAPITAL (Continued)

In 2007 the Bank sold 4,381 treasury shares acquired through the liquidation of a subsidiary company „1+2“ Frankfurt (with a total of 16,441 shares), and after expiry of the deadline for their sale, it cancelled the remaining 12,060 treasury shares.

During 2007 preferential dividends for earlier period were paid out in the amount of RSD 55,332 thousand.

Basic earning per share amount to RSD 3 thousand or 34.7% of the nominal value of an ordinary share.

Komercijalna banka AD Budva

Based on the decision adopted by the Banks' shareholders' assembly on 14 February 2007, 100 shares were issued for payment of dividends to the founder in the amount of EUR 1,000 thousand.

The new issue of ordinary shares for increase in capital of Komercijalna banka AD Budva, with right of prior purchase, was issued on 30 March 2007.

- 1,000 shares were issued (nominal value per share of EUR 10 thousand).

Based on the Securities Commission decision issued on 10 May 2007 the share issue was successful.

The share capital of the Parent Bank in the subsidiary banks is fully consolidated.

Liabilities of the Parent Bank that can be converted into capital

Liabilities of the Parent Bank for which management assesses that they can be subject to future share issues and conversion into capital, in accordance with the Law Regulating the Relation Between FRY and Companies and Banks on the Territory of FRY, who are initial borrowers or guarantors toward the Paris and London clubs of creditors, as at 31 December 2007 amount to RSD 4,900 thousand, or USD 36,800.44 and EUR 36,891.72 and are reported under long-term borrowings from foreign banks.

Capital adequacy ratio

The Parent Bank must maintain a capital adequacy ratio of 12% as prescribed by the National Bank of Serbia, in accordance with the Basel Convention, as required of all banks. As at 31 December 2007 the Parent Bank's capital adequacy ration, computed using the financial statements prepared by the Parent Bank's management, amounted to 13.56%, and using methodology set out in National Bank of Serbia's decisions for 2007.

As at 31 December 2007 the monetary portion of equity of Komercijalna banka AD Budva is compliant with the prescribed limit in the Republic of Montenegro. The prescribed minimum amount of monetary equity amounts to EUR 5,000 thousand.

Komercijalna banka AD Banja Luka must maintain a capital adequacy ratio of 12% as prescribed by the Banking Agency of the Republic of Srpska, in accordance with the Basel Convention. As at 31 December 2007 the capital adequacy ration was above the prescribed minimum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

34. RESERVES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Revaluation reserve	832,042	769,267
Reserve from profit	2,213,883	1,199,798
	<u>3,045,925</u>	<u>1,969,065</u>

Movements in reserve were as follows:

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Revaluation reserve		
Opening balance	769,267	607,495
Increase	62,775	161,772
Closing balance	<u>832,042</u>	<u>769,267</u>

Revaluation reserves relate to gains arising on increase in value of property based on the appraisal made by an independent appraiser and gains on securities available for sale.

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Reserve from profit		
Opening balance	1,199,798	849,383
Increase		
– distribution of retained earnings	783,000	350,000
– effects of application of IAS 39 and IAS 37 in subsidiaries	231,066	878
Foreign currency gains/losses	19	(463)
Closing balance	<u>2,213,883</u>	<u>1,199,798</u>

35. RETAINED EARNINGS

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Retained earnings		
Consolidated retained earnings	3,287	364,948
Current year retained earnings	3,215,600	938,848
	<u>3,218,887</u>	<u>1,303,796</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

36. MANAGED FUNDS FOR AND ON BEHALF THIRD PARTIES

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Managed funds for and of behalf third parties	<u>6,523,329</u>	<u>3,939,833</u>

Managed funds for and of behalf third parties primarily relate to funds from commission loans of the Republic of Serbia, the City of Belgrade and funds received from foreign donors for micro loans.

37. OFF-BALANCE SHEET ITEMS

a) Guarantees and other contingent liabilities

<u>In thousands of RSD</u>	31 December	
	<u>2007</u>	<u>2006</u>
Payment guarantees:	5,378,357	6,409,040
- in dinars	2,086,252	2,707,692
- in foreign currency	3,292,105	3,701,348
Performance guarantees:	3,185,411	2,087,775
- in dinars	2,789,488	1,756,449
- in foreign currency	395,923	331,326
Letters of credit	482,402	571,686
- in dinars	-	-
- in foreign currency	482,402	571,686
Letters of credit and guarantees	880,029	1,594,999
- in dinars	880,029	1,594,999
- in foreign currency	-	-
Pledges for liabilities	-	-
- in dinars	-	-
Undertaken incontrovertible liabilities	13,483,234	9,768,160
- in dinars	11,908,959	9,212,843
- in foreign currency	1,574,275	555,317
	<u>23,409,433</u>	<u>20,431,660</u>

For the mentioned guarantees and contingent liabilities the estimated provision against potential losses in accordance with IAS 37 amounts to:

In thousands of dinars

- - Parent Bank 559,966
- - Budva 17

With Komercijalna Banka AD Banja Luka application of IAS 37 did not require formation of a provision against potential losses.

There were no liabilities arising from foreign currency term transactions as at 31 December 2007 and 31 December 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

37. OFF-BALANCE SHEET ITEMS (Continued)

Within the Group there were no liabilities arising from foreign currency term transactions as at 31 December 2007 and 31 December 2006.

b) Court cases***Komercijalna banka AD Beograd***

As at 31 December 2007 contingent liabilities relating to court cases against the Bank amount to RSD 1,517,864 thousand (number of cases 47 – value of individual cases above RSD 100 thousand). Bank management does not expect materially significant losses in the near future arising from these court cases. The Bank has provisions for court cases in the amount of RSD 277,610 thousand.

Besides this, the Bank is involved in court cases against third parties with the most significant amount being RSD 6,597,469 thousand (number of cases 757 – value of individual cases above RSD 100 thousand). Bank management expects positive outcomes for the majority of cases.

Komercijalna banka AD Budva

As at 31 December 2007 Komercijalna banka AD Budva is involved in various court cases among which the value of the two most significant cases amounting to RSD 1,671 thousand.

As at 31 December 2007 the Bank is involved in court cases against third parties for collection of receivables in the amount of RSD 15,530 thousand (number of cases 6).

Komercijalna banka AD Banja Luka

As at 31 December 2007 Komercijalna banka AD Banja Luka was not involved in any court cases.

38. COMPLIANCE WITH STATUTORY REGULATIONS

As at 31 December 2007 the Group was compliant with all National Bank of Serbia's statutory regulations.

39. 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 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.

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. An unmatched position potentially increases profitability, but also the risk of loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

39. LIQUIDITY RISK (Continued)

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, the interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The 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.

	<u>In thousands of RSD</u>				
	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
As at 31 December 2007					
1. ASSETS					
Cash and cash equivalents	11,676,860	-	-	13,470	11,690,330
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	37,092,662	-	-	-	37,092,662
Interest and fees receivables	442,907				442,907
Loans and advances to banks	373,552	26,983	191,959	43,196	635,690
Loans and advances to customers	17,016,118	19,052,146	26,899,131	35,728,397	98,695,792
Securities held for trading	-	-	250,321	55,591	305,912
Securities held to maturity	-	-	129,521	-	129,521
Equity investments and other financial assets available for sale	-	-	-	586,051	586,051
Investments in equity of related parties (only in consolidated balance sheet)	-	-	-	-	-
Non-current assets held for sale and discontinuing operations	-	-	-	-	-
Income tax prepayments	-	-	53,549	-	53,549
Goodwill	-	-	-	-	-
Intangible assets	30	-	381	261,468	261,880
Investment property	-	-	-	2,500,029	2,500,029
Fixed assets	964	818	1,786	4,837,786	4,841,354
Other assets and accrued income	406,595	58,963	86,187	48,446	600,191
Deferred tax assets	-	-	114,780	-	114,780
Loss over capital	-	-	-	-	-
Total assets	67,009,688	19,138,910	27,727,615	44,074,434	157,950,648
2. LIABILITIES AND EQUITY					
Deposits and borrowings from banks	3,491,697	790,043	902,310	259,642	5,443,692
Deposits and borrowings from customers	60,269,153	34,665,843	25,335,242	9,039,360	129,309,598
Interest and fees liabilities	73,989	517	4,994	100	79,600
Liabilities from securities	-	-	-	-	-
Liabilities from income distribution	-	4,918	-	-	4,918
Current tax liability	-	19,410	-	-	19,410
Other operating liabilities	598,790	4,622	14,546	-	617,958
Provisions	17	-	-	1,173,730	1,173,747
Other liabilities and accruals	290,060	524,142	755,375	254,023	1,823,600
Equity	-	-	-	19,478,125	19,478,125
Total liabilities and equity	64,723,706	36,009,495	27,012,467	30,204,980	157,950,648
Net liquidity gap on 31 Dec 2007	2,285,982	(16,870,585)	715,148	13,869,455	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

Items with unspecified maturities are placed in the category of maturity over 1 year.

40. OVERVIEW OF INTEREST RATE RISK

	<u>In thousands of RSD</u>		
	<u>Interest bearing</u>	<u>Non-interest bearing</u>	<u>Total</u>
As at 31 December 2007			
ASSETS			
Cash and cash equivalents	8,602,655	3,087,675	11,690,330
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	10,319,065	26,773,597	37,092,662
Interest and fees receivables	27,353	415,554	442,907
Loans and advances to banks	557,156	78,534	635,690
Loans and advances to customers	98,685,619	10,173	98,695,792
Securities held for trading	-	305,912	305,912
Securities held to maturity	129,521	-	129,521
Equity investments and other financial assets available for sale	-	586,051	586,051
Non-current assets held for sale	-	-	-
Income tax prepayments	-	53,549	53,549
Intangible assets	-	261,880	261,880
Investment property	-	2,500,029	2,500,029
Fixed assets	-	4,841,354	4,841,354
Other assets and accrued income	-	600,191	600,191
Deferred tax assets	-	114,780	114,780
Loss over capital	-	-	-
I. Total assets	<u>118,321,369</u>	<u>39,629,279</u>	<u>157,950,648</u>
LIABILITIES AND EQUITY			
Deposits and borrowings from banks	3,262,236	2,181,456	5,443,692
Deposits and borrowings from customers	107,214,090	22,095,508	129,309,598
Interest and fees liabilities	-	79,600	79,600
Liabilities from income distribution	-	4,918	4,918
Current income tax liability	-	19,410	19,410
Other operating liabilities	-	617,958	617,958
Provisions	-	1,173,747	1,173,747
Other liabilities and accruals	-	1,823,600	1,823,600
Deferred tax liabilities	-	-	-
Total equity	-	<u>19,478,125</u>	<u>19,478,125</u>
Share capital	-	13,187,676	13,187,676
Reserve	-	3,045,925	3,045,925
Retained earnings	-	3,218,887	3,218,887
Foreign currency gains	-	25,637	25,637
Foreign currency losses	-	-	-
Minority interest	-	41	41
II. Total liabilities and equity	<u>110,476,326</u>	<u>47,474,322</u>	<u>157,950,648</u>
Net exposure to interest rate risk as at 31 December 2007	<u>7,845,043</u>	<u>(7,845,043)</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

41. FOREIGN CURRENCY BALANCE

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

	<u>In thousands of RSD</u>					
	<u>EUR</u>	<u>USD</u>	<u>Other currencies</u>	<u>Total FX balance</u>	<u>RSD balance</u>	<u>Total</u>
As at 31 December 2007						
ASSETS						
Cash and cash equivalents	3,794,593	214,805	896,489	4,905,887	6,784,443	11,690,330
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	23,558,219	2,825,171	909,272	27,292,662	9,800,000	37,092,662
Interest and fees receivables	75,600	125	20,375	96,100	346,807	442,907
Loans and advances to banks	86,976	-	89,495	176,471	459,219	635,690
Loans and advances to customers	36,165,875	1,336,914	1,478,033	38,980,822	59,714,970	98,695,792
Securities held for trading	191,677	-	-	191,677	114,235	305,912
Securities held to maturity	-	-	-	0	129,521	129,521
Equity investments and other financial assets available for sale	45	-	-	45	586,006	586,051
Non-current assets held for sale	-	-	-	-	-	-
Income tax prepayments	-	-	-	-	53,549	53,549
Goodwill	-	-	-	-	-	-
Intangible assets	5,042	-	51,359	56,401	205,479	261,880
Investment property	-	-	-	-	2,500,029	2,500,029
Fixed assets	192,147	-	98,570	290,717	4,550,637	4,841,354
Other assets and accrued income	142,836	8,582	12,890	164,308	435,883	600,191
Deferred tax assets	485	-	-	485	114,295	114,780
Loss over capital	-	-	-	-	-	-
Total assets	64,213,495	4,385,597	3,556,483	72,155,575	85,795,073	157,950,648
LIABILITIES AND EQUITY						
Deposits and borrowings from banks	2,069,372	156,588	1,178,808	3,404,768	2,038,924	5,443,692
Deposits and borrowings from customers	75,795,894	3,903,043	2,666,371	82,365,308	46,944,290	129,309,598
Interest and fees liabilities	11,987	43	223	12,253	67,347	79,600
Liabilities from securities	-	-	-	-	-	-
Liabilities from income distribution	-	-	-	-	4,918	4,918
Current income tax liabilities	1,895	-	17,515	19,410	-	19,410
Non-current assets held for sale	-	-	-	-	-	-
Other operating liabilities	55,874	15,623	34,819	106,316	511,642	617,958
Provisions	19,655	0	7,127	26,782	1,146,965	1,173,747
Other liabilities and accruals	123,863	43,819	53,081	220,763	1,602,837	1,823,600
Deferred tax liabilities	-	-	-	-	-	-
Equity	278,253	0	31,112	309,365	19,168,760	19,478,125
Total liabilities and equity	78,356,793	4,119,116	3,989,056	86,464,965	71,485,683	157,950,648
Net currency gap as at 31.12.2007.	(14,143,298)	266,481	(432,573)	(14,309,390)	14,309,390	-
Net currency gap as at 31.12.2006.	(26,016,194)	(206,107)	494,165	(25,728,136)	25,728,136	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

RSD loans and advances and liabilities with a foreign currency clause are reported in the “RSD balance” column. Within the Bank’s foreign currency liabilities, foreign currency items account for 54.75%.

42. CONSOLIDATED POSITIONS OF RELATED PARTIES

Balance sheet

		<u>In thousands of RSD</u>
Aggregate unconsolidated balance sheet	Balance sheet consolidation amount	Consolidated balance sheet
cash / liabilities	70,406	
loans and advances / liabilities	594,272	
stakes / equity	2,201,988	
160,817,314	2,866,666	157,950,648

Income statement

	<u>In thousands of RSD</u>		
Aggregate unconsolidated profit in Income statement	Income statement consolidation amount		Consolidated profit
	Income	Expenses	
interest	11,023	11,023	
fees and commissions	1,116	1,116	
foreign exchange differences	17,390		
other operating income/expenses	198,702	198,702	
dividend income/equity	82,981		
3,315,971	311,212	210,841	3,215,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

43. SEGMENT REPORT

A. BALANCE SHEET (As at 31 December 2007)

In thousands of RSD

	<u>Beograd</u>	<u>Budva</u>	<u>Banja Luka</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	9,623,896	1,219,038	847,396	11,690,330
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	35,413,826	769,564	909,272	37,092,662
Interest and fees receivables	394,652	27,353	20,901	442,907
Loans and advances to banks	546,194	-	89,496	635,690
Loans and advances to customers	89,386,660	4,008,924	5,300,209	98,695,792
Securities held for trading	305,912	-	-	305,912
Securities held to maturity	129,521	-	-	129,521
Equity investments and other financial assets available for sale	586,006	45	-	586,051
Non-current assets held for sale	-	-	-	-
Income tax prepayments	53,549	-	-	53,549
Goodwill	-	-	-	-
Intangible assets	205,479	5,042	51,359	261,880
Investment property	2,500,029	-	-	2,500,029
Fixed assets	4,550,637	192,147	98,570	4,841,354
Other assets and accrued income	563,155	22,821	14,215	600,191
Deferred tax assets	114,295	485	-	114,780
Loss over capital	-	-	-	-
Total assets	144,373,811	6,245,419	7,331,418	157,950,648
LIABILITIES AND EQUITY				
Deposits and borrowings from banks	4,253,626	17,331	1,172,735	5,443,692
Deposits and borrowings from customers	120,319,490	4,422,477	4,567,631	129,309,598
Interest and fees liabilities	68,508	9,881	1,211	79,600
Liabilities from securities	-	-	-	-
Liabilities from income distribution	4,918	-	-	4,918
Current income tax liabilities	-	1,895	17,515	19,410
Non-current assets held for sale and discontinuing operations	-	-	-	-
Other operating liabilities	535,043	38,509	44,406	617,958
Provisions	1,146,965	19,655	7,127	1,173,747
Other liabilities and accruals	1,668,620	91,045	63,935	1,823,600
Deferred tax liabilities	-	-	-	-
Total liabilities and equity	127,997,170	4,600,793	5,874,560	138,472,523
EQUITY				
Shareholder's equity	13,187,635	-	41	13,187,676
Reserves	2,808,332	154,728	82,865	3,045,925
Retained earnings	3,132,644	85,235	1,008	3,218,887
FX gains on translation of foreign operations	25,637	-	-	25,637
TOTAL EQUITY	19,154,248	239,963	83,914	19,478,125
TOTAL LIABILITIES AND EQUITY	147,151,417	4,840,755	5,958,474	157,950,648
OFF-BALANCE SHEET ITEMS				
63,283,158	213,818	1,069,145	64,566,121	
Managed funds for and on behalf of third parties	6,517,782	5,547	-	6,523,329
Guarantees, sureties, collateral for securing liabilities and irrevocable commitments undertaken	22,150,771	189,517	1,069,145	23,409,433
Other off-balance sheet items	34,614,605	18,754	-	34,633,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

43. SEGMENT REPORT (Continued)

B. INCOME STATEMENT (For the year ended 31 December 2007)

In thousands of RSD

	<u>Beograd</u>	<u>Budva</u>	<u>Banja Luka</u>	<u>Total</u>
Interest income	7,504,164	307,502	311,586	8,123,252
Interest expense	<u>2,561,615</u>	<u>34,552</u>	<u>116,543</u>	<u>2,712,710</u>
Profit from interest	4,942,549	272,950	195,043	5,410,542
Fee and commission income	3,044,980	202,129	109,977	3,357,086
Fee and commission expense	<u>220,605</u>	<u>25,294</u>	<u>11,237</u>	<u>257,136</u>
Profit from fees and commissions	2,824,375	176,835	98,740	3,099,950
Net gain on disposal of securities and equity investments	77,249	-	-	77,249
Net foreign exchange gains	459,982	-	2,666	457,662
Net foreign exchange losses	-	4,986	-	-
Dividend and equity investment income	968	-	-	968
Other operating income	1,501,632	91,386	(76,257)	1,516,761
Expense of write-offs of investments and provisions	345,011	29,470	6,405	380,886
Other operating expenses	6,450,008	259,976	252,166	6,962,150
Gains on valuation of assets and liabilities	5,683,700	-	-	5,683,700
Losses on valuation of assets and liabilities	<u>5,693,150</u>	<u>-</u>	<u>-</u>	<u>5,693,150</u>
Operating profit	3,002,286	246,739	-	3,210,646
Operating loss	-	-	38,379	-
Income tax	-	10,166	17,515	27,681
Gains on increase in deferred tax assets and decrease in deferred tax liabilities	34,501	1,767	-	36,268
Losses on decrease in deferred tax assets and increase in deferred tax liabilities	<u>2,739</u>	<u>894</u>	<u>-</u>	<u>3,633</u>
PROFIT	3,034,048	237,446	-	3,215,600
LOSS	-	-	55,894	-

44. POST BALANCE SHEET EVENTS

Unreconciled account balances

Based on the analysis of the regular annual inventory conducted on 31 December 2007 the Bank has unreconciled account balances in the amount of RSD 35,135 thousand. Unreconciled account balances primarily relate to clients against whom court proceedings have been initiated.

Unpaid preferred dividends

Unpaid preferred dividends payable in 2008 amount to:

- from 2007 RSD 56,848 thousand (15.22% of the nominal value of preferential shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2007

44. POST BALANCE SHEET EVENTS (Continued)

Share issue

Up to the 22 February 2008 deadline for exercising the right of prior purchase, registration and payment was made for 34,679 shares, representing 48.30% of the total share issue. The Bank notes that the XX share issue is successful and in 2008 which resulted in share capital increase of RSD 346,790 thousand and share issue premium of RSD 3,537,258.

Founding of a new subsidiary

On 31 December 2007 the Parent Bank paid in RSD 20,000 thousand for founding the investment fund management company Kombank invest, with 100% ownership of a closed shareholding company. Registration was carried out on 5 February 2008.

The company commenced operation on 20 February 2008.

45. EXCHANGE RATES

Exchange rates determined on the inter-banking foreign exchange market used in the translation of the balance sheet items denominated in foreign currencies into dinars (RSD) as at 31 December 2007 and 2006, were as follows:

	NBS official exchange rates		NBS average exchange rates	
	2007	2006	2007	2006
USD		59.9757		
EUR	79.2362	79.0000	79.9775	84.156
CHF		49.1569		
BAM	40.5128	40.3921	40.6378	40,7504*

* The average exchange rate for the BAM comprises the period of operation of Komercijalna banka AD Banja Luka from 26 September 2006 to 31 December 2006.

In Belgrade,
17 April 2008

Person responsible for
preparing the financial statements

L.S.

Legal representative
of the Bank