

AIK BANKA A.D., NIŠ

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

CONTENTS	Page
Independent Auditors' Report	1 – 2
Statement of Income	3
Balance Sheet	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 – 37

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of AIK banka A.D., Niš

We have audited the accompanying financial statements (page 3 to 37) of AIK banka A.D., Niš (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.

Auditor's 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 AIK banka A.D., Niš (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AIK banka A.D., Niš 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 30, 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	3,887,898	2,354,271
Interest expense	3.1, 4b	<u>(1,022,253)</u>	<u>(386,588)</u>
Net interest income		2,865,645	1,967,683
Fee and commission income	3.1, 5a	949,550	770,031
Fee and commission expense	3.1, 5b	<u>(117,174)</u>	<u>(73,086)</u>
Net fee and commission income		832,376	696,945
Net gains on the sale of securities	3.7	15,224	13,465
Net foreign exchange gains	3.2	122,067	139,996
Dividends and other income from equity investments		912	2,600
Other operating income	6	15,240,572	9,462,223
Losses on impairment, provisions and write-offs	3.5, 7	(14,494,682)	(10,620,295)
Other operating expenses	8	(1,052,837)	(596,493)
Gains on the valuation of financial assets and liabilities, net	3.4, 9	<u>720,963</u>	<u>1,598,827</u>
PROFIT BEFORE TAXATION		4,250,240	2,664,951
Income taxes	3.10, 10	(383,858)	(248,331)
Deferred tax expense		<u>(4,690)</u>	<u>(4,723)</u>
PROFIT FOR THE YEAR		<u>3,861,692</u>	<u>2,411,897</u>
<i>Earnings per share in RSD</i>		<u>682.64</u>	<u>445.82</u>

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

These financial statements were adopted by the Board of Directors of AIK banka A.D., Niš on February 28, 2007 and will be recommended for approval to the Shareholders' Assembly.

Signed on behalf of AIK banka A.D., Niš:

Jelica Marjanović
President of the Executive Board

Snežana Živković
Director of the Legal and Accounting Department

Vladan Đorđević
Member of the Executive Board

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

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
ASSETS			
Cash and cash equivalents	11	2,049,955	2,925,241
Deposits with the central bank and securities available-for-refinancing with the central bank	12	7,753,860	940,557
Interest, fees and commission receivable	13	210,624	137,217
Placements with other banks	14	807,349	268,596
Loans and advances to customers	15	24,120,095	15,849,014
Trading securities and placements	16	48,412	-
Securities held-to-maturity	17	2,026,510	826,018
Equity investments and securities available-for-sale	18	171,835	48,794
Intangible assets	19	18,592	5,318
Investment property	20	262,986	266,779
Property and equipment	21	745,104	812,003
Other assets and accruals	22	94,288	65,785
Total Assets		<u>38,309,610</u>	<u>22,145,322</u>
LIABILITIES AND EQUITY			
Liabilities			
Amounts owed to other banks	23	6,874,665	1,821,333
Amounts owed to customers	24	13,027,147	7,614,503
Interest, fees and commission payable	25	92,059	30,910
Liabilities from dividend distributions		57,738	63,139
Income taxes payable		138,736	66,062
Other operating liabilities	26	61,097	46,520
Provisions	27	947,432	549,084
Other liabilities and accruals	28	230,950	61,920
Deferred tax liabilities	10c	9,413	4,723
Total Liabilities		<u>21,439,237</u>	<u>10,258,194</u>
Equity	29		
Share capital		9,796,869	7,684,153
Share premium		1,142,197	314,471
Bank's reserves		1,869,910	1,461,480
Revaluation reserves		125,233	-
Retained earnings		3,936,164	2,427,024
Total equity		<u>16,870,373</u>	<u>11,887,128</u>
Total Liabilities and Equity		<u>38,309,610</u>	<u>22,145,322</u>
OFF-BALANCE-SHEET ITEMS, COMMITMENTS AND CONTINGENT LIABILITIES			
	30	<u>35,218,723</u>	<u>23,012,268</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 at beginning of year	8,107,754	6,756,462
Distribution of profit	<u>1,689,115</u>	<u>1,351,292</u>
Balance at end of year	<u><u>9,796,869</u></u>	<u><u>8,107,754</u></u>
TREASURY SHARES		
Balance at beginning of year	(423,601)	-
Treasury shares purchased during the year	-	(605,855)
Sale of treasury shares	<u>423,601</u>	<u>182,254</u>
Balance at end of year	<u><u>-</u></u>	<u><u>(423,601)</u></u>
SHARE PREMIUM		
Balance at beginning of year	314,471	-
Share premium	<u>827,726</u>	<u>314,471</u>
Balance at end of year	<u><u>1,142,197</u></u>	<u><u>314,471</u></u>
BANK'S RESERVES		
Balance at beginning of year	1,461,480	1,362,651
Transfer from retained earnings	472,782	72,359
Release of provision for the risk-bearing balance sheet and off-balance-sheet items classified into category "A"	(64,352)	-
Provision for the risk-bearing balance sheet and off-balance-sheet items classified into category "A"	<u>-</u>	<u>26,470</u>
Balance at end of year	<u><u>1,869,910</u></u>	<u><u>1,461,480</u></u>
REVALUATION RESERVES		
Revaluation of available-for-sale securities	<u>125,233</u>	-
	<u><u>125,233</u></u>	<u><u>-</u></u>
RETAINED EARNINGS		
Balance at beginning of year	2,427,024	1,815,257
Transfer to share capital	(1,689,115)	(1,351,292)
Transfer to the Bank's reserves	(472,782)	(72,359)
Dividends	(250,000)	(350,009)
Retirement benefits charged to the profit of previous years in accordance with IAS 19	(3,541)	-
Income taxes paid and charged to the profit of previous years	(1,466)	-
Transfer from provision for potential losses	64,352	-
Provision for the risk-bearing balance sheet and off-balance-sheet items classified into category "A"	-	(26,470)
Profit for the year	<u>3,861,692</u>	<u>2,411,897</u>
Balance at end of year	<u><u>3,936,164</u></u>	<u><u>2,427,024</u></u>
TOTAL EQUITY	<u><u>16,870,373</u></u>	<u><u>11,887,128</u></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	4,357,131	2,904,612
Interest receipts	3,214,686	2,126,050
Fee and commission receipts	1,109,929	746,420
Receipts from other operating income	31,604	31,646
Dividends and other similar receipts	912	496
Cash payments from operating activities	(1,948,309)	(1,040,561)
Interest payments	(888,667)	(417,651)
Fee and commission payments	(65,642)	(47,746)
Payments to, and on behalf of employees	(396,284)	(212,988)
Taxes, contributions and other duties paid	(85,353)	(86,407)
Payments for other operating expenses	(512,363)	(275,769)
<i>Net operating cash flows before changes in placements and deposits</i>	2,408,822	1,864,051
Net decreases in placements and increases in deposits	10,067,370	3,207,624
Increase in deposits from banks and other financial institutions	4,416,221	-
Increase in deposits from customers	5,651,149	3,207,624
Net increases in placements and decreases in deposits	(14,927,636)	(4,136,038)
Increase in placements with other banks and financial institutions	(7,510,599)	(613,035)
Increase in placements with customers	(6,709,680)	(2,723,118)
Increase in trading securities and securities held-to-maturity	(707,357)	(263,759)
Decrease in deposits from banks and financial institutions	-	(536,126)
<i>Net cash (used in)/provided by operating activities before income taxes</i>	(2,451,444)	935,637
Income taxes paid	(313,533)	(300,901)
Dividends paid	(255,458)	(331,250)
<i>Net cash (used in)/ provided by operating activities</i>	(3,020,435)	303,486
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	585,202	325,550
Proceeds from the sale of equity investments	26,542	1,265
Proceeds from the sale of intangible assets, property and equipment	558,660	324,285
Cash outflows from investing activities	(276,622)	(164,625)
Purchases of equity investments	(13,839)	-
Purchases of property and equipment	(262,783)	(164,625)
<i>Net cash from investing activities</i>	308,580	160,925
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	1,971,910	710,792
Proceeds from the sale of treasury shares	1,251,327	395,748
Proceeds from short-term borrowings	720,583	315,044
Cash outflows from financing activities	-	(504,879)
Purchase of treasury shares	-	(504,879)
Repayments of short-term borrowings	-	-
<i>Net cash from financing activities</i>	1,971,910	205,913
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(739,945)	670,324
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,925,241	2,171,946
Foreign exchange (losses)/gains, net	(135,341)	82,971
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,049,955	2,925,241

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

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2006****1. BANK'S ESTABLISHMENT AND OPERATING POLICY**

Agroindustrijska komercijalna banka AIK banka, Niš (the "Bank") was initially established on August 10, 1993 in accordance with the provisions of its Founding Agreement. On June 22, 1995 the Bank was legally registered as a shareholding entity with the Commercial Court of Niš under Decision numbered Fi. 1291/95.

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 a Head Office situated in Niš at the legal address of Nikole Pašića 42, and of branch offices located throughout the major cities of: Novi Sad, Beograd, Zrenjanin, Subotica, Kruševac, Kragujevac, Čačak, Sombor, Pančevo Bečej, Vrbas, Novi Pazar, Požarevac, Užice, Kraljevo, Šabac and Zaječar, and it also has 17 sub-branches located throughout the Republic of Serbia. The Bank's total headcount as of December 31, 2006 was 304 (December 31, 2005: 222). The Bank's legal corporate income tax identification number is 100618836.

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 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.

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 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.

As it has been impracticable to revise decisions on distribution of profits, adopted by the Shareholders' Assembly during prior years, the Bank did not apply the new accounting policy (Note 3.5 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.

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.

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 significantly from the IFRS requirements in the area of estimation of allowances for the impairment of financial instruments. 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 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. In the opinion of the Bank's management the effects of non-applying the newly-adopted accounting policy on a retrospective basis, are not materially significant to the Bank's financial statements for 2006.

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 income statement.

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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Property, Equipment and Intangible Assets

Property, equipment and intangible assets as of December 31, 2006 are stated at cost less accumulated depreciation and amortization.

Depreciation and amortization are provided for on a straight-line basis to the cost or revalued cost of property, equipment and intangible assets, in order to write them off over their useful lives. Depreciation and amortization are computed using the following annual rates:

Buildings	1.30%
Computers	20.00%
Furniture and other equipment	11.00% - 20.00%
Motor vehicles	15.50%
Software	20.00%

The Bank's buildings include property that the Bank holds as investment property, upon which it earns rental income. Investment property is stated at cost, less accumulated depreciation.

The depreciation and amortization of property, equipment and intangible assets commence when the relevant asset is placed into use.

3.4. 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 3.5).

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.

3.5. Allowances for Impairment and Provisions for Contingent Liabilities

As of December 31, 2006 the Bank has applied internally developed methodology based on the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" in the calculation of allowance for loan impairment. Allowances for loan impairment are determined as the difference between the carrying amount and the present value of the future cash flows as discounted at the effective or original contractual interest rate, where appropriate. Estimated amount of allowance for impairments and provision for contingent liabilities are charged to the Statement of Income.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.5. Allowances for Impairment and Provisions for Contingent Liabilities (Continued)**

Special reserve for potential losses is determined in accordance with the requirements of the relevant NBS Regulation. Loans, other placements, guarantees, and other on- 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 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.

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.

As of December 31, 2005, allowance for impairment and provision for contingent liabilities have been determined in accordance with the relevant NBS regulations that were in effect at that time. The Bank has not retrospectively applied newly adopted internal methodology for the calculation of impairment losses, 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.

A write-off of uncollected receivables is performed either pursuant to a court order, or based on a settlement agreed between the parties involved, or otherwise, on the basis of a resolution of the Bank's Board of Directors, as further approved by the Shareholders' Assembly.

3.6. Securities Held-to-Maturity

Securities held-to-maturity are comprised of the discounted bills of legal entities and other customers, as well as of foreign currency public savings bonds.

Securities held-to-maturity are stated at amortized cost, less allowances for impairment, if any.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Securities Available-for-Sale**

Securities available-for-sale comprise investments in the equity of other banks and legal entities. 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." Equity investments for which an active market and reliable market values do not exist are stated at cost less allowances for impairment, based on management assessment of the potential losses and recoverability of these investments.

3.8. Cash and Cash Equivalents

For purposes of the Statement of cash flows, "Cash and cash equivalents" include cash and balances on current accounts held with the National Bank of Serbia and other banks.

3.9. Managed Funds

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

3.10. 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)****3.10. Income Taxes (Continued)****Indirect Taxes and Contributions**

Indirect taxes and contributions include property taxes and other taxes and contributions paid pursuant to republic and municipal regulations.

3.11. Employment Benefits

In accordance with regulatory requirements, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Pursuant to the Labor Law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. In addition, a qualifying employee is entitled to an anniversary award for every ten, twenty, thirty and forty years of service held in the Bank. The retirement benefit and anniversary award obligations recognized in the balance sheet as of December 31, 2006 represents the present value of the defined benefit obligation determined through actuarial valuations by using assumptions such as mortality tables, expected rate of salary increases of 11%, annual expected nominal change in EUR:RSD exchange rate of 7.5% and annual discount rate of 11%. Fluctuation rate is excluded from the valuation, since the Bank is in development phase and further growth of operations.

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. In the opinion of the Bank's management the effects of non-applying the newly-adopted accounting policy on a retrospective basis, are not materially significant to the Bank's financial statements for 2006.

3.12. 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 governing financial reporting of banks.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

4. INTEREST INCOME AND EXPENSE

a) Interest Income

	Thousands of RSD	
	Year Ended	December 31,
	2006	2005
Deposits with the central bank	142,177	28,548
Placements with other banks	37,503	18,910
Loans and advances to customers	3,187,881	2,167,717
Securities	520,337	139,096
	<u>3,887,898</u>	<u>2,354,271</u>

b) Interest Expense

	Thousands of RSD	
	Year Ended	December 31,
	2006	2005
Amounts owed to other banks	535,351	179,568
Amounts owed to customers	486,902	207,020
	<u>1,022,253</u>	<u>386,588</u>

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	344,690	213,059
Loan origination fees	443,552	406,965
Fees on issued guarantees and other contingent liabilities	112,179	125,512
Other fee and commission income	49,129	24,495
	<u>949,550</u>	<u>770,031</u>

b) Fee and Commission Expense

	Thousands of RSD	
	Year Ended	December 31,
	2006	2005
Fee and commission expense arising on domestic payment transfers	55,630	38,903
Fee and commission expense arising on international payment transfers	1,876	1,669
Fee and commission expense arising on received short-term borrowings	20,403	3,184
Other fee and commission expenses	39,265	29,330
	<u>117,174</u>	<u>73,086</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

6. OTHER OPERATING INCOME

	Thousands of RSD	
	Year Ended	December 31,
	2006	2005
Release of allowances for impairment	11,417,255	470,993
Release of provision for potential losses	-	6,510,343
Release of provision for contingent liabilities	3,472,864	2,406,762
Gains on the sale of property and equipment	324,474	45,759
Rent	18,758	21,033
Other income	7,221	7,333
	<u>15,240,572</u>	<u>9,462,223</u>

7. LOSSES ON IMPAIRMENT, PROVISIONS AND WRITE-OFFS

a) Charge for the Year

	Thousands of RSD	
	Year Ended	December 31,
	2006	2005
Specific provision for impairment	-	662,601
Provision charged during the year with respect to balance sheet exposures	10,626,687	7,227,357
	<u>10,626,687</u>	<u>7,889,958</u>
Provision for contingent liabilities	3,527,600	2,730,189
Provision for litigation	338,794	-
Provision for employee benefits in accordance with IAS 19	1,601	-
Write-offs	-	148
	<u>14,494,682</u>	<u>10,620,295</u>

b. Movements in the Balances of Allowance for Impairment

	Thousands of RSD					
	Placements with Other Banks (Note 14)	Loans and Advances to Customers (Note 15)	Interest and Fees (Note 13)	Securities and Equity Investments	Other Assets (Note 22)	Total
Balance at beginning of year	143,094	3,519,594	90,115	548,256	131,832	4,432,891
Provision charged during the year	61,658	8,889,687	184,795	1,438,901	51,646	10,626,687
Foreign exchange fluctuations	(14,836)	15,495	(662)	-	(379)	(382)
Release of provision	(43,276)	(9,629,132)	(188,151)	(1,496,280)	(60,416)	(11,417,255)
Write-offs	-	-	-	(204,702)	-	(204,702)
	<u>146,640</u>	<u>2,795,644</u>	<u>86,097</u>	<u>286,175</u>	<u>122,683</u>	<u>3,437,239</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

7. LOSSES ON IMPAIRMENT, PROVISIONS AND WRITE-OFFS (Continued)

c) Special reserve for potential losses

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

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

	Thousands of RSD
	December 31,
	2006
Special reserve for potential losses determined	
as per the National Bank of Serbian requirements with respect to:	
- balance sheet exposures	4,993,480
- off-balance sheet exposures	489,160
	<u>5,482,640</u>
Allowances for impairment and provision for contingent liabilities	
determined in accordance with internally adopted methodology:	
- allowance for impairment	(3,437,239)
- provision for contingent liabilities	(603,820)
	<u>(4,041,059)</u>
Provision for contingent liabilities determined in accordance with	
internally adopted methodology exceeding the amount of provision as per	
the NBS Decision	114,661
Provision for potential losses to be shown within reserves	1,556,242
Reserve for potential losses formed from the prior years' profits	<u>-</u>
Additional provision for potential losses to be set aside	
as appropriation of retained earnings	<u>(1,556,242)</u>

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

8. OTHER OPERATING EXPENSES

	Thousands of RSD	
	Year Ended	December 31,
	2006	2005
Material and energy	55,400	38,499
Services	42,850	18,964
General and administrative costs	28,018	7,951
Entertainment	23,697	20,248
Insurance premiums	19,294	5,453
Rent	51,534	18,186
Advertising and promotions	73,380	35,251
Employee transportation and meals	4,704	3,120
Security of property	19,415	4,645
Donations and sponsorships	27,087	31,353
Court and administrative fees	8,488	4,840
Professional services	18,471	11,893
Maintenance	101,793	46,553
Net salaries	298,945	154,805
Social security costs	146,096	91,600
Other personnel costs	18,390	9,355
Depreciation	74,154	47,749
Emoluments to the Board of Directors and Supervisory Board members	15,606	11,802
Indirect taxes and contributions	25,167	31,687
Other expenses	348	2,539
	<u>1,052,837</u>	<u>596,493</u>

9. GAINS ON THE VALUATION OF FINANCIAL ASSETS AND LIABILITIES

	Thousands of RSD	
	Year Ended	December 31,
	2006	2005
Gains on the valuation of financial assets:		
- Short-term loans to banks	16,002	9,759
- Long-term loans to banks	365	2,281
- Short-term loans to customers	826,486	1,522,449
- Long-term loans to customers	103,655	192,995
- Other	5,713	-
	<u>952,221</u>	<u>1,727,484</u>
Losses on the valuation of financial liabilities:		
- Short-term borrowings	(41,042)	(71,791)
- Deposits	(190,216)	(56,866)
	<u>(231,258)</u>	<u>(128,657)</u>
	<u>720,963</u>	<u>1,598,827</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

9. INCOME TAXES

	Thousands of RSD	
	Year Ended	December 31,
	2006	2005
a) Components of Income Tax		
Current income tax	383,858	248,331
Deferred income taxes	4,690	4,723
	<u>388,548</u>	<u>253,054</u>

b) Numerical Reconciliation Between Tax Expense and the Product of Accounting Results Multiplied by the Applicable Tax Rate

	Thousands of RSD	
	Year Ended	December 31,
	2006	2005
Profit before tax	<u>4,250,240</u>	<u>2,664,951</u>
Income tax at the statutory tax rate of 10%	425,024	266,495
Tax effect of expenses not deductible in determining taxable profit	36,921	3,555
Tax credits for investments in property and equipment	(44,536)	(18,777)
Deduction for newly-hired employees	(31,092)	-
Increase in property and equipment not deductible in determining taxable profit	2,231	2,302
Other	<u>-</u>	<u>(521)</u>
Income taxes shown in the statement of income	<u>388,548</u>	<u>253,054</u>

c) Deferred Tax Liabilities

At December 31, 2006 deferred tax liabilities in the amount of RSD 9,413 thousand relate to the temporary differences between the carrying values of the property and equipment and their tax base.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

11. CASH AND CASH EQUIVALENTS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Cash on hand:		
- in dinars	460,484	251,080
- in foreign currencies	323,502	211,118
Obligatory reserves in dinars held on giro account	993,856	1,026,283
Giro account	-	375,712
Foreign currency accounts with:		
- National Bank of Serbia	13,530	16,255
- other domestic banks	3,036	428
- foreign banks	255,547	1,044,365
	<u>2,049,955</u>	<u>2,925,241</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.

12. 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	1,753,860	940,557
Securities purchased under agreements to resell	6,000,000	-
	<u>7,753,860</u>	<u>940,557</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

12. 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 6,000,000 thousand relate to discounted bills purchased from the NBS, having 14-day maturities and issued at annual interest rates ranging from 14 to 15.5 percent. This transaction is governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

13. INTEREST, FEES AND COMMISSIONS RECEIVABLE

	Thousands of RSD	
	December 31, 2006	December 31, 2005
	<hr/>	<hr/>
Matured interest:		
- in dinars	252,010	172,526
- in foreign currencies	14,362	16,735
	<hr/>	<hr/>
	266,372	189,261
Fee and commission receivable in dinars	30,349	38,071
	<hr/>	<hr/>
	296,721	227,332
Less: Allowance for impairment	(86,097)	(90,115)
	<hr/>	<hr/>
	<u>210,624</u>	<u>137,217</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

14. PLACEMENTS WITH OTHER BANKS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Short-term loans and placements:		
- in dinars	131,000	178,727
- in foreign currencies	647,800	53,438
Matured receivables in dinars	16,932	18,718
Current maturities of long-term loans in dinars	3,970	3,970
Long-term loans and deposits in dinars	3,450	7,607
Other short-term financial placements:		
- in dinars	63,839	48,218
- in foreign currencies	86,998	101,012
	<u>953,989</u>	<u>411,690</u>
Less: Allowance for impairment	<u>(146,640)</u>	<u>(143,094)</u>
	<u>807,349</u>	<u>268,596</u>

Short-term dinar loans to banks have been placed for periods ranging from two months up to one year at annual interest rates ranging from 10 to 12.68 percent.

Short-term placements in foreign currencies represent the term deposits held with domestic banks for period of up to six days at annual interest rates ranging from 5.3 to 5.4 percent.

Other short-term financial placements in dinars stated at December 31, 2006 in the amount of Dinar 63,839 thousand relate to receivables based on received cheques. Other short-term financial placements in foreign currencies include the amount of RSD 86,998 thousand which relates to the placements held with the Anglo-Yugoslav Bank (RSD 69,013 thousand) and with the banks presently in the process of bankruptcy (RSD 17,985 thousand) for which a full provision for impairment has been formed.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

15. LOANS AND ADVANCES TO CUSTOMERS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Short-term loans:		
- in dinars	16,073,142	13,971,987
- in foreign currencies	1,717,455	177,120
Matured receivables:		
- in dinars	2,056,047	1,420,990
- in foreign currencies	151,931	65,497
Current maturities of long-term loans:		
- in dinars	1,245,236	826,061
- in foreign currencies	26,756	30,471
Long-term loans:		
- in dinars	3,814,965	2,384,026
- in foreign currencies	22,891	391,941
Receivables from customers in dinars based on discounted bills	-	6,500
Cash cover, for issued letters of credit and guarantees, with foreign banks	1,548	86,232
Other placements:		
- in dinars	1,798,700	-
- in foreign currencies	7,068	7,783
	<u>26,915,739</u>	<u>19,368,608</u>
Less: Allowance for impairment	<u>(2,795,644)</u>	<u>(3,519,594)</u>
	<u>24,120,095</u>	<u>15,849,014</u>

Short-term loans in dinars and foreign currencies to legal entities are issued for periods ranging from one month up to one year, at interest rates in the range of 0.5 percent to 2.2 percent per month.

Long-term loans in dinars and foreign currencies to legal entities are extended with over one-year maturities, at annual interest rates in the range of 5 percent to 12 percent.

Short-term loans to retail customers are issued at interest rates ranging from 2.2 percent to 2.8 percent per month, for cash loans with up-to-one-year maturities. As of December 31, 2006 long-term loans to retail customers totaling Dinar 2,030,797 thousand include consumer loans intended for the purpose of financing the purchase of consumer goods, as well as the repurchases of socially-owned capital, issued at annual interest rates ranging from 7.2 percent to 15.6 percent.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loan Concentration

The economic sector risk concentrations within the customer gross loan portfolio are as summarized below:

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Trade	9,140,133	3,281,377
Civil engineering	5,381,802	1,478,385
Transportation and traffic	711,679	2,289,240
Agriculture	1,490,605	1,175,465
Processing industry	4,485,452	4,400,118
Retail customers	4,456,373	2,941,049
Services and tourism	155,171	177,168
Local municipalities	836,142	1,274,185
Other	258,382	2,351,621
	<u>26,915,739</u>	<u>19,368,608</u>

16. TRADING SECURITIES AND PLACEMENTS

As of December 31, 2006, trading securities of RSD 48,412 thousand relate to repurchased placements based on debt assumption agreements signed between the Bank and its customers.

17. SECURITIES HELD-TO-MATURITY

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Up to one year:		
- discounted bills of legal entities	2,198,519	1,017,077
Over one year:		
- foreign currency savings bonds	20,772	59,378
Matured securities	42,693	39,502
	<u>2,261,984</u>	<u>1,115,957</u>
Less: Allowance for impairment	<u>(235,474)</u>	<u>(289,939)</u>
	<u>2,026,510</u>	<u>826,018</u>

At December 31, 2006 the amount of RSD 2,198,519 thousand relates to the discounted bills of legal entities having maturities from one month up to one year.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

18. EQUITY INVESTMENTS AND SECURITIES AVAILABLE-FOR-SALE

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Equity investments in dinars up to 10%:		
- banks and other financial institutions	71,708	27,816
- other customers	93,790	223,245
Equity investments in dinars (over 10%):		
- other banks	56,050	56,050
	<u>221,548</u>	<u>307,111</u>
Less: Allowance for impairment	<u>(49,713)</u>	<u>(258,317)</u>
	<u>171,835</u>	<u>48,794</u>

During 2006, the Bank made write-off of its interest in the equity of the entity, Kompanija Politika A.D., Beograd in the amount of RSD 204,702 thousand (Note 8b). In previous years, the aforementioned investment was fully provided for.

19. INTANGIBLE ASSETS

	Thousands of RSD
	Intangible Assets
Cost	
Balance, beginning of year	7,809
Additions	9,048
Transfer from investment in progress	<u>5,788</u>
Balance, end of year	<u>22,645</u>
Accumulated Amortization	
Balance, beginning of year	2,491
Charge for the year	<u>1,562</u>
Balance, end of year	<u>4,053</u>
Net Book Value:	
- as of December 31, 2006	<u>18,592</u>
- as of December 31, 2005	<u>5,318</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

20. INVESTMENT PROPERTY

	Thousands of RSD
	Investment
	Property
Cost	
Balance, beginning of year	291,784
Balance, end of year	<u>291,784</u>
Accumulated Amortization	
Balance, beginning of year	25,005
Charge for the year	<u>3,793</u>
Balance, end of year	<u>28,798</u>
Net Book Value:	
- as of December 31, 2006	<u>262,986</u>
- as of December 31, 2005	<u>266,779</u>

As of December 31, 2006, investment property in the amount of RSD 262,986 thousand include building properties located in Belgrade and Niš, which the Bank does not use for its operations, but for rental income purposes.

21. PROPERTY AND EQUIPMENT

	Thousands of RSD			
	Buildings	Equipment	Construction	
		and Other	in Progress	Total
		Assets	and Advances	
Cost				
Balance, beginning of year	594,641	307,633	35,891	938,165
Additions	49,301	204,434	-	253,735
Transfer from construction in progress	-	17,859	(23,647)	(5,788)
Disposals	<u>(239,971)</u>	<u>(9,313)</u>	<u>(12,101)</u>	<u>(261,385)</u>
Balance, end of year	<u>403,971</u>	<u>520,613</u>	<u>143</u>	<u>924,727</u>
Accumulated Depreciation				
Balance, beginning of year	27,675	98,487	-	126,162
Charge for the year	7,655	61,144	-	68,799
Disposals	<u>(6,420)</u>	<u>(8,918)</u>	<u>-</u>	<u>(15,338)</u>
Balance, end of year	<u>28,910</u>	<u>150,713</u>	<u>-</u>	<u>179,623</u>
Net Book Value:				
- as of December 31, 2006	<u>375,061</u>	<u>369,900</u>	<u>143</u>	<u>745,104</u>
- as of December 31, 2005	<u>566,966</u>	<u>209,146</u>	<u>35,891</u>	<u>812,003</u>

The largest portion of disposals in buildings in the amount of RSD 237,033 thousand relates to the sale of the building made during 2006, by which the Bank earned capital gain in the amount of RSD 324,474 thousand (Note 6).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

21. PROPERTY AND EQUIPMENT (Continued)

As of December 31, 2006 with regard to the building property presented at a net book value of RSD 368,610 thousand, the Bank possesses the appropriate purchase and sale documentation however, it does not have evidence of title deeds that have been filed with the relevant court. The aforementioned buildings are not recorded as the property of the Bank, due to incomplete cadastral registers.

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

22. OTHER ASSETS AND ACCRUALS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Advance payments in dinars	11,361	16,872
Receivables based on sold tangibles received in lieu of debt settlement	44	-
Accrued receivables in dinars	66,010	5,808
Tangibles received in lieu of debt settlement	10,139	10,139
Other receivables in dinars:		
- discounted cheques	-	4,176
- assigned receivables	12,446	27,604
- receivables from Beogradska banka A.D., Beograd – in Bankruptcy	92,300	54,487
- receivables from the Republic of Serbia budget	-	37,813
- receivables arising on Dinacard transactions	172	11,456
- other receivables in dinars	23,176	28,661
Other receivables in foreign currencies	1,323	601
	<u>216,971</u>	<u>197,617</u>
Less: Allowance for impairment	<u>(122,683)</u>	<u>(131,832)</u>
	<u>94,288</u>	<u>65,785</u>

23. AMOUNTS OWED TO OTHER BANKS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Demand deposits:		
- in dinars	348,694	23,288
- in foreign currencies	356,272	37,686
Short-term deposits:		
- in dinars	4,165,298	574,356
- in foreign currencies	240,555	128,250
Long-term deposits:		
- in dinars	17,144	19,191
- in foreign currencies	1,310	-
Short-term loans in dinars	1,744,666	1,037,235
Other financial liabilities in foreign currencies	726	1,327
	<u>6,874,665</u>	<u>1,821,333</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

23. AMOUNTS OWED TO OTHER BANKS (Continued)

Demand deposits bear annual interest rates of 3 percent. Short-term deposits in dinars and in foreign currencies are placed at monthly interest rates ranging from 0.1 percent to 0.85 percent and 0.41 percent, respectively.

Short-term loans largely relate to the loans extended by domestic banks for periods of up to three months, at annual interest rates ranging from 7.80 to 20.74 percent.

Long-term deposits in dinars bear an annual interest rate of 3 percent.

24. LOANS AND ADVANCES TO CUSTOMERS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Demand deposits:		
- in dinars	4,060,376	2,590,947
- in foreign currencies	1,131,613	886,358
Short-term deposits:		
- in dinars	4,004,442	2,763,791
- in foreign currencies	3,331,213	1,043,477
Long-term deposits:		
- in dinars	125,664	146,902
- in foreign currencies	354,786	176,594
Other financial liabilities:		
- in dinars	13,912	3,591
- in foreign currencies	5,141	2,843
	<u>13,027,147</u>	<u>7,614,503</u>

The demand deposits in dinars of legal entities, governmental institutions and other legal entities, mainly include current account balances, as well as the deposits of retail customers. These demand deposits bear an annual interest rate of 3 percent.

Demand deposits in foreign currencies carry interest rates that correspond to the particular foreign currency that has been deposited. The related annual interest rates range from 1.4 percent to 2 percent. The short-term and long-term deposits of retail customers in foreign currencies bear annual interest rates ranging from 1.8 percent to 5.16 percent, and 3.2 percent to 4.5 percent, respectively, depending on the maturity period and deposited currency.

The short-term deposits of legal entities in dinars bear monthly interest rates ranging from 0.2 percent to 1.15 percent.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

25. INTEREST, FEES AND COMMISSIONS PAYABLE

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Interest payable:		
- banks	30,959	13,124
- legal entities	50,218	11,146
- pension funds	-	1,585
- governmental institutions	1,758	3,248
- retail customers	-	391
- other	6,622	1,416
	<u>89,557</u>	<u>30,910</u>
Fees and commissions payable in dinars	<u>2,502</u>	<u>-</u>
	<u>92,059</u>	<u>30,910</u>

26. OTHER OPERATING LIABILITIES

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Liabilities for taxes and contributions	10,994	9,591
Payables to suppliers	13,352	11,547
Liabilities for unallocated payments	30,183	21,328
Other liabilities in dinars	6,568	4,054
	<u>61,097</u>	<u>46,520</u>

27. PROVISIONS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
a) Provision for contingent liabilities		
Balance, beginning of year	549,084	225,657
Charged during the year	3,527,600	2,730,189
Release of provision	(3,472,864)	(2,406,762)
Balance, end of year	603,820	549,084
b) Provision for litigation		
Balance, beginning of year	-	-
Charged during the year	338,794	-
Balance, end of year	338,794	-
c) Provision for retirement benefits and anniversary awards		
Balance, beginning of year	-	-
Charged to profit from previous years	3,541	-
Charged during the year	1,601	-
Paid retirement benefits and anniversary awards	(324)	-
Balance, end of year	<u>4,818</u>	<u>-</u>
Total provisions	<u>947,432</u>	<u>549,084</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

28. OTHER LIABILITIES AND ACCRUALS

	Thousands of RSD	
	December 31, 2006	December 31, 2005
Accrued interest expenses:		
- in dinars	46,970	73
- in foreign currencies	29,276	4,484
Deferred fee and commission income based on:		
- approved loans	132,513	-
- issued guarantees, letters of credit, acceptances and other off-balance-sheet assets	17,880	-
Deferred interest income	4,311	57,363
	<u>230,950</u>	<u>61,920</u>

29. EQUITY

In accordance with its Articles of Incorporation and Statutes, the Bank's equity consists of:

- share capital and
- the Bank's reserves.

In accordance with the Resolution of the Bank's Shareholders' Assembly of May 3, 2006, and on the basis of the approval of the National Bank of Serbia and the Decision of the Securities and Exchange Commission, the value of the Bank's share capital has been increased on the basis of the allocation of the retained earnings by the amount of Dinar 1,689,115 thousand.

During 2006, the Bank sold its treasury shares in the amount of RSD 423,602 thousand. Share premium recorded in the financial statements based on the sale of treasury shares amounted to RSD 827,726 thousand.

As of December 31, 2006 the Bank's share capital is comprised of 6,756,462 shares (5,703,618 ordinary shares with voting rights, 32,002 preferred convertible shares and 1,020,842 preferred cumulative shares, with an individual par value of Dinar 1,450).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

29. EQUITY (Continued)

The Bank's principal shareholders holding more than ten percent of the Bank's shares at December 31, 2006 and/or 2005 are as follows:

<u>Shareholder</u>	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Thousands of Dinars</u>	<u>in %</u>	<u>Thousands of Dinars</u>	<u>in %</u>
Agricultural Bank of Greece	2,023,955	20.66	-	-
IRVA A.D., Beograd	1,348,753	13.77	1,192,651	14.71
NIC CO a.d., Beograd	-	-	37,915	0.47
	<u>1,348,753</u>	<u>13.77</u>	<u>1,230,566</u>	<u>15.18</u>
East Capital Asset Management	829,736	8.47	-	-
PP NINI, NIŠ	233,756	2.39	683,899	8.44
JUGOREMEDIJA A.D. Zrenjanin	-	-	218,939	2.70
	<u>233,756</u>	<u>2.39</u>	<u>902,838</u>	<u>11.14</u>

Capital Adequacy and Ratios Prescribed by the Law on Banks

The Bank is required to maintain a minimum capital adequacy ratio of 12 percent, as established by the NBS 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.

Earnings per share for the year 2006 amounted to RSD 682.64.

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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

30. OFF-BALANCE-SHEET ITEMS, COMMITMENTS AND CONTINGENT LIABILITIES

	Thousands of RSD	
	December 31, 2006	December 31, 2005
<i>a) Managed Funds</i>		
- in dinars	511,451	529,191
- in foreign currencies	2,876	3,113
	<u>514,327</u>	<u>532,304</u>
<i>b) Guarantees, Other Contingent Liabilities and Commitments</i>		
Payment guarantees:		
- in dinars	1,247,703	1,795,687
- in foreign currencies	163,837	683,932
Performance bonds:		
- in dinars	2,304,382	-
- in foreign currency	49,778	-
Loan commitments	2,327,641	1,771,249
Uncovered letters of credit	156,455	200,348
Acceptances	61,213	68,250
	<u>6,311,009</u>	<u>4,519,466</u>
<i>c) Other off-balance-sheet items</i>		
Mortgage assigned as collateral for placements in dinars	18,554,329	14,411,901
Mortgage assigned as collateral for placements in foreign currencies	1,386,944	2,402,513
Pledged shares received as collateral for receivables	1,774,303	1,083,809
Pledged foreign currency public savings based on the loan agreements	20,434	-
Placements with the National Bank of Serbia based on securities purchased under agreements to resell	6,000,000	-
Receivables for debts	595,018	-
Other off-balance-sheet items	62,359	62,275
	<u>28,393,387</u>	<u>17,960,498</u>
Total Off-balance-sheet items	<u><u>35,218,723</u></u>	<u><u>23,012,268</u></u>

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 603,820 thousand (December 31, 2005: RSD 549,084 thousand). In the balance sheet this provision is presented under liabilities.

d) Litigation

At December 31, 2006, the total value of potential damage claims arising under the pending lawsuits filed against the Bank amounted to RSD 473,078 thousand. The aforementioned amount does not include the potential penalty interest that could be assessed upon the final outcome of pending litigation. The management recognized a provision for litigation in the amount of RSD 338,794 thousand (Note 27). 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

31. BALANCES WITH RELATED PARTIES

The following table summarizes receivables from, and liabilities to related parties:

	Thousands of RSD
	2006
Receivables	
TP Jabuka A.D., Beograd	12,134
Elid d.o.o. Elektroind, Donji Dus	15
Mačkatica A.D., Surdulica	69
DP Žitopromet Niš	21
Blagoje Kostić-Crni Marko A.D.	7,300
SKO Aikvranje A.D., Vranje	29,080
PP NINI, Niš	312,583
Kapital Banka, Nikšić	81
Jugoremedija A.D., Niš	120,755
Hem.ind."LUXOL" A.D., Zrenjanin	1,613
PP "NICCO AGRAR" d.o.o., Banat	40,513
Remevita, Niš	72,959
Jucit A.D., Beograd	94,781
Irva A.D., Beograd	187,528
"ATLAS ELEKTRONICS" d.o.o., Surdulica	28,077
Nicit d.o.o., Niš	3
Mr. Đorđije Nicović	91
Ms. Jelica Marjanović	3,346
Ms. Verica Trifunović	6,542
Mr. Ljubiša Jovanović	2,301
	919,792
Commitments and contingent liabilities	
Hem.ind."LUXOL" A.D., Zrenjanin	3,387
Mr. Ljubiša Jovanović	598
	3,985
Commitments and contingent liabilities	
Kapital banka A.D. In liquidation, Beograd	6,891
Mr. Đorđije Nicović	27,166
NIC CO a.d., Beograd	-
PP NICCO agrar d.o.o., Banatski Brestovac	1,084
Hem.ind."LUXOL" A.D., Zrenjanin	1,639
Irva A.D., Beograd	2,273
"ATLAS ELEKTRONICS" d.o.o., Surdulica	133
Mačkatica A.D., Surdulica	23
PP NINI, Niš	2,200
Jugoremedija A.D., Zrenjanin	539
Remevita, Zrenjanin	168
Jucit A.D., Beograd	11
Stefanović Jovica, Niš	-
TP Jabuka A.D., Beograd	4,946
Elid d.o.o. Elektroind, Donji Dus	7
DP Žitopromet Niš	700
Blagoje Kostić-Crni Marko A.D.	37
ŠKO AIK, Vranje	40,606
	88,423

Throughout the normal course of business, the Bank enters into transactions with its shareholders and other related parties under prevailing market terms.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006**32. RISK MANAGEMENT POLICIES*****Credit Risk***

In devising and adhering to its credit policy, the Bank follows certain principles that have been established by the Decision on Credit and Other Banking Activities, and in this manner limits its exposure to significant credit risk.

In accordance with the aforementioned decision, the Bank enters into credit agreements with counterparties who: undergo an acceptable loan review approval process, are depositors of the Bank, are classified as good debtors under internally adopted methodology and into Category "A" or "B" as per the respective level of risk (defined as per the NBS classification regulatory specifications), have pledged or assigned acceptable security instruments (e.g., third-party guarantees, collateral, mortgages, etc.), demonstrate an acceptable level of financial discipline, and execute their dinar and foreign currency transactions via the Bank.

The loan review approval decision is formed on the basis of an analysis of the counterparty's financial statements. The structure of the counterparty's business income and expense is analyzed, as are the economic feasibility and profitability of its operations, the development of a net working capital fund, its financial stability, liquidity and any allowances made on asset components, as well as its cash flows. In addition, an analysis of the credit rating of the counterparty is performed, as is the marketability of the mortgage instrument that has been obtained as collateral.

Throughout the life of the loan, the Bank follows the counterparty's financial status and operations, and performs a review of its specifically-intended use of the loan funds.

Liquidity Risk

The Bank is exposed to daily calls on its available cash resources from deposits, current accounts, and loan withdrawals. 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.

On a daily basis, the Bank's management reviews the Report on the Balance of its Giro Deposit Accounts. The Management empirically through a historic review, determines the critical days affecting the Bank's liquidity, or otherwise, the significant dates upon which funds are to be used. Based upon the identification of accessible funds and the determined, daily cash needs, a decision is made regarding the appropriate use of funds.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank.

The Bank manages its liquidity risk through the constant monitoring of the maturities of its asset and liability components.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

32. RISK MANAGEMENT POLICIES (Continued)

Liquidity Risk (Continued)

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

	Thousands of RSD				
	Up to One Month	From One to 3 Months	From 3 to 12 Months	Over 1 year	Total
As of December 31, 2006					
ASSETS					
Cash and cash equivalents	2,049,955	-	-	-	2,049,955
Deposits with the central bank and securities available-for-refinancing with the central bank	7,753,860	-	-	-	7,753,860
Interest, fee and commission receivable	210,624	-	-	-	210,624
Placements with other banks	693,315	15,993	94,778	3,263	807,349
Loans and advances to customers	4,586,163	6,753,940	9,496,737	3,283,255	24,120,095
Trading securities	24,912	23,500	-	-	48,412
Securities held-to-maturity	410,905	651,409	964,196	-	2,026,510
Equity investments and securities available-for-sale	-	-	-	171,835	171,835
Property and equipment	-	-	-	1,026,682	1,026,682
Other assets and accruals	7,585	7,215	32,318	47,170	94,288
Total assets	<u>15,737,319</u>	<u>7,452,057</u>	<u>10,588,029</u>	<u>4,532,205</u>	<u>38,309,610</u>
LIABILITIES AND EQUITY					
Amounts owed to other banks	3,699,954	2,107,000	1,066,403	1,308	6,874,665
Amounts owed to customers	8,178,361	2,035,169	2,428,874	384,743	13,027,147
Interest, fees and commission payable	81,626	221	10,212	-	92,059
Liabilities from profit	-	-	57,738	-	57,738
Other operating liabilities	61,097	-	138,736	-	199,833
Provisions	-	-	-	947,432	947,432
Other liabilities and accruals	32,264	10,677	188,009	-	230,950
Deferred tax liabilities	-	9,413	-	-	9,413
Equity	-	-	-	16,870,373	16,870,373
Total liabilities	<u>12,053,302</u>	<u>4,162,480</u>	<u>3,889,972</u>	<u>18,203,856</u>	<u>38,309,610</u>
Net Liquidity Gap:					
- December 31, 2006	<u>3,684,017</u>	<u>3,289,577</u>	<u>6,698,057</u>	<u>(13,671,651)</u>	<u>-</u>
- December 31, 2005	<u>2,850,803</u>	<u>3,040,083</u>	<u>3,375,880</u>	<u>(9,266,766)</u>	<u>-</u>

The items classified as having indefinite maturities are included in the "Over-one-year" category.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

32. RISK MANAGEMENT POLICIES (Continued)

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 the 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 interest rates on deposits, and the potential of a reduction in the optimal difference between the average interest rates on loans and placements on one side, and deposits on the other.

	Thousands of RSD		
	Interest Bearing Items	Non-Interest Bearing Items	Total
As of December 31, 2006			
ASSETS			
Cash and cash equivalents	-	2,049,955	2,049,955
Deposits with the central bank and securities available-for-refinancing with the central bank	6,000,000	1,753,860	7,753,860
Interest, fee and commission receivable	210,624		210,624
Placements with other banks	807,349	-	807,349
Loans and advances to customers	24,120,095	-	24,120,095
Trading securities	-	48,412	48,412
Securities held-to-maturity	2,026,510	-	2,026,510
Equity investments and securities available-for-sale	-	171,835	171,835
Other assets and accruals	-	94,288	94,288
Total assets	33,164,578	4,118,350	37,282,928
LIABILITIES			
Amounts owed to other banks	6,517,667	356,998	6,874,665
Amounts owed to customers	8,947,718	4,079,429	13,027,147
Interest, fees and commission payable	92,059	-	92,059
Liabilities from profit	-	63,139	63,139
Other operating liabilities	-	199,833	199,833
Provisions	-	947,432	947,432
Other liabilities and accruals	-	61,920	61,920
Deferred tax liabilities	-	4,723	4,723
Total liabilities	15,557,444	5,713,474	21,270,918
Interest Sensitive Gap:			
- December 31, 2006	17,607,134	(1,595,124)	16,012,010
- December 31, 2005	10,854,767	(51,739)	10,803,028

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

32. RISK MANAGEMENT POLICIES (Continued)

Currency Risk

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

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

	Thousands of RSD					
	EUR	USD	Other Currencies	Total Foreign Currencies	Local Currencies	Total
As of December 31, 2006						
ASSETS						
Cash and cash equivalents	348,454	55,849	191,312	595,615	1,454,340	2,049,955
Deposits with the central bank and securities available-for-refinancing with the central bank	1,753,860	-	-	1,753,860	6,000,000	7,753,860
Interest, fee and commission receivable	3,154	-	-	3,154	207,470	210,624
Placements with other banks	634,844	-	-	634,844	172,505	807,349
Loans and advances to customers	6,363,127	185,965	-	6,549,092	17,571,003	24,120,095
Trading securities	-	-	-	-	48,412	48,412
Securities held-to-maturity	20,772	-	-	20,772	2,005,738	2,026,510
Equity investments and securities available-for-sale	-	-	-	-	171,835	171,835
Other assets and accruals	-	-	-	-	94,288	94,288
Total assets	<u>9,124,211</u>	<u>241,814</u>	<u>191,312</u>	<u>9,557,337</u>	<u>27,725,591</u>	<u>37,282,928</u>
LIABILITIES AND EQUITY						
Amounts owed to other banks	598,863	-	-	598,863	6,275,802	6,874,665
Amounts owed to customers	5,660,100	143,341	18,449	5,821,890	7,205,257	13,027,147
Interest, fees and commission payable	50,473	388	165	51,026	41,033	92,059
Liabilities from profit	-	-	-	-	63,139	63,139
Other operating liabilities	-	-	-	-	199,833	199,833
Provisions	-	-	-	-	947,432	947,432
Other liabilities and accruals	29,276	-	-	29,276	32,644	61,920
Deferred tax liabilities	-	-	-	-	4,723	4,723
Total liabilities	<u>6,338,712</u>	<u>143,729</u>	<u>18,614</u>	<u>6,501,055</u>	<u>14,769,863</u>	<u>21,270,918</u>
Net Open Position:						
- December 31, 2006	<u>2,785,499</u>	<u>98,085</u>	<u>172,698</u>	<u>3,056,282</u>	<u>12,955,728</u>	<u>16,012,010</u>
- December 31, 2005	<u>590,311</u>	<u>(173,526)</u>	<u>227,558</u>	<u>644,343</u>	<u>10,158,685</u>	<u>10,803,028</u>

Gross 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**33. EXCHANGE RATES**

The official exchange rates for the major currencies used in the translation of the balance sheet components 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