

**KOMERCIJALNA BANKA A.D.,
BEOGRAD**

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

KOMERCIJALNA BANKA A.D., BEOGRAD

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements (page 3 to 38) of Komercijalna banka A.D., Beograd (the "Bank"), which comprise the balance sheet as of December 31, 2006, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

(Continues)

INDEPENDENT AUDITORS' REPORT

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

Opinion

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



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

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

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
Interest income	3.1, 4a	6,548,498	5,302,228
Interest expense	3.1, 4b	<u>(2,059,774)</u>	<u>(1,850,660)</u>
Net interest income		4,488,724	3,451,568
Fee and commission income	3.1, 5a	2,632,557	2,610,575
Fee and commission expense	3.1, 5b	<u>(260,944)</u>	<u>(313,125)</u>
Net fee and commission income		2,371,613	2,297,450
Gains on the sale of securities	3.8, 3.10	33,453	194,996
Foreign exchange gains/(losses), net	3.2	1,985,851	(450,223)
Dividends and other income from equity investments		76,107	21,774
Other operating income	6	3,351,956	854,566
Losses on impairment and provisions	3.6, 7	(5,256,110)	(3,367,339)
Other operating expenses	8	(5,609,717)	(4,065,529)
(Losses)/gains on the valuation of assets and liabilities	3.5	<u>(581,737)</u>	<u>1,576,047</u>
PROFIT BEFORE TAX		860,140	513,310
Deferred tax income	3.15, 9a	68,151	223,001
Deferred tax expense	3.15, 9a	<u>(14,287)</u>	<u>(49,940)</u>
PROFIT FOR THE YEAR		<u>914,004</u>	<u>686,371</u>

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

These financial statements were approved by the Executive Board of Komercijalna banka A.D., Beograd on February 26, 2007.

Signed on behalf of Komercijalna banka A.D., Beograd:

Predrag Mihajlović, Ph.D.
Deputy President of the Executive Board

Ivica Smolić
President of the Executive Board

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

	<u>Notes</u>	<u>December 31, 2006</u>	<u>December 31, 2005</u>
ASSETS			
Cash and cash equivalents	10	8,026,663	10,341,929
Deposits with the central bank and securities available for refinancing with the central bank	11	33,371,741	17,695,512
Interest, fee and commission receivable	12	483,487	424,858
Placements with other banks	13	149,508	331,498
Loans and advances to customers	14	49,927,604	36,591,252
Trading securities	3.8	328,483	687,144
Securities held-to-maturity	15	139,160	22,689
Equity investments and securities available-for-sale	16	1,762,116	727,255
Assets held-for-sale		3,525	532
Income tax prepayments		26,746	15,752
Intangible assets	17	21,333	-
Investment property	17	3,092,489	-
Property and equipment	17	3,875,723	3,439,055
Other assets and accruals	18	643,530	4,223,616
Deferred tax assets	9b	366,412	298,261
Total assets		<u>102,218,520</u>	<u>74,799,353</u>
LIABILITIES AND EQUITY			
Liabilities			
Amounts owed to other banks	19	3,829,558	2,509,884
Amounts owed to customers	20	79,327,802	60,271,629
Interest, fee and commissions payable		48,722	35,594
Liabilities from the distribution of income		4,284	851
Other operating liabilities	21	648,776	843,511
Provisions	22	1,147,830	1,185,130
Other liabilities and accruals	23	1,152,769	960,845
Deferred tax liabilities	9c	64,226	49,940
Total Liabilities		86,223,967	65,857,384
Equity			
Share and other capital	24	12,662,890	6,744,999
Revaluation reserves		1,962,557	1,450,785
Retained earnings		1,369,106	746,185
Total Equity		<u>15,994,553</u>	<u>8,941,969</u>
Total Liabilities and Equity		<u>102,218,520</u>	<u>74,799,353</u>
OFF-BALANCE-SHEET ITEMS	25	<u>50,732,993</u>	<u>31,942,292</u>

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

	<u>2006</u>	<u>2005</u>
SHARE CAPITAL		
Balance, beginning of year	6,735,850	5,364,783
Shares issued pursuant to the Law on the Conversion of Debt with respect to the Refinanced Loans from the Paris and London Club of Creditors	-	523,150
Issuance and distribution of shares from XVII and XVIII issue	-	852,030
XIX issuance of shares	2,120,780	-
Transfer to reserves – un-nominated amount of ordinary shares	-	(1,719)
Transfer to liabilities – un-nominated amount of preference shares	-	(2,394)
Balance, end of year	<u>8,856,630</u>	<u>6,735,850</u>
SHARE PREMIUM		
Balance, beginning of year	-	-
Share premium based on XIX issuance of shares	3,961,520	-
Balance, end of year	<u>3,961,520</u>	<u>-</u>
TREASURY SHARES		
Balance, beginning of year	-	-
Acquired treasury shares	164,410	-
Balance, end of year	<u>164,410</u>	<u>-</u>
OTHER CAPITAL		
Balance, beginning of year	9,150	7,980
Increase due to transfer of an apartment from the Housing Development Fund	-	1,170
Balance, end of year	<u>9,150</u>	<u>9,150</u>
BANK'S RESERVES		
Reserve for potential losses		
Balance, beginning of year	542,748	434,384
Transfer from retained earnings	350,000	367,122
Transfer to other reserves	(51,176)	(258,758)
Balance, end of year	<u>841,572</u>	<u>542,748</u>
Other reserves		
Balance, beginning of year	300,542	40,065
Transfer from the reserve for potential losses	51,176	258,758
Transfer of un-nominated amount of capital	-	1,719
Balance, end of year	<u>351,718</u>	<u>300,542</u>
Balance, end of year	<u>1,193,290</u>	<u>843,290</u>
REVALUATION RESERVES		
Balance, beginning of year	607,495	-
Adjustment to appraisal of property and equipment	21,632	-
Transfer of the appraisal effects to retained earnings	(12,120)	(15,577)
Effects of remeasurement of available-for-sale securities to their fair value	152,260	-
Increase based on property and equipment appraisal	-	623,072
Balance, end of year	<u>769,267</u>	<u>607,495</u>
RETAINED EARNINGS		
Balance, beginning of year	746,185	438,384
Acquired treasury shares	164,410	-
Transfer to the Bank's reserves for potential losses	(350,000)	(367,122)
Transfer of the appraisal effects from revaluation reserves	12,120	15,577
Adjustments:		
- Transfer to liabilities for remuneration to the members of the Board of Directors, Supervisory Board and the Bank's management	(31,331)	(27,025)
- Dividends paid to the priority shareholders for FY 2004	(48,930)	-
- Dividends paid to the priority shareholders for FY 2005	(37,352)	-
Net profit for the year	<u>914,004</u>	<u>686,371</u>
Balance, end of year	<u>1,369,106</u>	<u>746,185</u>

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

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

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from operating activities	9,400,560	7,714,649
Interest receipts	6,170,239	4,832,663
Fee and commission receipts	2,902,072	2,567,052
Receipts from other operating income	252,142	293,152
Receipts from dividends and equity investments	76,107	21,782
Cash payments from operating activities	(7,512,405)	(5,772,507)
Interest payments	(1,879,075)	(1,646,447)
Fee and commission payments	(260,884)	(312,971)
Payments to, and on behalf of employees	(2,567,244)	(1,771,989)
Taxes, contributions and other duties paid	(527,039)	(409,514)
Payments from other operating expenses	(2,278,163)	(1,631,586)
Net operating cash flows before changes in placements and deposits	<u>1,888,155</u>	<u>1,942,142</u>
Net decreases in placements and increases in deposits	<u>20,945,315</u>	<u>18,492,255</u>
Decrease in securities and other trading assets and short-term securities held-to-maturity	372,864	-
Increase in deposits from banks and other financial institutions	1,320,924	109,398
Increase in deposits from customers	19,251,527	18,382,857
Net increases in placements and decreases in deposits	<u>(31,671,944)</u>	<u>(19,477,921)</u>
Increase in loans and placements to banks and other financial institutions	(15,366,878)	(5,139,157)
Increase in loans and advances to customers	(16,305,066)	(13,822,443)
Increase in securities and other trading assets and short-term securities held-to-maturity	-	(516,321)
Net cash (used in)/from operating activities before income tax	<u>(8,838,474)</u>	<u>956,476</u>
Income taxes paid	(10,993)	(15,750)
Dividends paid and remuneration to the members of the Board of Directors, Supervisory Board and the Bank's management	(114,179)	(27,027)
Net cash (used in)/from operating activities	<u>(8,963,646)</u>	<u>913,699</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	29,843	57,585
Proceeds from long-term investments in securities	-	7,397
Proceeds from the sale of equity investments	-	39,067
Proceeds from the disposal of property and equipment	29,843	11,121
Cash outflows from investing activities	(1,335,017)	(1,074,884)
Purchases of long-term securities	(129,954)	-
Purchases of equity investments	(722,734)	-
Purchases of property and equipment	(482,329)	(1,074,884)
Net cash used in investing activities	<u>(1,305,174)</u>	<u>(1,017,299)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	6,082,300	2,406,751
Proceeds from the issuance of shares	6,082,300	1,375,180
Proceeds from long-term borrowings	-	1,031,571
Cash outflows from financing activities	(114,597)	(358,784)
Repayments of long-term borrowings	(71,900)	-
Repayments of short-term borrowings	(42,697)	(358,784)
Net cash from financing activities	<u>5,967,703</u>	<u>2,047,967</u>
TOTAL CASH INFLOWS	<u>36,458,018</u>	<u>28,671,240</u>
TOTAL CASH OUTFLOWS	<u>(40,759,135)</u>	<u>(26,726,873)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(4,301,117)</u>	<u>1,944,367</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,341,929</u>	<u>8,847,784</u>
Foreign exchange gains	11,477,257	4,635,864
Foreign exchange losses	(9,491,406)	(5,086,086)
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>8,026,663</u>	<u>10,341,929</u>

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

1. THE BANK'S ESTABLISHMENT AND OPERATING POLICY

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

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

At December 31, 2006 the Bank was comprised of main branch office in Belgrade at the street address of: Svetog Save 14, 23 branches and 255 sub-branches located throughout the Republic of Serbia. The Bank has representative offices registered in Zagreb, Croatia and in Frankfurt am Main, Germany. At December 31, 2006 the Bank had 2,984 employees (December 31, 2005: 2,699 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

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

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

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

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

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

These financial statements include assets, liabilities, results of operations, changes in equity and cash flows of the Bank only, given that the NBS requires the filing of stand-alone financial statements. The Bank presents its consolidated financial statements separately.

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

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

2.2. Comparative Figures

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

- In 2005, the Bank's management estimated allowances for the impairment of financial instruments in accordance with the relevant NBS Regulations effective at that time. Such a policy results in departures from the amounts which would be determined, had the allowances for the impairment of financial instruments been estimated based on discounted expected future cash flows by applying the original effective interest rate, as required by IAS 39, "Financial Instruments: Recognition and Measurement."

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

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

2.2. Comparative Figures (Continued)

- In the comparative figures for the year ended December 31, 2005, loan origination fees are credited to income when the respective service has been performed. According to the provisions of IAS 18, "Revenue" and IAS 39, "Financial Instruments: Recognition and Measurement," these fees are considered as being an integral part of generating an ongoing involvement with the resultant financial instrument, and should be deferred and recognized as an adjustment to the effective interest yield.

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

2.3. Use of Estimates

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense Recognition

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Foreign Exchange Translation

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

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

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

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

3.3. Property and Equipment

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

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

Construction in progress is stated at cost.

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

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

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

3.4. Investment Property

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.5. Loans and Advances Originated by the Bank**

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

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

3.6. Allowances for Impairment and Provisions for Contingent Liabilities

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

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

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

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

The write-off of uncollected receivables is performed pursuant to the provisions of a court order, or based upon a settlement agreed between the parties involved, or on the basis of a relevant resolution of the Bank's Executive Board or Board of Directors.

3.7. Repurchase Transactions

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Trading Securities

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

3.9. Securities Held-to-Maturity

Securities held to maturity are stated at amortized cost.

3.10. Securities Available-for-Sale

Securities available-for-sale are comprised of investments in the equity of related parties, associates and other entities.

Equity investments for which an active market and reliable market values do not exist are stated at cost less allowances for impairment.

Equity investments that relate to the listed securities of other legal entities are stated at market value, as of the balance sheet date. Gains and losses arising on changes in their fair values are recorded under revaluation reserves. All realized gains and losses arising on the sale are shown under "Gains and losses on the sale of securities."

3.11. Cash and Cash Equivalents

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

3.12. Revaluation Reserves

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.13. Managed Funds and Non-Operating Assets and Funds**

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

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

3.14. Employee Benefits

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

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

3.15. Income Taxes**Current Income Tax**

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

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

Deferred Income Taxes

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Fair Value

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

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

4. INTEREST INCOME AND EXPENSE

a) Interest Income

	Thousands of RSD	
	Year Ended December 31,	
	2006	2005
Deposits with the central bank and securities available for refinancing with the central bank	780,540	473,533
Placements with other banks	282,256	263,433
Loans and advances to customers	5,480,422	4,557,502
Securities held-to-maturity	5,280	7,760
	<u>6,548,498</u>	<u>5,302,228</u>

b) Interest Expense

	Thousands of RSD	
	Year Ended December 31,	
	2006	2005
Amounts owed to other banks	220,372	272,964
Amounts owed to customers	1,813,346	1,562,395
Relations with the Central Bank	26,056	15,301
	<u>2,059,774</u>	<u>1,850,660</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

5. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	Thousands of RSD Year Ended December 31,	
	2006	2005
Fee and commission income from domestic payment transfers	849,946	747,052
Fee and commission income from other banking services	1,497,996	1,556,825
Fees on issued guarantees and other contingent liabilities	234,615	254,711
Other fee and commission income	50,000	51,987
	<u>2,632,557</u>	<u>2,610,575</u>

b) Fee and Commission Expense

	Thousands of RSD Year Ended December 31,	
	2006	2005
Fee and commission expense arising from domestic payment transfers	118,019	106,096
Fee and commission expense arising from international payment transfers	8,665	7,457
Other fee and commission expense	134,260	199,572
	<u>260,944</u>	<u>313,125</u>

6. OTHER OPERATING INCOME

	Thousands of RSD Year Ended December 31,	
	2006	2005
Release of allowances for impairment	2,988,328	560,177
Release of provision for contingent liabilities	72,405	-
Gains on the disposal of property and equipment	13,536	2,353
Rental income	163,411	3,087
Income from arbitration	58,509	116,797
Other	55,767	172,152
	<u>3,351,956</u>	<u>854,566</u>

7. LOSSES ON IMPAIRMENT AND PROVISIONS

a) Charge for the Year

	Thousands of RSD Year Ended December 31,	
	2006	2005
Provision charged during the year with respect to balance sheet exposures	5,206,110	3,145,093
Provision for retirement benefits	50,000	-
Provision for contingent liabilities	-	222,246
	<u>5,256,110</u>	<u>3,367,339</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

7. LOSSES ON IMPAIRMENT AND PROVISIONS

a) Charge for the Year (Continued)

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

b) Movements in the Balance of Allowances for Impairment

	Thousands of RSD 2006				
	Placements with Other Banks (Note 13)	Loans and Advances to Customers (Note 14)	Interest, Fees, Commissions Receivable and Other Assets (Notes 12 and 18)	Securities	Total
Balance, beginning of year	1,202,368	7,612,589	1,121,563	803,106	10,739,626
Charged during the year	(81,622)	2,198,835	80,330	20,239	2,217,782
Foreign exchange differences	(45,640)	(168,972)	(24,727)	-	(239,339)
Write-offs	(100)	(18,820)	(915)	(13,660)	(33,495)
Other	-	-	(137,392)	-	(137,392)
Balance, end of year	<u>1,075,006</u>	<u>9,623,632</u>	<u>1,038,859</u>	<u>809,685</u>	<u>12,547,182</u>

c) Special reserve for potential losses

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

7. LOSSES ON IMPAIRMENT AND PROVISIONS (Continued)

c) Special reserve for potential losses (Continued)

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

Additionally required provision for potential losses will be set aside as appropriation of the Bank's future profits.

8. OTHER OPERATING EXPENSES

	Thousands of RSD	
	Year Ended December 31,	
	2006	2005
Net salaries	1,592,125	1,242,561
Social security costs	758,305	567,483
Other personnel costs	129,748	49,011
Material and energy	329,211	332,078
Donations and sponsorships	7,754	14,398
Rent	272,035	259,097
Insurance premiums	254,083	100,919
Services	96,319	58,787
Advertising and promotions	348,412	132,559
General and administrative expenses	659,650	448,970
Indirect taxes and contributions	516,351	381,759
Depreciation and amortization	308,979	203,837
Maintenance and repairs	269,235	228,114
Other	67,510	45,956
	<u>5,609,717</u>	<u>4,065,529</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

9. INCOME TAXES

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

	Thousands of RSD	
	2006	2005
Profit before tax	<u>860,140</u>	<u>513,310</u>
Income tax at the statutory tax rate of 10%	86,014	51,331
Tax effect of non-deductible expenses	34,384	4,331
Tax effects of taxable income not included in the financial statements	-	745
Tax effects of non-taxable income	(3,266)	(1,195)
Tax credits for capital expenditures	(63,151)	(223,001)
Tax deductions	<u>(107,845)</u>	<u>(5,272)</u>
Deferred tax effects in the statement of income	<u>(53,864)</u>	<u>(173,061)</u>

b) Deferred Tax Assets

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

c) Deferred Tax Liabilities

Deferred tax liabilities at December 31, 2006 in the amount of RSD 64,226 thousand are associated with the temporary differences arising between the tax bases of property and equipment and the carrying value of such assets.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

10. CASH AND CASH EQUIVALENTS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Gold and other precious metals	42	42
Cash on hand:		
- in dinars	1,148,782	751,769
- in foreign currency	554,035	675,719
Accounts in dinars with the National Bank of Serbia:		
- giro account	3,962,916	2,675,541
- overnight deposits	-	300,000
Foreign currency accounts with:		
- domestic banks	1,453	12,639
- foreign banks	2,239,379	5,821,597
Cheques in the course of collection:		
- in dinars	-	1,203
- in foreign currency	120,056	103,419
	<u>8,026,663</u>	<u>10,341,929</u>

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

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

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Obligatory reserves in foreign currencies	23,140,813	16,860,262
Securities purchased under agreements to resell	10,230,928	835,250
	<u>33,371,741</u>	<u>17,695,512</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

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

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

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

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

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

12. INTEREST, FEES AND COMMISSIONS RECEIVABLE

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Due from banks:		
- in dinars	26,797	19,461
- in foreign currency	-	35,551
Due from customers:		
- in dinars	936,532	644,196
- in foreign currency	525,801	434,225
	<u>1,489,130</u>	<u>1,133,433</u>
Less: Allowance for impairment	<u>(1,005,643)</u>	<u>(708,575)</u>
	<u>483,487</u>	<u>424,858</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

13. PLACEMENTS WITH OTHER BANKS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Loans to domestic banks:		
- short-term	101,580	201,710
- long-term	2,765	4,702
Long-term deposits with a related bank	-	206,459
Due from Jugobanka A.D., Beograd - in Bankruptcy	973,780	1,074,508
Other obligatory deposits with NBS	130,888	41,431
Other financial placements in dinars	15,501	5,056
	<u>1,224,514</u>	<u>1,533,866</u>
Less: Allowance for impairment	<u>(1,075,006)</u>	<u>(1,202,368)</u>
	<u>149,508</u>	<u>331,498</u>

14. LOANS AND ADVANCES TO CUSTOMERS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Up to one year:		
- in dinars	17,571,652	17,464,087
- in foreign currency	2,667,171	2,600,837
Current maturities:		
- in dinars	7,329,112	3,179,937
- in foreign currency	1,112,464	803,481
Long-term loans:		
- in dinars	22,391,231	11,619,453
- in foreign currency	6,057,031	6,517,354
Receivables from customers in dinars based on discounted bills	821,022	1,123,100
Long-term loans to foreign banks	29,988	36,109
Cash cover, for issued letters of credit and guarantees, with foreign banks	120,431	83,629
Time deposits abroad:		
- available funds	310,403	73,640
- blocked funds	158,662	197,814
Receivables from customers in dinars from discounted cheques	12,113	17,344
Receivables from customers in foreign currency arising from payments on issued guarantees	794,355	230,687
Receivables based on sold investments	-	141,077
Receivables from insurance companies	90,745	40,363
Other placements:		
- in dinars	29,230	10,184
- in foreign currency	55,626	64,745
	<u>59,551,236</u>	<u>44,203,841</u>
Less: Allowance for impairment	<u>(9,623,632)</u>	<u>(7,612,589)</u>
	<u>49,927,604</u>	<u>36,591,252</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

14. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans up to one year in dinars as of December 31, 2006 include loans to retail customers in the amount of RSD 2,390,817 thousand (December 31, 2005: RSD 1,993,711 thousand). Loans up to one year to retail customers include overdrafts on current accounts totaling RSD 1,529,522 thousand (December 31, 2005: RSD 1,201,838 thousand). Overdrafts on current accounts are granted in an amount equaling two-average monthly salaries and one monthly salary subsequent to April 1, 2005 for a period of from three to six months, at a monthly interest rate of 2.20 percent.

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

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

As of December 31, 2006, long-term loans in dinars include loans to retail customers granted for residential housing purposes, financing of purchases of consumer goods and for other purposes in the amount of RSD 13,277,056 thousand, having 12 to 260-month maturities at annual interest rates ranging from 4.75% to 14.95%.

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

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

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Financial institutions	862,648	233,741
Chemicals	1,344,646	801,201
Oil and gas	526,773	795,483
Metals	1,887,689	489,472
Food-processing and agriculture	6,880,287	4,991,919
Shipping and civil engineering	3,365,979	2,599,602
Textiles	673,633	457,883
Retail customers	14,676,487	9,253,546
Trade	10,168,526	9,174,856
Mechanical engineering	1,257,483	1,864,617
Telecommunications	1,608,138	660,027
Governmental institutions	372,633	579,781
Wood processing	215,046	709,135
Other	6,087,636	3,979,989
	49,927,604	36,591,252

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

14. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Risks and Uncertainties

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

15. SECURITIES HELD-TO-MATURITY

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Bonds:		
- public debt	2,044	4,187
- on the basis of the Loan for the Economic Development of Serbia	15,762	18,502
- Company "B 92"	134,838	-
	<u>152,644</u>	<u>22,689</u>
Less: Allowance for impairment	<u>(13,484)</u>	<u>-</u>
	<u><u>139,160</u></u>	<u><u>22,689</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

16. EQUITY INVESTMENTS AND SECURITIES AVAILABLE-FOR-SALE

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Equity investment in wholly-owned unconsolidated banks:		
- Komercijalna banka A.D., Budva	509,940	466,490
- Komercijalna banka A.D., Banja Luka	863,018	-
Equity investment in wholly-owned, unconsolidated companies:		
- 1+2, Frankfurt am Main, Germany	-	2,017
- Maksimal, Kruševac, Serbia	-	790
Equity investment in other banks and other financial institutions	193,478	140,140
Equity investment in companies and other legal entities	990,265	919,308
	<u>2,556,701</u>	<u>1,528,745</u>
Less: Allowance for impairment	<u>(794,585)</u>	<u>(801,490)</u>
	<u><u>1,762,116</u></u>	<u><u>727,255</u></u>

During 2006, the Bank's Shareholders Assembly enacted the Decision on increase in share capital of Komercijalna banka A.D., Budva based on reinvestment of the the portion of Komercijalna banka A.D., Budva profit according to the annual report for FY 2005 in the amount of EUR 500,000. Based on the aforementioned increase in share capital and the regulations of the Republic of Montenegro, Komercijalna banka A.D., Budva issued to the Bank (its owner), 50 ordinary shares, with an individual par value of EUR 10,000.

On June 30, 2006, the Bank's Shareholders Assembly enacted the Decision on Foundation of bank in Bosnia and Herzegovina, situated in Banja Luka under the name Komercijalna Banka A.D., Banja Luka, which founding capital amounted to CM 20,000,000 and is divided into 20,000 shares of A series, with an individual par value of CM 1,000.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

17. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT
PROPERTY

	Land and Buildings	Equipment	Construction in Progress	Total	Investment Property	Intangible assets
Cost						
Balance, beginning of year	3,047,132	1,335,926	62,586	4,445,644	-	-
Appraisal effects	17,806	-	-	17,806	3,826	-
Additions	-	-	696,593	696,593	3,368,508	22,388
Transfers	358,105	358,165	(716,270)	-	-	-
Disposals	(24,317)	(94,197)	-	(118,514)	-	-
Other	-	(383)	-	(383)	(223,481)	-
Balance, end of year	<u>3,398,726</u>	<u>1,599,511</u>	<u>42,909</u>	<u>5,041,146</u>	<u>3,148,853</u>	<u>22,388</u>
Accumulated Depreciation and Amortization						
Balance, beginning of year	220,687	785,902	-	1,006,589	-	-
Charge for the year	56,654	194,906	-	251,560	56,364	1,055
Disposals	(3,037)	(89,306)	-	(92,343)	-	-
Other	-	(383)	-	(383)	-	-
Balance, end of year	<u>274,304</u>	<u>891,119</u>	<u>-</u>	<u>1,165,423</u>	<u>56,364</u>	<u>1,055</u>
Net Book Value:						
- as of December 31, 2006	<u>3,124,422</u>	<u>708,392</u>	<u>42,909</u>	<u>3,875,723</u>	<u>3,092,489</u>	<u>21,333</u>
- as of December 31, 2005	<u>2,826,445</u>	<u>550,024</u>	<u>62,586</u>	<u>3,439,055</u>	<u>-</u>	<u>-</u>

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

18. OTHER ASSETS AND ACCRUALS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Goods and property:		
- received in lieu of debt settlement	51,019	1,058
- property held-for-sale	157,725	319,495
- other property	-	3,183,263
Receivables from employees	31,633	12,538
Advances paid	25,382	34,721
Accrued interest	85,382	38,394
Rent prepayments for a period of over one year	78,792	90,115
Other accrued expenses	23,084	16,441
Receivables from customers arising on paid guarantees and acceptances	-	462,878
Other receivables and assets	223,729	477,701
	<u>676,746</u>	<u>4,636,604</u>
Less: Allowance for impairment	(33,216)	(412,988)
	<u>643,530</u>	<u>4,223,616</u>

19. AMOUNTS OWED TO OTHER BANKS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Demand deposits:		
- in dinars	619,157	660,807
- in foreign currency	1,066,345	718,694
Short-term deposits:		
- in dinars	1,203,550	667,436
- in foreign currency	867,642	328,673
Short-term loans:		
- in dinars	-	1,184
Long-term deposits:		
- in dinars	29,280	7,530
- in foreign currency	7,347	14,864
Long-term loans:		
- in dinars	6,551	6,617
Liabilities to the NBS in foreign currency	439	11,713
Other	29,247	92,366
	<u>3,829,558</u>	<u>2,509,884</u>

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

20. AMOUNTS OWED TO CUSTOMERS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Retail customers		
Demand deposits:		
- in dinars	2,511,337	1,547,051
- in foreign currency	18,003,839	15,939,478
Short-term deposits:		
- in dinars	142,844	44,017
- in foreign currency	25,983,334	18,762,363
Long-term deposits:		
- in dinars	59,900	26,244
- in foreign currency	4,342,046	2,784,404
Legal entities		
Demand deposits:		
- in dinars	10,488,716	9,363,216
- in foreign currency	3,852,044	3,468,838
Short-term deposits:		
- in dinars	7,290,470	3,169,457
- in foreign currency	2,979,267	1,811,383
Long-term deposits:		
- in dinars	321,652	95,460
- in foreign currency	155,245	65,988
Short-term loans in foreign currency	498,322	551,168
Long-term loans in foreign currency	2,546,318	2,606,818
Other financial liabilities		
- in dinars	-	503
- in foreign currency	152,468	35,241
	<u>79,327,802</u>	<u>60,271,629</u>

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

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

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

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

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

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

Long-term deposits of retail customers in dinars and foreign currency carry annual interest rates in the range of from 18 to 20 percent, and in the range of from 3.20 percent to 5.70 percent, respectively.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

20. AMOUNTS OWED TO CUSTOMERS (Continued)

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

- Drawdown funds extended pursuant to the terms of concession loans approved by the Government of the Republic of Italy to the Government of Serbia and Montenegro, with the aim of realizing development programs for small and medium-sized enterprises through the local banking system in the amount of RSD 851,858 thousand (December 31, 2005: RSD 354,269 thousand). The funds are granted with up to 8-year maturities, calculated from the date of the drawdown of each installment, having a grace period of two years, and bearing an annual interest rate of 1 percent in addition to an annual fee of 0.5 percent.
- Liabilities to the NBS with respect to loans from the European Investment Bank (EIB) in the amount of RSD 1,398,938 thousand as of December 31, 2006 (December 31, 2005: RSD 1,458,450 thousand). These loans carry annual interest at rates ranging from 2.145 percent to 4.38 percent, in addition to an annual fee of 0.5 percent. The Bank's participation in the loans extended to customers that have been financed from these sources must exceed 20%. These loans are granted for periods of seven years from the date of each drawdown, with a grace period of two and three years.
- Liabilities to European Fund for Southeast Europe in the amount of RSD 138,250 thousand as of December 31, 2006 (December 31, 2005: RSD 277,875 thousand), relate to a credit line approved in the amount of EUR 6.5 million, which was extended to finance loans to small and medium-sized enterprises, at an annual interest rate of EURIBOR+2%. The credit line is repayable in equal, semi-annual installments over a period of four years from the date of each drawdown. These funds were previously approved by Kreditanstalt fuer Wiederaufbau, Frankfurt and pursuant to the Transfer Agreement of December 15, 2005 all rights and liabilities from previous agreements transferred to the European Fund for Southeast Europe.
- The credit lines extended by Italian, German and Hungarian banks were extended for purposes of financing imports in the amount of RSD 480,625 thousand (December 31, 2005: RSD 726,790 thousand). These loans are repayable over periods of from two to five years at annual interest rates ranging from the six-month EURIBOR+1% up to the three-month EURIBOR+3%.

21. OTHER LIABILITIES FROM OPERATIONS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Taxes, contributions and other duties payable	66,186	69,749
Salaries	-	100,525
Payables to suppliers	151,370	135,999
Advances received	3,204	2,153
Liabilities based on funds held on escrow accounts	158,000	256,500
Other liabilities	270,016	278,585
	648,776	843,511

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

22. PROVISIONS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Provision for contingent liabilities	696,758	769,163
Provision for litigation	401,072	415,967
Provision for retirement benefits	50,000	-
	<u>1,147,830</u>	<u>1,185,130</u>

The movements in the provisions were as follows:

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Provision for contingent liabilities		
Balance, beginning of year	769,163	544,685
Charged during the year	-	224,478
Release of provision	(72,405)	-
Balance, end of year	<u>696,758</u>	<u>769,163</u>
Provision for litigation		
Balance, beginning of year	415,967	415,967
Charged during the year	(14,895)	-
Balance, end of year	<u>401,072</u>	<u>415,967</u>
Provision for retirement benefits		
Balance, beginning of year	-	-
Charged during the year	50,000	-
Balance, end of year	<u>50,000</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

23. OTHER LIABILITIES AND ACCRUALS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Accrued interest:		
- in dinars	1,834	2,417
- in foreign currency	481,591	313,261
Deferred income in dinars	112,544	120,208
Accrued expenses	17,992	6,331
Liabilities based on prepaid installments		
by retail customers	110,646	116,593
Other accruals in dinars	4,638	781
Deferred fee and commission income	352,375	-
Long-term liabilities for finance lease	71,149	99,899
Other	-	301,355
	1,152,769	960,845

24. SHARE CAPITAL

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

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

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

New Share Issuances During the Year Ended December 31, 2006

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

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

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

Basic earnings per share for the year 2006 amounted to RSD 1,079 thousand (FY 2005: RSD 825 thousand).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

24. SHARE CAPITAL (Continued)

Liabilities Convertible into Share Capital

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

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

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

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

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

25. OFF-BALANCE SHEET ITEMS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Managed funds	3,934,304	2,430,050
Guarantees and other contingent liabilities	20,194,904	16,617,097
Other off-balance-sheet items	26,603,785	12,895,145
	50,732,993	31,942,292

a) Managed Funds

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

25. OFF-BALANCE SHEET ITEMS (Continued)

b) Guarantees and Other Contingent Liabilities

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Payment guarantees:		
- in dinars	2,588,509	1,352,351
- in foreign currency	3,644,221	4,771,989
Performance bonds:		
- in dinars	1,752,815	1,878,297
- in foreign currency	321,490	319,306
Letters of credit in foreign currency	571,686	514,904
Acceptances in dinars	1,594,999	2,005,411
Loan commitments	9,632,344	5,720,898
Other contingent liabilities	88,840	53,941
	20,194,904	16,617,097

At December 31, 2006 the Bank estimated a provision for potential losses with respect to guarantees and other contingent liabilities in the amount of RSD 696,758 thousand (December 31, 2005: RSD 766,931 thousand). In the balance sheet this provision is presented under liabilities (Note 22).

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

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

c) Other Off-Balance-Sheet Items

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

d) Litigation

As of December 31, 2006, as per the Bank's Legal Department's estimation, value of pending legal proceedings filed against the Bank totaled RSD 1,586,503 thousand. The management recognized a provision for litigation in the amount of RSD 401,072 thousand (Note 22). The aforementioned amount does not include the potential amount of penalty interest which could be determined upon the conclusion of such legal proceedings. The Bank's management does not anticipate any significant further negative effects on the Bank's financial statements as a result of the pending litigation.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

26. RISK MANAGEMENT POLICIES

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

Credit Risk

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

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

The Bank minimizes its credit risk primarily by performing:

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

Liquidity Risk

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

The matching and controlled mismatching of the maturity and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of varying types.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

26. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

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

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

	Thousands of RSD				
	Less Than One Month	From One to 3 Months	From 3 to 12 Month	Over One Year	Total
As of December 31, 2006					
ASSETS					
Cash and cash equivalents	8,026,621	-	-	42	8,026,663
Balances with the central bank	33,371,741	-	-	-	33,371,741
Interest, fee and commission receivable	483,487	-	-	-	483,487
Placements with other banks	136,557	263	2,088	10,600	149,508
Loans and advances to customers	6,118,079	4,927,575	17,534,856	21,347,094	49,927,604
Trading securities	328,483	-	-	-	328,483
Securities held-to-maturity	3,905	-	135,255	-	139,160
Equity investments and securities available-for-sale	-	-	-	1,762,116	1,762,116
Assets held-for-sale	-	-	3,525	-	3,525
Income tax prepayments	-	-	26,746	-	26,746
Intangible assets	-	-	-	21,333	21,333
Investment property	-	-	-	3,092,489	3,092,489
Property and equipment	-	-	-	3,875,723	3,875,723
Other assets and accruals	287,586	58,064	244,241	53,639	643,530
Deferred tax assets	-	-	-	366,412	366,412
Total assets	48,756,459	4,985,902	17,946,711	30,529,448	102,218,520
LIABILITIES AND EQUITY					
Amounts owed to other banks	2,800,541	978,753	14,669	35,595	3,829,558
Amounts owed to customers	45,376,946	10,607,592	16,560,790	6,782,474	79,327,802
Interest, fees and commission payable	48,722	-	-	-	48,722
Debt securities	-	-	-	4,284	4,284
Other liabilities	490,776	-	158,000	-	648,776
Provisions	-	-	-	1,147,830	1,147,830
Other liabilities and accruals	598,592	-	483,028	71,149	1,152,769
Deferred tax liabilities	-	-	-	64,226	64,226
Equity	-	-	-	15,994,553	15,994,553
Total liabilities	49,315,577	11,586,345	17,216,487	24,100,111	102,218,520
Net Liquidity Gap:					
- as of December 31, 2006	(559,118)	(6,600,443)	730,224	6,429,337	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006**26. RISK MANAGEMENT POLICIES (Continued)***Liquidity Risk (Continued)*

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

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

Interest Rate Risk

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

26. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

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

	Interest Bearing Items	Non-Interest Bearing Items	Thousands of RSD Total
As of December 31, 2006			
ASSETS			
Cash and cash equivalents	3,775,949	4,250,714	8,026,663
Balances with the central bank	10,230,928	23,140,813	33,371,741
Interest, fee and commission receivable	-	483,487	483,487
Placements with other banks	4,345	145,163	149,508
Loans and advances to customers	49,644,065	283,539	49,927,604
Trading securities	-	328,483	328,483
Securities held-to-maturity	139,160	-	139,160
Equity investments and securities available-for-sale	-	1,762,116	1,762,116
Provision for overpaid income taxes	-	26,746	26,746
Intangible assets	-	21,333	21,333
Property and equipment	-	6,968,212	6,968,212
Other assets	-	647,055	647,055
Deferred tax assets	-	366,412	366,412
Total assets	63,794,447	38,424,073	102,218,520
LIABILITIES AND EQUITY			
Amounts owed to other banks	2,114,370	1,715,188	3,829,558
Amounts owed to customers	64,944,392	14,383,410	79,327,802
Interest, fees and commission payable	-	48,722	48,722
Liabilities from profit	-	4,284	4,284
Other liabilities	-	648,776	648,776
Deferred negative goodwill	-	-	-
Provisions	-	1,147,830	1,147,830
Other liabilities and accruals	-	1,152,769	1,152,769
Deferred tax liabilities	-	64,226	64,226
Equity	-	15,994,553	15,994,553
Total liabilities	67,058,762	35,159,758	102,218,520
Interest Sensitivity Gap:			
- as of December 31, 2006	(3,264,315)	3,264,315	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

26. RISK MANAGEMENT POLICIES (Continued)

Currency Risk

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

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

As of December 31, 2006	Thousands of RSD					
	EUR	USD	Other currencies	Total Foreign currencies	Local Currency	Total
ASSETS						
Cash and cash equivalents	1,325,330	428,377	1,161,258	2,914,965	5,111,698	8,026,663
Balances with the central bank	19,821,044	3,319,769	-	23,140,813	10,230,928	33,371,741
Interest, fee and commission receivable	86,364	1,172	2,069	89,605	393,882	483,487
Placements with other banks	130,888	-	-	130,888	18,620	149,508
Loans and advances to customers	38,835,720	283,559	556,864	39,676,143	10,251,461	49,927,604
Trading securities	328,483	-	-	328,483	-	328,483
Securities held-to-maturity	15,762	-	-	15,762	123,398	139,160
Equity investments and securities available-for-sale	1,445,657	-	-	1,445,657	316,459	1,762,116
Assets held-for-sale	-	-	-	-	3,525	3,525
Income tax prepayments	-	-	-	-	26,746	26,746
Intangible assets	-	-	-	-	21,333	21,333
Investment property	-	-	-	-	3,092,489	3,092,489
Property and equipment	-	-	-	-	3,875,723	3,875,723
Other assets and accruals	79,817	567	650	81,034	562,496	643,530
Deferred tax assets	-	-	-	-	366,412	366,412
Total assets	62,069,065	4,033,444	1,720,841	67,823,350	34,395,170	102,218,520
LIABILITIES AND EQUITY						
Amounts owed to other banks	1,745,796	178,488	17,490	1,941,774	1,887,784	3,829,558
Amounts owed to customers	56,171,622	4,084,398	1,668,660	61,924,680	17,403,122	79,327,802
Interest, fees and commission payable	584	588	2	1,174	47,548	48,722
Liabilities from profit	-	-	-	-	4,284	4,284
Other liabilities	166,652	25,681	1,811	194,144	454,632	648,776
Provisions	-	-	-	-	1,147,830	1,147,830
Other liabilities and accruals	498,237	1,346	-	499,583	653,186	1,152,769
Deferred tax liabilities	-	-	-	-	64,226	64,226
Equity	639,229	5,411	7,792	652,432	15,342,121	15,994,553
Total liabilities	59,222,120	4,295,912	1,695,755	65,213,787	37,004,733	102,218,520
Net Balance Sheet Position:						
- As of December 31, 2006	<u>2,846,945</u>	<u>(262,468)</u>	<u>25,086</u>	<u>2,609,563</u>	<u>(2,609,563)</u>	<u>-</u>
- As of December 31, 2005	<u>(15,059,197)</u>	<u>(646,588)</u>	<u>102,387</u>	<u>(15,603,398)</u>	<u>15,603,398</u>	<u>-</u>

Placements in dinars, which are index linked to foreign exchange rates (mainly EUR) are presented under assets in the foreign currencies.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

27. RECEIVABLES FROM RELATED PARTIES

The table below summarizes the total balance sheet and off-balance-sheet exposures to related parties, which in management's opinion, have the ability to exercise significant influence on the Bank's operations, and over which the Bank has the ability to exercise significant influence or control:

	<u>Placements and Loans</u>	<u>Interest and Fees</u>	<u>Equity Investments</u>	<u>Provisions</u>	<u>Balance Sheet Exposure</u>
Komercijalna banka A.D., Budva	179,932	59,190	509,940	(26,860)	722,202
Komercijalna banka A.D., Banja Luka	<u>158,000</u>	<u>-</u>	<u>863,018</u>	<u>-</u>	<u>1,021,018</u>
	<u>337,932</u>	<u>59,190</u>	<u>1,372,958</u>	<u>(26,860)</u>	<u>1,743,220</u>

During 2006, salaries of the members of the Executive Board amounted to RSD 36,185 thousand. Remunerations paid to the members of the Board of Directors and Supervisory Board during 2006 amounted to RSD 12,829 thousand.

28. EXCHANGE RATES

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

	December 31, <u>2006</u>	In RSD December 31, <u>2005</u>
USD	59.9757	72.2189
EUR	79.0000	85.5000
CHF	49.1569	54.9380