Panonska banka a.d.
Novi Sad

NOTES TO THE FINANCIAL STATEMENTS

For December 31, 2006

Novi Sad, February 2007

CONTENT

Income Statement				
(in thousand dinars)	Note	2006		2005
Operating income and expenses				
Interest income	3.1,4	1.039.452		694.746
Interest expenses	3.1,4	(574.276)		(327.698)
Interest income		**465.176**		**367.048**
Fees and commission income	3.2,5	637.810		525.592
Fees and commission expenses	3.2,5	(58.676)		(69.927)
Fee and commission income		**579.134**		**455.665**
Net on sold securities and investments		615		918
Net foreign currency exchange gain				397.494
Net foreign currency exchange losses	3.3,6	167.304		0
Dividend and investment income		67		0
Other operating income	7	2.709.143		2.108.332
Impairment for general loan loss provisions	3.6,8	(1.122.547)		(2.101.060)
Other operating expenses	9	(2.406.700)		(2.055.131)
Income due to changed value of assets and liabilities	3.3,10	147.864		11.125
Expenses due to changed value of assets and liabilities	3.3,11	(191.213)		(2.121)
Profit before tax		**14.235**		**0**
Loss before tax		**0**		**(817.730)**
Income tax	3.13,12	(3.258)		0
Loss due to deferred tax assets and deferred tax liabilities	30	(6.414)		(1.177)
Profit before tax		**4.563**		**0**
Loss after tax		**0**		**(818.907)**
Gain on share		**6**		**0**

BALANCE SHEET						
				2006		**2005**
(in thousand dinars)	Note	Gross	Adjustment	Net		Net
ASSETS						
Cash and cash equivalents	3.4,3.5,13	2.110.899	0	2.110.899		1.168.627
Deposits with Central Bank and securities that can be refinanced	14	3.334.485	0	3.334.485		2.100.865
Interest and commission receivables	3.6,15	187.307	56.633	130.674		60.947
Loans and advances to banks in the country	3.6,16	102.545	266	102.279		149.618
Loans and advances to clients	3.6,17	9.443.503	846.318	8.597.185		8.331.144
Securities held for trading	3.6,18	520.220	15.325	504.895		106.584
Securities held to maturity	3.6,19	21.376	0	21.376		42.752
Equity share and other securities available for sale	3.6,20	42.842	9.982	32.860		83
Fixed assets available for sale witch are cancelled	3.10,21	84.451	0	84.451		0
Receivables for overpaid income tax		381	0	381		0
Intangible assets	3.7,22	162.437	39.717	122.720		98.630
Tangible assets	3.8,22	1.422.486	552.454	870.032		838.137
Other assets and accrued income	3.9,23	197.229	25.395	171.834		258.912
Deferred tax assets	3.13,24	16.420	0	16.420		16.420
Total assets		**17.646.581**	**1.546.090**	**16.100.491**		**13.172.719**
LIABILITIES						
Deposits and borrowing from banks	25			300.271		258.766
Deposits and borrowing from clients	26			12.834.621		10.169.767
Interest and fees payable	27			11.982		14.534
Due to current income tax	3.13,12			3.258		0
Other operating liabilities	28			106.894		82.152
Provisioning	3.12,29			204.772		126.890
Other liabilities and accrued income	30			127.128		30.012
Deferred tax liabilities	3.13,31			7.592		1.177
Total liabilities				**13.596.518**		**10.683.298**
EQUITY						
Shareholder’s equity and other capital	3.11,32			3.236.001		3.236.001
Reserves	3.11,32			72.202		62.213
Accumulated loss	3.11,32			804.230		808.793
Total equity				**2.503.973**		**2.489.421**
Total liabilities				**16.100.491**		**13.172.719**
Off-balance sheet items				**6.528.350**		**5.789.964**
Liabilities towards operations on behalf of and for third persons	33			419.305		314.396
Guarantees, sureties and collaterals and irrevocable liabilities	33			5.303.938		4.486.999
Other off-balance sheets items	33			805.107		988.569

CASH FLOW STATEMENT		
(in thousand dinars)	**2006**	**2005**
OPERATING ACTIVITIES		
Operating receipts	**2.145.510**	**1.826.050**
Interest receipts	1.001.240	675.422
Fee and commission receipts	633.972	520.945
Other receipts	510.231	629.683
Proceeds from dividends and profit shares	67	0
Operating payments	**(1.649.350)**	**(1.169.278)**
Interest payments	(576.870)	(320.997)
Fee and commission payments	(58.633)	(70.118)
Cash payments to employees	(536.617)	(382.467)
Cash payments for other taxes and contributions	(117.231)	(107.708)
Other payments	(359.999)	(287.988)
Net cash receipts from operating activities before increase or decrease of loans and advances and deposits	**496.160**	**656.772**
Decrease of loans and advances and increase of deposits	**2.013.067**	**3.909.728**
Increase of deposits from banks and other financial organizations	100.057	
Increase of deposits from clients	1.913.010	3.909.728
Increase of loans and advances and decrease of deposits	**(2.351.805)**	**(3.748.105)**
Increase of loans and advances to banks and other financial organizations	(1.174.367)	(1.507.130)
Increase of loans and advances to clients	(784.116)	(1.907.581)
Increase of securities and other placements held for trading and short-term securities held to maturity	(393.322)	(73.071)
Decrease of deposits from banks and other financial organizations		(260.323)
Net cash receipts from operating activities before income tax	**157.422**	**818.395**
Net cash payments from operating activities before profit		
Paid income tax		(581)
Net cash receipts from operating activities	**157.422**	**817.814**
INVESTING ACTIVITIES		
Investing receipts	**109.087**	**30.289**
Proceeds from equity securities	21.376	21.376
Proceeds from sale of property and equipments	87.711	8.913
Investing payments	**(66.389)**	**(88.390)**
Payments for purchase of share and investment	(41.918)	
Payments for purchase of property and equipments	(24.471)	(88.390)
Net cash receipts from investing activities	**42.698**	
Net cash payments from investing activities		**58.101**
FINANCING ACTIVITIES		
Cash receipts from financing activities	**2.125.754**	**437.053**
Receipts from long-term loans and subordinated liabilities	2.125.754	435.906
Net receipts from securities		1.147
Cash payments from financing activities	**(1.355.832)**	**(795.991)**
Payments due to repayment of long-term loans and subordinated activities	(1.355.832)	(433.888)
Net payments due to taken short-tem loans		(362.103)
Net cash receipts from financing activities	**769.922**	
Net cash payments from financing activities		**358.938**
TOTAL NET CASH RECEIPTS	**6.393.418**	**6.203.120**
TOTAL NET CASH PAYMENTS	**(5.423.376)**	**(5.802.345)**
NET CASH INCREASE	**970.042**	**400.775**
CASH AS OF YEAR –BEGINNING (Note: 13)	**1.168.627**	**752.534**
FOREIGN CURRENCY GAINS	71.531	16.716
FOREIGN CURRENCY LOSSES	(99.301)	(1.398)
CASH AS OF THE END OF PERIOD (Note: 13)	**2.110.899**	**1.168.627**

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(in thousand dinars)	Share capital	Other capital	Reserves	Revaluation reserves	Retained earnings	Loss to amount of capital	Total
As of January 1, 2005	4.257.224	11.158	69.338	0	261.408	1.294.230	3.304.898
Total increase in the previous year						818.907	-818.907
Total decrease in the previous year	1.032.381		7.125	0	251.294	1.294.230	-3.430
As of December 31, 2005	**3.224.843**	**11.158**	**62.213**	**0**	**10.114**	**818.907**	**2.489.421**
Total increase in the current year				9.989	4.563		14.552
As of December 31, 2006	**3.224.843**	**11.158**	**62.213**	**9.989**	**14.677**	**818.907**	**2.503.973**

NOTES TO THE FINANCIAL STATEMENTS

1. Basic information about the Bank

Panonska banka a.d. Novi Sad (hereinafter: Bank) was established in 1989 based on the Decision of the Shareholder's Assembly, in compliance with the regulations of the Law on Banks and Other Financial Institutions.

The National Bank of Yugoslavia issued a banking licence to the Bank based on its Decision number 171 of December 31, 1989. The Bank achieved the status of a legal entity by registration with competent court in Novi Sad (Commercial Court) number Fi 3053/89 of December 14, 1989.

Until 1989, the Bank was operating under the name «Vojvodjanska banka – Branch Novi Sad» within the system of Vojvodjanska banka – Udruzene banke (Associated Banks), Novi Sad. In accordance with the Banking Act and Law on Banks and Other Financial Institutions (1989), the Bank separated from the Vojvodjanska banka – Udruzene banke (Associated Banks), Novi Sad system, and started operating as a shareholding company.

The National Bank of Yugoslavia, with the Decision number R-Br.57/1990 of December 11, 1990, licensed the Bank to perform loan and payment operations with foreign countries – «The Big Licence».

The Bank's shareholders shall manage the Bank's operations depending on the equity stake in their possession and in accordance with the Founding Act and the Articles of Association.

On November 24, 2006, the Republic of Serbia owning 87.39% of shares of Panonska banka a.d. Novi Sad sold its shares to Sanpaolo IMI S.p.A., Turin. As of January 01, 2007 Panonska banka a.d. became integral part of Intesa Sanpaolo S.P.A. Group.

In compliance with the Law on banks, Founding Act and Articles of Association, the Bank is licensed to conduct following transactions:

1. deposit operations (accepting and placing deposits);
2. lending activities (granting and obtaining loans);
3. foreign exchange, foreign exchange-currency transactions, and exchange operations;
4. activities regarding payment operations;
5. issuing payment cards;
6. activities regarding securities (issuing securities, custody bank activities etc.);
7. brokerage-dealership activities;
8. issuing guarantees, sureties and other types of warranties (guarantee operations),
9. purchase, sale and collection of receivables (factoring, forfeiting etc.);
10. insurance agency activities, upon prior consent granted from the Central Bank of Serbia;
11. activities for which the Bank is authorized by the law;
12. other activities which are essentially similar or connected to activities specified in items 1- 11 of this paragraph, and are in compliance with the Founding Act and Articles of Association;

The Bank's bodies are: Bank's Assembly, Board of Directors and Executive Board.

The Bank constitutes Committee for Monitoring Business Activity of the Bank (Audit Committee), Credit Committee, Committee for Managing Assets and Liabilities and Committee for managing operational risks. Bank's Assembly appoints and remove President and Vice-President of the Assembly.
Members of the Board of Directors are appointed by the Bank's Assembly for a term of two years, upon prior receipt of consent from the National Bank of Serbia.

Board of Directors appoints and removes President and Vice President and members of the Executive Board.
Bank's shareholders constitute the Bank's Assembly.
The right to vote in the Assembly is exercised by the shareholders, natural persons in person, and legal entities through authorised representatives. The shareholders holding not less than 1% or more voting shares shall realize their voting rights directly.
Board of Directors establishes the minimum number of shares required per shareholder to participate in the business of the Assembly and to vote during passing of the Assembly's decisions.

At the Assembly meeting, each ordinary share shall entitle a holder with one vote. If not otherwise stipulate by the Law or other provisions of the Articles of Association, the Assembly shall make decisions by the majority vote of shareholders present.

The shareholders holding not less than 1% or more voting shares shall realize their voting rights directly.

The Assembly shall make the following decisions by two thirds majority votes of the total number of votes in the Assembly:

- decision on issuing securities;
- decision on the increase and decrease of the capital;
- decision on status changes and as well as cessation of the Bank's operations;
- decision on rendering the Articles of Association and amendments and addenda to the Articles of Association;
- decide on amendments to the Founding Act;
- decide on distribution of profit and arrangements according which the Bank's income shall be or may be distributed with third parties.

The Assembly may be regular (annual) or extraordinary.

The Bank conducts its business in the registered headquarters in Novi Sad, Bulevar oslobodjenja no.76, and also through 11 Branch offices – Novi Sad, Subotica, Beograd, Apatin, Sombor, Becej, Ada, Zrenjanin, Ruma, Sabac, Uzice and 19 Business units– Temerin, Backi Petrovac, Srbobran, Vrbas, Sremski Karlovci, Backa Palanka, Backa Topola, Kanjiza, Vrnjacka Banja, Krusevac, Senta, Plandiste, Stara Pazova, Bogatic, Sremska Mitrovica, Pozega, Nova Varos, Gornji Milanovac and Priboj.

Bank's operations are managed by the Executive Board which is responsible to the Bank's Assembly and the Board of Directors.

As of December 31, 2006 the Bank had 628 employees, and as of December 31, 2005 - 604 employees.

2. Basis for compiling financial statements

Bank’s financial statements for 2006 were compiled in compliance with the governing laws of the Republic of Serbia, based on the Accounting and Audit Law (Official Journal of Republic of Serbia no. 46/06), Law on Banks (Official Journal of Republic of Serbia no. 107/05) and accompanying regulations of the National Bank of Serbia.

Bank’s financial statements for 2006 are presented in the format prescribed by the Rules on the Chart of Accounts and Content of Accounts within the Chart for Banks and Other Financial Organisations (Official Journal of Republic of Serbia no. 8/07), and those regulations apply to the financial statements for2006.

In compilation of these financial statements, The Bank has adopted and applied accounting policies in compliance with Accounting and Audit Law (Official Journal of Republic of Serbia no. 46/06) which prescribes that banks should compile their financial statements in accordance to International Accounting Standards – IAS, i.e. International Financial Reporting Standards – IFRS, commentaries which are an integral part of the standards and Code of Ethics for Professional Accountants.

Preparation of Financial Reports in accordance with IFRS requires implementation of specific critical accounting policies. It requires evaluation in the process of implementation of accounting policies from the Management.

Except as stated below, financial reports of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS). Financial reports are prepared according to the concept of historical expenses modified for the revaluation of the land and buildings, financial investments available for sale, financial assets and liabilities (including derivative instruments) according to the fair value which are included in Income Statement.

The Bank prepared these Financial reports in accordance with Accounting and Audit Law which requires the Financial Reports to be prepared in accordance with all IFRS as well as new accounting regulations of National Bank of Serbia. Having in mind the differences between these two legislations, these financial reports deviate from IFRS in the following:

„Off-balance sheet assets and liabilities“are stated on balance sheet form (Note 33). These items, according to the definition of IFRS, do not represent assets nor liabilities.

The Bank did not perform certain disclosures in accordance with IAS 1 – Presentation of Financial Statements

Errors from previous years and amendments to the accounting policies did not reflect on financial reports for 2005, but are recorded through income statement in financial reports for 2006.

Comparative financial information for year ending on December 31, 2005 are not prepared in accordance with IFRS, therefore the standards, improvements and amendments and addenda to the published standards which became valid in 2005 are not implemented and are as follows:

The Bank did not implement those IFRS nor improvements of IAS which became valid starting from January 1, 2005. Therefore the Bank did not implement the following:

IFRS

IFRS 5 Fixed assets available for sale and discontinuing operations

IAS Improvements

IAS 1 Presentation of financial statements
IAS 8 Accounting policies, changes and errors
IAS 10 Events after balance sheet date
IAS 16 Property, plant and equipment
IAS 17 Leases
IAS 21 Forex
IAS 24 Related party disclosures
IAS 32 Financial Instruments presentations
IAS 33Earnings per share
IAS 39 Financial instruments: recognition and measurements
IAS 40 Investment property

Due to stated deviances the Bank did not disclose explicit and unconditional information on compliance with IFRS.

Addenda to published standards and interpretation which become valid as of January 01, 2006.

Implementation of addenda stated hereinafter did not result in significant change of accounting policies of the Bank.

IAS 19 Addenda – Actuarial gains and losses, Bank’s plans and disclosures;
IAS 21 Addenda - Net investments in cross border operations;
IAS 39 Addenda – Risk protection accounting in forecasting of cash flow of intragroup transactions;
IAS 39 Addenda – Option fair value;
IAS 39 i IFRS 4 - Addenda –Agreements on financial guarantees;
IFRS 1(addenda), First implementation of IFRS and IFRS 6 (addenda) – Exploration and assessment of mineral resources;
IFRS 6 – Exploration and assessment of mineral resources;
IFRIC 4 – Determining if the contract includes leasing;
IFRIC 5 – Entitlement to interest based on funds to be withdrawn from usage, for regeneration and protection of environment;
IFRIC 6 – Liabilities from share in specific markets – electronic and electric equipment waste.

IAS 19 – The addenda includes the option of alternative approach for recognition of actuarial gains and losses. At the same time, it requires additional disclosures. As the Bank does not intend to amend accounting policies for recognition of actuarial gains and losses and does not

participate in certain plans of common pension funds, adoption of these amendments and addenda influences the format and volume of disclosures presented in financial reports.
IAS 21 – Addenda and IAS 39 Addenda - Risk protection accounting in forecasting of cash flow of intragroup transactions, IFRS 1, IFRS 6, IFRIC 4 and IFRIC 5 are not relevant for business activities of the Bank and therefore have no significant influence on accounting policies of the Bank.
IAS 39 Addenda – Option fair value. Prior to these amendments and addenda, the Bank implemented full version for option fair value in IAS 39. The Bank meets new criteria in amendments and addenda and therefore continues with determining specific financial assets and financial liabilities against fair value through income statement.
IAS 39 and IFRS 4 Addenda – Agreements on financial guarantees. These types of agreements are included in IAS 39 and not ion IFRS 4 as it was earlier requested by IFRS. Measurements and disclosures requested by IAS 39 did not have influence to changes of Bank's policies.

Prematurely adoption of the standards

In 2006, the Bank did not prematurely adopt the following standards and Interpretations of the standards which are published, but are not implemented in calculation periods starting from January 01, 2006:

IFRS 7, Financial Instruments: Disclosures (shall be enforced as of January 01, 2007);
IAS 1 (Addenda) – Capital disclosures (became valid as of January 01, 2007);
IFRS 8, Business segments (shall become valid as of January 01, 2008);
IFRIC 7, Implementation of recalculation approach according to IAS 29 (became valid as of March 01, 2006);
IFRIC 8, Framework IFRS 2 (became valid as of May 01, 2006);
IFRIC 9, Re-evaluation of built-in derivatives (became valid as of June 01, 2006);
IFRIC 10, Periodical financial reporting and impairments (became valid as of November 01 2006);
IFRIC 11, IFRS 2, - Transactions with repurchased own shares (shall become valid as of March 01, 2007), and
IFRIC 12, Agreements on Concession for performing services (shall become valid as of January 01, 2009).

Implementation of these new interpretations which became valid in 2006 did not have materially significant influence on financial reports in the period of initial implementation.

The Bank keeps the books of account and compiles reports in dinars (RSD), which constitute the reporting and official currency in the Republic of Serbia. Figures in the financial statements are shown in thousands of dinars.

3. Overview of Basic Accounting Policies

3.1. Income and expenses based on interest

Income and expenses based on interest, including default interest and other expenses connected with interest-bearing assets, i.e. liabilities shall be calculated on principle of causation of income and expenses (calculation basis).

3.2. Income and expenses from fees and commissions

Income and expenses from fees and commissions are recognized by the cause of income and expense principle i.e. is based on accounting basis.

Commissions for approving long-term loan, which are calculated and collected one off in advance, shall be deferred on a straight line basis for the period of loan collection.

3.3. Calculation of foreign currency amounts

Net foreign currency gains and losses which occurred during business transactions in foreign currency and during recalculations of the items on the Balance Sheet presented in foreign currency are entered in favor of or are charged to the Income Statement as gains or losses on the basis of currency differentials. Such business transactions which occurred in foreign currency are calculated in dinars according to the middle exchange rate as established on the Inter-banking currency market, on the date of the business transaction.

Gains and losses which occur as a result of embedded financial derivatives into financial assets or liabilities, in cases of annuity being tied to the dinar exchange rate in relation to foreign currency or CPI, are calculated on the balance sheet date and are disclosed as income or expense in relation to the change of value of the placement.

3.4. Cash and cash equivalents

Cash and cash equivalents comprise for the Bank cash in foreign and local currency held in treasury, funds kept on accounts with other banks and available money kept with the Central Bank of Serbia.

Cash indicated in foreign currency as of the date of balance sheet is converted into dinars according to the middle exchange rate set by the inter-bank foreign exchange market ruling at that day.

3.5. Gold and other precious metals

Gold and other precious metals are valued according to the market value as of the date of balance sheet. Market value of precious metals as of the balance sheet date is established based on the cost of precious metals established on that day at London stock exchange.

3.6. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In the process of initial recognition the Bank measures financial asset according to its purchase price, which represents its fair value of funds received for it.

Financial assets held for trading are assets initially acquired to gain profit from short-term price fluctuations;

Financial assets held for trading as of the balance sheet date are reported at the fair value, and the recognized profit or loss resulting from the change of fair value of financial assets is included in the net profit or loss in the period it occurred. Fair value is the market value of financial assets fixed at the balance sheet date at the relevant stock exchange.

Held-to-maturity investments are financial assets with fixed payments and fixed maturity that the Bank intends and is able to hold to maturity, other than loans and receivables originated by the Bank;

Held-to-maturity investments as of the balance sheet date are reported at the depreciated value, i.e. current value of future cash flows, applying effective interest rates.

Financial assets available for sale:
- capital share as of the balance day shall be disclosed according to the purchase value decreased for impairment losses which is based on estimate on actual identified risk;
- other securities as of the balance day shall be reported based on fair value, and recognized gain which originates from change in fair value of the financial assets shall be included within the capital as revaluated provisions. Recognized loss shall be included in the income statement.

Fair value shall be market value of the financial asset determined as of the balance day on the stock exchange market where the asset is traded, or nominal value if the asset is not traded.

Loans and receivables which originated from the Bank shall be all loans and receivables which occurred by direct crediting of the debtors.

Starting valuation of the loan and receivables shall be performed according to the purchase price, i.e. nominal amount of disbursed loan.
Additional valuation of the loan and receivables shall be performed according to the depreciation value by implementing the method of effective interest rate, since it is financial asset with fixed maturity, which is held to maturity, not traded with and no active market on which relevant market value could be determined according to which fair value could be reliably determined/measured.

Depreciated value of the loan shall be determined by discounting future monetary inflow based on repayment of principal amount and interest on present value by applying effective interest rate, taking into consideration or contracted conditions, corrected for previously stipulated parameters.

Single correction for which the correction bookkeeping values of the principal of the loan is executed, shall be calculated as difference between bookkeeping values and current value of discount monetary flow according to the method of effective interest rate.
Effective interest rate shall be rate which accurately discounts expected future cash incoming payment during the period of repayment against bookkeeping value of assets taking into consideration all contracted conditions (commissions and provisions).
Monetary flow of the loan shall be formed based on contracted deadlines of repayment of loans and interests.

For agreements against which all receivables are due as well as balance sheet receivables based on payments against request for payment of the guarantees shall not be performed by discounting of the monetary flow except for placements in E category.

The maturity of the loan shall be taken in consideration for frame loans, regardless of the dynamics of a single disbursement.

Parameters for which the correction of the monetary flow is performed (for each incoming payment) shall be:

- Preset number of days of delay in collection and
- Probability of collection of placements and
- Corrective factor of probability of collection.

Calculation and book keeping correction for potential losses shall be performed individually for each placement (agreement) by applying certain rules defined for categories of placements and certain groups of placements (type of loan, activity, size and other).

The standard shall allow for certain categories of placements which are similar according to the defined criteria may be executed group determining of impaired loss of placements by implementing appropriate statistical data based on historical experience for that specific group of placements. The Bank shall calculate specific allowances individually for each placement, by discounting future monetary flows, with implementation of parameters valid for certain categories and groups of placements.

For off-balance sheet items, provisions shall be formed based on historical data on executed payments of the Bank against issued guarantees and level of collection of receivables on that ground regarding average debt balance against off-balance sheet items.

3.7. Intangible assets

Intangible asset is identifiable, non-monetary asset without physical substance for the purpose of servicing, leasing to other persons or for administrative purposes.

Intangible asset shall be recognized where possibility of inflow of future economic benefits for the Bank exists, which can be added to that investment and when the purchase or cost price of that asset can be reliably measured.

Valuation of intangible assets upon initial recognition shall be done through applying the procurement expenses procedure.

The base for calculation of depreciation shall be purchase price.
For calculation of depreciation of intangible assets proportional method of write-off shall be applied.
Write-off shall be done within the deadline stipulated in the agreement.
Calculation of depreciation of intangible assets shall be done from the beginning of the following month in which the intangible asset was put into use.
Useful life of intangible asset can not be longer than 10 years.

Further expense (additional investment) referring to intangible assets upon its acquisition or end increases the value of intangible asset if it fulfills the condition of recognizing it as additional expense. Otherwise it is shown as expense in the period when it was realized.

3.8. Property, plant and equipment

Property, plant and equipment are tangible items that the Bank holds for use in supply of services and for administrative purposes expected to be used during more than one accounting period.
The Bank divides property, plant and equipment to:
a) buildings and
b) equipment.

A Buildings

Initial measurement of buildings shall be determined by its acquisition cost or production cost.
Valuation of buildings upon initial recognition shall be done by implementing method of revaluation stipulated by IAS 16 Property, plant and equipment.

Evaluation of the buildings shall be performed sporadically, under circumstances believed to have caused the change in market value or at least once in 5 years.
Estimate of the revaluation value and remaining useful time of building object shall be performed by certified appraiser (assessor in civil engineering).
When due to revaluation increase of stated amount of assets occurs, positive effect of revaluation is stated directly in favor of own capital as revaluation reserve.
In turn, when due to revaluation reduction of stated amount of assets occurs it is recognized as expenditure. Revaluation reserve occurring in this manner shall be transferred to retained earnings during write off or disposal of the building.

For the purpose of depreciation of buildings, proportional write-off method in the useful life period shall be applied. The basis for calculation of depreciation shall be fair value of the building set by revaluation, increased by possible additional expenses.

The calculation of depreciation shall start as of the following month in relation to the month in which the fixed asset was put into use.

Additional expense referring to the already recognized property shall be accrued to the stated amount of the asset if:

- it is highly likely that the incoming payments of future economic benefits shall be greater than the initial estimated rate of return of that asset,
- the life span is lengthened, including the increase of capacity,
- previously estimated business expenses are reduced,
- the volume and the quality of rendered services are significantly increased.

Investments based on current maintenance are recognized as expenditure in the period they occurred.
The following useful life span and depreciation rate shall be determined for the property:

DEPRECIATION GROUPS – REAL ESTATE

Depreciation group	Type of equipment	Dep. Rate	Useful Life (years)
I	Buildings made of concrete, brick and metal	1,3	77 years
II	Mounting constructions made of metal (garage)	4,0	25 years

Investments on other parties' fixed assets for the purpose of performing the activity are recognized and shown on a special account. Depreciation on other parties' fixed assets is performed on the basis of estimated useful life set forth by the agreement with the owner of the assets.

B Equipment

Initial measurement of the equipment is determined by its acquisition cost or production cost.
Valuation of the equipment after initial recognition is done by applying the procurement expenses procedure.
For calculation of equipment depreciation the proportional method of write-off in their useful life is applied.
The base for depreciation of assets forms its purchase or cost price increased by possible additional expenses. The remaining value of assets is not reduced by the depreciation base due to the fact that it is difficult to establish it or it might be insignificant.
For equipment the following life and depreciation rate is determined:

DEPRECIATION GROUP - EQUIPMENT

Depreciation group	Type of equipment	Dep. rate	Useful Life
I	Computer equipment	25	4 years
II	Cleaning equipment Leasing equipment – automobiles Leasing equipment – computer equipment	20 20 20	5 years
III	Electric accounting machines Equipment for accepting, safeguarding and handling money Automobiles Air conditioners Alarm equipment	16,5 15,5 15,5 16,5 16,6	6 years
IV	Electric typewriters Photocopy equipment	14,3 14,3	7 years
V	Mechanical typewriters Heating equipment - furnaces Carpets Office furniture - wooden Fire extinguishers Mechanical tools	12,5 12,5 12,5 12,5 12,5 12,5	8 years
VI	Diesel powered electric generating unit Other equipment Weapons	11,0 11,0 11,0	9 years

VII	Office furniture - metal	10	10 years
VIII	Telephone switchboards and telephones	7	14 years
IX	Teleprinters - electronic	6,7	15 years

C Equipment in financial lease

Lease of property or equipment where all risks and benefits arising from the ownership of those assets are transferred, in accounting, they shall be defined as financial leasing. At the moment of concluding the agreement financial leasing is recognized as asset under fair value and as financial liability, including the amount of interest for payment of future leases. Repayment of lease shall be divided into interest and repayment of principle according to calculated annuities. Depreciation of assets which are subject to the lease is performed during the period of leasing.

Interest costs are charged to the expenditures in the period, i.e. income statement on proportional basis for the remaining balance of the lease.
The difference between remaining values of minimal payments of lease and its current values represents future payments of lease entered as a financial difference based on the lease.

Lease of assets where all benefits and risks are in connection with the ownership held with lesser shall be considered and entered as operative (business) leasing. Lease payments based on business leasing shall be recognized as expenditure in the income statement during lease time.

3.9. Inventory

Inventories shall be measured according to acquisition cost, or production cost.
When calculating the value of consumption of inventory, the basic procedures and method of average price shall be applied.
Low value assets, packaging and car tires at the moment of putting into use, are charged to expenses of the accounting period in the total amount (100%).

3.10. Fixed assets available for sale

Fixed assets (or available group) shall be considered as fixed asset available for sale if:
- it is available for immediate sale in its current condition;
- its probability of sale is very high.

Fixed assets available for sale shall be valued at a lower value:
- then the bookkeeping (current) value and
- fair value decreased for sale expenses.

The difference between higher bookkeeping value and lower fair value shall be recognized as expense of the period i.e. expense of impairment.

As of the moment when the fixed asset was classified as asset available for sale, calculation of depreciation shall be discontinued.

3.11. Capital and provisions

Capital of the Bank shall be the remainder of the assets of the Bank after deduction of all its liabilities. The capital shall not be assessed or measured individually.
Total capital of the Bank comprises of shareholders capital, provisions and retained earnings.

Special provision for estimated losses of the bank shall be calculated as difference between special provision for estimated loss based on balance sheet assets and off-balance sheet items in accordance with regulations of Central Bank of Serbia and the sum of impairment losses of balance sheet assts and provisions for losses against off-balance sheet items formed in accordance with these accounting policies.

All placements shall be categorized in five categories, which correspond to categorization according to the Decision of CBS – A, B, C, D, and E.

Provisions for general bank risks the Bank shall calculate in accordance with procedures for identification, measures, estimate and risk management..

3.12. Long-term Provisions

A long-term provision shall be recognized when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations
- a reliable estimate can be made of the amount of the obligation

Long term provisions for expenses and risks are monitored to types, and their decrease or cancellation are entered as income.

Provisions shall not be recognized for future operating losses.

Provisions are investigated on every balance date and adjusted to best reflect the current estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligations, provisions are cancelled.
Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

Provisions are discounted in cases where the effect is significant.

Provisions are recognized and assessed as liability which exists on the balance sheet date with uncertain maturity date and amount (legal procedures and other risks).

The level of the said liabilities is estimated and measured by the Bank’s management based on previous experience, nominal amount of liabilities on the balance sheet date or experts’ opinion, so the provisions are charged to the current year expenses, to enable the outflow of resources in the coming period.

3.13. Income Tax

On the date of compiling financial statements, the Bank determines temporary differences between the book value and value recognized by the Tax Laws and for any such differences the deferred tax effects are calculated and entered as deferred tax assets or deferred tax liabilities.
As tax liability in the Income Statement the Bank discloses the amount calculated by use of stipulated tax rate on profit before tax, adjusted for permanent differences, i.e. tax effects on expenses which tax regulations do not recognize as well as tax effects based on tax exemptions.

As an income tax liability the Bank shall disclose the amount determined by the tax balance. The difference between tax expense and tax liability on income tax is entered within changes of deferred tax assets and deferred tax liabilities.

The disclosed amount of deferred tax asset or liabilities is reexamined on every balance sheet date.

3.14. Correction of fundamental errors

Correction of additionally determined errors of material significance shall be performed through account of retained earnings from earlier years.

Significant material error means error which in single or cumulative amounts with other errors amounts to more than 0.5% of total asset value.

Additionally determined errors which are not materially significant are corrected and charged to expenditures, i.e. income for the period when they were identified.

INCOME STATEMENT

4. Interest income and expenses

Interest income and expenses include as follows:

In thousand dinars	2006	2005
Interest income		
Loans and advances to banks	40.321	38.372
Loans and advances to clients	949.776	647.333
Securities	49.355	9.041
	1.039.452	**694.746**
Interest expenses		
Deposits and loans from banks and other financial organizations	(22.634)	(16.175)
Deposits and loans from clients	(470.802)	(237.720)
Other	(80.840)	(73.803)
	(574.276)	**(327.698)**

Interest income	**465.176**	**367.048**

5. Fees and commission income and expenses

Fees and commission income and expenses includes as follows:

In thousand dinars	2006	2005
Fees and commission income		
Payment operation services	284.792	227.364
Banking services from granting loans and guarantees	145.235	156.555
Other fees from providing Bank’s services	87.893	62.120
Other (margin)	119.890	79.553
	637.810	**525.592**
Fees and commission expenses		
Payment operation services in the country	(22.139)	(21.727)
Cross border payment operation services	(2.139)	(3.205)
Other (margin)	(34.398)	(44.995)
	(58.676)	**(69.927)**
Fees and commission income	**579.134**	**455.665**

6. Net foreign currency gains / losses

In thousand dinars	2006	2005
Foreign currency gains	4.230.411	3.505.947
Foreign currency losses	(4.397.715)	(3.108.453)
Total	**(167.304)**	**397.494**

7. Other operating income

Other operating income include as follows:

In thousand dinars	2006	2005
Release of general provisioning	0	1.428.859
Collection of written-off receivables	0	196.395
From previous years	0	195.840
Release of indirect specific allowances	0	242.297
Release of opening balance of general and specific impairments	2.561.143	0
Rentals	3.002	5.458
Income from sale of fixed assets	71.096	1.399
Other	73.902	38.084
Total	**2.709.143**	**2.108.332**

By enforcing the Accounting and Audit Law („RS Official Gazette“ 46/06), the banks shall be under the obligation of implementing IAS, including IAS 39 – Financial Instruments: Recognition and Measurement which regulates the methodology of calculation of specific impairment loss. Pursuant to IAS mentioned, the Bank reversed the present calculation of specific and general impairment loss, and capitalized the opening balance, making the portion of the income based on cancelation of opening balance of specific and general impairment loss of financial placements level off at 2.434.597 thousand of dinars refering to balance sheet, and the portion of 126.546 thousand dinars to off-balance sheet items.

The portion of remaining income in the amount of 66.432 thousand dinars refers to foreign currency gains realized through concluding arrangements of sale of receivables, when higher market prices where agreed in relation to the book balance.

8. Impairment for general loan loss provisions

Impairment of general loan loss provisions include as follows:

In thousand dinars	2006	2005
Impairment for general loan loss provisions of balance items		
Impairment of general loan loss provisions of balance items - loan to clients	858.447	1.914.887
Impairment of general loan loss provisions of balance items – interests and fees and commissions	59.328	51.532
	917.775	1.966.419
Impairment of general loan loss provisions of off-balance sheet items	21.560	134.641
(Note 29)		
Impairment of provisions for court liabilities	32.594	-
Impairments due to severance payments – legal basis	43.925	-
Impairments due to severance payments – agreed termination	81.615	-
Impairment of provisions for unused days of holiday	24.053	-
Impairment of provisions for jubilee awards	1.025	-

	204.772	134.641
Total	**1.122.547**	**2.101.060**

Breakdown of impairment accounts by type:

In thousand dinars	Specific allowances	Impairment for general loan loss provision	Total
Balance as of January 1, 2006	1.007.125	1.427.472	2.434.597
Transfer	1.427.472	(1.427.472)	-
Release of provisions	(2.434.597)	-	(2.434.597)
Impairment in current year (IAS 39)	917.775	-	917.775
Other	10.837	-	10.837
Balance as of December 31	**928.612**		**928.612**

9. Other operating expenses

In thousand dinars	2006	2005
Write-off of uncollectible receivables	1.267.554	1.029.539
Additionally established expenses from previous years	-	165.050
Net wages and salaries	349.021	248.909
Salary related taxes and contributions	158.259	114.969
Other personal expenses	30.056	18.589
Amortization (Note 22)	96.940	70.256
Expenses of long-term rent (Note 22)	4.395	
Material expenses	66.408	50.818
Advertising, entertainment	61.197	54.406
Post, telephone and other telecommunication services	37.693	25.874
Maintenance of fixed assets	47.578	37.945
Indirect taxes and contributions	119.270	99.435
Rental costs	24.998	20.595
Maintenance and software upgrading costs	33.164	33.850
Indirect costs of employees	19.481	14.477
Utilities	1.953	1.762
Intellectual services	6.474	6.443
Asset preservation costs	21.343	16.796
Cleaning	9.357	7.504
Membership costs	5.048	3.567
Court and litigation duties	4.886	7.029
Authority taxes for display and other taxes	4.363	1.939
Other nonmaterial costs	3.111	4.041
Insurance of fixed assets, employees and deposit costs	18.203	7.656
Transport costs	1.450	570
Journals and official gazettes costs	3.511	2.295
Losses from the sale of tangible and intangible assets		3.306

	3.796	
Other expenses	7.191	7.511
Total	**2.406.700**	**2.055.131**

From stated expenses based on write off of uncollectible receivables, amount of 402.114 thousand dinars refers to IM “Čoka”, Čoka which is based on loan of London Club and IFC, Washington regarding current bankruptcy proceedings and unavailability of collection from bankrupt’s estate.

The amount of 305.215 thousand dinars refers to write off of receivables from “ Elektroprivreda Srbije” which is based on Rescheduling Agreement number GD-5425 at the level of 15% of the relevant principal amount, supported by the positive evaluation of the Board of Directors of International Monetary Fund regarding successful completion of three year arrangement for extended financing based on which the second phase of debt reduction stipulated by Law on Confirming the Reconciliation of Reports on Consolidation of Debt of FR of Yugoslavia is approved, on which NBS informed the Bank.

Pursuant to Agreement on Assignment of Receivables, the Bank, for the below mentioned clients, assigned its receivables with commission to new clients, including the collateral, and the remaining part of the receivables suggested to be written off, since there is no possibility of further collection and is as follows: amount of 333.028 thousand dinars refers to the write off of uncollectible receivables from “Keramika” a.d. Kanjiža, amount of 174.640 thousand dinars of DP “Potisje” Ada, amount of 11.942 thousand dinars of PTP “Irig” Irig, amount of 6.195 thousand dinars of ZZ “ Ogar” Ogar and amount of 260 thousand dinars of “ESC-COMERC” Novi Sad.

The Amount of 11.895 thousand dinars refers to write off of receivables from “Salaš-trade” DOO Subotica with which forced settlement was concluded, portion of the debt was collected and no possibility exists for collection of the stated amount.

Amount of 7.145 thousand dinars refers to “Agronatur” Ada. Collection claim was overruled with an explanation that the company ceased to exist.

Amount of 2.417 thousand dinars refers to direct write off of receivables based on interest, amount of 7.722 thousand dinars refers to write off of receivables based on interest tax and amount of 1.981 thousand dinars refers to other expenses based on executed write off of the receivables.

10. Income due to changed value of assets and liabilities

In thousand dinars	2006	2005
Income due to changed value of assets and liabilities - foreign currency clause		
Income due to changed value of loans and advances	77.463	-
Income due to changed value of liabilities	25.075	-
	102.538	-
Income due to changed value of assets and liabilities – CPI		

Income due to changed value of loans and advances	39.663	-
Income due to changed value of gold and silver	5.146	1.114
Income due the changed value of securities	517	10.011
	45.326	**11.125**
Total	**147.864**	**11.125**

11. Expenses due to changed value of assets and liabilities

In thousand dinars	2006	2005
Expenses due to changed value of assets and liabilities – foreign currency clause		
Expenses due to changed value of loans and advances	45.742	-
Expenses due to changed value of liabilities	23.101	-
	68.843	-
Expenses due to changed value of assets and liabilities – CPI		
Expense due to changed value of assets	102.955	
Expenses due to changed value of loans and advances	7.327	-
Expenses due to changed value of liabilities	12.088	-
Expenses due to changed value of securities		2.121
	122.370	**2.121**
Total	**191.213**	**2.121**

12. Income tax

Tax balance is presented in the following chart:

In thousand dinars	2006	2005
Profit / loss before tax	14.235	817.730
Capital gains	(70.472)	1.577
Capital losses	3.601	(3.293)
Interests due to unduly settlement of taxes, contributions and other public levies	31	(633)
Pecuniary fines and penalties	645	(318)
Costs due to executing business activities	22.301	(82)
Calculated but unpaid severance payments and pecuniary allowances upon termination of service	150.619	-
Total amortization in financial statements	96.940	(70.256)
Total amortization for tax purpose	(99.383)	82.028
Specific allowances which have not been previously included in income, not written-off as uncollectible and with no proof on bad collection	-	(215.619)
Long-term provision not recognized in tax balance	32.594	-
Expenses from impairment of assets	102.956	-
Tax loss	**-**	**611.133**
Taxable income	**254.067**	4
Loss amount from tax balance from previous years up to the amount of taxable income	254.067	
Remaining tax income	-	-
Total capital gains in current year	70.472	-
Total capital loss in current year	(3.601)	-
Capital gains	66.871	-
Decrease due to tax losses from previous years	(1.715)	-
Remaining capital gain – tax basis	65.156	-
Tax rate 10%	6.516	-

Decrease of calculated tax due to investment in fixed assets up to 50% of the tax calculated	3.258	-
Tax calculated	3.258	-
Paid-in tax advance	380	
Tax liability as of December 31	**2.878**	**-**

In 2006 the Bank used a portion of deferred tax funds based on carrying tax losses from earlier years in the amount of 254.067 thousand dinars for reducing tax base.

Total deferred tax funds based on the transferable tax losses from previous years as of December 31, 2006 amount to 2.764.568 thousand dinars, which the Bank is able to use for reducing the tax base according to the following dynamics: amount of 1.087.514 thousand dinars by 2007, amount of 1.319.988 thousand dinars by 2014, and amount of 357.066 thousand dinars by 2015.

The Bank used the remaining capital loss from earlier years in the amount of 1.716 thousand dinars for reducing tax base according to the calculation of tax on capital gain.

In 2006, the Bank used a portion of unused tax loan based on investments into fixed assets in the amount of 3.258 thousand dinars for reduction of the calculated tax.

BALANCE SHEET

13. Cash and cash equivalents

Cash and cash equivalents include as follows:

In thousand dinars	2006	2005
In dinars		
Gyro account	659.637	864.226
Cash balance in dinars	201.764	129.041
Other pecuniary assets-liquidity surplus	1.000.000	0
	1.861.401	993.267
In foreign currency		
Foreign currency accounts with local banks	790	855
Foreign currency accounts with foreign banks	147.651	72.662
	148.441	73.517
Cash balance in foreign currency	82.408	88.341
Other pecuniary assets	18.649	13.502
	101.057	101.843
Balance as of December 31	**2.110.899**	**1.168.627**

Pursuant to regulations of National Bank of Serbia, daily balance of dinar mandatory reserves set aside may be greater or less than the calculated mandatory reserves, where the average daily balance in calculation period cannot be less than 90% of calculated dinar mandatory reserves (daily balance may not be less than 80% up to September 01, 2006, i.e. 50% up to November 03, 2006).

Balance of foreign currency mandatory reserves set aside may be greater or less than calculated mandatory reserves, where the average daily balance in the calculation period may not be less than 90% of calculated foreign currency reserves (daily balance may not be less than 80% up to September 01, 2006, i.e. 50% up to November 03, 2006) and daily balance of foreign currency mandatory reserves based on foreign currency savings placed with banks after June 30, 2001 must be at the level of calculated mandatory reserves based on aforementioned ground.

14. Deposits with Central Bank and securities that can be refinanced

Deposits with Central Bank and securities that can be refinanced include as follows:

In thousand dinars	2006	2005
Loans and advances to NBS per repo transactions and interests	1.106.018	52.200
Mandatory reserve in FX with NBS	2.228.467	2.100.865
Balance as of December 31	**3.334.485**	**2.153.056**

The Banks are under obligation to calculate and set aside mandatory reserve with National Bank of Serbia at the level, manner and deadlines stipulated in teh Decision on Mandatory reserves of the Banks with National Bank of Serbia («RS Official Gazette» no.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, 73/2006 i 96/2006.).

The Bank set aside the mandatory reserve calculated on dinar base on its gyro account in the amount of 659.637 thousand dinars.

The Bank set aside the mandatory reserve calculated on foreign currency base on the foreign currency account with National Bank of Serbia, in euros, i.e. in dinar counter value in the amount of 2.228.467 thousand dinars.

The Bank calculates the mandatory reserves according to:

- the rate of 15% from November 11, 2006 (18% form November 11, 2005) on the amount of average daily book balance of dinar funds in previous calendar month;

- the rate of 40% from April 11, 2006 (38% from December 11, 2005 on the amount of average daily book balance of foreign currency funds in the previous calendar month.

Exceptionally mandatory reserves, the Bank calculates according to:

- rate of 40% from April 11, 2006 (38% from December 11, 2005) on the amount of average daily book balance of dinar deposits in previous calendar month, indexed with foreign currency clause, as well as amount of average daily book balance of liabilities in dinars in the previous calendar month based on deposits and loans received from abroad with maturity of over two years;

- rate of 60% from June 11, 2006 on the amount of average daily book balance of liabilities in dinars in previous calendar month based on deposits and loans

- rate of 60% from May 11, 2006 on the amount of average daily book balance of liabilities in previous calendar month based on foreign currency deposits and loans received from abroad with maturity of up to two years.

15. Interest and commission receivables

Interest and commission receivables include as follows:

In thousand dinars	2006	2005
Interest and commission receivables from banks		
- in dinars	4.518	2.948
- in foreign currency	10	-
Interest and commission receivables from clients		
- in dinars	160.023	104.959
- in foreign currency	22.756	36.352
Adjustment of interest and commission receivables	(56.633)	(83.312)
Balance as of December 31	**130.674**	**60.947**

16. Loans and advances to banks

Loans and advances to banks include as follows:

In thousand dinars	2006	2005
Other financial placements to banks in foreign currency	35.286	6.770
Other financial placements in dinars	2.392	52.916
Long-term loans and advances to banks in foreign currency	64.867	90.262
Current maturity of long-term loans and advances to banks in foreign currency	(18.533)	(20.058)
Impairment	(266)	(330)
Balance as of December 31	**83.746**	**129.560**

Within other financial placements in foreign currency amount of 11.850 thousand dinars refers to receivables from Commerzbank ag Frankfurt regarding purchase and sale of foreign currency, amount of 19.479 thousand dinars refers to receivables from NBS regarding placed cash.

Within other long-term loans and placement to banks in foreign currency amount of 46.334 thousand dinars, as well as current maturities in the amount of 18.533 thousand dinars refers to DDOR Novi Sad, which was approved from credit line of Hypo-und Vereinsbank AG Minhen.

17. Loans and advances to clients

In thousand dinars	2006	2005
Up to one year maturity :		
- in dinars	5.239.368	3.515.820
- in foreign currency	262.673	2.075.585
Long-term loans		
- in dinars	2.080.539	1.493.820
- in foreign currency	1.823.366	3.390.729
Current maturity of long-term loans:		
- in dinars	(746.790)	(236.761)
- in foreign currency	(135.356)	(217.336)
Other short-term loans and advances:		
- in dinars	37.557	2.500
Impairment losses and potential loan loss provisions	(846.318)	(2.147.310)
Balance as of December 31	**7.715.039**	**7.877.047**

Of the stated amount of placements to corporate clients, there are placements in dinars with foreign currency clause, with maturity of up to one year, amounting to 2.105.772 thousand dinars, and those with maturity of over one year, in the amount of 1.115.205 thousand dinars.
Short-term loans to corporate clients in dinars have been approved according to the following interest rates:
from 0,40% to 1, 40% monthly, if CPI revaluation applies,
from 0,50% to 1,50% monthly, if foreign exchange clause applies,
from 1,40% to 2,40% monthly, without application of CPI/foreign exchange clause.
Interest rate on short-term loans based on specific purpose deposit placed by legal entity/natural person, to the value of 125% of total receivables was from 0,30% to 0,50% monthly.
Foreign exchange loans within the country, for export and preparation of goods for export have been approved on the interest rates from 0,50% to 1,50% monthly.

Long-term loans in dinars have been approved to the clients on the interest rates ranging from 6% to 18% annually**.**

Of all placed loans to the clients, significant concentration has been noticed in the following industrial areas:

In thousand dinars	2006	2005
Mining and energy	38.171	10.091
Processing industry	2.273.029	1.860.320
Trade	2.648.402	2.448.873
Agriculture, hinting, fishing, forestry	1.259.828	1.007.773
Traffic and connections	247.908	130.667
Building construction	989.603	176.214
Citizens	997.535	614.324
Other	142.709	2.082.882
Balance as of December 31	**8.597.185**	**8.331.144**

Receivables from clients have been reconciled.

18. Securities held for trading

In thousand dinars	2006	2005
Securities from public sector	2.000	2.000
Bonds from the Republic of Serbia according to the old savings	24	3.384
Securities held for trading	0	3.430
Securities from companies held from trading	518.196	118.084
Deviation from nominal value	(15.325)	(20.314)
Balance as of December 31	**504.895**	**106.584**

Securities of companies held for trade refer to bills of exchange discounted at the rate of 1, 7% to 2, 3% monthly.

19. Investments in securities held to maturity

Investments in securities held to maturity in the amount of 21.376 thousands of dinars represent bonds of SRJ (Federal Republic of Yugoslavia), issued in accordance with the Law on swap of loans approved by the banks to leading agricultural producers and tourism businesses into public debt of the Federation („Official Journal of Federal Republic of Yugoslavia no.12/98“), with the interest rate of 8% and repayment of the interest and the principal in 14 semi-annual instalments with maturity as of December 31, 2007.

20. Equity share and other securities available for sale

In thousand dinars	2006	2005
Equity share in companies and other securities available for sale	924	924
Other securities available for sale:		
- from banks	13.846	-
- other financial organizations	352	-

- insurance companies	4.558	-
- other securities from other companies	23.162	-
Deviation from nominal value	(9.164)	(841)
Adjustment	(818)	-
Balance as of December 31	**32.860**	**83**

Other securities available for trade refer to the shares of Metals banka ad Novi Sad, in the amount of 13.680 thousand dinars, shares of company 29.Novembar ad Subotica, in liquidation, in the amount of 7.828 thousand dinars, shares of company Menta Padej, in the amount of 5.813 thousand dinars and other.

21. Fixed assets available for sale

New Rules on the Chart of Accounts and Content of Accounts within the Chart for Banks and Other Financial Organisations, allowed banks to separately state intangible assets, immovable assets, plants and equipment, investment immovable assets and other fixed assets which are, according to the Bank’s decision, available for sale. The Bank has re-entered, from Material values received as collection of receivables, to fixed assets available for sale, three buildings, and after that, the Bank revalued the market value and disclosed those losses in the Profit and Loss Account in the amount of 102.955 thousand dinars (Note 11).

Assets available for trade, in the total amount of 84.451 thousand dinars consist of:
1. Block of buildings „Ragione" - centre Brzece, currently valued at 39.500 thousand dinars;
2. Cooling structure „Gredjanka” Velika Greda, currently valued at 41.870 thousand dinars and
3. A house in Vrbas, currently valued at 3.081 thousand dinars.

22. Tangible and intangible assets

In thousand dinars	2006	2005
Tangible assets		
Building construction	607.142	606.061
Equipment and other assets	256.087	194.425
Advance on tangible assets	1.167	21.270
Tangible assets under construction	5.636	16.381
	870.032	**838.137**
Intangible assets		
Other rights	122.720	98.630
	122.720	**98.630**
Balance as of December 31	**992.752**	**936.767**

Changes on tangible and intangible assets as of December 31, 2006:

	Building			Advance and		
	construction		Other	Tang.asset.	Intangible	
In thousand dinars	and land	Computers	equipment	under constr.	assets	Total
Purchase value						
As of 01.01.2006	**856.354**	**230.370**	**221.807**	**37.651**	**112.734**	**1.458.916**
Purchase	4.889	-	-	199.676	50.463	255.028
Transfer from / to	16.463	89.566	37.304	-230.524		-87.191
Write-down, sale and other impairments	-13.105	-13.482	-14.484		-760	-41.831
As of 31.12.2006	**864.601**	**306.454**	**244.627**	**6.803**	**162.437**	**1.584.922**
Adjustment						
As of 01.01.2006	**250.293**	**126.463**	**131.289**	**-**	**14.103**	**522.148**
Amortization	11.179	45.499	18.928	-	25.728	101.334
Write-down	-4.013	-13.444	-4.673	-	-114	-22.244
Write-down and sale	-		-9.068	-	-	-9.068
As of 31.12.2006	**257.459**	**158.518**	**136.476**	**-**	**39.717**	**592.170**
Current value as of 31.12.2006	**607.142**	**147.936**	**108.151**	**6.803**	**122.720**	**992.752**
Current value 31.12.2005. god.	**606.061**	**103.907**	**90.518**	**37.651**	**98.630**	**936.767**

Total area of buildings owned by the Bank comes to 9.964.43 sqm, currently valued at 607.142. thousand dinars. As of December 31, 2006, the Bank is not in possession of appropriate ownership documents for buildings valued at 331.585 thousand dinars. Bank's Management, as well as expert Departments, are undertaking all necessary measures to register these immovable assets.

23. Other assets and accrued income

In thousand dinars	2006	2005
Other receivables from business relations	8.712	19.820
Fee and commission receivables assignment fee	15.668	0
Authorization of payment cards	23.363	50
Disputable and doubtful receivables for current accounts, rentals	11.852	72.211
Material values received against collection of receivables	7.498	200.266
Stocks	16.526	11.698
Receivables against taxes	0	349
Paid advances	54.697	7.538
Deferred receivables against dinar interest	1.352	7.258
Deferred receivables against interest in foreign currency	29.011	92.685
Deferred other expenses	17.717	15.279
Sale receivables	8.932	6.052
Due from employees	977	9.346
Other receivables	924	10.120
Impairment losses and potential loan loss provisions	(25.395)	(193.760)
Balance as of December 31	**171.834**	**258.912**

Part of foreign currency advances, in the amount of 7.479 thousand dinars, and in the dinar amount of 39.810 thousand dinars, refer to issued advances for use of Visa cards issued by the Bank, based on the Visa Card sponsorship agreement with Piraeus bank. Remaining amount of 7.408 thousand dinars refers to advances issued for working assets.
Out of the disclosed amount of receivables from sales, a portion of 3.258 thousand dinars refers to receivables from sales with foreign currency clause.

24. Deferred tax assets

The Bank disclosed its deferred tax assets on unused portion of tax credits from investments in working assets during previous years, in the amount of 16.420 thousand dinars which can be transferred to the income tax account for future accounting periods, but not longer than 10 years.

25. Deposits and borrowings from banks

In thousand dinars	2006	2005
Demand deposits		
- in dinars	3.964	3.499
-in foreign currency	80	1.198
Short-term deposits:		
- in dinars	209.000	122.630
-in foreign currency	0	11.115
Long-term loans:		
- in dinars	62.379	94.506
Other financial liabilities:		
-in foreign currency	0	364
Current maturity of long-term loans from banks in dinars	24.848	25.454
Balance as of December 31	**300.271**	**258.766**

Demand deposits include insurance and other financial institutions' deposits, and they are not interest bearable. Short-term deposits include banks' and insurance institutions' deposits, and they are term deposited with interest rate of 1% to 1, 15% monthly.
Long-term loans in the amount of 8.526 thousand dinars (including current maturity in the amount of 1.421 thousand dinars) refer to a long-term loan from National Bank of Serbia as a result of conversion of short-term liabilities from primary issue into long-term liabilities with the balance as of December 31, 1997 "Official Journal of Republic of Serbia no.12/98"). The loan was approved with maturity of 15 years, with grace period of 5 years, and with the interest rate of 0,5% annually. Long-term loan in the amount of 78.701 thousand dinars (including current maturity in the amount of 23.427 thousand dinars) refer to the long-term liquidity loan from MEBA-CA GROUP ad Novi Sad, with maturity of 5 years, starting as of February 9, 2005, with interest rate of 5% annually, and with the foreign exchange clause.

26. Deposits and borrowing from clients

Deposits and borrowings from clients include:

In thousand dinars	2006	2005
Demand deposits		
- in dinars	3.736.060	2.990.190
- in foreign currency	1.987.176	2.727.090
Short-term loans		
- in dinars	2.532.019	1.378.125
- in foreign currency	1.614.859	1.576.742
Long-term deposits		
- in dinars	7.940	8.388
- in foreign currency	113.640	191.902
Long-term loans		
- in foreign currency	1.886.835	604.644
Other financial liabilities towards clients in foreign currency	0	1.245
Current maturity of long-term loans from clients in foreign currency	956.092	691.441
Balance as of December 31	**12.834.621**	**10.169.767**

Within the liabilities to clients are dinar short-term deposits with foreign currency clause in the amount of 118.900 thousand dinars, long-term dinar deposits with foreign currency clause in the amount of 1.300 thousand dinars nad a vista deposits in the amount of 39.513 thousand dinars.

Interest is not charged to transaction dinar deposits of corporate clients, except in extraordinary situations when it is between 0,20% and 1,30% per month.

The Bank pays interest of 2% per year to dinar a vista deposits of citizens, while to fixed term deposits the interest rate is, depending on the term, 12%, 14% and 16% (for periods od term depositing to one, three and six and more months).

Interest rate to foreign currency a vista deposits to retail amounts to 2,30% per year (for EUR), while on fixed term deposit for a year the interest rate amounts to 5,50% per year (for EUR).

Within long-term loan in foreign currency amount of 1.540.500 thousand dinars is stated based on the indebtedness of SanPaolo IMI S.P:A: London with maturity of 5 years and interest rate of six month EURIBOR increased for 1%.

Deposits and borrowing from clients have the following structure:

In thousand dinars	2006	2005
Public sector	935.646	372.383
Companies	5.162.037	5.614.708
Other clients	829.888	562.897
Foreign persons	2.278.428	1.064.173
Citizens	3.628.622	2.555.606
Balance as of December 31	**12.834.621**	**10.169.767**

27. Interest and fees payable

In thousand dinars	2006	2005
Interest and fees payable in dinars	11.560	14.470
Interest and fees payable in foreign currency	422	64
Balance as of December 31	**11.982**	**14.534**

28. Other operating liabilities

In thousand dinars	2006	2005
Other operating liabilities		
Suppliers	54.512	59.264
Other taxes, contributions and levies	5.024	2.985
Accepted advances	5.015	6.096
Other liabilities	42.343	13.807
Balance as of December 31	**106.894**	**82.152**

Within other liabilities from operation are liabilities to suppliers fro financial leasing with foreign currency clause in the amount of 28.339 thousand dinars.

29. Provisioning

Provisions include:

In thousand dinars	2006	2005
General provisions for potential losses against		
guarantees and other off-balance sheet items	21.560	126.890
Provisions for litigations	32.594	-
Provisions for severance payments – legal basis	43.925	-
Provisions for severance payments – agreed termination of service	81.615	-
Provisions for unused days of holiday	24.053	-
Provisions for jubilee awards	1.025	-
Balance as of December 31	**204.772**	**126.890**

30. Other liabilities and accrued income

In thousand dinars	2006	2005
Accrued income		
Deferred liabilities for computed interest:		
- in dinars	23.297	7.816
- in foreign currency	24.966	18.003
Deferred interest income	6.192	-
Deferred fess and commission income	53.723	-
Other accrued income	18.950	4.193
Balance as of December 31	**127.128**	**30.012**

31. Deferred tax liabilities

The Bank executed the calculation of deferred tax liabilities for taxable temporary difference as of December 31, 2006 between tax base of fixed assets and intangible assets and their amount stated in financial reports by applying the rate of 10% and stated deferred tax liabilities in the amount of 7.592 thousand dinars, of which 1.177 thousand dinars in 2005 and additional 6.414 thousand dinars in 2006 and are recognized as expenses and/or income and are included in the net gain of the period.

32. Shareholder's equity and other capital

Shareholder's equity and other capital of the Bank include:

In thousand dinars	2006	2005
Share capital – ordinary shares	3.224.843	3.224.843
Other capital	11.158	11.158
Reserve for potential losses	72.202	62.213
Retained earnings from previous years	10.114	10.114
Current year loss	-	(818.907)
Loss from previous years	(818.907)	
Current year retained earnings	4.563	
Balance as of December 31	**2.503.973**	**2.489.421**

The Capital of the Bank consists of equity and other capital, provisions and accumulated gain. Equity of the Bank in the amount of 3.224.843 thousand dinars is formed by initial equity investments and following issuance of new shares, and the remaining capital of the Bank in the amount of 11.158 thousand dinars is formed by transfer of non-operating funds into capital of the Bank and is not stated in shares.

Value of the equity consists of 785.453 shares, nominal value of 4.100,00 dinars. Amount of 4.486 thousand dinars refers to nominal equity which is less than nominal value of one share.

The shareholders hold the right of managing the Bank, share in distribution of profit as well as part of bankruptcy estate proportionally to the funds invested in founding capital of the Bank.
In 2006 changes of shareholder capital structure of the bank occurred. Republic of Serbia, which held in possession 87.39% of the shares as majority shareholder, sold its shares to SANPAOLO IMI S.P.A.Turin.

Bank's provisions amount to 72.202 thousand dinars.

Accumulated gain in the amount of 10.114 thousand dinars consists of retained earnings from earlier years, realized by cancelling the provisions for unidentified losses against balance sheet and off-balance sheet items.

The Bank stated loss from earlier years in the amount of 818.907 thousand dinars, therefore the amount of total capital in the Balance Sheet is 2.503.973 thousand dinars.

The Bank stated gain in the current year in the amount of 4.563 thousand dinars.

33. Contingent liabilities and commitments

a) Guarantees and other contingent liabilities and commitments include:

In thousand dinars	2006	2005
Payment guarantees		
- in dinars	2.714.866	1.404.210
- in foreign currency	940.773	1.081.533
Performance guarantees		
- in dinars	656.007	924.449
- in foreign currency	119.603	86.871
Uncovered letters of credit		
- in foreign currency	159.921	48.288
Acceptances and avals		
- in dinars	549.117	816.241
- in foreign currency	3.934	13.243
Contingent liabilities and commitments in dinars	159.717	112.164
Balance as of December 31	**5.303.938**	**4.486.999**

Within the guarantees and avals are dinar payment guarantees with foreign currency clause in the amount of 1.374.770 thousand dinars, performance guarantees with foreign currency clause in the amount of 413.201 thousand dianrs and avals with foreign currency clause in the amount of 544.801 thousand dinars.

b) Operations in the name and on behalf of third parties

The amount of 419.305 thousand dinars refers to placements against operations in the name and on behalf of third parties (December 31, 2005 – 314.396 thousand dinars).

c) Other off-balance sheet items

Other off-balance sheet items amount to 805.107 thousand dinars, of which 774.225 thousand dinars refer to bonds of old savings and 30.882 thousand dinars to other off-balance sheet items (December 31, 2005 – 988.569 thousand dinars).

d) Litigations

On December 31, 2006, potential liabilities based on litigations conducted against the Bank amount to 69.931 thousand dinars.
Apart from this, the Bank conducts litigations against legal entities and natural persons with values amounting to 357.172 thousand dinars, for current accounts of citizens amounting to 10.010 thousand dinars, while against other receivables from citizens litigations were started against citizens in the amount of 21.792 thousand dinars.

34. Compliance with indicators prescribed by the Central Bank of Serbia

The Bank shall perform its operations in compliance with the Law on banks and other regulations.

According to the annul account 2006 the Bank realized the following indicators:

Business indicators	Prescribed		Realized
Capital adequacy	min	12 %	14,70 %
Investments	max	60 %	49,51 %
Exposure to persons related to the Bank	max	20 %	0,62 %
Sum of larger Bank’s exposures	max	400 %	276,31 %
Average monthly liquidity indicators :			
- in the first month of reporting period	min	1,00%	1,22 %
- in the second month of reporting period	min	1,00%	1,25 %
- in the third month of reporting period	min	1,00%	1,30 %
Foreign currency indicator	max	30,00 %	33,95 %

35. Risk Management Policy

a) *Credit risk*

Credit risk shall mean the risk of failure to fully collect specific Bank’s receivables under the conditions they have been originally granted, i.e. the borrower’s inability and/or failure to honor their liabilities towards the Bank in compliance with the provisions of the contract. According to this Decision the borrower shall mean any corporate or natural person client having balance and/or off-balance liability towards the Bank. According to this Decision the borrower shall mean all related parties as indicated in the Article 2 of the Law on Banks.

The process of credit risk management shall be based on implementing the general principles:

- Implementation of consistent approach and unique standards in the process of rendering decisions on the Bank's placements;
- The Bank shall establish the limit of an aggregate exposure to a single borrower, who shall be understood to mean a group of related persons in compliance with the provisions of the Law on Banks;
- The Bank shall monitor and manage the level of the borrower’s aggregate exposure in compliance with the adopted credit policy of the Bank;
- All particular decisions on placements as well as all the materially significant amendments to the contracts concluded shall be solely and exclusively approved by the competent body;
- Competence of an individual in the process of decision-making on the Bank's placements shall be established pursuant to their respective classification, expertise and experience, subject of the periodical inspection.

The Board of Directors shall be responsible for reviewing and adopting the Bank's credit policy proposals, passing on decisions on loan approvals, issuing guarantees, bill avals and acceptances of other forms of sureties as well as giving proposals for the write-off of disputable and uncollectible receivables. The Board of Directors shall be responsible also for the appraisal/checking the adequacy of the credit risk management system functioning.

The Bank's Board of Directors shall be authorized to decide on the placements in compliance with the limits set by the Group. The Decision on single transactions exceeding the set limits shall be rendered by the competent body.

The Bank's Executive Board shall decide on granting of loans, issuing guarantees, opening letters of credit and other forms of sureties in compliance with the *Decision on determining amounts of placements of the Bank to be approved by the Bank's Executive Board*. The Bank's Executive Board shall be responsible for processing and implementing the adopted Lending policy and credit risk management policy, as well as for adequate identification of all sources of credit risk and measuring the degree of the Bank's exposure to credit risk.

The Bank's Credit Committee shall decide on granting of loans, issuing guarantees, opening letters of credits and other forms of sureties within the scope as stipulated under Article 39 of the Bank's Articles of Associations and *Decision on determining amounts of placements of the Bank to be approved by the Bank's Credit Committee.*

On submission of every single loan or guarantee application, a level of client's exposure and the degree of (non)compliance with the defined limits.

At the Credit Committee's proposal, the Committee for managing Assets and Liabilities shall identify borrowers i.e. groups of related persons with larger exposures. The Bank shall on a regular basis monitor the movement of the aggregate exposure of the identified borrowers i.e. groups of related persons.

The Bank shall manage the country risk based on the determined limits of the total exposure. The Bank's Board of Directors shall prescribe the maximum level of the Bank's exposure to the risk of the identified group of counties.

The Bank shall control the level of credit risk exposure directly, by assessment of the credit portfolio quality, and indirectly, by establishing the fair value of the placements.

In compliance with the *Decision on guidelines for classification and process of classification of balance sheet assets and off-balance sheet items according to collection and level of specific provisions for estimated losses* the Bank's placements are ranked within the five risk categories.

The amount of specific allowances shall be established based on the Client's creditworthiness i.e. their ability to fully and/or timely honour their obligations in compliance with provisions of the loan agreement. The Bank shall establish specific allowances based on the current value of the expected cash flow including the cash flow from selling the mortgage less transaction costs. The Bank shall, on a regular basis, asses the adequacy of the determined amounts for specific allowances.

Specific allowances for retail loans shall be established on the basis of criteria of a borrower's creditworthiness and due receivables.

The category of bad loans includes placements granted to clients that, according to the Bank's rating system have been classified in group G and D.The Committee for Managing Assets and

Liabilities may form a special list of clients under special supervision, that were initially classified in better categories but whose financial position has deteriorated and it is estimated that a problem may arise in collecting receivables. Pursuant to the information submitted to competent functions, the Committee for Managing Assets and Liabilities shall pass on the Decision on the amendment to the list stated.

Work-out department shall monitor (examine the borrower's financial position) and put forward measures for restructuring and debt recovery. In the process of compiling proposals, the Department shall acquire expert opinion from the relevant functions of the Bank. The Decision on the implementation of measures proposed shall be adopted by the Committee for Managing Assets and Liabilities Committee.

b) Liquidity risk

Liquidity risk management is the risk where Bank will not be able to service their liabilities within the stipulated period of time and with acceptable level of financing cost. Liquidity risk stems from imbalance of cash inflow and outflow (*structural liquidity risk*), i.e. inability of sale/conversion of financial instruments/assets into cash form, within acceptable time limit and price (*financial instruments liquidity risk*). The Bank has to, on daily basis, without limitations, ensure availability of pecuniary assets on current accounts and matured deposits, as well as loan withdrawals.

The Bank shall not limit the availability of pecuniary assets to timely service the demands of its clients. Bank's management strongly believes that the minimum level of reinvestment of matured assets can be safely predicted.

It is of extreme importance in the management of liquidity risk for the Bank's Management to ensure reconciliation, i.e. controlled non-reconciliation of the maturity structure of Bank's assets and liabilities. It is not common for the banks to have a full maturity reconciliation, due to the fact that non-reconciled position potentially increases profitability, but increases the risk of loss at the same time.

The Management believes that dispersion of deposit structure (by number and type of depositors), as well as the Bank's previous experience in management of liquidity position form solid grounds to believe that clients' deposits represent a solid source of the Bank's finance.

Maturities of assets and liabilities, as well as availability of other resources at acceptable cost, represent an important item in Bank's liquidity assessment and its exposure to the risks of change of interest rates and exchange rates.

In the table below are shown the Bank's assets and liabilities in maturity structure, and the maturity positions are defined in compliance with maturity terms from the date of balance sheet until agreed maturity date.

In thousands of dinars	Up to a month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Total
ASSETS					
Cash and cash equivalents	1.400.110	194.019	3.753	513.017	2.110.899
Deposits with Central Bank	1.106.019	265.970	348.215	1.614.281	3.334.485
Interest and fees and commissions receivables	130.303	0	0	371	130.674
Loans and advances to banks	34.198	0	18.598	49.483	102.279
Loans and advances to clients	988.777	721.710	3.945.215	2.941.483	8.597.185
Investment in securities available for trade	205.067	246.089	53.719	20	504.895
Investment in securities held to maturity	0	0	21.376	0	21.376
Capital share	0	0	0	32.860	32.860
Intangible assets	0	0	0	122.720	122.720
Fixed assets	0	0	0	870.032	870.032
Other assets and accrued income	110.837	32.961	13.174	99.313	256.285
Deferred tax assets	0	0	381	16.420	16.801
TOTAL ASSETS	**3.975.311**	**1.460.749**	**4.404.431**	**6.260.000**	**16.100.491**
LIABILITIES					
Liabilities to banks	108.502	108.043	20.141	63.585	300.271
Liabilities to clients	3.450.105	1.216.647	2.708.779	5.459.090	12.834.621
Interest and fees and commissions liabilities	11.982	0	0	0	11.982
Other operating liabilities	63.902	6.146	1.717	35.129	106.894
Provisions	0	0	24.053	180.719	204.772
Other liabilities and accrued income	42.781	37.007	35.620	11.720	127.128
Other liabilities and accrued income	0	0	0	10.850	10.850
Equity	0	0	0	2.503.973	2.503.973
TOTAL LIABILITIES	**3.677.272**	**1.367.843**	**2.790.310**	**8.265.066**	**16.100.491**
Net maturity non-reconciliation	**298.039**	**92.906**	**1.614.121**	**(2.005.066)**	**0**

c) Interest rate risk

Interest rate risk is defined as a degree of the Bank’s balance positions exposure to the negative effect of interest rate changes on the market, viewed from the point of influence on: Bank’s current financial position (primarily net financial results) and Bank’s capital level adequacy.
The Bank shall manage interest rate risk by:

a) Adequately establishing level of interest rate profit margin, i.e. reconcile level of interest rates in positions of interest-rate sensitive assets and liabilities, using the same maturity and time period within which the interest rate level is established again; and/or

b) Providing maturity reconciliation of interest-rate sensitive assets and liabilities (when fixed interest rate is set), i.e. reconciling the time term (time period for re-establishment of interest rates in cases when variable interest rate applies).

Overview of the Bank's exposure to interest rate risk as of December 31, 2005 can be seen as follows:

In thousands of dinars	Up to a month	From 1 to 3 months	From 3 to 12 months	Over 1 year	Non-interest bearing	Total
ASSETS						
Cash and cash equivalents	968.860	193.818	0	499.846	448.365	2.110.899
Deposits with Central Bank	1.100.000	0	0	0	2.234.485	3.334.485
Interest and fees and commissions receivables	122.947	0	0	371	7.356	130.674
Loans and advances to banks	797	0	18.598	49.493	33.391	102.279
Loans and advances to clients	676.150	829.284	4.022.230	3.069.524		8.597.186
Investment in securities available for trade	205.067	246.089	53.719	20	0	504.895
Investment in securities held to maturity	0	0	21.376	0	0	21.376
Capital share	0	0	0	0	32.860	32.860
Intangible assets	0	0	0	0	122.720	122.720
Fixed assets	0	0	0	0	870.032	872.032
Other assets and accrued income	21.714	18.491	4.746	0	211.333	256.284
Deferred tax assets	0	0	0	0	16.801	16.801
TOTAL ASSETS	**3.095.545**	**1.287.680**	**4.120.669**	**3.619.254**	**3.977.343**	**16.100.941**
LIABILITIES						
Liabilities to banks	106.905	107.835	19.108	62.379	4.044	300.271
Liabilities to clients	2.998.121	1.316.239	2.302.168	3.284.033	2.934.060	12.834.621
Interest and fees and commissions liabilities	0	0	0	0	11.982	11.982
Other operating liabilities	99	0	0	0	106.795	106.894
Provisions	0	0	0	0	204.772	204.772
Other liabilities and accrued income	12.366	17.638	29.700	10.210	57.214	127.128
Deferred tax liabilities		0	0	0	10.850	10.850
Equity		0	0	0	2.503.973	2.503.973
TOTAL LIABILITIES	**3.117.491**	**1.441.712**	**2.350.976**	**3.356.622**	**5.833.690**	**16.100.491**
Net non-reconciliation	**(21.946)**	**(154.032)**	**1.769.693**	**262.632**	**(1.856.347)**	**0**

d) Foreign currency risk

Foreign currency risk is a risk of occurrence of losses on not covered-open foreign exchange position as a result of the opposite movement of exchange rate in relation to the reporting currency. Risk exposure leads to the growth of positive and negative exchange rate differences which are entered into Profit and Loss Account. The Bank manages foreign currency risk by reconciling currency structure of assets and liabilities, in accordance to the expected changes of the exchange rates.

The following table shows net foreign exchange position of Bank's assets and liabilities:

In thousand dinars	EUR	USD	Other currencies	Total foreign currency sub-balance	Dinar sub-balance	2006 Total
ASSETS						
Cash and cash equivalents	106.378	44.175	80.294	230.847	1.880.052	2.110.899
Deposits with Central Bank and short-term securities that can be refinanced	2.228.467	0	0	2.228.467	1.106.018	3.334.485
Interest and fees and commissions receivables	5.157	3.755	0	8.912	121.762	130.674
Loans and advances to banks	76.502	17.908	5.522	99.932	2.347	102.279
Loans and advances to clients	4.241.094	630.190	81.532	4.952.816	3.644.369	8.597.185
Securities and other placements available for trade	28	0		28	504.867	504.895
Securities investments held to maturity	0	0		0	21.376	21.376
Equity share	0	0		0	32.860	32.860
Intangible assets	0	0		0	122.720	122.720
Fixed assets	0	0		0	870.032	870.032
Other assets and accrued income	15.255	28	16	15.299	240.986	256.285
Deferred tax funds	0	0		0	16.801	16.801
TOTAL ASSETS	**6.672.881**	**696.056**	**167.364**	**7.536.301**	**8.564.190**	**16.100.491**
LIABILITIES						
Deposits and borrowing from banks	78.774	6	1	78.781	221.490	300.271
Deposits and borrowing from clients	6.334.323	235.955	125.538	6.695.816	6.138.805	12.834.621
Interest and fees and commissions liabilities	406	0	16	422	11.560	11.982
Other operating liabilities	31.680	7	1	31.688	75.206	106.894
Provisioning	2.672	137	1.840	4.649	200.123	204.772
Other liabilities and accrued income	37.813	286	89	38.188	88.940	127.128
Deferred tax liabilities	0	0	0	0	10.850	10.850
Equity	0	0	0	0	2.503.973	2.503.973
TOTAL LIABILITIES	**6.485.668**	**236.391**	**127.485**	**6.849.544**	**9.250.947**	**16.100.491**
Net foreign currency position	**187.213**	**459.665**	**39.879**	**686.757**	**(686.757)**	**0**

36. Foreign currency rates

Foreign currency rates set forth on interbanking meeting of foreign currency market are applied on recalculation of balance sheet items to dinars as of December 31, 2006 and for the major currencies they are as follows:

In thousand dinars	2006.	2005.
EUR	79,0000	85,5000
USD	59,9757	72,2189

Novi Sad, February 26, 2006

PRESIDENT OF THE EXECUTIVE BOARD

Mr. Srdjan Petrovic, Ph.D.

VICE-RESIDENT OF THE EXECUTIVE BOARD

Mrs. Marija Marić Mitrović, MA

PERSON RESPONSIBLE FOR
COMPILING THE BALANCE

Ms. Vera Tasevska, BA Ecc.