BANCA INTESA a.d. Beograd

FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007

ERNST & YOUNG

Quality In Everything We Do

CONTENTS

ERNST & YOUNG

Ernst & Young Beograd d.o.o.
Bulevar Mihajla Pupina 115d
11070 Beograd, Srbija

Tel: +381 11 2095 800
Fax: +381 11 2095 890
www.ey.com

This is an English translation of the
Report originally issued in Serbian language

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BANCA INTESA A.D. BEOGRAD

We have audited the accompanying financial statements of Banca Intesa A.D. Beograd (hereinafter referred as to:" the Bank"), which comprise the balance sheet as of 31 December 2007, the income statement, statement of changes in equity and cash flow statement 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 Law on Accounting and Auditing, Law on Banks and other respective regulations and decisions of the National Bank of Serbia which regulate banks' operations and financial reporting. 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. These standards require that we respect ethical standards, plan and perform the audit to obtain reasonable assurance about whether the financial reports are free from material misstatements.

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.

Opinion

In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of the Bank as of 31 December 2007 and of the results of its operations and its cash flows for the year then ended, in accordance with the Law on Accounting and Auditing, the Law on Banks and other respective regulations regulating financial reporting and decisions of the National Bank of Serbia.

Belgrade, 27 March 2008

PREDUZEĆE ZA REVIZIJU ERNST & YOUNG d.o.o. BEOGRAD

Mirjana Perendija Kovačević
Authorised Auditor

INCOME STATEMENT

(In thousands of RSD)	Note	2007	2006
Interest income	3	13.514.428	8.665.762
Interest expense	3	(5.259.107)	(3.626.736)
Net interest income		**8.255.321**	**5.039.026**
Fee and commission income	4	5.301.875	4.600.118
Fee and commission expense	4	(1.246.906)	(943.971)
Net fee and commission income		**4.054.969**	**3.656.147**
Net interest, fee and commission income		**12.310.290**	**8.695.173**
Net gains on the sale of securities	5	15.169	39.980
Net foreign exchange gains		898.872	2.694.486
Dividends and other income from equity investments		43	843
Other operating income	6	6.665.678	4.864.668
Expenses from indirect write-offs of placements and provisions	7	(8.833.900)	(5.523.244)
Other operating expenses	8	(7.573.512)	(7.755.428)
Gains from changes in value of assets and liabilities	9	6.954.867	334.277
Losses from changes in value of assets and liabilities	10	(7.110.598)	(2.238.898)
Profit from continuing operations before taxation		**3.326.909**	**1.111.857**
Income tax	11	(130.009)	(3.258)
Deferred tax income		10.989	197.171
Deferred tax expense		(50.362)	(16.128)
Profit for the year		**3.157.527**	**1.289.642**

The accompanying notes on the following pages are integral part of these financial statements.

Belgrade, 27 March 2008

Approved by the management of Banca Intesa a.d. Beograd:

Rada Radović Responsible for preparation of the financial statements	Silvio Pedrazzi Member of the Executive Board	Draginja Đurić President of the Executive Board

Banca Intesa a.d. Beograd 3

BALANCE SHEET

(In thousands of RSD)

	Note	2007	2006
ASSETS			
Cash and cash equivalents	12	15.737.881	9.841.942
Deposits with the Central Bank and securities available for refinancing with the Central Bank	13	72.742.905	54.156.853
Interest and fees receivable	14	838.556	571.764
Placements with banks	15	2.240.378	3.371.851
Placements to customers	16	95.471.975	64.032.022
Securities and other placements held-for-trading	17	113.934	716.701
Investments in securities held-to-maturity	17	-	229.846
Investment in shares and other securities available-for-sale	17	166.970	193.560
Fixed assets held for trade and assets of discontinued operations		-	94.110
Intangible assets	18	757.668	828.033
Property and equipment	18	5.514.699	5.675.959
Current tax assets		16.488	86.572
Other assets and accruals	19	716.825	1.029.944
Deferred tax assets		439.388	491.703
Total assets		**194.757.667**	**141.320.860**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to banks	20	2.892.816	4.428.800
Amounts due to customers	21	150.199.309	113.723.672
Interest and fees payable	22	1.765	14.295
Securities issued		13.972	165
Current income tax liabilities		45.440	3.258
Other operating liabilities	23	1.245.859	1.003.652
Provisions	24	2.079.357	1.267.211
Other liabilities and deferrals	25	10.039.039	6.141.685
Deferred tax liabilities		26.390	39.331
		166.543.947	**126.622.069**
Equity			
Share capital	26	18.753.799	8.416.101
Reserves	26	7.106.532	5.798.760
Accumulated profit	26	3.172.296	1.302.837
Accumulated loss	26	(818.907)	(818.907)
		28.213.720	**14.698.791**
Total Liabilities and Equity		**194.757.667**	**141.320.860**
Off-balance sheet items	27	**109.671.891**	**66.695.988**

Belgrade, 27 March 2008

Approved by the management of Banca Intesa a.d. Beograd:

Rada Radović	Silvio Pedrazzi	Draginja Đurić
Responsible for preparation of the financial statements	Member of the Executive Board	President of the Executive Board

Banca Intesa a.d. Beograd 3

CASH FLOW STATEMENT

(In thousands of RSD)	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities		
Interest receipts	12.033.765	7.860.026
Fee and commission receipts	5.718.361	4.836.279
Receipts from other operating income	2.138.752	1.614.794
Receipts from dividends and equity instruments	545	843
	19.891.423	**14.311.942**
Cash outflow from operating activities		
Interest payments	(4.491.674)	(2.503.505)
Fee and commission payments	(1.331.219)	(1.079.389)
Payment of gross salaries, benefits and other personal expenses	(3.390.392)	(2.856.025)
Taxes, contributions and other duties paid	(374.686)	(252.002)
Outflows for other operating expenses	(4.428.382)	(2.830.667)
	(14.016.353)	**(9.521.588)**
Net cash inflow from operating activities before changes in placements and deposits	**5.875.070**	**4.790.354**
Decreases in placements and increases in deposits		
Decrease in securities and other trading investments and short-term securities held-to-maturity	1.327.771	987.866
Increase in deposits from banks and other financial organisations	-	2.676.905
Increase in deposits from customers	39.144.163	29.361.464
	40.471.934	**33.026.235**
Increases in placements and decreases in deposits		
Increase in loans and placements to banks and other financial organisations	(20.954.858)	(39.631.202)
Increase in loans and advances to customers	(36.469.521)	(17.246.052)
Increase in securities and other trading investments, and short-term securities held-to-maturity	-	(393.322)
Decrease in deposits from banks and other financial organisations	(827.110)	-
	(58.251.489)	**(57.270.576)**
Net cash outflow from operating activities before income tax	**(11.904.485)**	**(19.453.987)**
Income tax paid	(11.583)	(79.038)
Net cash outflow from operating activities	**(11.916.068)**	**(19.533.025)**

CASH FLOW STATEMENT (continued)

(In thousands of RSD)	2007	2006 Collective
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities		
Proceeds from long-term investments in securities	21.376	21.376
Proceeds from sale of equity securities	-	18.705
Proceeds from sale of intangible assets and property and equipment	61.181	1.108.541
	82.557	**1.148.622**
Cash outflows from investing activities		
Cash outflow from investments in long-term securities	(21.376)	-
Cash outflow from purchase of shares	-	(244.415)
Cash outflow from purchase of intangible assets and property and equipment	(800.255)	(1.516.895)
	(821.631)	**(1.761.310)**
Cash outflows from investing activities	**(739.074)**	**(612.688)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities		
Receipts from increases in capital	12.723.883	-
Receipts from long-term loans and subordinated liabilities	6.832.816	17.892.792
Net receipts from short-term loans	46.391	-
	19.603.090	**17.892.792**
Cash outflows from financing activities		
Cash outflow from repayments of long-term loans and subordinated liabilities	(731.087)	(1.358.502)
Net outflow from short-term loans	(180.000)	(461.175)
Net outflow from securities	(81)	(905)
	(911.168)	**(1.820.582)**
Net cash inflow from financing activities	**18.691.922**	**16.072.210**
TOTAL CASH INFLOW	**80.049.004**	**66.379.591**
TOTAL NET CASH OUTFLOW	**(74.012.224)**	**(70.453.094)**
NET INCREASE/ (DECREASE) IN CASH	**6.036.780**	**(4.073.503)**
CASH AT THE BEGINNING OF THE YEAR	**9.841.942**	**14.356.072**
EXCHANGE RATE DIFFERENCES, NET	**(140.841)**	**(440.627)**
CASH AT THE END OF THE YEAR (Note 12)	**15.737.881**	**9.841.942**

Belgrade, 27 March 2008

Approved by the management of Banca Intesa a.d. Beograd:

Rada Radović
Responsible for preparation of the financial statements

Silvio Pedrazzi
Member of the Executive Board

Banca Intesa a.d. Beograd 3

Draginja Đurić
President of the Executive Board

STATEMENT OF CHANGES IN EQUITY

(In thousands of RSD)	**Share capital**	**Other capital**	**Share premium**	**Revaluation reserves**	**Reserves**	**Accumulated profit/ (loss)**	**Accumulated loss**	**TOTAL EQUITY**
Opening balance as of 1 January 2006	**8.404.943**	**11.158**	**-**	**559.356**	**3.382.062**	**1.857.606**	**(818.907)**	**13.396.218**
Fair value of securities available-for-sale	-	**-**	**-**	12.931	**-**	**-**	-	**12.931**
Transfer from revaluation reserves to retained earnings	-	-	-	(3.081)	-	3.081	-	**-**
Allocation of profit for the year ended 31 December 2005	**-**	**-**	**-**	**-**	1.847.492	(1.847.492)	-	**-**
Current year profit	-	-	-	-	-	1.289.642	-	**1.289.642**
Balance at 31 December 2006	**8.404.943**	**11.158**	-	**569.206**	**5.229.554**	**1.302.837**	**(818.907)**	**14.698.791**
New share issue	8.785.098	-	1.557.086	-	-	-	-	**10.342.184**
Transfer from share capital upon the merger with Panonska Banka	(1.432.855)	**-**	1.432.855	**-**	**-**	**-**	-	**-**
Transfer to reserves	(4.486)	**-**	**-**	**-**	4.486	**-**	-	**-**
Transfer from revaluation reserves to retained earnings	**-**	**-**	**-**	(91)	**-**	91	-	**-**
Fair value of securities available-for-sale	**-**	**-**	**-**	15.218	**-**	**-**	-	**15.218**
Allocation of profit for the year ended 31 December 2006	-	-	-	-	1.288.159	(1.288.159)	-	**-**
Current year profit	**-**	**-**	**-**	**-**	**-**	3.157.527	-	**3.157.527**
Balance at 31 December 2007	**15.752.700**	**11.158**	**2.989.941**	**584.333**	**6.522.199**	**3.172.296**	**(818.907)**	**28.213.720**

1. CORPORATE INFORMATION

1.1. BANCA INTESA A.D. BEOGRAD

Banca Intesa Beograd ad Beograd (hereinafter referred to as: "the Bank") was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD Beograd dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permit for the foundation of Delta Delta banka DD Beograd.

On 16 October 1991, the Bank was duly registered with the Commercial Court of Belgrade and subsequently commenced its operations. On 7 June 1995, a new Memorandum on Association was concluded, with a new Article of Association adopted at the general assembly meeting held on 10 July 1995, thus reconciliation of the Bank's acts with the provisions of the Law on Banks and other financial organisations was made.

In 2005, the Bank's existing shareholders sold majority of their shares in the Bank to Intesa Holding international SA. After the change, the Bank had two shareholders, Intesa Holding international SA owning more than 90% of share capital.

Following the General Manager's Decision no. 18600 dated 7 November 2005, the approval of National Bank of Serbia and the Decision of the Agency for Commercial Registries no. BD 98737/2005 dated 29 November 2005 the Bank changed its name into Banca Intesa a.d. Beograd.

In accordance with the Decision of the Agency for Commercial Registries no. BD. 159633/2006 dated 5 October 2006 the abovementioned alterations and change of legal form into a closed joint-stock company were registered.

The Bank is authorised and registered with the National Bank of Serbia for performing clearing and settlement transaction services, loan and deposit activities in the country and clearing and settlement transaction services abroad. In line with the provisions of the Law on Banks it operates on the principles of liquidity, safety and profitability.

As of 30 September 2007 the Bank's Head Office was located in Belgrade, 7b Milentija Popovića St. with its associated organisational divisions in Belgrade, 6 Regional centres and 156 branch offices.

As of 30 September 2007 the Bank had 2.349 employees.

The Bank's tax registration number is 100001159.

1.2. PANONSKA BANKA A.D. NOVI SAD

Panonska banka a.d. Novi Sad (hereinafter referred to as:" the Bank") was established by the Decision of the Bank's Foundation Assembly and in accordance with the provisions of the Law on banks and other financial organisations (Official Gazette of SFRY no. 10/89 and 40/89) in 1989.

The Bank obtained the foundation license on the basis of the Decision of the National Bank of Yugoslavia No. 171 dated 31 December 1989. The Bank became legal entity by registration with the authorised court in Novi Sad No. Fi 3053/89 dated 14 December 1989.

Until 1989 the Bank operated under the name "Vojvođanska banka – Osnovna banka Novi Sad"within the system of Vojvođanska banka – Associated banks, Novi Sad. In accordance with the Law on banks and other financial organisation (1989) the Bank separated from the system of Vojvođanska banka – Associated banks, Novi Sad and started operating as a joint-stock company.

1. CORPORATE INFORMATION (continued)

1.2. PANONSKA BANKA A.D. NOVI SAD (continued)

The National Bank of Yugoslavia issued the license to the Bank to perform international loan and clearing and settlement transaction services in accordance with its Decision R-No.57/1990 dated 11 December 1990.

As of 30 September 2007 the Bank had 617 employees.

1.3. LEGAL STATUS CHANGE

1.3.1. Merger by absorption of Panonska banka a.d. Novi Sad to Banca Intesa a.d. Beograd

As of 26 July 2007, Decisions on signing of the letter of intent to perform the legal status change of merger by absorption and launch relating activities were made at the meetings of the Board of Directors of both Banca Intesa a.d. Beograd and Panonska banka a.d. Novi Sad. The letter of intent was signed by both banks on 26 July 2007.

Draft of the Agreement on merger was prepared and adopted by the Boards of Directors of the banks at the meetings held on 29 October 2007. The Decision of the Boards of Directors on the proposal offered to the Commercial Court to appoint KPMG d.o.o. Beograd as independent auditor to prepare the report on Agreement on merger by absorption and mutual report of the Executive Boards was made at the same meeting.

The Commercial Court accepted the proposal of the Boards of Directors and appointed KPMG d.o.o. Beograd as independent auditor on the basis of the Decision No.II P892/07.

In order to perform an audit of the financial statements as of the date of the merger, and in accordance with the Article 57 of the Law on Banks, the Bank engaged external auditor Ernst & Young d.o.o.

The Boards of Directors of both banks suggested adoption of the Agreement on merger by absorption to their Assemblies and it was signed by the authorised people of both banks, and their signatures were verified.

The Agreement on merger includes the following:

- The legal status change of merger by absorption will be carried out, where the bank acquirer is Banca Intesa a.d. Beograd, and the acquired bank is Panonska banka a.d. Novi Sad, in accordance with the provisions of the Law on Companies, Law on Banks, provisions of association agreements of both Banks.
- Upon registration of the procedure of merger by absorption with the Agency for Commercial Registers, the bank acquirer continues to operate under its existing business names, while the acquired Bank ceases without liquidation process, and its shares will be withdrawn and annulled.
- 30 September 2007 is determined as the date of merger, i.e. the date when all operations of Panonska banka a.d. Novi Sad are considered as taken over by Banca Intesa a.d. Beograd, in accordance with Article 384 of the Law on Companies of the Republic of Serbia.
- The acquired bank – Panonska banka a.d. Novi Sad transfers all assets and liabilities as of 30 September 2007 to the bank acquirer in exchange for share issue to the shareholders of the acquired bank by the bank acquirer.
- It is determined that share capital of the bank acquirer before the merger amounted to RSD 13.136.100.000,00, divided into 131.361 ordinary shares with nominal value of RSD 100.000,00 .

1. CORPORATE INFORMATION (continued)

1.3. STATUS CHANGE (continued)

1.3.1. Merger by absorption of Panonska banka a.d. Novi Sad to Banca Intesa a.d. Beograd (continued)

- Share capital of the acquired bank before the merger amounted to RSD 4.049.455.200,00 divided into 987.672 ordinary shares with nominal value of RSD 4.100,00.
- In accordance with the valuations performed, the shares in the banks are exchanged so that shareholders will receive 1 ordinary share of the bank acquirer in exchange for 38 ordinary shares of the acquired bank.
- The bank acquirer issues 26.166 ordinary shares with nominal value of RSD 100.000,00 and therefore share capital of the bank acquirer after the merger will amount to RSD 15.752.700.000,00, divided into 157.527 ordinary shares with nominal value of RSD 100.000,00.
- At the same meeting, Assembly of the bank acquirer brought the Decision on the new share issuance for the purposes of the share exchange in the amount of RSD 2.616.600.000,00.
- Shares of the acquired bank (987.672 ordinary shares with nominal value of RSD 4.100,00) will be withdrawn and annulled and they will be delisted from the Belgrade Stock Exchange
- Shareholders of the bank ceasing in merger become shareholders of the bank acquirer with the appropriate number of ordinary shares, and they have the same status, rights and obligations as the shareholders of the bank acquirer.
- Shareholders of the acquired bank have the right to participate in profit of the bank acquirer starting from 1 January 2008.
- The banks will maintain separate books of accounts up to the merger date. After the date financial statements will be prepared by the bank acquirer only.
- The Agreement on merger by absorption was adopted by the Assembly on 17 December 2007.

Since there were not any significant differences in accounting policies of the banks, neither adjustments to net assets nor adjustments to net results were made as a consequence of the accounting for the merger by absorption.

After the merger by absorption of Panonska banka a.d. Novi Sad, Banca Intesa a.d. Beograd, as a legal successor, comprises the Head Office, 6 regions and 156 branch offices as of 30 September 2007.

Banca Intesa a.d. Beograd as a legal successor after the merger of Panonska banka a.d. Novi Sad had 2.349 employees as of 30 September 2007.

1.3.2. Exchange of share value of Panonska banka and Banca Intesa a.d. Beograd calculation

In line with the Decision of the Executive Board of Banca Intesa a.d. Beograd, the audit firm KPMG d.o.o. Beograd was appointed to determine fair market value of 100% shareholdings in the banks as of 31 July 2007.

On the basis of conducted research, inspection, inquiry and analysis, KPMG d.o.o. Beograd concluded that fair market value of 100% shareholdings in banks (rounded) was the following:

	EUR mil	*Number of shares*	*Value per share*
Banca Intesa a.d. Beograd	567	131.361	4.300
Panonska banka a.d. Novi Sad	113	987.672	114

1. CORPORATE INFORMATION (continued)

1.3. STATUS CHANGE (continued)

1.3.2. Exchange of share value of Panonska banka and Banca Intesa a.d. Beograd calculation (continued)

In accordance with the aforementioned, the share exchange ratio is determined (rounded) in the following way:

- 1 share of Panonska banka equals 0.0265 of the value of one share of Banca Intesa Beograd

Or vice versa,

- 1 share of Banca Intesa has the value of 38 shares of Panonska banka.

In order to exchange total number of shares of Panonska banka a.d. Novi Sad (987.672), Banca Intesa a.d. Beograd issues 26.166 new shares.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the accounting regulations of the Republic of Serbia based on the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia No. 46/06), Law on Banks (Official Gazette of the Republic of Serbia No. 107/05) and other by-laws of the National Bank of Serbia. The Law on Accounting and Auditing and the Law on Banks prescribe that the banks and other legal entities should prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS) and financial regulations of the National Bank of Serbia. However, taking into account the differences between IFRS and certain requirements of accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia, the Bank's management does not express an unreserved statement of compliance of the financial statements with requirements of all standards and interpretations issued by International Accounting Standards Board, which make International Financial Reporting Standards.

The Bank's financial statements are presented in the format prescribed by the Rulebook on the Format and Contents of Positions in the Forms of Financial Statements for Banks and other Financial Organisations (Official Gazette of the Republic of Serbia No. 8/07).

Financial statements are prepared on the historical cost basis except for investments in shares and other investments available-for-sale which are measured at fair value.

These financial statements represent individual non-consolidated financial statements of the Bank. The Bank prepares consolidated financial statements separately.

The Bank maintains its records and prepares the financial statements in dinars (RSD), which is the official reporting currency in the Republic of Serbia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

Presentation of merger by absorption

As disclosed in Note 1, Banca Intesa a.d. Beograd made a legal status change of merger by absorption of Panonska banka a.d. Novi Sad as of 30 September 2007.

Financial statements of the legal successor result from merger of individual balance sheet items of assets, liabilities, income, expenses from the financial statements of both banks.

The financial statements for the year ended 31 December 2007 are presented as that the bank operated as a single entity and comparative financial information is presented accordingly with elimination of transactions between the banks.

Total share capital is reduced by corresponding credit to the share premium based on the report on the share exchange ratio.

All forms of the financial statements have the mark “Status change”.

Note No. 1.3.2. shows calculation of the share exchange ratio.

2.2. Foreign currency translation

Transactions denominated in foreign currency are translated into dinars at the middle exchange rate determined on the Interbank Foreign Currency market, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the middle exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date.

Net foreign exchange gains or losses, arising from foreign currency transactions and foreign currency translations of balance sheet items, are recorded in the income statement as foreign exchange gains or losses.

Gains or losses arising from foreign currency translation of financial assets and liabilities with the foreign currency clause which are index-linked to the foreign exchange rates are recorded as gains or losses from changes in value of assets and liabilities.

Commitments and contingencies denominated in foreign currency are translated into dinars at the official middle exchange rate prevailing at the balance sheet date.

2.3. Finance leases

Bank as a lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in “Property and equipment” with the corresponding liability to the lessor included in “Other liabilities”. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in “Interest and similar expense”.

It is regulated by the Agreement on leasing that the Bank can, but it does not have to, obtain ownership of the leased item after the expiration of the Agreement on leasing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Recognition of income and expenses

2.4.1. Interest income and expenses

Interest income and expenses, including penalty interest and other income and expenses from interest bearing assets and liabilities, are calculated on accrual basis.

Interest recognition is suspended on receivables due over 90 days. Interest on these assets is not recognised in the income statement on an accrual basis, but on a memorandum account and credited to income when collected.

2.4.2. Fee and commission income and expenses

Fee and commission income and expenses are recognised on accrual basis in the period when earned or incurred.

Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are accrued on a straight-line basis for the period of the loans.

2.5. Property, equipment and intangible assets

As of 31 December 2007, property, equipment and intangible assets were stated at revalued cost, less allowance for impairment. Revaluation of property, plant and intangible assets was carried out up to 31 December 2002 using the official revaluation ratios based on the fluctuation of retail price index. As of 1 January 2004, valuation of buildings was carried out in accordance with IAS 16. A professional and qualified appraiser was engaged in order to determine fair value of land and buildings. Property, plant and intangible assets acquired in 2004, 2005, 2006 and 2007 have been stated at cost, less accumulated depreciation.

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

Buildings	1,3%
Computer equipment	20%
Furniture and other equipment	7%-25%
Licenses and similar rights	10%-20%
Software	20%-50%

Calculation of depreciation and amortization of property and equipment commences at the beginning of month following the month when an asset is put into use.

Calculated depreciation and amortization are recognised as expenses for the period when incurred.

The Bank adopted the alternative treatment in the determination of depreciation of buildings, whereby depreciation is calculated on revalued amount of the assets. The Bank uses the benchmark treatment for other assets, whereby depreciation is calculated on cost.

In the determination of depreciation of assets, the depreciatable values of assets equal their cost or revalued amount, since the Bank assessed that the resudial values of assets as nil.

Change in the expected useful life of an asset is considered as a change in accounting estimates.

The Bank does not own property considered as investments to generate profits from rents and/or increases in property value on the market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments

2.6.1. Loans

Placements with banks and loans and placements to customers are stated at the outstanding amount of principle, taking into account all discounts or premiums on acquisition, less allowance for impairment. Interest income and receivables on these instruments are recorded and presented under interest income and interest, fees and commissions receivable, respectively. Fees which are part of effective yield on these instruments are recognised as deferred income and credited to the and are recognised in the income statement under fee and commission income over life of an instrument.

2.6.2. Financial assets impairment and provisions for risks

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For placements with banks and loans and placements to customers, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes an asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss recognized in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling that collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.6.3. Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2.6.4. Securities held for trading

Securities held for trading comprise the securities that the Bank has intention to sell in order to realise profit from short-term fluctuations of prices on financial exchanges. These securities comprise financial derivatives, Government's savings bonds and shares of other banks.

Securities held for trading are initially recorded at cost. All realized or unrealized gains from changes in market value of the securities are recognised in the income statement.

In the reporting period (1 January 2007 to 31 December 2007), the Bank introduced several types of financial instruments which meet definition of financial derivatives according to IAS 39 and whose basic underlying is foreign exchange rate. Derivatives used by the Bank are FX swap and FX forward contracts. For the accounting purposes of, and in accordance with the requirements of IAS 39, the derivatives are classified as financial instruments held for trading are recorded in the balance sheet at fair value, while all fair value changes are recorded in the income statement under foreign exchange gains and losses.

Derivatives are initially recognised when the Bank becomes a party to agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as asset or liability. The initial recognition of fair value applies to the cases when there is available market price for the same or a similar derivative on an organised market, and when the price differentiates from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognised fair value, since there is no active market for similar derivatives in the country. When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognise in the balance sheet (as assets or liabilities) and the income statement (initially positive or negative fair value), the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques.

Pursuant to the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognised at the end of each month, and the effect of changes in fair value are recognised in the statement of income as unrealised foreign exchange gains or losses. Derivatives are recognised as assets or liabilities depending whether their fair value is positive or negative.

Derivatives are derecognised at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at the date of execution. At the moment, ultimate effect of exchange differences is recorded against realised exchange differences, and all previously recognised changes in fair value (through unrealised exchange differences) are reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

2.6.4. Securities held for trading (continued)

Since there is neither an active market for derivatives in Serbia nor a possibility to determine fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries having developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value which would be achieved on an active market. The methodology incorporates market factors (middle exchange rate, interest rates and similar) and it is consistent with generally accepted methodologies for valuation of derivatives. At least once a month, the Bank performs back-testing and calibration of the implemented methodology using market variables and alternative methods of calculation.

2.6.5. Securities held-to-maturity

Securities held-to-maturity are securities with fixed or determinable payments and maturity, which the Bank has positive intent and ability to hold to maturity. They are measured at amortized cost, using effective interest rate, less estimated allowance for impairment.

2.6.6. Investments in shares and other securities available-for-sale

Investments in shares and other securities available-for-sale are assets classified into this category upon initial recognition and they are neither securities measured at fair value through profit or loss nor securities held-to-maturity.

They comprise shares and investments in shares of other banks and companies.

Upon initial measurement, these instruments are measured at fair value, excluding non-quoted investments in shares, whose value cannot be determined with certainty, and which are measured at cost.

Unrealised gains and losses are recognised directly in revaluation reserves, in equity. In the case of disposal of assets, accumulated gains or losses, previously recognised in equity, are recognised in gains or losses from sales of securities in the income statement.

For all estimated amounts of risks that investments in shares and other securities available-for-sale will not be collected, the Bank recognises allowances for impairment.

Dividend income, in respect of investments in shares of other legal entities, and income from investments in equity of other legal entities are recognised as income at the moment of their collection.

2.6.7. Investments in subsidiaries

Legal entity, where the reporting entity has the power of control, is defined as a subsidiary. The control is defined as the power of the reporting entity to govern the financial and operating policies of an entity so as to obtain benefits from its activities. It is considered that reporting legal entity is in charge of control only when it owns directly or indirectly more than a half of voting rights of an entity.

As of 31 December 2007, the Bank owned 51% of Intesa Leasing d.o.o. Beograd.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

2.6.7. Investments in subsidiaries (continued)

Investments in Intesa Leasing d.o.o. are carried at cost, less allowance for impairment.

In accordance with IAS 27, the Bank prepares consolidated financial statements.

2.7. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash (current account and cash on hand), balances on the accounts with other banks, cheques denominated in foreign currency, as well as unrestricted balances with the National Bank of Serbia

2.8. Taxes and contributions

2.8.1. Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current tax related to items directly recognised in equity is also recognised in equity.

2.8.2. Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for taxation purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:
- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:
- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Tax and contributions (continued)

2.8.2. Deferred tax

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax related to items that are recorded directly in equity are also recorded in equity.

The Bank applies effective rate of 10% prescribed by the Law in calculation of deferred tax assets and liabilities.

Tax base is determined in the Bank's tax balance sheet, and tax liability is determined in the Bank's tax return.

2.8.3. Indirect taxes and contributions

Indirect taxes and contributions include property tax, value added tax, contributions for salaries charged to employer, as well as other taxes and contributions in accordance with the regulations of the Republic of Serbia and municipal regulations. These taxes and contributions are included within other operating expenses.

2.9. Employee benefits

The Bank calculates and pays contributions for pension and health insurance, as well as unemployment insurance at the rates prescribed by applicable regulations on gross salaries of employees.

The Bank has alternatives for payments in shares to employees and, therefore, has no identified liabilities as of 31 December 2007.

The Bank calculated future severance compensations in accordance with IAS 19 and for that purpose it engaged an authorised actuary.

2.10. Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognised in income.

Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognised initially for.

Provisions are not recognised for future operating losses.

3. INTEREST INCOME AND EXPENSE

	2007	2006
	RSD thousand	RSD thousand
Interest income		
Other banks	140.554	172.392
National Bank of Serbia	2.852.814	1.573.659
Enterprises	5.086.854	3.888.937
Public sector	285.787	160.539
Other customers	226.465	139.843
Foreign entities	50.512	22.166
Retail customers	4.102.536	2.449.041
Securities	768.906	259.185
	13.514.428	**8.665.762**
Interest expenses		
Other banks	284.865	543.383
National Bank of Serbia	2.449	5.846
Enterprises	1.588.348	1.344.214
Public sector	530.199	670.978
Other customers	137.583	156.036
Foreign entities	1.493.267	196.850
Retail customers	1.222.347	709.429
Securities	49	-
	5.259.107	**3.626.736**
Net interest income	**8.255.321**	**5.039.026**

4. FEE AND COMMISSION INCOME AND EXPENSE

	2007	2006
	RSD thousand	RSD thousand
Fee and commission income		
Local clearing and settlement transfers	1.696.294	1.431.442
International clearing and settlement	345.605	391.667
Loan operations	530.414	304.274
Cards operations	1.485.645	1.088.259
Commissions from issued guarantees	483.441	404.510
Other fees and commission	760.476	979.966
	5.301.875	**4.600.118**
Fee and commission expenses		
Clearing and settlement fees:		
- local transfers	140.537	126.222
- international transfers	51.165	30.961
National Bank of Serbia	14.909	83.702
Credit Bureau	20.745	18.621
Cards operations	1.006.700	608.241
Other fees and commissions	12.850	76.224
	1.246.906	**943.971**
Net fee and commission income	**4.054.969**	**3.656.147**

5. NET INCOME FROM SALE OF SECURITIES

	2007	2006
	RSD thousand	RSD thousand
Securities and placements held for trading	15.169	25.512
Investments in shares and securities available-for-sale	-	14.468
Net income from sale of securities	**15.169**	**39.980**

6. OTHER OPERATING INCOME

	2007	2006
	RSD thousand	RSD thousand
Reversals of allowances for impairment of:		
- Placements with banks (Note 7)	410.075	286
- Placements to customers (Note 7)	5.112.055	4.125.217
- Interest and fees receivable (Note 7)	133.475	153.810
- Other assets (Note 7)	35.092	116.899
	5.690.697	**4.396.212**
Reversals of provisions:		
- Provisions for long-term employee benefits (Note 7)	156.678	-
- Provisions for litigations (Note 7)	77.159	-
- Provisions for losses on off-balance sheet assets (Note 7)	663.502	126.546
	897.339	**126.546**
Rental income	6.970	7.663
Gains from sales of buildings and equipment, investments and surpluses	8.592	239.711
Reimbursed expenses	15.409	3.516
Other income	46.671	91.020
	77.642	**341.910**
Total other operating income	**6.665.678**	**4.864.668**

7. INDIRECT WRITE-OFFS OF PLACEMENTS AND PROVISIONS

	2007	2006
	RSD thousand	RSD thousand
Expenses from indirect write-offs of placements:		
- Placements with domestic banks (Note 7)	411.372	60.391
- Placements to customers (Note 7)	6.426.991	4.534.560
- Interest and fees receivable (Note 7)	206.445	166.966
- Securities (Note 7)	41.250	-
- Other assets (Note 7)	37.432	-
	7.123.490	**4.761.917**
Additions to provisions :		
- Provisions for long-term employee benefits (Note 7)	390.618	261.099
- Provisions for litigations (Note 7)	156.271	48.876
- Provisions for losses on off-balance sheet assets (Note 7)	1.046.864	451.352
- Other provisions – for VAT (Note 7)	115.810	-
- Other	847	**-**
	1.710.410	**761.327**
Total expenses from indirect write-offs of placements and provisions	**8.833.900**	**5.523.244**

7. INDIRECT WRITE-OFFS OF PLACEMENTS AND PROVISIONS (continued)

Changes in allowance accounts of balance sheet items and provisions in 2007 are shown in the following table:

	Balance sheet impairment					Provisions			
	Interest and fees (Note 14)	**Placements with banks** (Note 15)	**Placements to customers** (Note 16)	**Securities** (Note 17)	**Other assets** (Note 19)	**Employee benefits** (Note 24)	**Litigations** (Note 24)	**Off-balance sheet items** (Note 24)	**Other provisions** (Note 24)
Balance at the beginning of the year	**147.217**	**60.435**	**5.804.938**	**61.631**	**34.484**	**261.099**	**48.875**	**957.236**	**-**
Increases charged to the income statement	206.445	411.372	6.426.991	41.250	37.432	390.618	156.271	1.046.864	115.810
Reversals recognised in the income statement	(133.475)	(410.075)	(5.112.055)	-	(35.092)	(156.678)	(77.159)	(663.502)	-
Exchange rate differences	-	-	18.337	-	-	-	-	(77)	-
Other changes	(397)	(284)	16.003	-	(29.475)	-	-	-	-
Balance at 31 December 2007	**219.790**	**61.448**	**7.154.214**	**102.881**	**7.349**	**495.039**	**127.987**	**1.340.521**	**115.810**

8. OTHER OPERATING EXPENSES

	2007	2006
	RSD '000	RSD '000
Net salaries and compensations	2.148.167	1.792.071
Taxes and contributions payable by employer	1.383.668	777.796
Other staff costs	60.984	58.918
Material and energy and spare parts	459.102	367.023
Professional services	250.481	69.768
Advertising, marketing and representation	252.907	492.506
Telecommunications and postage	302.700	660.571
Insurance premiums	276.114	222.739
Maintenance of property and equipment	425.296	210.694
Depreciation of property and equipment (Note 18)	550.543	138.439
Amortisation of intangible assets (Note 18)	230.582	467.766
Rent	460.898	340.755
Fees	122.172	85.332
Taxes and contributions	63.076	450.812
Physical/technical security	135.919	110.256
General and administrative expenses	98.549	132.056
Direct write off of receivables	68.125	1.269.641
Losses on disposals and retirements of fixed assets and shares	213.371	84.509
Other expenses	70.858	23.776
Total other operating expenses	**7.573.512**	**7.755.428**

9. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2007	2006
	RSD '000	RSD '000
Gains from changes in value of financial assets:		
- Placements to banks and customers	6.769.552	242.352
- Derivates, securities and other placements held-for-trading	8.104	8.396
- Equity shares and securities available-for-sale	460	14.823
- Other financial assets	3.166	5.146
Gains from changes in value of financial liabilities	173.585	63.560
Total gains from changes in value of assets and liabilities	**6.954.867**	**334.277**

10. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2007	2006
	RSD '000	RSD '000
Losses from changes in value of financial assets:		
- Placements to banks and customers	6.947.188	2.065.728
- Derivates, securities and other placements held for trading	1.529	509
- Equity shares and securities available-for-sale	12.875	20.925
- Other financial assets	365	102.955
Losses from changes in value of financial liabilities	148.641	48.781
Total losses from changes in value of assets and liabilities	**7.110.598**	**2.238.898**

11. INCOME TAX

	2007	2006
	RSD '000	RSD '000
Current income tax	130.009	3.258
Deferred tax income	(10.989)	(197.171)
Deferred tax expense	50.362	16.128
Total income tax	**169.382**	**177.785**

Reconciliation of the total income tax presented in the income statement and the product of profit before tax and the statutory tax rate:

	2007
	RSD '000
Profit before tax	**3.326.909**
Operating result of Panonska banka a.d. until the merger as of 30 September 2007	(352.499)
Adjusted profit before tax	**2.974.410**
Income tax at the rate of 10%	297.441
Tax effect of expenses not recognised for the tax purposes	62.873
Tax credit from investments in fixed assets	(95.573)
Tax effects of tax losses carryforward for which deferred tax assets were not recognised	(108.751)
Other	(13.392)
Income tax reported in the income statement	**169.382**

11. INCOME TAX (continued)

For the purpose of determining the income tax liability for the year ended 31 December 2007, the Bank adjusted the accounting profits by the amounts of provisions charged to the statement of income in the total amount of RSD 591.594.564,17 as follows:

- Provision for litigations IAS 37,
- Provision for restructuring IAS 37,
- Provisions pursuant to IAS 19 Employee benefits,
- Provisions for tax liabilities.

Panonska banka a.d. Novi Sad, on the basis of the Extraordinary financial statement, prepared and duly submitted Tax Return for the period between 1 January 2007 and 30 September 2007.

Banca Intesa a.d. Beograd, as the legal successor in the process of merger by absorption of Panonska banka a.d. Novi Sad, calculated and disclosed in the statements income tax liability for the fiscal year of 2007. The accounting profit before tax of Banca Intesa were adjusted by the results of operations of Panonska banka to determine the tax base for further determination of income tax.

Pursuant to Article 32 and 33 of the Law on Company's tax income, the tax base was reduced by the amount of tax loss carryforward reported in tax returns of Panonska Banka in previous years in the amount of RSD 1.087.513.548,00.

The Bank submits annual tax return for the year ended 31 December 2007 within legally defined timeframe of 10 days after the deadline for filing of financial statements.

The statutory tax rate for the year 2007 is 10,00%, while the effective tax rate is 5,1,%.

11.2. Deferred tax assets

Deferred tax assets as of 31 December 2007 in the amount of RSD 439.358 thousand entirely relate to unused tax credits for investments in fixed assets which can be utilised in the period between 5 and 10 years after balance sheet date.

11.3. Deferred tax liabilities

Deferred tax liabilities as of 31 December 2007 in the amount of RSD 26.390 thousand (2006: RSD 39.311 thousand) relate to taxable temporary differences on property, equipment and intangible assets.

12. CASH AND CASH EQUIVALENTS

	2007	2006
	RSD '000	RSD '000
In dinars		
Gyro account	2.860.818	4.927.996
Cash on hand	2.174.061	1.348.166
Liquidity surplus deposits	6.800.000	1.000.000
	11.834.879	**7.276.162**
In foreign currency		
Accounts with foreign banks	2.456.741	2.025.407
Foreign currency cash on hand	1.374.791	459.548
Other monetary assets in foreign currency	51.450	61.386
	3.882.982	**2.546.341**
Gold and precious metals	20.020	19.439
Balance at 31 December	**15.737.881**	**9.841.942**

The Bank's obligatory reserve denominated in RSD represents the minimum reserve set aside in accordance with the National Bank of Serbia Regulation on "Obligatory Reserves of Banks to be held with the National Bank of Serbia" (Official Gazette No. 93/2007). In accordance with the Regulation, banks are obligated to calculate the obligatory reserve denominated in RSD at the rate of 10% (2006:15%) on the basis of average daily amount of deposits in RSD during a month period. Apart from this, banks calculate obligatory reserve denominated in RSD at the rate of 45% on the basis of average daily carrying balance of deposits in RSD for the previous month which are indexed by a foreign currency clause as well as on the basis of the amount of average daily carrying balance of liabilities in RSD for the previous month for deposits and loans received from abroad. Also, as an exception to the aforementioned, banks calculate obligatory reserve denominated in RSD at the rate of 5% on the amount of the average daily carrying value of deposits in RSD in the previous months from deposits with fixed term over one month.

In December 2007, the amount of calculated obligatory reserve denominated in RSD was RSD 3.918.940 thousand. During the month the Bank is obligated to maintain the average daily balance of obligatory reserve in RSD for the period on its gyro account.

Interest rate on the liquidity surplus deposits with the National Bank of Serbia equals to the interest rate prescribed by the National Bank of Serbia decreased by 2,5 percentage points, which amounts to 7.5%.

Interest rate on the average balance of the obligatory reserve in RSD, which does not exceed the amount of calculated obligatory reserve, is 2,5%.

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

	2007	2006
	RSD '000	RSD '000
Obligatory reserve in foreign currency	35.575.025	26.262.261
National Bank of Serbia treasury bills	367.880	2.338.574
Repo placements with the National Bank of Serbia	36.800.000	25.556.018
Balance as of 31 December	**72.742.905**	**54.156.853**

13. DEPOSITS WITH THE CENTRAL BANK AND SECURITIES AVAILABLE FOR REFINANCING WITH THE CENTRAL BANK (continued)

The Bank's obligatory reserve represent the minimal reserve denominated in foreign currency which is set aside in accordance with the National Bank of Serbia Regulation on "Obligatory Reserves of Banks to be held with the National Bank of Serbia" (Official Gazette No. 93/2007). In accordance with the Regulation, banks are obligated to calculate the obligatory reserve in foreign currency at the rate of 45% (2006:40%) on the basis of average daily amount of foreign currency deposits during a month period. Apart from this, banks calculate obligatory reserve denominated in foreign currency at the rate of 100% on the basis of average daily carrying balance of deposits in foreign currency for the previous month held by the leasing companies on the special account with the Bank; at the rate of 20% on the basis of average daily carrying amount of foreign currency subordinated liabilities for the previous month; at the rate of 40% on the basis of liabilities for foreign currency savings held with the Bank.

The National Bank of Serbia does not pay interest on obligatory reserves in foreign currency.

Repo transactions are stated as placements or borrowings. They represent purchase and sale of securities where the contractual parties agreed that securities are sold by a seller to a buyer at purchase cost as of the date of transaction, and at the same time the buyer is obligated to resell the same securities to the seller, who is obligated to pay the agreed repurchase price.

14. INTEREST, FEES AND COMMISSIONS RECEIVABLE

	2007	2006
	RSD '000	RSD '000
In RSD		
Other banks	4.828	2.747
National Bank of Serbia	23.835	27.286
Enterprises	669.915	459.940
Public sector	20.251	15.679
Retail customers	209.596	97.200
Foreign entities	22	-
Other customers	66.916	55.580
	995.363	**658.432**
In foreign currency		
Other banks	3	15
National Bank of Serbia	-	1
Enterprises	51.215	54.506
Public sector	4	-
Foreign entities	1.824	34
Other customers	9.937	5.993
	62.983	**60.549**
Total interest and fees and commissions receivable	**1.058.346**	**718.981**
Allowance for impairment	(219.790)	(147.217)
Balance at 31 December	**838.556**	**571.764**

15. PLACEMENTS WITH BANKS

	2007	2006
	RSD '000	RSD '000
In RSD		
Short-term loans	1.401.066	1.919.624
Other deposits with the National Bank of Serbia	-	23.052
Other financial placements	20.650	-
Temporary and suspense accounts	807.151	(29.656)
	2.228.867	**1.913.020**
In foreign currency		
Short-term loans	325	1.441.603
Other deposits with the National Bank of Serbia	-	19.479
Long-term loans	46.472	64.645
Current maturities of long-term loans	(18.589)	(18.533)
Other financial placements	44.751	-
Temporary and suspense accounts	-	12.072
	72.959	**1.519.266**
Total placements with banks	**2.301.826**	**3.432.286**
Allowance for impairment	(61.448)	(60.435)
Balance at 31 December	**2.240.378**	**3.371.851**

16. PLACEMENTS TO CUSTOMERS

	2007			2006		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000
In RSD						
Loans and placements:						
- Enterprises	29.169.552	26.447.635	55.617.187	17.654.011	20.245.811	37.899.822
- Retail customers	8.658.377	23.794.628	32.453.005	5.840.375	12.954.018	18.794.393
- Public sector	24.135	4.454.290	4.478.425	11.296	3.330.525	3.341.821
- Foreign entities	7	31.708	31.715	-	-	-
- Other customers	849.621	1.777.732	2.627.353	1.250.456	942.578	2.193.034
Other financial placements	1.225.945	-	1.225.945	849.352	-	849.352
Current maturities of long-term loans and placements	13.402.224	(13.402.224)	-	9.819.393	(9.819.393)	-
Total In RSD	**53.329.861**	**43.103.769**	**96.433.630**	**35.424.883**	**27.653.539**	**63.078.422**
In foreign currencies						
Loans and placements:						
- Enterprises	1.834.106	3.751.678	5.585.784	3.453.278	3.074.862	6.528.140
- Foreign entities	316.945	-	316.945	7.497	23.700	31.197
- Other customers	262.827	-	262.827	63.260	83.020	146.280
Other financial placements:						
- Temporary accounts with foreign banks	27.003	-	27.003	52.773	148	52.921
Current maturities of long-term loans and placements	591.635	(591.635)	-	545.524	(545.524)	-
Total in foreign currencies	**3.032.516**	**3.160.043**	**6.192.559**	**4.122.332**	**2.636.206**	**6.758.538**
Total placements to customers	**56.362.377**	**46.263.812**	**102.626.189**	**39.547.215**	**30.289.745**	**69.836.960**
Allowance for impairment	(4.266.707)	(2.887.507)	(7.154.214)	(2.798.937)	(3.006.001)	(5.804.938)
Balance at 31 December	**52.095.670**	**43.376.305**	**95.471.975**	**36.748.278**	**27.283.744**	**64.032.022**

17. INVESTMENTS IN SHARES AND SECURITIES

	2007			2006		
	Securities and other placement held-for-trading	Securities held-to-maturity	Investments in shares and other securities available-for-sale	Securities and other placement held-for-trading	Securities held-to-maturity	Investments in shares and other securities available-for-sale
	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000
Quoted instruments:						
- Investments in shares	3.041	-	30.981	17.632	-	30.981
- Debt securities issued by the Government of the Republic of Serbia	154.691	-	-	277.693	233.956	-
- Other debt securities	-	-	-	2.000	-	-
- Derivates	2.814	-	-	-	-	-
Unquoted securities and other placements:						
- Investments in shares	-	-	220.581	-	-	220.940
- Other securities	-	-	-	518.196	-	-
Variation from cost	(46.317)	-	17.994	(98.644)	(4.110)	3.094
Gross balance at 31 December	**114.229**	**-**	**269.556**	**716.877**	**229.846**	**255.015**
Allowance for impairment	(295)	-	(102.586)	(176)	-	(61.455)
Net balance at 31 December	**113.934**	**-**	**166.970**	**716.701**	**229.846**	**193.560**

Unquoted investments in shares include the following investments in subsidiaries and associates:

	% share	2007	% share	2006
		RSD '000		RSD '000
Intesa Leasing d.o.o. Beograd	51%	214.575	51%	214.575
Allowance for impairment		(99.706)		(58.581)
Total at 31 December		**114.869**		**155.993**

18. PROPERTY, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

	Land and buildings	Equipment	Equipment purchased under finance leases	Advances and assets in preparation	Total property and equipment	Intangible assets
	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000
Cost						
Balance at the beginning of the year	4.121.171	2.945.965	113.146	163.652	7.343.934	1.033.361
Additions	-	-	-	461.728	461.728	581.992
Transfers	4.799	506.394	-	(511.193)	-	-
Disposals and write-offs	(21)	(116.417)	(1.762)	(66.267)	(184.467)	(528.519)
Balance at the end of the year	**4.125.949**	**3.335.942**	**111.384**	**47.920**	**7.621.195**	**1.086.834**
Accumulated depreciation and impairment						
Balance at the beginning of the year	401.957	1.228.333	37.685	-	1.667.975	205.328
Additions (Note 8)	53.578	476.855	20.110	-	550.543	230.582
Disposals and write-offs	-	(111.625)	(397)	-	(112.022)	(106.744)
Balance at the end of the year	**455.535**	**1.593.563**	**57.398**	**-**	**2.106.496**	**329.166**
Net carrying value at 31 December 2007	**3.670.414**	**1.742.379**	**53.986**	**47.920**	**5.514.699**	**757.668**
Net carrying value at 31 December 2006	**3.719.214**	**1.717.632**	**75.461**	**163.652**	**5.675.959**	**828.033**

The Bank's management concluded, using the external and internal sources of information in accordance with IAS 36, that there were no indications of impairment of the assets.

As of 31 December 2007, net carrying value of intangible assets consisted mostly of licences and computer software.

19. OTHER ASSETS AND ACCRUALS

	2007	2006
	RSD '000	RSD '000
Receivables from sale	896	15.086
Receivables from sale of assets received on foreclosed loans	798	924
Receivables from employees	7.296	7.134
Receivables for overpaid taxes, except income tax	2.598	172
Advances paid	17.224	55.144
Other receivables	353.876	661.120
Inventories	785	16.526
Assets received on foreclosed loans	18.691	7.498
Other assets	1.793	2.140
Accrued interest income		
- in RSD	110.441	120.788
- in foreign currency	37.461	37.122
Other income accrued in foreign currency	20.123	12.232
Deferred interest expense:		
- in RSD	4.468	6.127
Other deferred expenses:		
- in RSD	112.049	75.895
- in foreign currency	-	70
Other accruals :		
- in RSD	77	160
- in foreign currency	35.598	46.290
Total other assets and accruals	**724.174**	**1.064.428**
Allowance for impairment	(7.349)	(34.484)
Balance at 31 December	**716.825**	**1.029.944**

Other receivables mainly relate to withdrawals at ATMs (RSD 340.034 thousand).

20. AMOUNTS DUE TO BANKS

	2007				2006			
	On demand	**Short-term**	**Long-term**	**Total**	**On demand**	**Short-term**	**Long-term**	**Total**
	RSD 000	RSD 000	RSD 000	RSD 000	RSD 000	RSD 000	RSD 000	RSD 000
In RSD								
Deposits:								
- Other banks	169.517	-	58.465	**227.982**	16.462	132.000	-	**148.462**
- National Bank of Serbia	-	519.526	-	**519.526**	-	-	-	**-**
- Financial organisations	50.102	-	-	**50.102**	19.305	12.240	-	**31.545**
- Voluntary pension funds	-	-	-	**-**	-	97.000	-	**97.000**
- Insurance companies	118.984	-	-	**118.984**	75.601	292.000	-	**367.601**
Current maturities of long-term deposits	-	3.000	(3.000)	**-**	-	-	-	**-**
Loans:								
- Other banks	-	770.674	55.439	**826.113**	-	950.000	78.700	**1.028.700**
- National Bank of Serbia	-	914	7.415	**8.329**	-	-	8.898	**8.898**
Current maturities of long-term deposits	-	26.211	(26.211)	**-**	-	28.848	(28.848)	**-**
Other financial liabilities	-	-	-	**-**	-	1.270.205	-	**1.270.205**
Total in RSD	**338.603**	**1.320.325**	**92.108**	**1.751.036**	**111.368**	**2.782.293**	**58.750**	**2.952.411**
In foreign currency								
Deposits:								
- Other banks	45.485	516.191	5.943	**567.619**	40.006	1.382.500	5.925	**1.428.431**
- National Bank of Serbia	-	1.639	-	**1.639**	-	70	-	**70**
- Financial organisations	166.873	-	15.847	**182.720**	21.618	2.291	-	**23.909**
Insurance companies	199.635	190.167	-	**389.802**	23.979	-	-	**23.979**
Total in foreign currency	**411.993**	**707.997**	**21.790**	**1.141.780**	**85.603**	**1.384.861**	**5.925**	**1.476.389**
Balance at December 31	**750.596**	**2.028.322**	**113.898**	**2.892.816**	**196.971**	**4.167.154**	**64.675**	**4.428.800**

21. AMOUNTS DUE TO CUSTOMERS

	2007				2006			
	On demand	**Short-term**	**Long-term**	**Total**	**On demand**	**Short-term**	**Long-term**	**Total**
	RSD 000	RSD 000	RSD 000	RSD 000	RSD 000	RSD 000	RSD 000	RSD 000
In RSD								
Deposits:								
- Corporate	22.997.546	16.184.145	194.568	**39.376.259**	17.577.368	8.717.593	460.088	**26.755.049**
- Public sector	2.655.090	428.364	237.758	**3.321.212**	2.100.378	3.397.235	207.807	**5.705.420**
- Citizens	6.245.201	399.802	41.944	**6.686.947**	4.368.676	171.262	13.713	**4.553.651**
- Foreign entities	490.005	3.868	-	**493.873**	76.636	-	-	**76.636**
- Other customers	3.244.971	838.481	4.906	**4.088.358**	2.205.343	1.039.355	1.106	**3.245.804**
Current maturities of long-term deposits	-	119.291	(119.291)	-	-	106.732	(106.732)	**-**
Other financial liabilities	-	110.129	-	**110.129**	-	-	-	**-**
Total in RSD	**35.632.813**	**18.084.080**	**359.885**	**54.076.778**	**26.328.401**	**13.432.177**	**575.982**	**40.336.560**
In foreign currency								
Deposits:								
- Corporate	7.178.174	6.948.294	880.464	**15.006.932**	5.897.475	5.679.534	147.893	**11.724.902**
- Public sector	2.653	-	-	**2.653**	5.235	-	-	**5.235**
- Citizens	23.894.678	25.523.816	5.749.652	**55.168.146**	16.861.243	10.633.957	9.127.223	**36.622.423**
- Foreign banks	24.845	7.527.439	-	**7.552.284**	8.236	9.480.000	-	**9.488.236**
- Other foreign entities	959.534	691.401	329.425	**1.980.360**	491.142	171.600	151.663	**814.405**
- Other customers	974.288	261.314	25.748	**1.261.350**	787.040	230.627	39.571	**1.057.238**
Current maturities of long-term deposits	-	2.614.269	(2.614.269)	-	-	1.430.071	(1.430.071)	**-**
Loans:								
- Public sector	-	-	583.113	**583.113**	-	-	296.753	**296.753**
- Foreign banks	-	-	13.560.361	**13.560.361**	-	-	12.399.140	**12.399.140**
- Other foreign entities	-	-	219.677	**219.677**	-	613.743	365.037	**978.780**
Current maturities of long-term deposits	-	230.585	(230.585)	**-**	-	138.250	(138.250)	-
Other financial liabilities	-	787.655	-	**787.655**	-	-	-	-
Total in foreign currency	**33.034.172**	**44.584.773**	**18.503.586**	**96.122.531**	**24.050.371**	**28.377.782**	**20.958.959**	**73.387.112**
Balance at December 31	**68.666.985**	**62.668.853**	**18.863.471**	**150.199.309**	**50.378.772**	**41.809.959**	**21.534.941**	**113.723.672**

21. DUE TO CUSTOMERS (continued)

As of 31 December 2007 balances of loans from foreign banks amounted to RSD 13.560.361.thousand. The most significant portion (RSD 11.489.249 thousand) relates to the Intesa Saopaolo Group members, with the following structure:

	Currency	Contracted amount	Maturity	Interest rate	Balance at 31 Dec 2007
					RSD '000
INTESA SANPAOLO SPA	EUR	50.000.000	09.11.2010.	3M EURIBOR + 1.6%	3.961.810
INTESA SANPAOLO SPA	EUR	5.000.000	01.12.2015.	3M EURIBOR + 1%	396.181
INTESA SANPAOLO SPA	EUR	10.000.000	01.12.2013.	3M EURIBOR + 1%	792.362
INTESA SANPAOLO SPA	EUR	10.000.000	01.12.2013.	3M EURIBOR + 1%	792.362
INTESA SANPAOLO SPA	EUR	10.000.000	01.12.2015.	3M EURIBOR + 1%	792.362
INTESA SANPAOLO SPA	EUR	10.000.000	01.12.2013.	3M EURIBOR + 1%	792.362
VUB - VSEOBECNA UVEROVA BANKA	EUR	40.000.000	03.05.2011.	3M EURIBOR + 1.3%	3.169.448
VUB - VSEOBECNA UVEROVA BANKA	EUR	10.000.000	14.01.2008.	3M EURIBOR + 85bp	792.362

22. INTEREST, FEES AND COMMISSIONS PAYABLE

	2007	2006
	RSD '000	RSD '000
In RSD		
- Banks	95	120
- Corporate	1.620	7.259
- Public sector	15	3.136
- Other customers	-	3.334
Total in RSD	**1.730**	**13.849**
In foreign currency		
- Banks	35	55
- Corporate	-	24
- Public sector	-	367
Total in foreign currency	**35**	**446**
Balance at 31 December	**1.765**	**14.295**

23. OTHER OPERATING LIABILITIES

	2007	2006
	RSD '000	RSD '000
Payroll related liabilities	170.132	92.180
Taxes, contributions and other duties payable (except income tax payable)	198.446	55.713
Liabilities to suppliers	446.333	509.557
Advances received	70.096	119.849
Other liabilities	360.852	226.353
Balance at 31 December	**1.245.859**	**1.003.652**

24. PROVISIONS

	2007	2006
	RSD '000	RSD '000
Provisions for employee benefits :		
- restructuring	314.475	111.586
- long-term benefits with respect to payments upon retirement	180.564	149.513
Provision for litigation	127.987	48.876
Provisions for losses on off-balance sheet items	1.340.521	957.236
Provisions for additional VAT related liabilities	115.810	-
Balance at 31 December	**2.079.357**	**1.267.211**

25. OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME

	2007	2006
	RSD '000	RSD '000
Accrued expenses and deferred income		
Accrued expenses for calculated interest:		
- In RSD	148.149	643.933
- In foreign currencies	606.430	374.856
Accrued liabilities for other calculated expenses:		
- In foreign currencies	7.285	5.353
Deferred loan origination fees:		
- In RSD	502.837	253.980
Other income deferred:		
- In RSD	-	59.915
Other deferrals:		
- In RSD	3.268	5.727
- In foreign currencies	2.700	13.223
	1.270.669	**1.356.987**
Other liabilities		
Subordinated liabilities	8.715.982	4.740.000
Long-term liabilities with respect to finance leases	52.388	44.698
	8.768.370	**4.784.698**
Balance at 31 December	**10.039.039**	**6.141.685**

Balance and structure of subordinated liabilities as of 31 December 2007 are presented in the following table:

	Currency	Contracted amount	Maturity date	Interest rate	Balance at 31 Dec2007
					RSD '000
INTERNATIONAL FINANCE CORPORATION - IFC	EUR	60.000.000	15.12.2012.	6M EURIBOR + 2.25% p.a.	4.754.172
INTESA HOLDING INTERNATIONAL S.A.	EUR	50.000.000	12.03.2012.	3M EURIBOR + 1,8% p.a.	3.961.810
					8.715.982

26. EQUITY

The Bank's equity includes share capital, other capital, share premium, revaluation reserves, accumulated losses and retained earnings from the current and previous years.

	2007	2006
	RSD '000	RSD '000
Share capital – ordinary shares	15.752.700	8.404.943
Other capital	11.158	11.158
Share premium	2.989.941	-
Reserves from profit	6.522.199	5.229.554
Revaluation reserves	584.333	569.206
Retained earning from previous years	14.677	10.114
Retained earnings from current year	3.157. 619	1.292.723
Accumulated loss	(818.907)	(818.907)
Balance at 31 December	**28.213.720**	**14.698.791**

26.1. Share capital

Before 30 September 2007 Banca Intesa a.d. Beograd and Panonska banka a.d. Novi Sad operated as two independent banks and both of them issued new shares during the year ended 31 December 2007.

Banca Intesa had a change in the ownership and a new share issuance.

At 19 January 2007, Hemslade Trading Limited sold its shares in the Bank to Intesa Holding International, which increased its shareholding in the Bank to 93%.

At 20 February 2007, Banca Intesa completed new share issuance in the amount of RSD 7.956.000 thousand.

New shares were subscribed by existing shareholders so that shareholding percentage remained the same.

In July 2007, new share issuance of Panonska banka was carried out. Intesa Sanpaolo S.p.A. bought 202.219 ordinary shares of nominal value of RSD 4.100 thousand in the amount of RSD 2.386.184 thousand, and thus became the owner of 987.322 ordinary shares representing a shareholding of 99,96 %.

As stated in Note no.1.3., calculation of the share exchange ratio upon the merger of two banks was carried out in accordance with the Bank's management decision and, subsequently, new share structure of the bank successor - Banca Intesa a.d. Beograd established as presented in the table below.

Share capital consists of 157.527 ordinary shares of nominal value of RSD 100.000 thousand.

Upon merger, the new shareholders' structure is as follows:

SHAREHOLDER	*NUMBER OF SHARES*	*SHARE*
Intesa Holding International	122.166	77,552%
IFC	9.195	5,837%
Intesa Sanpaolo SPA	26.157	16,605%
Elnos Agrovojvodina	9	0,006%
Total	**157.527**	**100,000%**

The Bank is managed by the shareholders in proportion to their investments in the Bank.

26. EQUITY (continued)

26.2. Share premium

Share premium in the amount of RSD 1.557.086 thousand relates to the new share issuance of Panonska banka a.d. Novi Sad in July 2008 fully subscribed by Intesa Sanpaolo S.p.A., and represents the aggregate difference between purchase price of shares in the amount of RSD 11.800,00 thousand and their nominal value of RSD 4.100,00 thousand.

The remaining amount of RSD 1.432.855 thousand resulted from calculation of the share exchange upon the merger of the banks, when the amount was transferred from share capital to share premium.

26.3. Reserves

The Bank's reserves comprise:

	2007
	RSD '000
Statutory reserves	6.192.003
Special reserves for potential losses	4.601.394
Shortfall of special reserves for potential losses	(4.271.198)
Total	**6.522.199**

Statutory reserves and reserves from profit are formed in accordance with decisions of the Shareholder's Assembly allocation of retained earnings.

Special reserves for potential losses arising from credit risk contained in the Bank's loan portfolio are calculated in accordance with the National Bank of Serbia's Decision on classification of balance sheet assets and off-balance sheet items (Official Gazette of the Republic of Serbia No.57/2006). The Bank allocates from retained earnings the difference between the required amount of reserves for potential losses and the allowances for impairment of financial assets and provisions for losses on off balance sheet items recognised in the financial statements. As of 31 December 2007, shortfall of reserves for potential losses on balance sheet and off balance sheet items amounts to in accordance with the regulations of the National Bank of Serbia amounted to RSD 4.271.198 thousand.

In January 2007, based on the Shareholders' Assembly Decision, retained earnings from previous years in the amount of RSD 1.288.159 thousand were allocated to cover the shortfall of reserves for potential losses.

Retained earnings from previous period are related to Panonska banka and they incurred in the period before the merger. Accumulated loss originates from Panonska banka before the merger.

26.4. Revaluation reserves

Revaluation reserves relate to the following:

	2007
	RSD '000
Revaluation of land and buildings	559.125
Change in fair value of securities available-for-sale	25.208
Total	**584.333**

27. OFF-BALANCE SHEET ITEMS

	2007	2006
	RSD ‘000	RSD ‘000
Managed funds	1.157.191	476.137
Payment guarantees	13.541.932	9.659.942
Performance bonds	8.183.407	8.100.524
Uncovered letters of credit in foreign currency	1.978.550	1.868.473
Acceptances	719.074	902.270
Other guarantees issued	43.580	-
Undrawn commitments to lend	30.699.637	14.531.149
Other off-balance sheet items	53.348.520	32.059.763
Balance at 31 December	**109.671.891**	**66.695.988**

Undrawn commitments to lend represent unused portions of loans that cannot be cancelled unilaterally, such as: overdrafts, revolving loans to companies, multy-purpose revolving loans, purchases and sales of foreign currencies from banks in forward transactions.

27.1. Other off-balance sheet items

	2007	2006
	RSD ‘000	RSD ‘000
The Government of the Republic of Serbia saving bonds	749.271	1.083.918
Other	46.083.825	30.073.575
Balance at 31 December	**46.833.096**	**31.157.493**

27.2. Other off-balance sheet items -derivatives

	2007	2006
	RSD ‘000	RSD ‘000
Liabilities with respect to currency swaps (nominal amount) – sale of EUR	3.283.851	-
Receivables with respect to currency swaps (nominal amount) – purchase of USD	2.793.788	-
Receivables with respect to currency swaps (nominal amount) – purchase of CHF	382.738	-
Liabilities with respect to forward foreign exchange contracts (nominal amount) – sale of EUR	27.733	-
Receivables with respect to forward foreign exchange contracts (nominal amount) – purchase of RSD	27.314	-
Balance at 31 December	**6.515.424**	**-**

27. OFF-BALANCE SHEET ITEMS (continued)

27.3. Fair value of financial derivates

	Valuation techniques of entry value unavailable on the market 2007	Total 2007
	RSD '000	RSD '000
Financial assets		
Net positive fair value of forward foreign exchange contracts	116	116
Financial liabilities		
Net negative fair value of currency swap contracts (far leg)	107.431	107.431

28. RELATED PARTIES

Compensation of the memebers of the Executive board and other key personnel

	2007	2006
	RSD '000	RSD '000
Members of the Executive board and other key personnel	61.225	61.803

Business relationships with the members of the Executive Board and other key personnel

The Bank enters business relationships and arrangements with members of the Executive Board and other key personnel and with their related parties over the regular course of business. The relationships are based on common market conditions. Balances at the end of the year and effects of these transacions are presented in the following table:

	Balance at 31 December 2007	Balance at 31 December 2006
	RSD '000	RSD '000
Overdrafts, credit cards, cash and consumer loans	21.882	15.781
Mortgages	142.838	92.302
Other loans	614	656
Total allowance for impairment of placements	(4.161)	(3.501)

28. RELATED PARTIES (continued)

Other related parties

The Bank enters transactions with the parent company - Intesa Holding International and other memebers of the Intesa-Sanpaolo Group. Receivables and liabilities and income and expenses arising from transactions with the Intesa-Sanpaolo Group entities are presented in the following table:

	INTESA SANPAOLO SPA	PRIVREDNA BANKA ZAGREB	INTESA LEASING D.O.O. BEOGRAD	VSEOBECNA UVEROVA BANKA A.S.	INTESA HOLDING INTERNATIONAL	BANKA KOPER D.D.
	2007	2007	2007	2007	2007	2007
	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000
Fair value of derivates	2.682	-	-	-	-	-
Total placements	1.509.811	1.675	558.303	-	-	-
Other receivables	-	-	3.293	-	-	-
Total receivables	**1.514.500**	**1.675**	**561.596**	**-**	**-**	**-**
Liabilities from loans and deposits	16.729.620	-	685.172	4.008.048	3.962.532	-
Fair value of derivates	110.113	-	-	-	-	-
Other liabilities	79.157	1.076	-	-	-	11.328
Total liabilities	**16.918.890**	**1.076**	**685.172**	**4.008.048**	**3.962.532**	**11.328**
Interest income	11.380	-	41.003	-	-	-
Fee and commission income	14.477	1.344	994	-	-	-
Total income	**25.857**	**1.344**	**41.997**	**-**	**-**	**-**
Interest expense	572.722	573.669	567.469	572.411	564.297	692.348
Fee and commission expense	79.157	1.186	-	-	-	2.432
Other expenses	107.431	-	-	-	-	-
Total expenses	**759.310**	**574.855**	**567.469**	**572.411**	**564.297**	**2.432**

Terms of transactions with related parties

The aforementioned receivables and liabilities, as well as income and expenses arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates.. Oustanding balances at the year-end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 Decemeber 2007, the Bank did not make any provision for doubtful debts relating to amounts owed by related parties.

29. COMPLIANCE WITH LEGAL REGULATIONS

The Bank is obligated to comply its scope of operations with the prescribed indicators stipulated in the Law on Banks, i.e. to comply the scope and structure of its risk placements with relations prescribed by the National Bank of Serbia. As of 31 December 2007, all indicators were in accordance with the prescribed indicators.

30. RISK MANAGEMENT

30.1. Introduction

Risk is inherent in the Bank's activities, but is it managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to and monitors: operating risk and the risk of Bank's exposure to one entity or a group of related entities, risk of Bank's investments in other legal entities and fixed assets, as well as the impact of risk relating the country of origin of the entity to which the Bank is exposed.

30.2. *Credit risk*

Credit risk is the risk that credit beneficiaries will not be able to discharge contractual obligations to the Bank, whether fully or partially.

The Bank manages and controls credit risk both at customer level and level of its individual counterparties as well as at the level of its entire loan portfolio. For the purpose of optimal exposure to credit risk policy, the Bank appraises the credit worthiness of each client both at the moment of application of the loan as well as through a subsequent regular and continuous performance analysis. The loan approval is conducted within the scope of the Risk Management Department which, as an independent organisational unit of the Bank in relation to its Credit Committee, analyses and assesses the customers' credit worthiness. Principles prescribed by regulations of the National Bank of Serbia, are implemented in these analyses as well as the Bank's internal procedures, all for the purpose of anticipating potential risks that can arise in terms of a client's inability to discharge its commitments when they fall due.

In that sense an assessment of the required reserve level for potential losses both at the moment of approval of a certain loan as well as through a continuous, monthly portfolio analysis, is carried out. The analysis entails measuring the adequacy of reserves according to client types, their geographical layout, shareholders' equity and managerial relationships, by business segment and type of placements.

Making decisions on exposure to credit risk is, according to the Bank's policy, centralised and concentrated in the Credit Committee for retail and business. Decisions of the Credit Committees are made upon consideration of proposals provided by the Risk Management Department. The terms for approval of each corporate loan are determined individually depending on client type, loan's purpose, estimated credit worthiness and current market situation. Terms of security that accompany each loan are also determined according to a client credit worthiness analysis, type of credit risk exposure, term of the placement as well as the placement amount.

Derivate financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair value, as recorded in the balance sheet.

Credit-related commitments risks

The Banks issues guarantees and letters of credit to its customers, which may require that the Bank makes payments on the behalf of the third party. In this way the Bank is exposed to similar risks to loans, which can be mitigated by the same control processes and policies.

30. RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Credit-related commitments risks (continued)

Gross amounts of the most significant financial assets, before taking into account collaterals or other credit enhancements, can be further analysed by the following geographical regions:

	Accounts with the National Bank of Serbia, other banks and other placements to banks	Placements to customers	Investments in shares and securities	Interests, fees and other assets	Commitments and contingencies	Total in 2007
	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000
Serbia	**2.301.826**	**102.309.214**	**380.711**	**1.056.521**	**54.823.891**	**160.872.163**
- Belgrade	1.791.301	60.635.869	361.048	586.497	41.597.329	104.972.044
- Vojvodina	510.525	31.697.684	19.663	238.459	11.755.085	44.221.416
- the rest of Serbia	-	9.975.661	-	231.565	1.471.477	11.678.703
European Union	-	316.975	3.075	1.824	43.497	365.371
The rest of Europe	-	-	-	-	495	495
Total (gross)	**2.301.826**	**102.626.189**	**383.786**	**1.058.345**	**54.867.883**	**161.238.028**

Commitments and contingencies in the above table include exposures which are object to the credit risk classification, i.e. bear credit risk according to the regulations of the National Bank of Serbia.

An industry sector analysis of the Bank's financial assets, before and after taking into account collateral held and other credit enhancements, is as follows:

	Gross maximal exposure 2007	Net maximal exposure 2007
	RSD '000	RSD '000
Citizens	44.591.108	25.934.774
Processing industry	33.772.391	24.095.342
Trade	33.689.202	25.604.600
Mining and energy	3.506.047	2.425.899
Agriculture, hunting, fishing and forestry	4.687.568	3.355.425
Civil construction	13.067.366	7.309.242
Transport and communication	6.133.057	5.383.991
Services, tourism and catering	624.652	403.415
Local governments	18.864.812	9.088.782
Other	2.301.826	-
Total	**161.238.028**	**103.601.470**

30. RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Collateral and other credit enhancements

The amount and type of the collateral required depends on an assessment of the credit risk of each customer. Terms of protection with respect to each placement are determined by the analysis of customers' credit worthiness, type of exposure to the credit risk, placements' maturity as well as the amount itself. A power of authority as well as bill of exchange are taken from customers as standard collaterals, while, depending on the assessment, additional collaterals may be real estate mortgages, movable property pledges, partial or complete coverage of placements with deposits, guarantees of other banks or legal entities, adequate securities. In cases of real estate mortgages or movable property pledges the Bank always obtains valuations of the assets carried out by the approved appraiser, in order to reduce the potential risk to the lowest rate. Decisions on placements to citizens and small customers (enterpreneurs) are mostly based on appraisal of standardised, prevously defined conditions, using the scoring model with the analysis of the credit analysists.

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of assets for loan-related balance sheet lines and of balance sheet items, based on the Bank's credit rating system:

	Neither past due nor impaired			
	High grade 2007	**Standard grade 2007**	**Past due or individually impaired 2007**	**Total 2007**
	RSD '000	RSD '000	RSD '000	RSD '000
Placements to banks (gross)	**2.194.878**	**106.948**	**-**	**2.301.826**
Placements to customers (gross) and off-balance items which are classified:				
Corporate:				
- Large companies	14.738.514	28.252.009	3.474.832	46.465.355
- Small and medium-sized companies	37.878.360	16.748.234	2.406.345	57.032.939
Citizens				
- Mortgage credit	9.117.182	807.341	277.543	10.202.066
- Other placements	30.469.212	1.853.009	2.066.821	34.389.042
Other	8.979.921	1.681.608	79.010	10.740.539
	101.183.189	**49.342.201**	**8.304.551**	**158.829.940**
Investments in securities of the Government of the Republic of Serbia	106.261	-	-	106.262
Total (gross)	**103.484.328**	**49.449.149**	**8.304.551**	**161.238.028**

30. RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Collateral and other credit enhancements (continued)

Aging analysis of past due but not impaired loans and placements to banks and customers:

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total 2007
	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000
Placements to customers					
Corporate:					
- Large companies	1.508.156	36.310	3.245	59.581	**1.607.292**
- Small and medium-sized companies	162.084	43.530	17.616	5.743	**228.973**
Retail					
- Mortgages	3.026	1.817	1.048	-	**5.891**
- Other placements	166.951	27.885	21.409	-	**216.245**
Total	**1.840.217**	**109.542**	**43.318**	**65.324**	**2.058.401**

Impairment assessment

The main factors considered in the loan impairment assessment include: whether any payments of principal or interest are overdue, any known difficulties in the cash flows of customers, credit rating downgrades, or infringement of original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the customer's business plan, its ability to imrpove performace once a financial difficulty has arisen, the availability of other financial support and the realisable value of collateral, possibility of collection of due receivables, as well as the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless foreseen circumstances require more careful attention.

RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residental mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual imapirment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review, which represents specific group of loans and advances with similar characteristics.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be indentified as requiring an individuallt assessed imapirment allowance, and expected receipts and recoveries once impaired.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

30.3. Liquidity risk

Liquidity risk and financial assets management

The Bank's liquidity, as its ability to meet liabilities when they fall due, depends, on one hand, on balance structure, and, on the other hand, on reconciliation of inflow and outflow of assets. Liquidity management is centralised at the Bank's level.

To reduce or limit this risk, management arranges diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates the assessment of expected cash flows and the availability of lines of credit which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly liquid securities and diverse assets that can be easily liquidated in the event of an unforeseen and negative interruption of cash flow. The Bank also has committed lines of credit that can be accessed to meet liquidity needs. In addition, the Bank maintains statutory reserves in RSD and foreign currency, pursuant to the National Bank of Serbia requirements.

The level of liquidity is expressed using the ratio of the liquid sum of the first and second level (cash, assets on accounts with other banks, deposits with the National Bank of Serbia, receivables in the process of realisation, irrevocable credit lines approved to the Bank, quoted financial instruments and other receivables due within a month) and sum of liabilities on demand without determined maturity date and liabilities with fixed maturity up to a month. The aforementioned ratio over the year was the following:

Liquidity risk and financial assets management (continued)

	2007	2006
Average during the period	1,97%	1,71%
Highest	2,69%	2,77%
Lowest	1,59%	1,20%

30. RISK MANAGEMENT (continued)

30.3. *Liquidity risk (continued)*

Liquidity is monitored by the report on structural maturity mismatch. All balance sheet items are classified in certain maturity intervals according to the remaining maturity. The exceptions are equity, other assets, other liabilities, which are placed within interval of non-defined maturity, foreign currency reserves are placed in accordance with foreign currency deposit maturity and 10% of the current account overdrafts and credit card receivables are placed in one month interval, and the remaining positions are placed in the interval of “non defined maturity“(90% of the overdrafts and credit card receivables are considered stable, and have no defined maturity).

The following table shows Maturity Mismatch report as of 31 December 2007:

	Up to 1 month	1-3 months	3-6 months	6-12 months	12-18 months	18 months – 5 years	Over 5 years	Non defined maturity	Total
	RSD ‘000	RSD ‘000	RSD ‘000	RSD ‘000	RSD ‘000	RSD ‘000	RSD ‘000	RSD ‘000	RSD ‘000
ASSETS									
Cash, cash equivalents and deposits with the National Bank of Serbia	15.737.881	-	-	-	-	-	-	-	15.737.881
Deposits with the Central Bank and securities available for refinancing with the Central Bank	42.062.577	4.441.989	2.679.700	4.576.026	334.433	8.360.832	840.162	9.447.186	72.742.905
Interest and fee receivable	838.556	-	-	-	-	-	-	-	838.556
Loans to and placements with domestic banks	2.240.378	-	-	-	-	-	-	-	2.240.378
Loans and advances to customers	7.852.837	7.915.096	12.222.901	19.540.392	6.573.896	24.241.868	15.169.700	1.955.285	95.471.975
Securities and other Placements held for trading	113.934	-	-	-	-	-	-	-	113.934
Investments in shares and other securities available for sale	-	-	-	-	-	-	-	166.970	166.970
Current tax assets	-	-	-	16.488	-	-	-	-	16.488
Intangible assets	-	-	-	-	-	-	-	757.668	757.668
Property and equipment	-	-	-	-	-	-	-	5.514.699	5.514.699
Other assets and accruals	20.124	-	-	-	-	-	-	696.701	716.825
Deferred tax assets	-	-	-	-	-	-	-	439.388	439.388
TOTAL ASSETS	**68.866.287**	**12.357.085**	**14.902.601**	**24.132.906**	**6.908.329**	**32.602.700**	**16.009.862**	**18.977.897**	**194.757.667**

30. RISK MANAGEMENT (continued)

30.3. *Liquidity risk (continued)*

Liquidity risk and financial assets management (continued)

	Up to 1 month	1-3 months	3-6 months	6-12 months	12-18 months	18 months – 5 years	Over 5 years	No defined maturity	Total
LIABILITIES									
Amounts due to banks	2.892.816	-	-	-	-	-	-	-	2.892.816
Amounts due to customers	93.665.350	19.782.066	6.888.794	11.461.002	4.294.848	11.959.957	2.147.292	-	150.199.309
Interest and fees payable	1.765	-	-	-	-	-	-	-	1.765
Securities issued	-	-	-	-	-	-	-	13.972	13.972
Current income tax liabilities	45.440	-	-	-	-	-	-	-	45.440
Other operating liabilities	1.245.859	-	-	-	-	-	-	-	1.245.859
Provisions	-	-	-	-	-	-	-	2.079.357	2.079.357
Other liabilities and deferrals	-	-	-	-	-	8.715.982	-	1.323.057	10.039.039
Deferred tax liabilities	-	-	-	-	-	-	-	26.390	26.390
TOTAL LIABILITIES	**97.851.230**	**19.782.066**	**6.888.794**	**11.461.002**	**4.294.848**	**20.675.939**	**2.147.292**	**3.442.776**	**166.543.947**
TOTAL EQUITY	-	-	-	-	-	-	-	28.213.720	28.213.720
TOTAL LIABILITIES	**97.851.230**	**19.782.066**	**6.888.794**	**11.461.002**	**4.294.848**	**20.675.939**	**2.147.292**	**31.656.496**	**194.757.667**
Maturity mismatch at 31 December 2007	**(28.984.943)**	**(7.424.981)**	**8.013.807**	**12.671.904**	**2.613.481**	**11.926.761**	**13.862.570**	**(12.678.599)**	**-**

The negative gap in the interval of three months occurs primarily as a consequence of conservative assumption that all deposits on demand will be withdrawn in the interval. However, statistical analysis determined that demand deposits are actually the most stable category of deposits and significant outflows which would affect the Bank's liquidity are not expected. The Bank has contracted money market credit lines with the parent bank which would, in case of sudden outflows of demand deposits or other external shocks, secure the Bank's liquidity and enable regular operations.

Ratios of maturity mismatch are calculated based on the data from maturity mismatch report, so called Rule 1 and Rule 2 indicators. Rule 1 shows coverage of constant investments by the Bank's capital, and Rule 2 coverage of long-term investments by (long-term) sources. For the purpose of the calculation of structural maturity mismatch indicators, the short term is defined as a period up to 18 months, middle term as a period between 18 months to 5 years and long term as a period over 5 years.

Rule 1:

Investments in fixed assets + investments in equity securities ≤ the Bank's equity

Rule 2:

Long-term receivables ≤ Surplus of equity form Rule 1 + Long-term liabilities + 0,5 (Middle-term liabilities – Middle-term receivables) + 0,25 (short-term liabilities to customers + short-term liabilities to banks)

30. RISK MANAGEMENT (continued)

30.3. *Liquidity risk (continued)*

Liquidity risk and financial assets management (continued)

	RSD '000
Rule 1	**21.774.383**
Fixed assets	6.272.367
Investments in equity securities	166.970
Equity	28.213.720
Rule 2	**27.598.868**
Long-term assets	28.548.422
Surplus of assets from Rule 1	21.774.383
Long-term liabilities	5.590.068
Middle-term liabilities	20.675.939
Middle-term assets	32.602.700
Short-term liabilities to customers	136.092.060
Short-term liabilities to banks	2.892.816

30.4. Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. It also includes risk of change of precious metal (gold) prices.

30.4.1. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. This risk is measured and monitored using the Repricing Gap technique. The Repricing Gap report shows the structure and level of interest sensible assets and interest sensible liabilities in different maturity intervals.

The following table shows Repricing Gap report, i.e. the Bank's exposure to the interest rate risk as of 31 December 2007. Assets and liabilities are stated at earlier date of the new interest determination date and maturity date.

30. RISK MANAGEMENT (continued)

30.4. Market risk (continued)

30.4.1. INTEREST RATE RISK (continued)

	Up to 1 month	1 - 3 months	3 -6 months	3 -12 months	1 - 5 years	Over 5 years	Non-interest-bearing assets / liabilities	Total
	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000
ASSETS								
Cash and cash equivalents	11.449.475	-	-	-	-	-	4.288.406	15.737.881
Deposits with the Central Bank and securities available for refinancing with the Central Bank	36.800.000	95.256	82.111	190.513	-	-	35.575.025	72.742.905
Interest and fees receivable	-	-	-	-	-	-	838.556	838.556
Placements with banks	2.240.378	-	-	-	-	-	-	2.240.378
Placements to customers	42.765.685	13.316.276	7.900.253	9.273.941	17.221.758	4.257.006	737.056	95.471.975
Securities and other placements held for trading	-	-	-	-	-	-	113.934	113.934
Investments in shares and other securities available for sale	-	-	-	-	-	-	166.970	166.970
Current tax assets	-	-	-	-	-	-	16.488	16.488
Intangible assets	-	-	-	-	-	-	757.668	757.668
Property and equipment	-	-	-	-	-	-	5.514.699	5.514.699
Other assets and accruals	20.123	-	-	-	-	-	696.702	716.825
Deferred tax assets	-	-	-	-	-	-	439.388	439.388
TOTAL ASSETS	**93.275.661**	**13.411.532**	**7.982.364**	**9.464.454**	**17.221.758**	**4.257.006**	**49.144.892**	**194.757.667**
Liabilities								
Amounts due to banks	2.892.816	-	-	-	-	-	-	2.892.816
Amounts due to customers	91.906.693	33.113.887	8.843.492	10.832.665	4.608.437	784.138	109.997	150.199.309
Interest and fees payable	-	-	-	-	-	-	1.765	1.765
Securities issued	-	-	-	-	-	-	13.972	13.972
Current income tax liabilities	-	-	-	-	-	-	45.440	45.440
Other operating liabilities	-	-	-	-	-	-	1.245.859	1.245.859
Provisions	-	-	-	-	-	-	2.079.357	2.079.357
Other liabilities and deferrals	-	3.961.810	4.754.172	-	-	-	1.323.057	10.039.039
Deferred tax liabilities	-	-	-	-	-	-	26.390	26.390
TOTAL LIABILITIES	**94.799.509**	**37.075.697**	**13.597.664**	**10.832.665**	**4.608.437**	**784.138**	**4.845.837**	**166.543.947**
TOTAL EQUITY	-	-	-	-	-	-	28.213.720	28.213.720
TOTAL LIABILITIES	**94.799.509**	**37.075.697**	**13.597.664**	**10.832.665**	**4.608.437**	**784.138**	**33.059.557**	**194.757.667**
Net exposure to interest rate risk at 31 December 2007	**(1.523.848)**	**(23.664.165)**	**(5.615.300)**	**(1.368.211)**	**12.613.321**	**3.472.868**	**16.085.335**	**-**

30. RISK MANAGEMENT (continued)

30.4. Market risk (continued)

30.4.2. *Foreign currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates, or net negative foreign exchange differences. The Bank's Board of Directors established limits on open foreign currency positions which are more conservative than regulatory limit of the foreign currency position. The positions are monitored on a daily basis to ensure positions are maintained with established limits.

Over the year the Bank paid close attention to compliance to the foreign currency risk indicators, where this indicator was mostly at the level far bellow the limits.

The following table presents the Bank's exposure to foreign currency risk as of 31 December 2007. The table comprises assets and liabilities measured at their carrying value:

	EUR	USD	CHF	Other curencies	Total in foreign currencies	Total in dinars	Total
	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000	RSD '000
ASSETS							
Cash and cash equivalents	2.624.453	456.600	245.107	576.843	3.903.003	11.834.878	15.737.881
Deposits with the Central Bank and securities available for refinancing with Central Bank	35.532.045	42.981	-	-	35.575.025	37.167.879	72.742.905
Interest and fees receivables	136.597	9.151	28	3	145.779	692.777	838.556
Placements with banks	58.892	-	-	-	58.892	2.181.486	2.240.378
Placements to customers	67.123.165	573.996	451.457	3.755	68.152.373	27.319.602	95.471.975
Securities and other placements held- for-trading	113.934	-	-	-	113.934	-	113.934
Investment in shares and other securities available-for-sale	3.074	-	-	-	3.074	163.896	166.970
Current tax assets	-	-	-	-	-	16.488	16.488
Intangible assets	-	-	-	-	-	757.668	757.668
Property and equipment	-	-	-	-	-	5.514.699	5.514.699
Other assets and accruals	89.388	3.485	47	262	93.182	623.643	716.825
Deferred tax assets	-	-	-	-	-	439.388	439.388
Total assets	**105.681.548**	**1.086.213**	**696.639**	**580.863**	**108.045.263**	**86.712.404**	**194.757.667**
Off-balance receivables from financial derivates		2.793.788	382.738				

30. RISK MANAGEMENT (continued)

30.4. Market risk (continued)

30.4.2. *Foreign currency risk* (continued)

	EUR	USD	CHF	Other curencies	Total in foreign currencies	Total in dinars	Total
LIABILITIES							
Liabilities to domestic banks	1.126.074	13.321	2.055	331	1.141.781	1.751.035	2.892.816
Liabilities to customers	95.640.589	3.951.255	958.556	502.249	101.052.649	49.146.660	150.199.309
Interest and fees payable	35	-	-	-	35	1.730	1.765
Liabilities from issued securities	-	-	-	13.972	13.972	-	13.972
Current income tax liabilities	-	-	-	-	-	45.440	45.440
Other operating liabilities	235.766	-	-	835	236.601	1.009.258	1.245.859
Provisions	-	-	-	-	-	2.079.357	2.079.357
Other liabilities and deferred expenses	9.307.369	20.867	3.258	901	9.332.395	706.644	10.039.039
Deferred tax liabilities	-	-	-	-	-	26.390	26.390
Shareholders' and other equity	-	-	-	-	-	28.213.720	28.213.720
Total liabilities	**106.309.833**	**3.985.443**	**963.869**	**518.288**	**111.777.433**	**82.980.234**	**194.757.667**
Off-balance liabilities from financial derivates	3.311.584	-	-	-	-	-	-
Net foreign currency balance at 31 December 2007	**(3.939.869)**	**(105.442)**	**115.508**	**62.575**	**(3.732.170)**	**(3.732.170)**	**-**

The amounts in foreign currencies include assets and liabilities with the foreign currency clause, which are index-linked to the RSD: foreign currency exchange rate.

30.5. Operational risk

Operational risk is the risk of negative effects on the Bank's financial result and equity due to failures in performance of operating activities, human mistakes, system errors and external factors influence. The function of operational risk management process is to identify, assess, control and minimise the possibility of occurrence and effect of net losses. The Bank cannot eliminate all operational risks, but it can, trough the processes of recording and analysing of operational risks, identify the failures in its processes, products and procedures. Hence, the Bank's improvement of its processes, products and procedures can decrease frequency and negative influence of operational losses on its operations and profitability. Significant aspect of operational risk management is up-to-date reporting on significant operational risks to the Bank's management, as well as permanent training of all employees involved in the process of gathering data on operating risks and comprehensive emphasizing of the importance of risk identification, measurement, control and mitigation.

Data on operational risks are gathered in all organisational units of the Bank, and it is classified, analysed and the methods of risk and impact reduction are recommended. Also, time series are made on the basis of the gathered data and future possible losses are modelled/projected.

31. FOREIGN EXCHANGE RATES

The exchange rate set on the interbank market, applied in the translation of balance sheet items denominated in foreign currencies as of 31 December 2007 were as follows:

	31 Dec 2007	31 Dec 2006
EUR	79,2362	79,0000
CHF	47,8422	49,1569
USD	53,7267	59,9757

32. POST BALANCE SHEET EVENTS

There were no events after the balance sheet date that would require adjustments or disclosures in the financial statements as at 31 December 2007.

33. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

As of 31 December 2007, the Bank performed reconciliation of receivables and payables with its debtors and creditors in accordance with Article 20 of the Law on Accounting and Auditing, and maintains appropriate documentation on the process.

On the basis of statements exchanged with customers, 10 items in the total amount of RSD 9.267.392,05 remained nonreconciled.

The most significant amount of a disputed receivable in the amount of RSD 8.046.241,27 relates to the placement to D.P. Inova which is in bankruptcy. Disputed receivable in the amount of RSD 698.171,46 thousand relates to a guaranty given to the company Poljoprivredno dobro Zaječar.

The remaining part of nonreconciled receivables in the amount of RSD 522.979,32 mainly relates to the method of accounting for and recording of the principal and exchange differences on placements in RSD and other fees.