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PIB 100058593

TRANSLATION

TO THE SHAREHOLDERS OF
KOMERCIJALNA BANKA A.D. BEOGRAD

Report on the Financial Statements

We have audited the accompanying balance sheet of Komercijalna banka a.d. Beograd (hereinafter: the Bank) as at 31 December 2007 and the related statement of income, cash flows and 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 financial statements of the Bank as at and for the period ended 31 December 2006, which were audited by another auditor whose report dated 26 March 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 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 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 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 financial statements are free of 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 our 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, we consider 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 principles 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 opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank 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, 10 March 2008

KPMG d.o.o. Beograd

(L.S.)

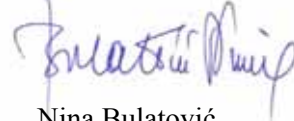
Nina Bulatović
Certified Auditor

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

Belgrade, 10 March 2008



KPMG d.o.o. Beograd



Nina Bulatović
Certified Auditor

FINANCIAL STATEMENTS
For the period ended 31 December 2007

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

In thousands of RSD	Note	2007	2006
Interest income	3.1, 4	7,515,187	6,548,498
Interest expenses	3.1, 4	(2,561,615)	(2,059,774)
Net interest income		4,953,572	4,488,724
Fee and commission income	3.2, 5	3,046,096	2,632,557
Fee and commission expenses	3.2, 5	(220,605)	(260,944)
Net fee and commission income		2,825,491	2,371,613
Gains on the sale of securities	3.3	77,249	33,453
Foreign exchange gains, net	3.4, 6	477,372	1,910,833
Dividends and other income from equity investments	7	83,949	76,107
Other operating income	8	1,501,632	291,224
Losses on impairment and provisions	3.8, 9	(345,012)	(2,195,378)
Other operating expenses	11	(6,648,710)	(5,609,717)
Gains on the valuation of assets and liabilities	12	5,683,700	1,577,197
Losses on the valuation of assets and liabilities	12	5,693,150	2,158,934
Operating profit		2,916,093	785,122
Profit before tax		2,916,093	785,122
Income tax	3.12,13	-	-
Deferred tax income	3.12,13	34,501	68,151
Deferred tax expenses	3.12,13	(2,738)	(14,287)
PROFIT AFTER TAX		2,947,856	838,986

FINANCIAL STATEMENTS
For the period ended 31 December 2007

BALANCE SHEET AS AT 31 DECEMBER 2007

In thousands of RSD	Note	2007	2006
ASSETS			
Cash and cash equivalents	3.10, 16	9,657,029	8,026,663
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	17	35,413,826	33,371,741
Interest and fees receivables	18	394,653	483,487
Loans and advances to banks	3.7, 3.8, 19	546,194	149,508
Loans and advances to customers	3.7, 3.8, 20	89,980,931	49,927,604
Securities held for trading	3.9, 21	305,912	328,482
Securities held to maturity	3.9, 21	129,521	139,160
Equity investments and other financial assets available for sale	3.9, 21	2,787,993	1,687,098
Non-current assets held for sale	3.6, 22	-	3,525
Income tax prepayments		53,549	26,746
Intangible assets	3.5, 23	205,478	21,333
Investment property	3.5, 23	2,500,029	3,092,489
Fixed assets	3.5, 23	4,550,638	3,875,723
Other assets and accrued income	24	563,155	643,530
Deferred tax assets	3.12, 25	114,295	366,412
Total assets		147,203,203	102,143,501
LIABILITIES AND EQUITY			
Deposits and borrowings from local banks	26	4,253,626	3,829,558
Deposits and borrowings from customers	27	120,356,763	79,327,802
Interest and fees liabilities	28	68,508	48,722
Liabilities from income distribution	29	4,918	4,284
Other operating liabilities	29	535,043	648,775
Provisions	3.8, 3.14, 30	1,146,965	1,147,830
Other liabilities and accruals	31	1,668,620	1,152,769
Deferred tax liabilities	3.12	-	64,226
Total liabilities		128,034,443	86,223,966
Share capital	32	13,187,635	12,662,890
Reserve	3.8, 33	2,808,332	1,962,557
Retained earnings	34	3,172,793	1,294,088
Total equity		19,168,760	15,919,535
Total liabilities and equity		147,203,203	102,143,501
Off-balance sheet items	3.11, 35, 36	63,283,158	50,732,993

FINANCIAL STATEMENTS

For the period ended 31 December 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

In thousands of RSD	2007	2006
Operating activities		
Interest receipts	7,753,248	6,400,560
Fee and commission receipts	3,205,342	2,902,072
Receipts from other operating income	174,154	252,072
Receipts from dividends and equity investments	83,949	76,107
Cash receipts from operating activities	11,216,693	9,400,560
Interest payments	2,359,708	1,879,075
Fees and commission payments	214,647	260,884
Payments of gross salaries and fringe benefits and other personal expenses	2,921,257	2,567,244
Payments of taxes, contributions and other expenses charged to income	597,627	527,039
Cash payments for other operating expenses	2,766,207	2,278,163
Cash outflows from operating activities	2,357,247	1,888,155
Net cash inflows from operating activities before increases/(decreases) in advances and deposits	2,357,247	1,888,155
Decrease of securities and investments for trade	109,219	372,864
Increase in loans and advances to banks and other financial institutions	425,160	1,320,924
Increase in deposits from customers	41,255,795	19,251,527
Decrease in loans and increase in deposits taken	41,839,411	31,671,944
Increase in loans and advances to banks	2,423,532	15,366,878
Increase in credits and loans to customers	39,415,879	16,305,066
Increase in loans and decrease in deposits taken		
Net cash inflows from operating activities before income tax	2,308,010	(8,838,474)
Income tax paid	26,803	10,993
Paid dividends	97,330	114,179
Net cash inflow from operating activities	2,183,877	(8,963,646)
Cash inflows from investing activities		
Inflows from long-term investments in securities	22,144	-
Inflows from sale of intangible and fixed assets	173,199	29,843
Outflows from long-term investments in securities	-	129,954
Purchases of equity investments	924,027	722,734
Purchases of property and equipment and intangible assets	635,883	482,329
Net cash used in investing activities	(1,364,567)	(1,305,174)
Cash inflows from financing activities		
Proceeds from the issuance of shares	524,746	6,082,300
Outflows based on repayment of long term loans and subordinated liabilities	191,062	71,900
Net cash inflows/outflows from short-term loans taken	-	42,697
Net cash inflow from financing activities	333,684	5,967,703
Net increase/(decrease) in cash and cash equivalents	1,152,994	(4,301,117)
Cash and cash equivalents at beginning of the year	8,026,663	10,341,929
Foreign exchange gains	16,017,081	11,477,257
Foreign exchange losses	15,539,709	9,491,406
Cash and cash equivalents at end of the year	9,657,029	8,026,663

FINANCIAL STATEMENTS
for the period ended 31 December 2007

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	Retained earnings	Total
Balance as at 1 January 2006	6,735,850	9,150	-	-	542,748	300,542	607,495	746,185	8,941,970
Adjustment of opening balance	-	-	-	-	-	-	-	(117,613)	(117,613)
XIX issue of shares	2,120,780	-	3,961,520	-	-	-	-	-	6,082,300
Acquiring of treasury 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	-	-	-
Adjustment of valuation of fixed assets	-	-	-	-	-	-	21,632	-	21,632
Transfer of valuation effects to retained earnings	-	-	-	-	-	-	(12,120)	12,120	-
Revaluation of investments	-	-	-	-	-	-	152,260	-	152,260
Profit for 2006	-	-	-	-	-	-	-	914,004	914,004
Balance as at 31 December 2006	8,856,630	9,150	3,961,520	(164,410)	841,572	351,718	769,267	1,369,106	15,994,553
Balance as at 1 January 2007	8,856,630	9,150	3,961,520	(164,410)	841,572	351,718	769,267	1,369,106	15,994,553
Adjustment of opening balance	-	-	-	-	-	-	-	(75,018)	(75,018)
Adjusted balance as at 1 January 2007	8,856,630	9,150	3,961,520	(164,410)	841,572	351,718	769,267	1,294,088	15,919,535
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	-	-	-	-	2,173,740	-	-	-	2,173,740
Shortfall amount of reserve for estimated losses	-	-	-	-	(2,173,740)	-	-	-	(2,173,740)
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)	-	480,935	164,410	-	-	-	-	524,745
Tax effects	-	-	-	-	-	-	-	(219,655)	(219,655)
Profit for 2007	-	-	-	-	-	-	-	2,947,856	2,947,856
Balance as at 31 December 2007	8,736,030	9,150	4,442,455	-	1,624,572	351,718	832,042	3,172,793	19,168,760

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

1 THE BANK'S ESTABLISHMENT AND BUSINESS ACTIVITIES

Komercijalna banka A.D., Beograd (hereinafter: the 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 a.d. Beograd in bankruptcy	3.79%
INVEJ d.o.o., Beograd	3.65%
Kompanija Dunav, Beograd	3.58% and
Evropa osiguranje a.d. Beograd under liquidation	3.06%

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.

As at 31 December 2007 the Bank was comprised of main branch office in Belgrade at the street address of: Svetog Save 14, 25 branches and 265 sub-branches located throughout the Republic of Serbia. The Bank has representative offices registered in Frankfurt am Main, Germany and in Zagreb, Croatia.

As at 31 December 2007 the Bank had 3,053 employees (31 December 2006: 2,984 employees). The Bank's tax identification number is 100001931.

2 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

In 2007 the Bank kept its business records and prepared its financial statements in accordance with the Law on Accounting and Auditing and other legislation in effect in the Republic of Serbia that are generally based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as in compliance with National Bank of Serbia's regulations.

The Decision on publishing of International Financial Reporting Standards (IFRS) was issued in February 2008 in the Official Gazette of the Republic of Serbia no. 16/08, effective 20 February 2008. The Bank intends to apply the newly translated IAS and IFRS to the preparation of its financial statements for the period starting 1 January 2008.

The Bank has control over two subsidiaries, with following equity participations:

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

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.

A review of basic accounting policies, adopted in the preparation of the financial statements for 2007, is presented in Note 3 to these Financial Statements.

The 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. 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".

NOTES TO THE FINANCIAL STATEMENTS

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, other foreign currency 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, the Bank makes provisions for the estimated amount of risk.

3.4 Foreign exchange translation

Transactions in foreign currencies are translated 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 at the foreign exchange mid rate set by the inter-banking foreign currency market ruling as at that date.

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 at the foreign exchange mid rate set by the inter-banking foreign currency market ruling as at that date.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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 Bank uses the revaluation model for property, and the cost model 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 Bank, 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 Bank, the residual value of properties is deemed to be equal to 30% of its initial value. Residual values are not depreciated.

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 Bank uses the fair value model. Investment property is depreciated at annual rate of 2.5%.

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

Inventories include assets acquired by a way of collecting receivables and non-current assets held for sale.

3.6.2 Non-current assets held for sale represent non-current assets whose carrying amount 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 carrying amount and fair value less costs to sell.

3.7 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 IFRS requirements, 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 Bank the net present values of future cash flows are discounted at the contractual interest rate, decreased for repaid principle.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7 Loans and Advances Originated by the Bank (Continued)**

Loans, which are disbursed in dinars and index-linked to the foreign exchange rates of EUR or other foreign currencies or to the 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*// Assessment of collectability of receivables*

In 2007 the Bank adopted the Manual on Assessment and Recognition of Loans, Receivables and Provisions which specifies the criteria for assessment and recognition 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 Bank's internal rating system.

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 Bank makes an assessment of loan impairment based on individual and portfolio assessment.

The Bank makes 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 is discounted, less the fair value of loan security, representing the loan impairment which reduces the value of a placement to its net present value. The Bank assesses 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 loans and advances.

/// Specific provision for estimated losses

The 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 collectability 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%-70% for receivables classified under category G and 100% for receivables classified under category D.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.8 Allowances for Impairment and Provisions for Contingent Liabilities (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.

3.9 Securities**3.9.1 Securities held for trading**

Securities held for trading are comprised of shares and foreign currency savings bonds. Securities held for trading are initially recorded at cost and, at the balance sheet date, are stated at fair value determined at the active market.

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 related parties, 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 NBS 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 Bank are not included in the Bank's balance sheet, but in the off-balance sheet positions.

3.12 Taxes and contributions**Corporate income tax**

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

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 up to 50% for investments in fixed assets up to 20% of that investment. Tax credits for investments in fixed assets may be used up to 10 years.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.12 Taxes and contributions (Continued)****Deferred Income Taxes**

Deferred income tax is determined using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities components, and their carrying values in the 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.

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.

3.13 Fair value

In the Republic of Serbia 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 carrying value will not be realised.

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 is calculated by independent certified actuary.

3.15 Changes in the accounting polices

3.15.1 In 2007 the Bank 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. In 2006, allowances for the impairment of financial assets and provision for contingent liabilities were calculated 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. 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 8

3.15.2 In 2007 equity investment in subsidiary in Budva is measured at cost, while in 2006 the initial investment in EUR is converted in RSD at foreign exchange mid rate at the balance sheet date. An adjustment of comparative data for 2006 has been made to correct errors from previous periods in respect of measurement of equity investments in subsidiaries and the effects of the corrections on the income statement are presented in note 6.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.16 Segment information**

Due to fact that the Bank performs most of its operations in the Republic of Serbia, segment information is not disclosed. Assets, liabilities, results of operations, changes in equity and cash flows of subsidiaries which operate outside of the Republic of Serbia are not materially significant for the Bank's stand-alone financial statements.

Assets, liabilities, results of operations, changes in equity and cash flows of subsidiaries are included in the Bank's consolidated financial statements.

Analysis of the Bank's placements in respect of the industry concentration is presented in Note 20.

3.17 Risk management policies

Pursuant to the Bank's organizational 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 required reports.

a) 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, 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 Bank'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).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.17 Risk management policies (Continued)**

In managing interest rate risk the Bank seeks 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 Bank'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 Bank with uniformity against fluctuations in interest rates on assets and liabilities, with a fixed interest rate margin.

In addition to the common base for determining of interest rates on both assets and liabilities, the Bank 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 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). Also, this principle pertains to the maturity of foreign currency payables and receivables, and to aggregate maturities and individual currencies. The financial institutions sector ensures that the total risk sensitive foreign currency balance at the end of each working day does not exceed prescribed amounts and limits adopted by the Bank.

g) Liquidity risk and solvency

The Bank manages its liquidity risk through the constant monitoring of the maturities of its assets and liabilities. In 2007 the Bank 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 Bank and are carried out in the relevant organizational units of the Bank on an ongoing basis.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

4 INTEREST INCOME AND EXPENSES

a) Interest income

<u>In thousands of RSD</u>	31 December	
	2007	2006
Loans and advances to banks	116,317	189,286
Obligatory reserve	89,218	93,170
Repo business and placements to NBS	860,087	687,370
Loans and advances to customers	6,438,811	5,573,392
Securities	10,754.	5,280
	<u>7,515,187</u>	<u>6,548,498</u>

Suspended interest income for 2007 amounts to RSD 138,762 thousands.

Interest income which is not calculated and recognized in the income statements for 2007 amounts to RSD 561,896 thousand and relates to interest on loans and advances to clients under litigation.

b) Interest expenses

<u>In thousands of RSD</u>	31 December	
	2007	2006
Banks	203,772	167,196
Corporate clients	518,003	509,234
Retail clients	1,815,006	1,299,110
Foreign entities	24,834	84,234
	<u>2,561,615</u>	<u>2,059,774</u>

5 FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and commission income

<u>In thousands of RSD</u>	31 December	
	2007	2006
Fee and commission income from payment transfers and other banking services	2,672,624	2,275,793
Fees on issued guarantees and other contingent liabilities	252,782	234,615
Fees and commissions from transactions with securities	85,727	71,133
Other fees and commissions	34,963	51,016
	<u>3,046,096</u>	<u>2,632,557</u>

b) Fee and commission expenses

<u>In thousands of RSD</u>	31 December	
	2007	2006
Fees arising from domestic payment transfers	123,350	118,019
Fees arising from international payment transfers	17,330	8,665
Other fees and commissions	79,925	134,260
	<u>220,605</u>	<u>260,944</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

6 NET FOREIGN EXCHANGE GAINS

FOREIGN EXCHANGE GAINS AND LOSSES

<u>In thousands of RSD</u>	31 December	
	2007	2006
Foreign exchange gains	16,017,081	11,477,257
Foreign exchange losses	(15,539,709)	(9,566,424)
	<u>477,372</u>	<u>1,910,833</u>

Foreign exchange losses from previous year include an amount of RSD 75,018 thousand as a result of the correction previous year's errors, as disclosed in the note 3.15.2.

7 DIVIDENDS AND OTHER INCOME FROM EQUITY INVESTMENTS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Dividends and other income from equity investments	83,949	76,107
	<u>83,949</u>	<u>76,107</u>

The Bank received dividends from its subsidiary Komercijalna banka a.d. Budva in the amount of RSD 82,981 thousand.

8 OTHER OPERATING INCOME

<u>In thousands of RSD</u>	31 December	
	2007	2006
Release of allowance for impairment and provisions for contingent liabilities, net	1,150,281	-
Rental income	134,662	163,411
Gains on the disposal of fixed and intangible assets	112,856	13,536
Income from write-offs/decrease of liabilities	8,882	4,811
Income from costs refunds	5,175	3,300
Income from arbitration	16,757	58,509
Other	73,019	47,657
	<u>1,501,632</u>	<u>291,224</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 3.15.1, the Bank realized income from release of allowance for impairment and provisions for contingent liabilities in the amount of RSD 1,150,281 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.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

9 LOSSES ON IMPAIRMENT AND PROVISIONS

<u>In thousands of RSD</u>	<u>31 December</u>	
	<u>2007</u>	<u>2006</u>
Provisions for litigations	85,623	-
Provision for retirement benefits	259,389	50,000
Impairment provisions for on-balance and off-balance sheet assets	-	2,145,378
	<u>345,012</u>	<u>2,195,378</u>

10 MOVEMENTS IN THE BALANCE OF ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

<u>In thousands of RSD</u>	<u>Loans and advances to banks</u>	<u>Loans and advances to customers</u>	<u>Interest and fees receivables and other assets</u>	<u>Securities</u>	<u>Off-balance sheet liabilities</u>	<u>Total</u>
Balance as at 1 January 2007	1,075,006	9,623,652	1,038,859	809,686	696,758	13,243,961
Charged during the year	363	7,103,885	673,584	(4,233)	101,686	7,875,285
Release during the year	(39)	(7,646,852)	(729,722)	(410,475)	(238,478)	(9,025,566)
Exchange rate differences	(15,562)	(24,520)	112	-	-	(39,970)
Direct write-offs	-	(359,934)	(69,163)	(464)	-	(429,561)
Other	-	(86)	(57,340)	-	-	(57,426)
Balance as at 31 December 2007	1,059,768	8,696,145	856,330	394,514	559,966	11,566,723

There were no materially significant collections of impaired receivables till the end of January 2008, which may have significant effect on the realized net profit of the Bank. In accordance with the National Bank of Serbia requirements, apart from allowance for impairment of financial assets and provision for contingent liabilities, the bank is obliged to form additional reserves for estimated losses from retained earnings in the total amount of RSD 3,295,700 thousand. The Bank formed additional reserves for estimated losses from previous distributions of retained earnings in the amount of RSD 1,346,572 thousand. Additionally required provision for estimated losses in the amount of RSD 1,949,128 thousand will be set aside as appropriation of the Bank's profit for 2007.

11 OTHER OPERATING EXPENSES

<u>In thousands of RSD</u>	<u>31 December</u>	
	<u>2007</u>	<u>2006</u>
Net wages and salaries	2,048,800	1,592,125
Taxes and contributions on salaries and fringe benefits	806,368	758,305
Other personnel expenses	66,162	129,748
Costs of material and energy	418,595	377,760
Donations and sponsorships	209,776	7,754
Rent	329,337	272,035
Insurance premiums	319,829	254,082
Services	200,143	163,486
Advertising and promotions	328,698	348,412
General and administrative expenses	584,443	503,828
Indirect taxes and contributions	596,950	516,351
Depreciation (Note 3.5.)	334,022	308,980
Capital losses (write-offs)	1,011	9,862
Maintenance and repairs	299,912	269,236
Expenses from arbitration	5,215	2,281
Other expenses	99,449	95,472
	<u>6,648,710</u>	<u>5,609,717</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

11 OTHER OPERATING EXPENSES (Continued)

Total gross salaries and other remuneration of the Executive Board in 2007 amounts to RSD 42,705 thousand. Total remuneration of the Board of Directors in 2007 amounts to RSD 12,398 thousand.

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

Commitments (excluding VAT) for operating leases of 181 business premises with the total area of 28,218.10 sqm as at 31 December 2007 amount to:

In thousands of RSD

- in 2008	212,590
- from 2009 till the end of 2012	850,452
- from 2013	<u>126,100</u>
Total	<u>1,189,142</u>

12 GAINS AND LOSSES ON THE VALUATION OF ASSETS AND LIABILITIES

<u>In thousands of RSD</u>	<u>31 December</u>	
	<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
	<u>5,683,700</u>	<u>1,577,197</u>
Losses on the valuation of loans and advances	4,812,939	2,072,070
Losses on the valuation of securities	336,027	-
Losses on the valuation of liabilities	544,184	86,864
	<u>5,693,150</u>	<u>2,158,934</u>
Net gains/(losses) on the valuation of assets and liabilities	<u>(9,450)</u>	<u>(581,737)</u>

13 INCOME TAXES

A COMPONENTS OF INCOME TAXES

<u>In thousands of RSD</u>	<u>31 December</u>	
	<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	<u>(34,501)</u>	<u>(68,151)</u>
Total tax (income) / expenses	<u>(99,917)</u>	<u>(83,041)</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

13 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	
	2007	2006
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	(31,763)	(53,864)
EFFECTIVE INCOME TAX RATE	-	-

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 instalments. The 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 GAINS ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES

<u>In thousands of RSD</u>	31 December	
	2007	2006
Increase in deferred tax assets and decrease in deferred tax liabilities	34,501	68,151
	<u>34,501</u>	<u>68,151</u>

The tax asset arising from the difference in the unrecognized provision for retirement benefits in 2007 amounts to RSD 25,939 thousand.

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

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

15 LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITIES

<u>In thousands of RSD</u>	31 December	
	2007	2006
Decrease in deferred tax assets and increase in deferred tax liabilities	2,738	14,287
	<u>2,738</u>	<u>14,287</u>

The computation of the deferred tax difference at a rate of 10% on the temporary difference in the value of fixed assets as at 31 December 2007 required the reporting of an additional amount of RSD 2,378 thousand.

16 CASH AND CASH EQUIVALENTS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Cash on hand		
- in dinars	1,390,972	1,148,782
- in foreign currency	902,310	554,035
Accounts in dinars with the National Bank of Serbia		
- giro account	992,988	3,962,916
- Deposited surpluses of liquid funds	4,400,000	-
Foreign currency accounts with:		
- local banks	1,429	1,454
- foreign banks	1,933,597	2,239,379
Cheques in the course of collection		
- in dinars	-	-
- in foreign currency	35,691	120,055
Gold and other precious metals	42	42
	<u>9,657,029</u>	<u>8,026,663</u>

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 purpose. During 2007, the Bank was in compliance with obligatory reserve requirements and the Bank did not used obligatory reserve for liquidity purpose.

In accordance with NBS requirements, the Bank is obliged to maintain a monthly average of funds on its giro account above the amount of obligatory reserve for that month. The 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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

17 DEPOSITS WITH THE CENTRAL BANK AND SECURITIES THAT CAN BE REFINANCED BY THE CENTRAL BANK

<u>In thousands of RSD</u>	31 December	
	2007	2006
Obligatory reserve in foreign currencies	25,613,826	23,140,813
Securities purchased under repo agreement resell with NBS	9,800,000	10,230,928
	<u>35,413,826</u>	<u>33,371,741</u>

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 Bank was in compliance with obligatory reserve requirements

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

18 INTEREST AND FEES RECEIVABLES

<u>In thousands of RSD</u>	31 December	
	2007	2006
Due from banks		
- in dinars	27,566	26,796
- in foreign currency	-	-
Due from customers		
- in dinars	972,149	936,532
- in foreign currency	213,325	525,802
Less: Allowance for impairment	(818,387)	(1,005,643)
	<u>394,653</u>	<u>483,487</u>

Suspended interest in the amount of RSD 738,583 thousand is not recognized in the balance sheet as at 31 December 2007.

19 LOANS AND ADVANCES TO BANKS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Loans to banks:		
- short-term	564,887	100,000
Current portion of long-term loans	1,585	1,580
- long-term	2,773	4,345
Current portion of long-term loans	(1,585)	(1,580)
Other financial placements in foreign currency		
- placements with Jugobanka a.d. Beograd in bankruptcy	958,219	973,779
- other financial placements – Central Securities Depository and Clearing House	86,976	130,888
Other financial placements in dinars	4,871	15,502
Temporary gyro accounts	(11,764)	-
Less: Allowance for impairment	(1,059,768)	(1,075,006)
	<u>546,194</u>	<u>149,508</u>

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

19 LOANS AND PLACEMENTS TO BANKS (Continued)

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.

20 LOANS AND ADVANCES TO CUSTOMERS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Short-term:		
- in dinars	21,076,942	19,190,840
Current portion of long-term loans	14,700,630	7,329,112
- in foreign currency	23,795,852	3,440,587
Current portion of long-term loans	1,792,718	1,112,464
Long-term:		
- in dinars	44,786,625	29,720,343
Current portion of long-term loans	(14,700,630)	(7,329,112)
- in foreign currency	9,017,657	7,199,486
Current portion of long-term loans	(1,792,718)	(1,112,464)
Less: Allowance for impairment	(8,696,145)	(9,623,652)
	<u>89,980,931</u>	<u>49,927,604</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 2.2% 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 4% to 18% per annum.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Economic sector risk concentrations of loans and advances to customers

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

<u>In thousands of RSD</u>	31 December	
	2007	2006
Agriculture, hunting, forestry and water-works	2,298,459	1,826,310
Fishing	9,630	6,329
Metals	121,062	457,405
Processing industry	15,398,543	13,154,404
Oil and gas	113,674	27,255
Construction	3,321,677	3,094,906
Trading, maintaining of vehicles and households equipment	14,120,583	9,640,652
Hotels and restaurants	203,140	454,164
Telecommunications	2,089,969	1,603,853
Financial services	22,310,892	750,084
Property – renting and other business transactions	2,328,858	929,058
Governmental institutions	425,868	371,934
Education	13,274	2,214
Healthcare and social sectors	54,147	34,647
Other utilities, service and social activities	588,437	436,332
Retail	23,785,675	14,713,893
Other	2,797,043	2,424,164
	89,980,931	49,927,604

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 case 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.

21 SECURITIES

21.1 SECURITIES HELD FOR TRADING

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

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

21 SECURITIES (Continued)

21.2 SECURITIES HELD TO MATURITY

<u>In thousands of RSD</u>	<u>31 December</u>	
	<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
	<u>(979)</u>	<u>(13,484)</u>
Less: Allowance for impairment		
	<u>129,521</u>	<u>139,160</u>

21.3 EQUITY INVESTMENTS AND SECURITIES AVAILABLE FOR SALE

<u>In thousands of RSD</u>	<u>31 December</u>	
	<u>2007</u>	<u>2006</u>
Equity investments in wholly-owned unconsolidated banks:		
Komercijalna banka a.d. Budva	1,338,970	434,922
Komercijalna banka a.d. Banja Luka	863,018	863,018
Other equity investments:		
Kombank invest – in the process of establishment	20,000	-
Equity investments in banks and other financial organisations	267,978	193,478
Equity investments in companies and other legal entities	689,946	990,265
	<u>(391,919)</u>	<u>(794,585)</u>
Less: Allowance for impairment		
	<u>2,787,993</u>	<u>1,687,098</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.

22 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

23 PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY

<u>In thousands of RSD</u>	<u>Land and buildings</u>	<u>Equipment</u>	<u>Construction in progress</u>	<u>Intangible assets</u>	<u>Total</u>
COST					
Balance as at 1 January 2007	3,398,725	1,599,510	42,909	22,388	5,063,532
Purchase	-	-	459,389	202,586	661,975
Revaluation	-	-	-	-	-
Transfers from/to	101,794	341,446	(443,240)	-	-
Disposals	(61,859)	(43,281)	-	-	(105,140)
Other	536,719	4,512	-	-	41,231
Balance as at 31 December 2007	<u>3,975,379</u>	<u>1,902,187</u>	<u>59,058</u>	<u>224,974</u>	<u>6,161,598</u>
ACCUMULATED DEPRECIATION					
Balance as at 1 January 2007	274,301	891,120	-	1,055	1,166,476
Depreciation for the year	62,693	200,372	-	18,441	281,506
Revaluation	-	-	-	-	-
Disposals	(4,450)	(41,735)	-	-	(46,185)
Other	(284)	3,969	-	-	3,685
Balance as at 31 December 2007	<u>332,260</u>	<u>1,053,726</u>	<u>-</u>	<u>19,496</u>	<u>1,405,482</u>
Net book value as at 31 December 2007	<u>3,643,119</u>	<u>848,461</u>	<u>59,058</u>	<u>205,478</u>	<u>4,756,116</u>
Net book value as at 31 December 2006	3,124,424	708,390	42,909	21,333	3,897,056

As at 31 December 2007 the Bank 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 Bank has not pledged as collateral any of its property as at 31 December 2007.

As a result of incomplete land register books, the 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 Bank's management is undertaking actions to obtain the appropriate property registration documents.

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

Investment property

<u>In thousands of RSD</u>	<u>31 December 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	<u>3,092,489</u>	
Increase (transfer from acc. 341 – sale of business premises in Novi Pazar)	3,283	3,342,426
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	<u>(52,459)</u>	<u>(56,364)</u>
	<u>2,500,029</u>	<u>3,092,489</u>

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23 PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY (Continued)

Intangible assets as at 31 December 2007 include:

<u>In thousands of RSD</u>	31 December	
	2007	2006
Advances paid	78,573	4,935
Other intangible assets (investment in rented business premises)	146,401	17,453
Accumulated depreciation	(19,496)	(1,055)
	<u>205,478</u>	<u>21,333</u>

24 OTHER ASSETS AND ACCRUALS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Receivables from sale	832	51,019
Material assets received as collection of receivables	12,705	157,725
Receivables from employees	36,233	31,633
Receivables for prepaid other taxes	542	190
Advances paid	4,962	25,382
Other assets	422,561	275,683
Accrued interest:		
- in dinars	72,869	48,240
- in foreign currency	48,289	37,142
Accrued expenses	99,090	100,412
Other accruals		
- in dinars	2,380	1,863
- in foreign currency	7,725	
Less: Allowance for impairment	(145,033)	(85,759)
	<u>563,155</u>	<u>643,530</u>

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.

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25 DEFERRED TAX ASSETS

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

Movements in deferred tax assets are presented as follows:

<u>In thousands of RSD</u>	31 December	
	2007	2006
Balance as at 1 January 2007 – deferred tax assets	366,412	298,261
Balance as at 1 January 2007 – deferred tax liabilities	(64,226)	(49,939)
Deferred tax assets, net as at 1 January 2007	302,186	248,322
Increase in deferred tax assets:		
- Tax credit for investment in fixed assets	-	63,151
- Provision for retirement benefits in accordance with IAS 19	25,939	-
- Provision for litigation in accordance with IAS 37	8,563	5,000
- Increase in deferred tax liabilities – difference in fixed assets value	(2,738)	(14,287)
Decrease of deferred tax assets:		
- Tax credit for investment in fixed assets – current year direct tax relief	(219,655)	-
Balance as at 31 December 2007 – deferred tax assets	114,295	366,412
Balance as at 31 December 2007 – deferred tax liabilities	-	(64,226)
Deferred tax assets, net as at 31 December 2007	114,295	302,186

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

26 DEPOSITS AND BORROWINGS FROM LOCAL BANKS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Demand deposits:		
- in dinars	910,324	619,157
- in foreign currency	1,261,628	1,066,345
Short-term deposits:		
- in dinars	1,093,320	1,203,550
- in foreign currency	939,171	867,642
Short-term borrowings:		
- in dinars	1,139	-
- in foreign currency	-	-
Long-term deposits:		
- in dinars	29,280	29,280
- in foreign currency	5,143	7,347
Long-term borrowings:		
- in dinars	4,320	6,551
- in foreign currency	-	-
Other liabilities:		
- in dinars	9,301	439
- in foreign currency	-	29,247
	4,253,626	3,829,558

NOTES TO THE FINANCIAL STATEMENTS
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27 DEPOSITS AND BORROWINGS FROM CUSTOMERS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Demand deposits:		
- in dinars	18,827,712	13,000,053
- in foreign currency	27,529,292	21,855,884
Short-term deposits:		
- in dinars	27,705,179	7,433,314
- in foreign currency	37,107,999	28,962,601
Short-term borrowings:		
- in dinars	-	-
- in foreign currency	425,018	498,322
Long-term deposits:		
- in dinars	411,376	381,552
- in foreign currency	5,764,880	3,998,970
Long-term borrowings:		
- in foreign currency	2,429,652	3,044,640
Other liabilities in foreign currency	155,655	152,466
	120,356,763	79,327,802

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	
	2007	2006
Subsidiary banks abroad	38,058	10,013
Public sector	6,858,140	5,927,631
Companies	43,654,927	20,377,677
Foreign entities	1,776,342	2,227,525
Retail customers	68,029,296	50,784,956
	120,356,763	79,327,802

Long-term borrowings 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.

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.

Foreign currency call deposits of companies and non-residents are non-interest bearing, except in case of specific business arrangements.

NOTES TO THE FINANCIAL STATEMENTS
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27 DEPOSITS AND BORROWINGS FROM CUSTOMERS (Continued)

Short-term dinar deposits of companies are deposited at interest rates ranging from 4.5% to 7% per annum, depending on the date of maturity.

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 1.0% 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 1.8% to 5% per annum.

Long-term retail deposits in dinars are deposited at interest rates ranging from 14.00% to 14.00% per annum, and in foreign currency from 3.20% to 5.70% per annum.

28 INTEREST AND FEES LIABILITIES

<u>In thousands of RSD</u>	31 December	
	2007	2006
Interest and fees liabilities to banks		
- in dinars	14,715	13,398
- in foreign currency	139	95
Interest and fees liabilities to customers		
- in dinars	52,631	34,149
- in foreign currency	1,023	1,080
	68,508	48,722

29 OTHER OPERATING LIABILITIES

<u>In thousands of RSD</u>	31 December	
	2007	2006
Salaries	-	66,185
Taxes, contributions and other duties payable	72,314	151,370
Suppliers	170,300	3,204
Advances received	6,595	158,000
Other liabilities bases on funds held on eascrow accounts	-	270,016
Other liabilities	285,834	66,185
	535,043	648,775
Liabilities from profit distributions (dividends)	4,918	4,284

30 PROVISIONS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Provision for contingent liabilities	559,966	696,758
Provision for litigation	277,610	401,072
Provision for retirement benefits	309,389	50,000
	1,146,965	1,147,830

NOTES TO THE FINANCIAL STATEMENTS
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30.1 The movements in the provisions were as follows:

Provision for contingent liabilities

<u>In thousands of RSD</u>	31 December	
	2007	2006
Opening balance	696,758	769,163
Release of provision	(136,792)	(72,405)
Closing balance	559,966	696,758

Provision for litigation

<u>In thousands of RSD</u>	31 December	
	2007	2006
Opening balance	401,072	415,967
Usage	(209,085)	(14,895)
Charged during the year	85,623	-
Closing balance	277,610	401,072

Provision for retirement benefits

<u>In thousands of RSD</u>	31 December	
	2007	2006
Opening balance	50,000	-
Charged during the year	259,389	50,000
Closing balance	309,389	50,000

31 OTHER LIABILITIES AND ACCRUALS

<u>In thousands of RSD</u>	31 December	
	2007	2006
Accrued interest:		
- in dinars	8,545	1,718
- in foreign currency	660,360	481,591
Deferred income		
- in dinars	713,484	465,035
- in foreign currency	103	-
Accrued expenses	20,474	17,992
Other accruals:		
- in dinars	173,989	115,284
- in foreign currency	42,631	-
Long-term liabilities for finance lease	49,034	71,149
	1,668,620	1,152,769

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 408,901 thousand.

NOTES TO THE FINANCIAL STATEMENTS
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32 SHARE CAPITAL

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

The 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.

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.

The Bank did not issue any other equity instruments, so that diluted earnings per share are equal to basic earnings per share.

Liabilities of the Bank that can be converted into capital

Liabilities of the 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 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 Bank's capital adequacy ration, computed using the financial statements prepared by the Bank's management, amounted to 13.56%, and using methodology set out in National Bank of Serbia's decisions for 2007.

33 RESERVE

<u>In thousands of RSD</u>	31 December	
	2007	2006
Revaluation reserve	832,042	769,267
Reserve from profit	1,976,290	1,193,290
Closing balance	2,808,332	1,962,557

NOTES TO THE FINANCIAL STATEMENTS
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33 RESERVE (Continues)

Movements in reserve were as follows:

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

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	
	2007	2006
Opening balance	1,193,290	843,290
Increase		
- distribution or retained earnings	783,000	350,000
Closing balance	1,976,290	1,193,290

34 RETAINED EARNINGS

<u>In thousands of RSD</u>	31 December	
	2007	2006
RETAINED EARNINGS		
Retained earnings from previous years	224,937	455,102
Current year retained earnings	2,947,856	838,986
	3,172,793	1,294,088
NET PROFIT FOR THE YEAR		
Net profit from business activities	2,916,093	785,122
Net profit – tax effects	31,763	53,864
	2,947,856	838,986
MOVEMENTS IN RETAINED EARNINGS FROM PREVIOUS YEARS		
Opening balance	455,102	232,875
Opening balance adjustment (previous year's error correction)	(75,018)	-
Opening balance after adjustment	380,084	232,875
Increase for the year		
- transfer from current year profit	914,004	513,310
- gains on disposal of fixed assets	20,568	853
- gains from treasury shares	-	164,410
- gains on realized revaluation reserves	10,900	11,267
- gains on tax effects	-	-
Decrease for the year:		
- dividends for preferential shares	52,964	86,281
- employee share in profits	45,000	31,332
- transfer to reserve	783,000	350,000
- usage of tax credits from previous year - tax relief	219,655	-
Closing balance	224,937	455,102

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

34 **RETAINED EARNING (continued)**

In accordance with NBS regulations gains on the disposal of revalued fixed assets in 2007 were recognized as retained earnings of previous years in the total amount of RSD 20,568 thousand.

Total provisions for assets and off-balance sheet items in accordance with NBS requirements – retained earnings (notes 10. and 36.) amount to RSD 3,798,312 thousand. From previous distributions of profit the Bank took out an amount of RSD 1,624,572 thousand so that it is under obligation to cover the missing amount through distribution of profits for 2007 in the amount of RSD 2,173,740 thousand.

35 **MANAGED FUNDS FOR AND ON BEHALF THIRD PARTIES**

<u>In thousands of RSD</u>	31 December	
	2007	2006
Managed funds for and of behalf third parties	<u>6,517,782</u>	<u>3,934,303</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.

36 **OFF-BALANCE SHEET ITEMS**

a) **Guarantees and other contingent liabilities**

<u>In thousands of RSD</u>	31 December	
	2007	2006
Payment guarantees:	4,638,286	6,232,730
- in dinars	2,086,252	2,588,509
- in foreign currency	2,552,034	3,644,221
Performance guarantees:	2,957,658	2,074,305
- in dinars	2,789,488	1,752,815
- in foreign currency	168,170	321,490
Letters of credit	571,686	571,686
- in dinars	-	-
- in foreign currency	571,686	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	13,103,112	9,721,185
- in dinars	11,908,959	9,173,057
- in foreign currency	1,194,153	548,128
	<u>22,150,771</u>	<u>20,194,905</u>

For the mentioned guarantees and contingent liabilities the estimated provision against potential losses in accordance with IAS 37 amounts to RSD 559,966 thousand. This provision is reported under liabilities and equity in the balance sheet.

According to National Bank of Serbia's regulations relating to guarantees and contingent liabilities, the Bank is under obligation to provision an amount of RSD 502,612 thousand from profits. From previous distributions of profit the Bank took out an amount of RSD 278.000 thousand so that it is under obligation to cover the missing amount through distribution of profits for 2007 in the amount of RSD 224.612 thousand.

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

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36 UNDERTAKEN AND CONTINGENT LIABILITIES (continued)**b) Court cases**

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.

37 COMPLIANCE WITH STATUTORY REGULATIONS

The Bank was under obligation to adjust its scope of operations in compliance with the Law on Banks, that is to say to adjust the scope and structure of its risk assets to the scope prescribed by the National Bank of Serbia. As at 31 December 2007 and as at 31 December 2006 all indicators were compliant with NBS requirements.

38 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 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.

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

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 Bank, all provide adequate assurance that its deposits represent a stable and reliable source of funding.

NOTES TO THE FINANCIAL STATEMENTS
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38 LIQUIDITY RISK (continued)

<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	9,657,029				9,657,029
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	35,413,826				35,413,826
Interest and fees receivables	394,653				394,653
Loans and advances to banks	372,458	516	165,724	7,496	546,194
Loans and advances to customers	16,436,299	18,540,800	25,205,656	29,798,176	89,980,931
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				2,787,993	2,787,993
Investments in capital of associated companies					
Non-current assets held for sale					
Income tax prepayments			53,549		53,549
Goodwill					
Intangible assets				205,478	205,478
Investment property				2,500,029	2,500,029
Fixed assets				4,550,638	4,550,638
Other assets and accrued income	397,477	53,038	66,657	45,983	563,155
Deferred tax assets			114,295		114,295
Loss over capital					
Total assets	62,671,742	18,594,354	25,985,723	39,951,384	147,203,203
2. LIABILITIES AND EQUITY					
Deposits and borrowings from banks	3,483,874	711,274	28,197	30,281	4,253,626
Deposits and borrowings from customers	56,071,683	34,279,844	22,409,463	7,595,773	120,356,763
Interest and fees liabilities	68,508				68,508
Liabilities from securities					
Liabilities from income distribution		4,918			4,918
Other operating liabilities	535,043				535,043
Deferred negative goodwill					
Provisions				1,146,965	1,146,965
Other liabilities and accruals	216,898	509,898	712,699	229,125	1,668,620
Deferred tax liabilities					
Equity				19,168,760	19,168,760
Total liabilities and equity	60,376,006	35,505,934	23,150,359	28,170,904	147,203,203
Net liquidity gap on 31 December 2007	2,295,736	(16,911,580)	2,835,364	11,780,480	-

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

The average liquidity ration, computed using NBS methodology, in 2007 amounted to 3.94.

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39 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	7,925,523	1,731,506	9,657,029
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	9,800,000	25,613,826	35,413,826
Interest and fees receivables		394,653	394,653
Loans and advances to banks	467,661	78,533	546,194
Loans and advances to customers	89,377,341	603,590	89,980,931
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		2,787,993	2,787,993
Non-current assets held for sale			
Income tax prepayments		53,549	53,549
Intangible assets		205,478	205,478
Investment property		7,050,667	7,050,667
Fixed assets		563,155	563,155
Other assets and accrued income		114,295	114,295
Loss over capital			
I. Total assets	107,700,046	39,503,157	147,203,203
2. LIABILITIES AND EQUITY			
Deposits and borrowings from banks	2,072,373	2,181,253	4,253,626
Deposits and borrowings from customers	100,244,882	20,111,881	120,356,763
Interest and fees liabilities		68,508	68,508
Liabilities from securities			
Liabilities from income distribution		4,918	4,918
Other operating liabilities		535,043	535,043
Deferred negative goodwill			
Provisions		1,146,965	1,146,965
Other liabilities and accruals		1,668,620	1,668,620
Deferred tax liabilities			
Total equity			
Share capital		13,187,635	13,187,635
Reserve		2,808,332	2,808,332
Retained earnings		3,172,793	3,172,793
II. Total liabilities and equity	102,317,255	44,885,948	147,203,203
NET EXPOSURE TO INTEREST RATE RISK AS AT 31 DECEMBER 2007	5,382,791	(5,382,791)	

NOTES TO THE FINANCIAL STATEMENTS
31 December 2007

40 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>	EUR	USD	Other currencies	Total FX balance	RSD balance	Total
As at 31 December 2007						
ASSETS						
Cash and cash equivalents	2,352,127	163,677	357,222	2,873,026	6,784,003	9,657,029
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	22,788,655	2,825,171		25,613,826	9,800,000	35,413,826
Interest and fees receivables	47,720	125		47,845	346,808	394,653
Loans and advances to banks	86,976	0		86,976	459,218	546,194
Loans and advances to customers	28,903,985	1,029,524	332,453	30,265,962	59,714,969	89,980,931
Securities held for trading	191,677			191,677	114,235	305,912
Securities held to maturity					129,521	129,521
Equity investments and other financial assets available for sale					2,787,993	2,787,993
Non-current assets held for sale						
Income tax prepayments					53,549	53,549
Goodwill						
Intangible assets					205,478	205,478
Investment property					2,500,029	2,500,029
Fixed assets					4,550,638	4,550,638
Other assets and accrued income	118,687	8,574	12	127,273	435,882	563,155
Deferred tax assets					114,295	114,295
Loss over capital						
Total assets	54,489,827	4,027,071	689,687	59,206,585	87,996,618	147,203,203
2. LIABILITIES AND EQUITY						
Deposits and borrowings from banks	2,044,138	156,588	13,976	2,214,702	2,038,924	4,253,626
Deposits and borrowings from customers	67,856,530	3,711,694	1,844,272	73,412,496	46,944,267	120,356,763
Interest and fees liabilities	1,116	43	2	1,161	67,347	68,508
Liabilities from securities						
Liabilities from income distribution					4,918	4,918
Other operating liabilities	12,330	9,521	1,549	23,400	511,643	535,043
Provisions					1,146,965	1,146,965
Other liabilities and accruals	21,963,	43,819	3	65,785	1,602,835	1,668,620
Deferred tax liabilities						
Equity					19,168,760	19,168,760
Total liabilities and equity	69,936,077	3,921,665	1,859,802	75,717,544	71,485,659	147,203,203
Net currency gap as at 31.12.2007.	(15,446,250)	105,406	(1,170,115)	(16,510,959)	16,510,959	-
Net currency gap as at 31.12.2006.	(25,161,543)	(281,666)	(265,038)	(25,708,247)	25,749,427	-

RSD loans and advances and liabilities with a foreign currency clause are reported in the "RSD balance" column.

Within the Bank's foreign currency assets, foreign currency items account for 51.44%.

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41 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:

In thousands of RSD	Loans and borrowings	Interest and commission	Impairment	Net exposure	Off-balance sheet exposure	Total exposure	
						Balance as at 31.12.07	Balance as at 31. 12. 06.
RELATED PARTIES							
1.Komercijalna banka a.d. Budva	46,446	913	-	47,359	-	47,359	212,262
2.Komercijalna banka a.d. Banja Luka	594,272	-	-	594,272	-	594,272	158,000
TOTAL	640,718	913	-	641,631		641,631	370,262

42 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 preferred shares).

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 it will report an increase in share capital and share premiums.

Founding of a new subsidiary

On 31 December 2007 the 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.

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43 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:

<u>Foreign currency</u>	31 December	
	<u>2007</u>	<u>2006</u>
USD	53.7267	59.9757
EUR	79.2362	79.0000
CHF	47.8422	49.1569