



ERSTE BANK A.D. NOVI SAD

***FINANCIAL STATEMENTS AS OF AND
FOR THE YEAR ENDED 31 DECEMBER 2006***

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INDEPENDENT AUDITOR'S OPINION

TO THE SHAREHOLDERS OF ERSTE BANK A.D. NOVI SAD

We have audited the accompanying financial statements of Erste Bank a.d., Novi Sad (here in after "the Bank"), which comprise the balance sheet as at December 31, 2006, and 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing, Law on Banks and other respective regulations and decisions of the National Bank of Serbia.

Belgrade, 13 April 2007

INCOME STATEMENT

<i>(in thousands of dinars)</i>	Note	2006	2005
Interest income		1.282.020	928.598
Interest expense		(547.694)	(236.098)
Net interest income	3	734.326	692.500
Fee and commission income		840.566	433.790
Fee and commission expenses		(393.864)	(112.291)
Net fee and commission income	4	446.702	321.499
Net interest and fee and commission income		1.181.028	1.013.999
Net income from exchange rate differences	5	379.692	420.252
Net gain from sales of securities	6	35.243	3.665
Gain from dividends and shares		939	538
Other operating income	7	1.978.706	410.020
Expenses from indirect write offs of placements and reserves	8	(2.702.264)	(1.194.254)
Other operating expenses	9	(2.638.660)	(1.507.123)
Income from the revaluation of assets and liabilities	10	357.769	229.416
Expense from the revaluation of assets and liabilities	11	(794.500)	(32.830)
Pre-tax income		(2.202.047)	(656.317)
Income tax	12	(2.251)	-
Loss from decrease of deferred tax assets and creating deferred tax liabilities		(11.247)	(2.505)
Loss after income tax		(2.215.545)	(658.822)

BALANCE SHEET

<i>(in thousands of dinars)</i>	Note	2006	2005
Assets			
Cash and cash equivalents	13	1.263.591	841.005
Deposits with the Central Bank and securities that may be refinanced with central bank	14	9.775.733	2.210.843
Receivables for fees and commission	15	46.823	35.429
Placements with banks	16	597.049	567.480
Placements with clients	17	8.941.605	6.918.462
Securities available for trading	18	232.782	97.219
Securities held to maturity	19	58.600	189.120
Investments and other securities available for sale	20	144.809	240.319
Income tax advances		-	171
Intangible assets	21	17.053	3.348
Investments in fixed assets		5.636	16.675
Fixed assets	21	1.193.931	909.645
Other assets and prepayments	22	621.900	58.352
Deferred tax assets		-	10.435
		22.899.512	12.098.503
Liabilities			
Liabilities towards domestic banks	23	3.603.573	356.221
Liabilities towards clients	24	12.236.136	8.643.750
Liabilities for fees and commission		1.922	2.586
Liabilities for the current income tax		2.251	-
Other operating liabilities	25	151.548	29.331
Provisions	26	247.195	16.204
Other provisions and accruals	27	1.786.715	1.572.967
Deferred tax liabilities		14.561	13.734
		18.043.901	10.634.793
Capital			
Shareholders and other equity		9.629.713	4.022.328
Reserves		206.938	206.877
Accumulated loss		(4.981.040)	(2.765.495)
	28	4.855.611	1.463.710
		22.899.512	12.098.503
Off-balance sheet items			
Transactions for and on behalf of third parties		222.780	161.772
Guarantees, letters of credit, assets held as collateral and irrevocable commitments		2.604.809	1.197.794
Other off-balance sheet items		4.698.540	8.655.250
	29	7.526.129	10.014.816

13.04.2007.

In the name of Erste Bank a.d.Novi Sad



Sava Dalbokov
Sava Dalbokov
president of Executive Board

CASH FLOW STATEMENT*(in thousands of dinars)*

	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES		
Inflow of cash from operating activities	2.895.662	1.381.718
Interest receipts	1.250.244	614.864
Fees receipts	842.009	410.856
Other operating income	802.470	355.460
Dividend and other share income	939	538
Outflow of cash from operating activities	(3.589.253)	(1.316.737)
Interest paid	(548.846)	(205.086)
Fees paid	(393.375)	(113.309)
Salaries and other personal income	(1.431.048)	(591.178)
Taxes and contributions paid	(70.408)	(55.442)
Other operating expenses	(1.145.576)	(351.722)
Net inflow of cash from operating activities before increase or decrease in placements and deposits		64.981
Net outflow of cash from operating activities before increase or decrease in placements and deposits	(693.591)	
Decrease in placements and increase in taken deposits	7.055.927	1.193.715
Decrease of loans and placements to banks and other financial organizations	-	475.922
Increase in deposits with banks and other financial organizations	3.527.474	-
Increase of client deposits	3.528.453	717.793
Increase in placements and decrease in taken deposits	(11.332.362)	(2.556.659)
Increase of loans and placements to banks and other financial organizations	(7.592.209)	(1.916.094)
Increase of loans and placements to clients	(3.604.589)	(457.721)
Increase in securities and other placements held for trading and short term securities held to maturity	(135.564)	(72.777)
Decrease of deposits from banks and other financial organizations	-	(110.067)
Net inflow of cash from operating activities before tax		
Net outflow of cash from operating activities before tax	(4.970.026)	(1.297.963)
Income tax	2.251	-
Dividends paid	-	-
Net outflow of cash from operating activities	(4.972.277)	(1.297.963)

CASH FLOW STATEMENT*(in thousands of dinars)*

	<u>2006</u>	<u>2005</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Inflow of cash from investing activities		
Inflow from long-term investment securities	130.520	-
Outflow from sales of shares and share investments	108.447	1.763
Outflow of cash from investing activities		
Investment in long-term securities	-	(177.230)
Purchase of intangible and fixed assets	(369.215)	(35.732)
Net outflow of cash from investing activities	<u>(130.248)</u>	<u>(211.199)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Inflow of cash from financing activities		
Increase in capital	5.607.385	33.537
Long-term loans and subordinated liabilities	62.034	1.275.890
Short-term loans	36.111	247.790
Outflow of cash from financing activities		
Purchase of own shares		
Long-term loans and subordinated liabilities	(281.761)	(366.388)
Short-term loans	(278.350)	-
Net inflow of cash from financing activities	<u>5.145.419</u>	<u>1.190.829</u>
	<u>2006</u>	<u>2005</u>
TOTAL NET INFLOW OF CASH	15.896.086	4.134.413
TOTAL NET INFLOW OF CASH	(15.853.192)	(4.452.746)
NET INCREASE OF CASH	42.894	
NET DECREASE OF CASH		(318.333)
CASH AT THE BEGINNING OF THE PERIOD	<u>841.005</u>	<u>1.148.013</u>
POSITIVE EXCHANGE RATE DIFFERENCES	3.806.515	446.520
NEGATIVE EXCHANGE RATE DIFFERENCES	(3.426.823)	(435.195)
CASH AT THE END OF THE PERIOD	<u><u>1.263.591</u></u>	<u><u>841.005</u></u>

STATEMENT ON CHANGES IN EQUITY

<i>(In thousands of RSD)</i>	2006	2005
Shareholder's equity		
Balance as at 1 January 2006	4.012.090	4.012.090
Issue of shares	3.105.290	-
Current year result	7.117.380	4.012.090
Issue of shares premium		
Balance as at 1 January 2006	-	-
Issue of shares	2.502.095	-
Current year result	2.502.095	-
Purchased own shares		
Balance as at 1 January 2006	(91)	(91)
Current year result	(91)	(91)
Other equity		
Balance as at 1 January 2006	10.329	8.229
Current year increase	-	2.100
Current year result	10.329	10.329
Revaluation reserves		
Balance as at 1 January 2006	196.173	165.446
Positive effects of evaluation of fixed assets	-	24.565
Effects of revaluation	-	(235)
Fair value valuation of securities held for trade, net	150	7.116
Deferred tax liabilities effects	(15)	(712)
Other	-	(7)
Write-off of fixed assets	(74)	-
Current year result	196.234	196.173
Statutory reserves		
Balance as at 1 January 2006	10.704	10.704
Current year result	10.704	10.704
Estimated loss reserve gains		
Balance as at 1 January 2006	-	-
Increase of reserves from profit	183.701	-
Current year result	183.701	-
Insufficient reserves from profit		
Balance as at 1 January 2006	-	-
Increase of reserves from profit	(183.701)	-
Current year result	(183.701)	-
Accumulated loss		
Balance as at 1 January 2006	(2.765.495)	(2.106.908)
Revaluation effects	-	235
Current year loss	(2.215.545)	(658.822)
Current year result	(4.981.040)	(2.765.495)
Total capital	4.855.611	1.463.710

NOTES

1. GENERAL INFORMATION

Erste Bank a.d. Novi Sad (hereinafter referred to as: "the Bank") was founded on 25 December 1989, by separation of Novosadske Banke a.d. Novi Sad from Udružene Vojvodanske Banke Novi Sad, registering with the Commercial Court of Novi Sad by decision number Fi-4302 as at 31 December 1989. Consolidation of the Bank's operations with the requirements of the Law on Banks and Other Financial institutions is registered with the Commercial Court of Novi Sad as at 14 June 1995 under number Fi-2774/95.

By decision of the National Bank of Yugoslavia no. 31/1990 as at 1 February 1990, the Bank received the permit to perform payment and loan transactions with abroad.

After the finalization of the privatization process, at the beginning of August 2005, the Banka became a member of Erste Bank Group. By decision of the Agency for Commercial Registers no. BD 101499/2005 as at 21 December 2005, the change of the name of the Bank was registered to Erste Bank a.d. Novi Sad.

The Bank is registered in the Republic of Serbia for the following activities: payment transaction services in the country and abroad, loan activities, deposits as well as the issuing of guarantees, letters of credit and other banking operations in accordance with the Law on Bank and Other Financial Organizations and operates on the principles of stable business.

The total number of employees of the Bank as at 31 December 2006 was 892.

2. OVERVIEW OF THE BASIC ACCOUNTING PRINCIPLES

2.1. *Basis for preparation of the financial statements*

The financial statements as of and for the year ended 31 December 2006 have been prepared in accordance with the accounting regulations in the Republic of Serbia based on the Law on Accounting and Audit (Official Gazette of SRJ no. 46/2006), Law on Banks and Other Financial Institutions and other by-laws of the National Bank of Serbia, published on the basis of the above mentioned laws.

The financial statements as of and for the year ended 31 December 2006 have been presented in the form prescribed by the Law on Accounting and Audit (Official Gazette of SRJ no. 46/2006) which prescribes that the Banks prepare financial reports in accordance with the statutory, professional and internal regulations.

By statutory regulations are considered laws and by-laws which relate to execution of law.

NOTES

2. OVERVIEW OF THE BASIC ACCOUNTING PRINCIPLES (continued)

2.2. *Basis for preparation of the financial statements (continued)*

By professional regulations are included the Chart for preparation and presentation of financial reports, International Accounting Standards – IAS, as well as International Financial Reporting Standards – IFRS and interpretations which form a part of the standards.

Under internal regulations we consider general acts accepted by a legal entity, and which contain special directions and tutorials for maintaining of business books, accounting policies for recognition and appreciation of the assets and liabilities, income and expenses, directions and tutorials for adoption, communication and publishing of financial reports.

Internal regulations of the bank which contains the accounting policies is the Act on accounting and accounting policies which was approved by the management board of the Bank.

Along with accepted and applied accounting policies, in the creating the financial reports for 2006 all the relevant international accounting standards and international financial reporting standards were applied.

The financial reports of the Bank for 2006 are presented in the format proscribed by the by –law on models and contents of the positions in the charts of financial reporting for banks and other financial institutions (Official Gazette of the Republic of Serbia no. 8/2007).

In the financial reporting the Bank applied the accounting policies explained in the Note 2.

The Bank maintains business records and creates financial reports in dinars (RSD), which is also the official reporting and functional currency in the Republic of Serbia. The financial reports of the Bank are denominated in the thousands of dinars.

2.3. *Interest and Fee and Commission Income and Expense*

Income and expense from interest are recorded in the income statement for all the financial instruments which bear interest.

Income and expense from interest is recorded in the income statement for the period that they relate to in accordance with the principle of causality of income and expense, which is defined by contract between the Bank and the client. The afore mentioned income and expense include the punitive interest and other income and expense on related to the income bearing assets (liabilities).

Active (passive) interest is calculated monthly, and recorded in the income (expense) and prepayments (accruals).

NOTES

2. OVERVIEW OF THE BASIC ACCOUNTING PRINCIPLES (continued)

2.4. *Income and expense from fees and commissions*

Income and expense from fees and income occurred by performing, i.e. usage of banking services and are recorded in the balance sheet by principle of invoiced realization, i.e. in the moment of the service.

Income from commission for the approval of loans, are marked off for the period of five years, regardless of the duration of the loan. Commission for the approval of the loan is between 0,1% and 2%.

2.5. *Foreign currency translation*

On the balance sheet day, all assets and liabilities denominated in foreign currency are translated into dinars at the middle exchange rate determined on the Inter-bank FX market, prevailing on that day.

Foreign currency transactions are translated into dinars at the official average exchange rate determined on the Interbank Market, prevailing at the transaction date. Net foreign exchange gains or losses, arising from foreign currency transactions, are recorded in the income statement as foreign exchange gains or losses.

Foreign exchange gains and losses include differences originating from translation of loans with foreign currency clause.

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

2.6. *Loans*

All loans to customers originated by the Bank are recognised in the balance sheet when cash is advanced to borrowers. At the balance sheet date, loans are stated at the principal amount outstanding, net of any amounts written off, indirect write-off and specific provision

2.7. *Provisions for loans*

The write-off of non-performing loans is based on the decisions of the court, settlement of the parties involved, or on the basis of Decision of the Management board, with approval of the Shareholder's committee.

2.8. *Trading securities*

Trading securities have been obtained primarily for the purpose of realizing profit from short-term changes in their prices or the dealers' margin.

They include the frozen foreign currency savings deposit bonds of the Republic of Serbia for which there is an active market.

Traded securities have been initially on the balance sheet date recorded at market value. All realised gains based on the sale and changes in market value are included in the income statement of the current period.

NOTES

2. OVERVIEW OF THE BASIC ACCOUNTING PRINCIPLES (continued)

2.9. *Securities held to maturity*

Securities held to maturity are financial assets with fixed payments or determinable payments with fixed maturity. They include the public debt bonds of the Republic of Serbia and other corporate securities. They are carried at amortised cost, which represents the value at the beginning of the period plus the interest for the period calculated at market rate and minus the interest collected.

2.10. *Securities available for sale*

Securities available for sale include shares in equity of related and other legal entities and other securities for which there is no active market and market values. In accordance with the accounting policies of the Bank shares in equity are classified as the securities from the investment portfolio and securities available for sale.

Securities in the investment portfolio for which an active market exists are valued at their market value, where the changes in the market value are recorded in the revaluation reserves.

Shares in equity of related and other legal entities for which there is no active market or market values are valued at their purchasing value less the provision that is done on the basis of the evaluation of the management of the potential losses and devaluation of these shares.

Shares in equity of related and other legal entities for which there is an active market and market values, are valued by their market value. The change in value of these shares is presented through capital as the reserves for the securities available for sale.

2.11. *Provisions for financial assets*

Provisioning of the financial assets is done on the basis of management evaluation on their profitability. The management of the Bank on the balance sheet date evaluates the existence of the objective proof of the impairment of the financial assets. If the existence of the objective proof is ascertained, the amount of provision is estimated as the difference between their book value and the value of the future cash flows calculated using the specific effective interest rate for the financial asset in question. The amount of increase/decrease of the provision is recorded in the income statement.

Evaluation of existence of the objective proof of impairment is done on the individual level of the financial assets that are individually important, or on the group level for the financial assets of less importance. If the Bank by means of individual assessment ascertains that there is no objective proof of impairment, those assets are then included in the evaluation on the group level of the financial assets of similar credit risk. Assets which are determined impaired by individual evaluation are not involved in the group assessment.

NOTES

2. OVERVIEW OF THE BASIC ACCOUNTING PRINCIPLES (continued)**2.12. Fixed and intangible assets**

Plant is valued by its market value determined by an independent evaluator less the accumulated depreciation. The positive effect of the evaluation of the plan is recorded in the revaluation reserves of the Bank, after decrement for the related amount of revaluation reserves arising from the revaluation of the fixed assets occurring by application of officially reported revaluation coefficients, and are booked in the income statement as the expenses from the changes in the value of assets and liabilities.

During 2006 there was no evaluation of the value of the fixed and intangible assets on the part of an independent evaluator.

Fixed assets depreciation is calculated using proportional method, by which the purchasing value of the fixed assets is amortized during the evaluated useful life of the assets. Amortization percentages applied in 2006 are as follows:

Plant	1,3%
Computer equipment	33,3%
Furniture and other equipment	10%-20%
Vehicles	15,5%-25%
Intangible assets	20%

The calculation of the amortization of property, plant and equipment and intangible assets begins when the assets are put in use.

2.13. Employee benefits

The Bank does not have its own pension funds or options for the payment of employees with shares, therefore as at 31 December 2006 it has no related expenses. Employee benefits include terminal wages payable to each employee when retiring. In accordance with the current law, the Bank is obliged to disburse the amount of three average monthly wages that the employee realized in the Bank. These payments are recorded in the balance sheet as the liability, in accordance with the evaluation of the certified actuary, in discounted amount, and debited to income statement.

2.14. Capital

The capital of the Bank includes shareholder's equity, reserves and accumulated loss. Shareholder's equity constitutes of the deposits amounts of the establishers of the Bank in cash.

Shareholder's equity

In accordance with the decision of the Committee of the Bank as at 8 May 2006 the capital of the Bank has been increased according to the XXVIII emission of shares without public bids that were sold according to the emission price of RSD 2.595.900.000,00 to the main shareholder of the bank - Erste Bank der oesterreichischen Sparkassen AG, seated in the street Graben 21, Vienna 1010, Austria.

NOTES

2. OVERVIEW OF THE BASIC ACCOUNTING PRINCIPLES (continued)

2.13. Capital (continued)

On the XXIV annual meeting of the Shareholder's Committee held on the 18 December 2006 a decision was made on the increase of the capital by emission of ordinary shares of XXIX emission which are recorded and sold for RSD 3.011.500.000,00 to the main shareholder of the Bank - Erste Bank der oesterreichischen Sparkassen AG, situated in Graben 21, Vienna 1010, Austria, by which the share in the Bank's capital is 99,994239 %.

The Bank uses its capital to perform banking activities and covered the operating risks.

Profit reserves for evaluated losses

Profit reserves for evaluated losses are calculated as the difference between the total provisions and reserves evaluated in accordance with the internal principles of the Bank, and the special reserves for the evaluated losses calculated in accordance with the Decision on the classification of Balance sheet assets and off-balance sheet items (Official Gazette of the Republic of Serbia no. 57/2006), proscribed by the National Bank of Serbia.

2.14. Cash and cash equivalents

In the cash-flow report under cash and cash equivalents we consider cash (gyro account and petty cash), required dinar reserve which is recorded as part of the gyro account with The National Ban of Serbia, assets on current accounts with other domestic and foreign banks, as well as gold and other metals of value.

2.15. Income tax

Current tax

Income tax is calculated by application of the proscribed tax rate in the amount of 10% on the base determined by tax balance sheet. Taxable profit is calculated as the profit determined in the income statement, consolidated by certain income and expense required by tax regulations.

Income tax is calculated and paid in accordance with the republic regulations.

Deferred tax

Deferred tax is calculated and recorded as the current differences between the tax basis of the assets and liabilities and their amounts in the financial reports of the Bank.

Deferred tax liability is calculated and recorded for all taxable current differences as of the balance sheet date between the tax base of assets and liabilities and their amounts presented in the financial reports, which results in taxable amounts in future periods.

NOTES

2. OVERVIEW OF THE BASIC ACCOUNTING PRINCIPLES (continued)

2.15. *Income tax (continued)*

Deferred tax assets are presented for all deductible current differences, unused tax assets and unused tax losses, up to the amount for which it is probable that the future taxable gains (ten year period) will be enough to enable the realization (utilization) of deductible current differences, unused tax assets and unused tax losses. The reported amount of the deferred tax assets is determined as at the balance sheet date and is deducted by the amount for which is no longer probable that the sufficient taxable profit will be at hand, so as to enable the usage of all or only a part of the assets.

The Bank has reported deferred tax assets as at 31 December 2006

2.16. *Comparative data*

In these financial reports comparative data was presented for 2005, which are reclassified in order to be comparable to the presentation of data for 2006. The data for 2005 have not been corrected, although due to changes in National Bank of Serbia regulations the reported provision amounts for financial assets and reserves are overvalued in accordance with the Decision on classification of the Balance sheet assets and off-balance sheet items which was in law in 2005. The Bank corrected the provisions for financial assets and reserves as at 31.12.2006 in accordance with the accounting policies briefly presented in Note 2.10.

NOTES**3. INTEREST INCOME AND EXPENSES**

<i>(In thousands of RSD)</i>	2006	2005
Interest income		
National Bank of Serbia	471.386	55.699
Companies	338.618	346.725
Citizens	323.715	162.004
Public sector	73.070	272.456
Foreign entities	38.190	63.046
Other banks	37.041	28.668
	1.282.020	928.598
Interest expenses		
Other banks	173.726	4.402
Foreign entities	159.024	67.507
Citizens	123.413	78.709
companies	50.341	47.372
Public sector	27.546	24.424
National Bank of Serbia	13.309	13.684
Other customers	335	-
	547.694	236.098
Net interest income	734.326	692.500

NOTES**4. FEE AND COMMISSION INCOME AND EXPENSES**

<i>(In thousands of RSD)</i>	2006	2005
Fee and commission income		
Fee from purchase and sales of foreign currency	344.852	37.900
Fees for payment transaction services	157.850	149.887
Fees for loans	114.558	50.334
Fee for current accounts services	42.403	28.724
Other fee for services provided to citizens	33.625	25.678
Fee for credit card operations	32.897	14.516
Fee for payment transaction services to individuals, in dinars	17.905	14.887
Fee for cheque clearing	11.998	17.086
Fee for e-banking	5.702	3.432
Fees for payment transaction services in foreign currency	3.807	1.250
Other fee and commission	74.969	90.096
	840.566	433.790
Fee and commission expenses		
Fee from purchase and sales of foreign currency	326.679	64.865
Fees for payment transaction services in the country	23.222	19.398
Commission for received guarantees in foreign currency	7.285	-
Fees for payment transaction services	4.764	9.167
Other fee and commission	31.914	18.861
	393.864	112.291
Net fee and commission income	446.702	321.499

5. NET FOREIGN EXCHANGE GAINS

<i>(In thousands of RSD)</i>	2006	2005
Foreign exchange gains on:		
Translation of assets and liabilities in foreign currency	3.729.093	1.628.136
Transactions in foreign currency	77.422	29.540
	3.806.515	1.657.676
Foreign exchange losses on:		
Translation of assets and liabilities in foreign currency	3.402.553	1.235.996
Transactions in foreign currency	24.270	1.428
	3.426.823	1.237.424
Net foreign exchange gains	379.692	420.252

NOTES**6. NET INCOME FROM SALES OF SECURITIES**

As of 31 December 2006 the income from sales of securities was in the amount of RSD 35.243 thousand (2005: 3.665 thousand). The major part of this amount refers to income from sales of investment in shares in Chip Card d.o.o. Beograd, Hemofarm a.d. Vršac and Centro Banka a.d. Beograd in the amount of RSD 35.081 thousand.

7. OTHER OPERATING INCOME

<i>(In thousands of RSD)</i>	2006	2005
Income from reversal of impairment of balance sheet items	1.671.838	308.989
Income for reversal of provision for off-balance sheet items	81.424	36.266
Income from reversal of provision for consultancy services	59.765	-
Rent income	1.439	1.950
Other operating income	164.240	62.815
Balance at 31 December	1.978.706	410.020

Income from reversal of impairment of balance sheet items was as follows:

<i>(In thousands of RSD)</i>	2006
Income from reversal of impairment of balance sheet items	
Interest and fee receivables (Note 15)	-
Investment in banks (Note 16)	-
Investment in customers (Note 17)	1.203.380
Trading securities	43.629
Securities held to maturity	-
Investment in shares and securities available-for-sale (Note 20)	216.379
Other assets	208.450
Balance at 31 December	1.978.706

NOTES**8. IMPAIRMENT LOSSES AND PROVISION CHARGES**

<i>(In thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Impairment losses and provision charges		
Impairment of financial assets	2.389.849	1.192.372
Provision for balance sheet exposures (Note 26)	121.397	1.882
Impairment losses and provision charges, total	<u>2.511.246</u>	<u>1.194.254</u>
Other provision charges		
Provisions for employee jubilee awards (Note 26)	65.540	-
Provisions for employees retirement indemnity (Note 26)	65.478	-
Provisions for legal proceedings (Note 26)	60.000	-
Total other provision charges	<u>191.018</u>	<u>-</u>
Balance at 31 December	<u><u>2.702.264</u></u>	<u><u>1.194.254</u></u>

Impairment of financial assets in 2006 is shown as follows:

<i>(In thousands of RSD)</i>	<u>2006</u>
Impairment of financial assets	
Interest and fee receivables (Note 15)	122.678
Investment in banks (Note 16)	5.356
Investment in customers (Note 17)	1.885.113
Trading securities	96.255
Securities held to maturity	4.330
Investment in shares and securities available-for-sale (Note 20)	244.045
Other assets	32.072
Balance at 31 December	<u><u>2.389.849</u></u>

NOTES**9. OTHER OPERATING EXPENSES**

<i>(In thousands of RSD)</i>	2006	2005
Net salaries	797.745	260.588
Non-material expenses	254.728	93.122
Consultancy services	186.885	227.156
Rent	182.301	43.767
Payroll taxes and fees for employees	170.131	68.804
Contributions	137.142	88.818
Salary and fee contributions	128.707	82.818
Material expenses	123.613	50.456
Compensations for salaries	119.012	79.248
Advertising expenses	84.717	29.965
Other personal expenses	82.236	275.518
Depreciation of fixed assets	79.899	58.247
Amortisation of intangible assets	2.366	106
Tax	74.137	37.629
Credit card operations	55.631	20.308
Other expenses	43.947	16.915
Mail and telecommunication	29.199	18.298
Write-off of receivables	28.717	1.944
Maintenance of non-current assets	24.681	21.051
Other operating expenses	32.866	32.365
Balance at 31 December	2.638.660	1.507.123

10. INCOME FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

<i>(In thousands of RSD)</i>	2006	2005
Income from changes in value of investments with currency clause/consumer price index	339.614	161.014
Income from changes in value of trading securities	12.937	66.145
Income from revaluation of deposits	3.816	2.257
Income from forward fair value	1.402	-
Balance at 31 December	357.769	229.416

NOTES**11. LOSSES ON CHANGES IN VALUE OF ASSETS AND LIABILITIES**

<i>(In thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Losses on changes in value of investments with currency clause/consumer price index	767.196	21.050
Changes in value of trading securities	9.327	677
Losses on forward fair value	13.649	-
Income from revaluation of deposits	4.328	9.249
Losses on changes in value of fixed assets	-	1.854
Balance at 31 December	<u>794.500</u>	<u>32.830</u>

12. INCOME TAX

<i>(In thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Current tax calculated in tax return	2.251	-
Deferred tax liabilities	11.247	2.505
Total income tax, Balance at 31 December	<u>13.498</u>	<u>2.505</u>

Reconciliation of realised income stated in the income statement and total tax expenses is shown as follows:

<i>(In thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Income –as stated in income statement	<u>(2.202.047)</u>	<u>(656.317)</u>
Tax rate -10%	(220.205)	(65.632)
Income and expense tax effects not recognized for tax purposes	15.941	2.879
Dividend income deductible for tax purposes	-	(54)
Tax effects on other permanent differences	-	3.478
Tax effects of unused tax losses carried forward	190.766	61.834
Taxable income	<u>(13.498)</u>	<u>(2.505)</u>

NOTES**13. CASH AND CASH EQUIVALENTS***(In thousands of RSD)*

	<u>2006</u>	<u>2005</u>
In dinars		
Giro accounts	512.139	467.275
Cash in hand	369.991	165.704
Other monetary assets	-	380
	<u>882.130</u>	<u>633.359</u>
In foreign currency		
Foreign accounts with other banks	353	25.790
Foreign currency accounts with foreign banks	175.742	83.776
Cash in hand in foreign currency	203.956	96.723
Other foreign currency monetary assets	16	17
	<u>380.067</u>	<u>206.306</u>
Gold and precious metal	<u>1.394</u>	<u>1.340</u>
Balance at 31 December	<u><u>1.263.591</u></u>	<u><u>841.005</u></u>

The obligatory reserve in dinars is the minimal reserve set aside in line with the National Bank of Serbia's Decision on Banks' Obligatory Reserves Held with the National Bank of Serbia (Official Gazette of RS, nos.96/2006) which prescribes that banks calculate the obligatory reserve in RSD in amount equal to 15% (2005: 18%) of the average daily balance of prescribed deposits in RSD during one month. Apart from this, banks are obliged to include in the required reserve in RSD, amounting to 40% of the average daily balance of deposits in RSD in the previous month that are indexed with foreign currency clause, as well as of the average daily balance of liabilities in RSD in the previous month in respect of deposits and credits received from foreign countries with the repayment period longer than two years ; 60% of the average daily balance of liabilities in RSD in the previous month in respect of deposits and credits received from foreign countries with the repayment period up to two years (Official Gazette of RS, no. 49 dated 8 June 2006)

Calculated obligatory reserve in dinars for December 2006 amounted to RSD 506.905 thousand. In the accounting period, the Bank is obliged to maintain average daily balance of the appropriated obligatory reserve in RSD on its gyro-account. As of 31 December 2006, the Bank had balance on its assets above the amount of the calculated required reserve in RSD on its gyro-account.

NOTES**14. DEPOSITS WITH CENTRAL BANK***(In thousands of RSD)*

	<u>2006</u>	<u>2005</u>
In dinars		
Treasury bills of NBS	134.710	-
Other short-term deposits and other securities that can be refinanced with NBS – treasury bills	<u>6.487.205</u>	<u>-</u>
	<u>6.621.914</u>	<u>-</u>
In dinars		
Obligatory reserve in foreign currency with NBS	<u>3.153.818</u>	<u>2.210.843</u>
	<u>3.153.818</u>	<u>2.210.843</u>
Balance at 31 December	<u>9.775.732</u>	<u>2.210.843</u>

The obligatory reserve in foreign currency is the minimal reserve set aside in line with the National Bank of Serbia's Decision on Banks' Obligatory Reserves Held with the National Bank of Serbia (Official Gazette of RS, nos.96/2006) which prescribes that banks calculate the obligatory reserve in foreign currency in amount equal to 40% (2005: 38%) of the average daily balance of prescribed deposits in foreign currency deposits during one month. Apart from this, the banks are obliged to calculate the obligatory reserve in foreign currency in amount equal to 100% of average daily bookkeeping balance of deposits in foreign currency in previous month. The lessors keep this reserve at the special bank account; 20% of average daily bookkeeping balance of subordinate liabilities in foreign currency in previous month; 60% of the average daily balance of liabilities in previous month in respect of deposits and credits in foreign currency received from foreign countries with the repayment period up to two years.

The obligatory reserve calculated on foreign currency base is allocated to the accounts of the National Bank of Serbia.

In line with the New Chart of accounts of banks and other financial organisations, Other short-term deposits and other securities that can be refinanced with NBS are stated within Deposits with Central Bank. This was previously stated within Due from Banks.

At the end of 2006 the Bank purchased treasury bills from the National Bank of Serbia at the average discount rate of 14,5 % per annum. (repo transaction). The amount of treasury bills that can be refinanced with NBS in the amount of RSD 6.487.205 thousand comprises total nominal value of RSD 6.470.000 thousand and the interest in the amount of RSD 17.205 thousand.

NOTES**15. INTEREST AND FEE RECEIVABLE***(In thousands of RSD)*

	<u>2006</u>	<u>2005</u>
Interest and fee receivables from banks		
In dinars		
Banks	706	1.883
NBS	6.104	2.096
Companies	87.742	156.810
Citizens	8.916	-
Other customers	42	-
	<u>103.510</u>	<u>160.789</u>
In foreign currency		
NBS	-	835
Companies	173.924	323,879
	<u>173.924</u>	<u>324,714</u>
Total interest and fee receivables	<u>277.434</u>	<u>485.504</u>
Impairment	<u>(230.611)</u>	<u>(450.075)</u>
Balance at 31 December	<u><u>46.823</u></u>	<u><u>35.429</u></u>

a) Movements in value of impairment were as follows:

<i>(In thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Opening balance at 1 January	450.075	82.252
Impairment (Note 8)	122.678	387.701
Derecognition	<u>(342.142)</u>	<u>(19.878)</u>
Balance at 31 December	<u><u>230.611</u></u>	<u><u>450.075</u></u>

NOTES**16. DUE FROM BANKS**

<i>(In thousands of RSD)</i>	2006	2005
In dinars		
Short-term loans and placements with banks	184.606	304.705
Other financial placements	8	947
Total, in dinars	184.614	305.652
In foreign currency		
Short-term loans and placements		
Short-term loans and placements with banks	180.120	256.500
Other financial placements		
- Banks	237.000	2.931
- National Bank of Serbia	4.363	7.178
Total, in foreign currency	421.483	266.609
Placements with banks, total	606.097	572.261
Impairment	(9.048)	(4.781)
Balance at 31 December	597.049	567.480

As of 31 December 2006, short-term loans and placements with banks in the amount of RSD 184.606 thousand include the loan granted to EFG EUROBANK A.D. Beograd amounting to RSD 180.000 thousand for the period of 6 days with 11,30% interest rate per annum.

Short-term loans and placements with banks in foreign currency are the following:

<i>(In thousands of RSD)</i>				
Bank	Maturity date	Annual interest rate	Balance in foreign currency	31 December 2006
Volksbank A.D. Beograd	7 days	3,05%	CHF 450.000	22.120
Procredit bank A.D. Beograd	30 days	10,10%	EUR 1.000.000	79.000
Procredit bank A.D. Beograd	30 days	10,10%	EUR 1.000.000	79.000
				180.120

As of 31 December 2006, other financial placements with other banks denominated in foreign currency amounting to RSD 237.000 thousand refer to the receivables for purchases of foreign currencies from Banca Intesa a.d. Beograd and Volksbank a.d. Beograd in the amount of RSD 118.500 thousand and RSD 118.500 thousand, respectively.

NOTES

16. DUE FROM BANKS (continued)

Movements in value of impairment were the following:

<i>(In thousands of RSD)</i>	2006	2005
Opening balance at 1 January	4.781	4.708
Impairment (Note 8)	5.356	76
Derecognition	(1.089)	(3)
Balance at 31 December	9.048	4.781

NOTES**17. LOANS AND ADVANCES TO CUSTOMERS**

a) Summary per type of loans and advances and per debtors

<i>(In thousands of RSD)</i>	2006			2005		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In dinars						
Loans and placements						
Companies	1.884.711	2.514.313	3.285.457	1.923.903	1.318.606	3.096.216
Citizens	840.588	3.075.170	3.012.844	603.585	824.652	1.163.771
Public sector	-	77.185	77.185	-	105.270	105.270
Other customers	173	-	173	173	-	173
Current portion of long-term loans	2.016.481	(2.016.481)	2.016.481	410.759	(410.759)	410.759
Other long-term financial placements	-	47.814	47.814	-	56.424	56.424
Total, in dinars	4.741.953	3.698.001	8.439.954	2.938.420	1.894.193	4.832.613
In foreign currency						
Loans and placements						
Companies	1.275.555	1.389.780	2.465.812	485.105	4.817.746	5.244.732
Citizens	-	-	-	-	-	-
Public sector	5.998	-	5.998	-	-	-
Other customers	15.135	-	15.135	11.656	-	11.656
Current portion of long-term loans	199.523	(199.523)	199.523	58.119	(58.119)	58.119
Other long-term financial placements:						
Foreign entities	17.993	-	17.993	-	-	-
Nostro –covered letters of credit	27.218	-	27.218	30.058	-	30.058
Other receivables	38.523	-	38.523	45.157	-	45.157
Temporary account with foreign banks	-	-	-	188	-	-
Total, in foreign currency	1.579.945	1.190.257	2.770.202	630.283	4.759.627	5.389.910
Total loans and advances to customers	6.321.898	4.888.258	11.210.156	3.568.703	6.653.820	10.222.523
Impairment	(1.820.021)	(448.530)	(2.268.551)	(953.841)	(2.350.220)	(3.304.061)
Loans and advances to customers at 31 December	4.501.877	4.439.728	8.941.605	2.614.862	4.303.600	6.918.462

NOTES**17. LOANS AND ADVANCES TO CUSTOMERS (continued)**

Short-term corporate loans mainly refer to the following purposes: export and export preparation, purchase of current assets, starting the business, revolving loans. Short-term loans in dinars were mainly granted with foreign currency/index clause, at the interest rate from 5% to 38,42% per annum. Loans granted in foreign currency were granted at the interest rate from 5,89% to 12% per annum.

Long-term loans in foreign currency granted to companies mainly refer to refinanced loans in line with the Agreement signed by the Government of the former SFRJ and Paris and London Club Creditors.

As of 31 December 2006, the amount of RSD 2.172.256 thousand included in the total amount of long-term placements in dinars refers to the retail loans with the interest rates ranging from 5% to 14% per annum. These long-term loans were granted with foreign currency/index clause and they mainly refer to cash loans, consumer loans, loans for purchase of cars, loans for purchase and renovation of houses and business premises (with/without NKOSK insurance), subsidy housing loans.

During 2006 the Bank approved loans to entrepreneurs for financing agricultural production.

The Bank secures itself from the interest rate risk by linking the interest rate with the market interest rate such as three-month EURIBOR + Margin.

As of 31 December 2006, the Bank had the greatest exposure to a single party i.e. to the company Naftna Industrija Srbije a.d. Novi Sad. As of the same date, the long-term loans granted to this client were RSD 688.645 thousand.

b) During 2006 movements in the value of loans and advances to customers were the following:

	Short-term loans		Short-term loans		Total in 2006
	In dinars	In foreign currency	In dinars	In foreign currency	
<i>(In thousands of RSD)</i>					
Net loans and advances to customers, 31 December 2005	1.856.136	289.923	2.290.979	2.481.424	6.918.462
New placements	5.835.291	28.366.392	6.190.545	395.054	40.787.282
Collected placements	(4.965.955)	(27.275.893)	(2.767.042)	(1.486.698)	(36.495.588)
Current portion of long-term loans	2.016.481	199.523	(2.016.481)	(199.523)	-
Loans and advances to customers, gross	4.741.953	1.579.945	3.698.001	1.190.257	11.210.156
Impairment	(542.347)	(1.277.674)	(160.099)	(288.431)	(2.268.551)
Net loans and advances to customers, 31 December 2006	4.199.606	302.271	3.537.902	901.826	8.941.605

NOTES**17. LOANS AND ADVANCES TO CUSTOMERS (continued)**

c) concentration of loans and advances to customers:

<i>(In thousands of RSD)</i>	2006	2005
Citizens	3.832.201	1.429.276
Manufacturing	3.571.034	4.523.929
Trade	1.211.196	547.685
Mining and energy supply	707.626	835.526
Agriculture, hunting, fishing and forestry	459.165	1.400.956
Civil engineering	427.682	254.024
Transportation and communication	199.949	57.680
Services, tourism and catering	175.083	193.943
Other	626.220	979.504
Total loans and advances to customers, gross 31 December	11.210.156	10.222.523

d) Movements in value of impairment

<i>(In thousands of RSD)</i>	2006	2005
Opening balance at 1 January	3.304.061	2.917.781
Impairment (Note 8)	1.885.113	604.114
Derecognition	(1.717.243)	(217.834)
Reversal of impairment (Note 7)	(1.203.380)	-
Balance at 31 December	2.268.551	3.304.061

18. SECURITIES HELD FOR TRADING

<i>(In thousands of RSD)</i>	2006	2005
Securities held for trading, in dinars	-	110
Government's bonds, in foreign currency	309.225	120.925
Total securities held for trading	309.225	121.035
Impairment	(76.443)	(23.816)
Balance at 31 December	232.782	97.219

As of 31 December 2006, securities held for trading amounting to RSD 232.782 thousand refer to the bonds of the deposited foreign currency savings and they are due in the period from 2006 to 2016.

NOTES**18. SECURITIES HELD FOR TRADING (continued)**

During 2006 movements in the National Bank of Serbia's securities held from trading are shown as follows:

<i>(In thousands of RSD)</i>	<u>2006</u>
Opening balance at 1 January	97.219
<i>Increase due to purchase of bonds</i>	
Nominal value	338.083
Deviation from the nominal value of bonds	<u>(96.228)</u>
	241.855
<i>Decrease due to sale of bonds</i>	
Nominal value	149.781
Deviation from the nominal value of bonds	<u>(43.489)</u>
	106.292
Balance at 31 December	<u>232.782</u>

19. SECURITIES HELD-TO-MATURITY

<i>(In thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
In dinars		
Discounted bills	58.967	181.193
Public sector bonds	<u>3.963</u>	<u>7.927</u>
Total, securities held-to-maturity	<u>62.930</u>	<u>189.120</u>
Impairment	<u>(4.330)</u>	<u>-</u>
Balance at 31 December	<u>58.600</u>	<u>189.120</u>

As of 31 December 2006, the Bank stated the discounted bills in the amount of RSD 58.967 thousand. During 2006 the Bank discounted the bills applying the average discount rate of 25,54% per annum..

As of 31 December 2006, bonds of the public sector of the Government of the Republic of Serbia are in the amount of RSD 3.963 thousand. They are due in 14 semi-annual installments i.e. on 30 June and 31 December every year, starting from 30 June 2001. The interest rate is 8% per annum. (2005: RSD 7.927 thousand).

NOTES**20. INVESTMENT IN SHARES AND OTHER SECURITIES AVAILABLE-FOR-SALE**

<i>(In thousands of RSD)</i>	2006	2005
<i>Unquoted investment in shares:</i>		
<i>in dinars</i>		
- companies	338.023	401.783
- banks and financial organisations	95.112	96.379
<i>In foreign currency</i>		
- banks and financial organisations	11.994	14.442
<i>Quoted investment in shares:</i>		
- banks and financial organisations in dinars	3.039	3.408
Total investment in shares	448.168	516.012
Impairment	(303.359)	(275.693)
Net investment in shares and other securities available- for- sale, at 31 December	144.809	240.319

a) Movements in investment in shares and other securities available- for- sale:

<i>(In thousands of RSD)</i>	2006
Opening balance at 1 January	516,012
Change in carrying value	(2,510)
Disposal	(65,334)
Balance as at 31 December 2006	448,168

During 2006 the Bank sold investment in shares in Chip Card doo, Beograd, Hemofarm a.d., Vršac and Centro Banka a.d. Beograd in the total amount of RSD 65.334 thousand. As a result, the Bank realised income from sale of securities in the amount of RSD 35.081 thousand (Note 6).

b) Movements in value of impairment of investment in shares and other securities available- for- sale:

<i>(In thousands of RSD)</i>	2006
Opening balance at 1 January	275.693
Impairment changes (Note 8)	244.085
Reversal of impairment (Note 7)	(216.379)
Balance as at 31 December 2006	303.359

NOTES**21. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS**

<i>(In thousands of RSD)</i>	2006	2005
PROPERTY AND EQUIPMENT		
Buildings	1.066.312	966.753
Equipment	770.099	642.657
Leased equipment	242.169	236.368
Advances and assets under construction	79.973	14.555
Total property and equipment	2.158.553	1.860.333
Accumulated depreciation	(964.622)	(950.688)
Balance at 31 December	1.193.931	909.645
INTANGIBLE ASSETS		
Intangible assets	26.506	9.980
Accumulated amortisation	(9.453)	(6.632)
	17.053	3.348

The Bank has no mortgages on its buildings that are held as collaterals for the loans.

As of 31 December 2006, Equipment include IT and telecommunication equipment, office furniture and vehicles.

As of 31 December 2006, Leased equipment is in the amount of RSD 242.169 thousand. The major part of this amount refers to the leasing of computers which were completely written-off in 2003. It is still recorded in the Bank's financial statements due to the fact that the Bank was not able to contact the leasing company which was obliged to take over the above equipment as per the Agreement.

During 2006 the Bank purchased 6 vehicles In line with the Lease Agreement signed with the company S-leasing, the total cost of the purchased vehicles was in the amount of RSD 5.801 thousand.

NOTES**21. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (continued)**

Movements in property, equipment and intangible assets: imovljenosti i nematerijalnim ulaganjima:

	Buildings	Investment property	Equipment	Leased equipment	Intangible assets	Advances and assets under construction	Total
COST							
Balance at 31 December 2005	966.753	22.413	642.657	236.368	9.980	14.555	1.892.726
Additions	-	-	-	-	-	369.902	369.902
Transfer from assets under construction	83.239	-	198.918	5.801	16.526	(304.484)	-
Disposals and write- off			(71.476)		-		(71.476)
Other	16.320	(16.320)		-	-	-	-
Balance at 31 December 2006	1.066.312	6.093	770.099	242.169	26.506	79.973	2.191.152
ACCUMULATED DEPRECIATION AND AMORTISATION							
Balance at 31 December 2005	185.289	5.738	530.500	234.899	6.632	-	963.058
Depreciation for the year	18.223	(5.281)	64.242	2.260	2.821	-	82.265
Disposals and write- off	-	-	(70.791)	-	-	-	(70.791)
Balance at 31 December 2006	203.512	457	523.951	237.159	9.453	-	974.532
NET BOOK VALUE							
at 31 December 2006	862.800	5.636	246.148	5.010	17.053	79.973	1.216.620
at 31 December 2005	781.464	16.675	112.157	1.469	3.348	14.555	929.668

NOTES**22. OTHER ASSETS AND ACCRUALS**

<i>(In thousands of RSD)</i>	2006	2005
Other assets, in dinars		
Receivables for disposal of assets received in settlement of debts	317.093	189.454
Tangible assets received from collection of receivables	46.044	46.634
Small inventory	35.078	8.239
Trade receivables	4.137	5.714
Prepayments	1.467	1.767
Receivables from overpaid taxes and contributions	164	90
Receivables from employees	55	6.582
Other receivables from business relations	34.281	34.843
Total other assets	438.319	293.323
Accruals		
In dinars		
Deferred interest receivables, in dinars	4.996	7.496
Other deferred expenses	909	115
Other accruals in dinars	279.937	9.234
In foreign currency		
Deferred interest receivables, in foreign currency	4.694	34.423
Other accruals, in foreign currency	2.906	-
Total accruals	293.442	51.268
Total other assets and accruals	731.761	344.591
Impairment	(109.861)	(286.239)
Balance at 31 December	621.900	58.352

Receivables for disposal of assets received in settlement of debts **include the amount of RSD 314.600** thousand relating to sale of immovable property to the company „Delta M“ d.o.o. Beograd which was acquired earlier for the collection of receivables.

As of 31 December 2006, other accruals in dinars amounting to RSD 279.937 thousand mainly (278.150 thousand) refer to the sales of foreign currencies on local market to the following banks: Raiffeisenbank a.d. Beograd, Banca Intesa a.d. Beograd, Hypo Alpe Adria Bank a.d. Beograd and Société Générale Yugoslav Bank a.d. Beograd.

NOTES**23. DUE TO BANKS***(In thousands of RSD)*

	<u>2006</u>	<u>2005</u>
U dinars		
Transaction deposits		
- Other banks	7.507	3.165
- Financial organisations	706	897
- Voluntary pension funds	2.562	-
- Insurance companies	1.102	4.685
Short-term deposits from other banks		
- up to 1 month	200.000	-
- from 1 to 3 months	-	28.000
Short-term loans from other banks	-	260.000
Long-term loans from financial organisations	500	500
Long-term loans from National Bank of Serbia	10.633	12.405
Total, in dinars	<u>223.010</u>	<u>309.652</u>
In foreign currency		
Transaction deposits from other banks and insurance companies		
- domestic banks	15.436	17.022
- insurance companies	232	256
Short-term deposits from other banks		
- up to 7 days	3.274.954	-
- up to 1 month	79.000	-
Short-term loans from other banks		
- u to 3 months	-	15.888
Other financial liabilities to other banks	10.941	13.403
Total In foreign currency	<u>3.380.563</u>	<u>46.569</u>
Balance at 31 December	<u>3.603.573</u>	<u>356.221</u>

NOTES**23. DUE TO BANKS (continued)**

Short-term deposits from other banks up to 1 month were deposited until 15 January 2007 under the following conditions:

<i>In thousands of RSD</i>	Due date	Annual interest rate	31 December 2006
Raiffeisenbank a.d. Beograd	15.01.2007.	14,00%	100.000
Hypo Alpe Adria Bank a.d. Beograd	15.01.2007.	14,85%	50.000
Raiffeisenbank a.d. Beograd	15.01.2007.	14,50%	50.000
			200.000

As of 31 December 2006, short-term deposits from other banks are stated in the amount of RSD 3.274.954 thousand relating to short-term deposits in foreign currency up to 7 days with the interest rate ranging from 5,10% to 5,30% per annum.

As of 31 December 2006, short-term deposits from other banks in foreign currency up to 1 month are stated in the amount of RSD 79.000 thousand relating to the deposit in the amount of EUR 1.000.000 placed by Poštanska štedionica a.d. Beograd with the interest rate of 5,10% per annum.

As of 31 December 2005, short-term deposits from other banks in dinars are stated in the amount of RSD 260.000 thousand relating to the loans granted by domestic banks and they are to be repaid in the period up to 30 days with the interest rate ranging from 7% to 13% per annum.

NOTES**24. DUE TO CUSTOMERS**

	2006			2005
	In dinars	In foreign currency	Total	Total
<i>(In thousands of RSD)</i>				
DEPOSITS				
Demand deposits				
Companies	1.313.255	729.652	2.042.907	1.716.917
Public sector	35.691	-	35.691	50.691
Citizens	1.009.055	2.066.395	3.075.450	2.272.836
Foreign entities	3.093	70.374	73.467	9.509
Other customers	412.258	27.596	439.854	238.243
	2.773.352	2.894.017	5.667.369	4.288.196
Short-term deposits				
Companies	523.609	207.621	731.230	658.800
Public sector	356.000	-	356.000	680
Citizens	125.072	2.349.957	2.475.029	1.450.574
Foreign entities	-	436.936	436.936	11.512
Other customers	211.482	-	211.482	35.401
	1.216.163	2.994.514	4.210.677	2.156.967
Long-term deposits				
Companies	11.777	-	11.777	1.520
Public sector	11.941	-	11.941	694
Citizens	6.357	476.141	482.498	125.717
Other customers	4.711	32.055	36.766	11.664
	34.786	508.196	542.982	139.595
Total deposits	4.024.301	6.396.727	10.421.028	6.584.758
LOANS				
Long-term loans				
Public sector	-	196.666	196.666	346.657
Foreign entities	-	1.580.000	1.580.000	1.710.000
	-	1.776.666	1.776.666	2.056.657
Total loans	-	1.776.666	1.776.666	2.056.657
OTHER FINANCIAL LIABILITIES				
Liabilities for received cash payment in respect of forward contracts	-	20.168	20.168	-
Liabilities for other short-term financial liabilities of foreign entities	-	17.998	17.998	-
Other financial liabilities	-	276	276	2.335
Total other financial liabilities	-	38.442	38.442	2.335
Balance at 31 December	4.024.301	8.211.835	12.236.136	8.643.750

NOTES

24. DUE TO CUSTOMERS (continued)

As of 31 December 2006, demand deposits in dinars amounting to RSD 2.773.352 thousand mainly refer to giro and current accounts of the companies and citizens. Apart from some special agreements, these deposits bear no interest.

As of 31 December 2006, short-term deposits in dinars amounting to RSD 523.609 mainly refer to deposits placed for a period up to 1 month with the interest rate ranging from 5% to 13% per annum.

As of 31 December 2006, short-term deposits from public sector in dinars amounting to RSD 356.000 thousand mainly refer to deposits placed for a period up to 1 month with the interest rate ranging from 10% to 15,4% per annum. The biggest public sector depositors are the Development Fund of the Republic of Serbia and city of Novi Sad.

As of 31 December 2006, demand deposits from citizens in foreign currency amounting to RSD 2.066.395 thousand mainly refer to foreign currency savings of the individuals in the country.

As of 31 December 2006, short-term deposits from companies in foreign currency amounting to RSD 207.621 thousands mainly refer to the assets in foreign currency placed for the payments by letter of credit in the amount of RSD 111.568 thousand. They also refer to short-term deposits from other companies in foreign currency up to 3 months amounting to RSD 54.495 thousand and placed by DDOR a.d. Novi Sad with the interest rate ranging from 3,60% to 3,65% annum.

Short-term deposits in foreign currency were placed with the interest rate ranging from 0,30% to 5,40%, depending on maturity period, amount of deposits and currency.

As of 31 December 2006, short-term deposits from foreign entities in foreign currency amounting to RSD 436.936 thousand comprise the deposit from Slovenská sporiteľňa, a. s., Slovakia in the amount of EUR 5.000.000 with the interest rate of 3,78% per annum.

As of 31 December 2006, long-term deposits from citizens in foreign currency amounting to RSD 476.141 thousand mainly refer to assets placed as collateral for the loan granted by the Bank.

As of 31 December 2006, long-term loans from public sector in foreign currency amounting RSD 196.666 thousand refer to the Finance Agreement signed by the National Bank of Serbia, the government of the Republic of Serbia and European Agency for Reconstruction (EAR). The Agreement refers to the establishment of the revolving credit funds (RCF) to be used for refinancing of the loans that will be approved by the Bank to small and medium size companies. In line with the Agreement, amounts of the approved loans will be financed from the funds of the National Bank of Serbia and the Bank in the proportion 80%:20%. Pursuant to the Agreement, the Bank is obliged to pay RCF interest rate that is calculated on the average daily balance of the special foreign currency account at the rate of three-month LIBOR +2% or 6%p.a. The higher rate will be applied.

As of 31 December 2006, long-term loans from foreign entities in foreign currency amounting to RSD 1.580.000 thousand (EUR 20.000.000) refer to mid-term credit facility of Erste Bank der oesterreichischen Sparkassen AG, Vienna approved with the interest rate of one-month EURIBOR + 1,3% per annum and it is due in December 2010.

NOTES**25. OTHER OPERATING LIABILITIES**

<i>(In thousands of RSD)</i>	2006	2005
Liabilities for taxes, contributions, and other duties	15.063	5.641
Liabilities to suppliers	14.949	12.539
Advances received	6.757	3.614
Liabilities for salaries	-	3.861
Liabilities to minority shareholders	81.895	-
Other liabilities	31.884	3.676
Balance at 31 December	151.548	29.331

As of 31 December 2006, liabilities to minority shareholders in respect of purchase of minority shares amounting to RSD 81.895 thousand represent the remaining liability to minority shareholders derived from the squeeze-out of minority shareholders. The squeeze-out has been performed in accordance with the Provision no. 447 of the Corporate Law. In line with the provision, Erste Bank der oesterreichischen Sparkassen AG, Vienna, the owner of 95% of the Bank's shares, has the right to purchase the shares from the shareholders that did not accept the sale of shares on the public tender for takeover of shares. The Bank purchased the remaining 17.740 of shares on behalf of the majority shareholder. The value of shares was EUR 218,98 per share, increased by the costs of the Bank and the Central Registry.

26. PROVISIONS

<i>(In thousands of RSD)</i>	2006	2005
Provision for jubilee awards (Note 8)	65.540	-
Provisions for employees retirement indemnity (Note 8)	65.477	-
Provisions for legal proceedings (Note 8)	60.000	-
Provision for losses on off-balance sheet assets	56.178	16.204
Balance at 31 December	247.195	16.204

Provisions for legal proceedings RSD 60.000 thousand refer to the legal proceeding against the Bank filed by the company A.D. Sintelon, Bačka Palanka.

Movements in provision for potential losses in respect of off-balance sheet assets are shown as follows:

<i>(In thousands of RSD)</i>	2006	2005
Balance at 1 January	16.204	50.588
Additional provision (Note 8)	121.398	1.882
Reversal of impairment (Note 7)	(81.424)	(36.266)
Balance at 31 December	56.178	16.204

NOTES**27. OTHER LIABILITIES AND DEFERRALS**

<i>(In thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Deferrals		
In dinars		
Deferred liabilities for other accrued expenses	127.778	464.836
Deferred liabilities for accrued interest	41.013	22.246
Other deferrals	<u>471.142</u>	<u>49.309</u>
	<u>639.933</u>	<u>536.391</u>
In foreign currency		
Deferred liabilities for accrued interest	10.628	10.572
Liabilities for suspended interest	2.906	-
Other deferrals	<u>276.500</u>	<u>102.604</u>
	<u>290.034</u>	<u>113.176</u>
Total deferrals	<u>929.967</u>	<u>649.567</u>
Other liabilities		
Subordinated liabilities	853.200	923.400
Long-term liabilities for financial lease	<u>3.548</u>	<u>-</u>
	<u>856.748</u>	<u>923.400</u>
Balance at 31 December	<u>1.786.715</u>	<u>1.572.967</u>

As of 31 December 2006, deferred liabilities for other accrued expenses in dinars amounting to RSD 127.778 thousand include deferred expenses in respect of bonuses in the amount of RSD 69.371 thousand and deferred expenses for IT consultancy services rendered by Erste & Steiermärkische Bank d.d. Rijeka in the amount of RSD 43.663 thousand.

As of 31 December 2006, other deferrals in dinars amounting to RSD 471.142 thousand include deferrals in respect of purchase of foreign currencies from Banca Intesa a.d. Beograd and Volksbank a.d. Beograd in total amount of RSD 238.100 thousand.

As of 31 December 2006, other deferrals in foreign currency amounting to RSD 276.500 thousand refer to the sales of foreign currencies to domestic banks.

As of 31 December 2006, subordinated liabilities in foreign currency amounting to RSD 853.200 thousand refer to subordinated long-term loan granted by Erste Bank der oesterreichischen Sparkassen AG, Vienna on 20 December 2005. The loan was approved in the amount of EUR 10.800.000 and it is to be repaid in the period of ten years, with the grace period of 5 years and the interest rate of quarterly EURIBOR increased by 2,4% per annum. In line with the Agreement, the principal is to be repaid in 21 quarterly installments starting after the grace period has ended.

NOTES**28. EQUITY****a) Issue of shares**

Erste Bank der oesterreichischen Sparkassen AG, Vienna became the majority shareholder of the Bank after the privatisation process in the beginning of 2005. On 18 October 2005 the Bank announced the public tender for the purchase of minority shares. As a result, Erste Bank der oesterreichischen Sparkassen AG became the owner of 95,57836% of share capital.

There were two issues of shares during 2006:

- In line with the Decision of the Bank's Assembly dated 8 May 2006, the Bank's initial capital was increased on the basis of XXVIII issue of shares without public offer and they were sold to the majority shareholder of the Bank at the issue price of RSD 2.595.900 thousand. Out of this amount, the amount of RSD 1.369.980 thousand is included in total nominal value of shares (136.998 of ordinary shares with nominal value RSD 10 thousand per share), while the amount of RSD 1.225.905 is included issue of share premium.
- In line with the Decision of the Bank's Assembly dated 18 December , 2006 the Bank's initial capital was increased on the basis of the allocation of XXIX issue of shares that were recorded and sold for RSD 3.011.500 thousand to the above-mentioned majority shareholder. Thus, Erste Bank der oesterreichischen Sparkassen AG became the owner of 99,994239% of the Bank's capital. The amount of the increase in share capital comprises the total nominal amount of shares- RSD 1.735.310 thousand (173.531 of ordinary shares with nominal value RSD 10 thousand per share) and share premium in the amount of RSD 1.276.190 thousand.

b) Capital adequacy and performance indicators

The Bank is obliged to reconcile the scope and the structure of its operations with the performance indicators prescribed by the Article 51 of the Law on Banks. As of 31 December 2006, the Bank's performance indicators were the following:

Performance indicators	Prescribed Value	Realised value
Capital adequacy	min. 12%	32,50%
Investments	max. 60%	23,10%
Exposure to the entities related to Bank	max. 20%	8,50%
Summary of significant Bank's exposures	max. 400%	23,40%
Liquidity indicator:		
- in the first month of the reporting period	min. 1.00	3,50%
- in the second month of the reporting period	min. 1.00	3,05%
- in the third month of the reporting period	min. 1.00	2,52%
Foreign currency risk indicator	max. 30%	4,51%

NOTES**28. EQUITY (continued)**

c) Reserves from profit for estimated losses

Reserves from profit for estimated losses amounting to RSD183.701 thousand were calculated as the difference between total impairment of all financial assets and reserves in line with the internal act of the Bank and total special provision for estimated losses calculated in accordance with the National Bank of Serbia's Decision on classification of balance sheet assets and off-balance sheet items (Official Gazette RS no.RS 57/2006).

Insufficient amount for covering the above reserves is stated as deductible item within the capital, in accordance with the above Decision i.e. as insufficient amount of reserves for estimated losses.

29. OFF-BALANCE SHEET ITEMS

(In thousands of RSD)

	<u>2006</u>	<u>2005</u>
Transactions for and on behalf of third parties	222.779	161.772
Guarantees, securities, mortgage property and irrevocable liabilities	2.604.810	1.197.794
Other off-balance sheet positions	<u>4.698.540</u>	<u>8.655.250</u>
Balance at 31 December	<u>7.526.129</u>	<u>10.014.816</u>

a) Transactions for and on behalf of third parties

(In thousands of RSD)

	<u>2006</u>	<u>2005</u>
Transactions for and on behalf of third parties		
Short-term placements for an on behalf of		
- public sector	<u>126.040</u>	<u>75.899</u>
Total Short-term placements	<u>126.040</u>	<u>75899</u>
Long-term placements for an on behalf of		
- companies	-	-
- public sector	96.739	69.027
- banks in foreign currency	<u>-</u>	<u>16.846</u>
Total long-term placements	<u>96.739</u>	<u>85.873</u>
Transactions for and on behalf of third parties, balance at 31 December	<u>222.779</u>	<u>161.772</u>

Transactions for and on behalf of third parties mainly relate to funds of the Ministry of Agriculture of the Republic of Serbia, as well the Development Fund of the Republic of Serbia. Long-term loans to farms are granted from these funds. For these transactions Bank charges a commission of 0,5% of the amount of the loan.

NOTES**29. OFF-BALANCE SHEET ITEMS (continued)**

b) Guarantees and other commitments and contingencies

<i>(In thousands of RSD)</i>	2006	2005
Guarantees and acceptances		
Payable guarantees for repayment of loans	457.765	116.234
Other payable guarantees	302.174	239.347
Performance bonds	391.073	433.083
Acceptances	9.506	31.717
Total	1.160.518	820.381
Irrevocable commitments in respect of granted unused loans and overdrafts	1.444.292	377.413
Guarantees, acceptances and irrevocable commitments Balance at 31 December	2.604.810	1.197.794

Irrevocable commitments as of 31 December relate to unused granted loans that cannot be cancelled unilaterally, such as: overdrafts of corporate loans, revolving corporate loans, multipurpose credit lines, purchase and sales of foreign currencies from banks in forward transactions, and other irrevocable commitments.

c) Other off-balance sheet items

<i>(In thousands of RSD)</i>	2006	2005
Foreign currency savings' bonds	3.792.492	4.695.834
Guarantees received from foreign banks and other financial organizations	886.957	795.150
Other off-balance sheet items	19.091	3.163.209
Long-term investments of foreign banks	-	1.057
Other off-balance sheet items, balance at 31 December	4.698.540	8.655.250

Other off-balance sheet items as of 31 December 2006 mainly relate to bonds of the Republic of Serbia in foreign currency, amounting to RSD 3.792.492 thousand. Bonds, issued in respect of deposited foreign currency savings' of citizens fall due until 2016.

NOTES**30. CREDIT RISK**

Credit risk is the risk that the Bank will incur a loss because its customers, clients and or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk is willing to accept for individual counterparties and for geographical and industry concentrations. The assessment of the credit risk is conducted on a quarterly basis and the amount of the limit is changed accordingly. If necessary, the Bank monitors the credit risk exposure and continuously assesses the debtors' creditworthiness. Additionally, the Bank aspires to secure its loans and placements with adequate collateral.

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location of the debtor's operations.

Assessment of risk is performed on a monthly basis and the amount of the limit is adjusted accordingly, if necessary. Taking into account that the procedures for granting of loans are strictly determined, apart from analysis of the customers' solvency, the Bank additionally secures its loans and placements with adequate collaterals.

The following table represents the concentration of loans by industries:

<i>(In thousands of RSD)</i>	2006	2005
Citizens	3.832.201	1.429.276
Manufacturing industry	3.571.034	4.523.929
Trade	1.211.196	547.685
Mining and energy supply	707.626	835.526
Agriculture, hunting, fishing and forestry	459.165	1.400.956
Civil engineering	427.682	254.024
Transport and communications	199.949	57.680
Services, tourism and catering	175.083	193.943
Other	626.220	979.504
Total gross placements to customers as of 31 December	11.210.156	10.222.523

NOTES

31. LIQUIDITY RISK

Liquidity of the Bank, as its ability to meet liabilities when they fall due, depends primarily on timely arrangement of sources inflows and outflows.

The Bank monitors liquidity on a daily basis. Additionally, the Bank monitors on a long-term basis its liquidity by considering its liabilities and liabilities from major debtors in certain time periods, as well as anticipated inflows during the same periods.

The table below provides an analysis of assets and liabilities of the Bank by relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

NOTES**31. LIQUIDITY RISK (continued)***(In thousands of RSD)***31 December 2006****ASSETS**

	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total
Cash and cash equivalents	1.262.197	-	-	1.394	1.263.591
Deposits with the Central Bank and securities available for refinancing with the central Bank	9.775.733	-	-	-	9.775.733
Interest and fee receivable	46.823	-	-	-	46.823
Loans to and placements with banks	440.852	156.197	-	-	597.049
Loans and advances to customers	1.693.134	664.616	2.632.766	3.951.089	8.941.605
Securities held for trading	-	-	19.624	213.158	232.782
Investment securities held-to-maturity	54.637	-	3.963	-	58.600
Equity shares and other securities available for sale	-	-	-	144.809	144.809
Intangible assets	-	-	-	17.053	17.053
Property and equipment	-	-	-	1.199.567	1.199.567
Other assets and accruals	230.879	975	387.073	2.973	621.900
TOTAL ASSETS	13.504.255	821.788	3.043.426	5.530.043	22.899.512

LIABILITIES

Amounts due to banks	3.536.397	10.633	12.033	44.510	3.603.573
Amounts due to customers	7.300.327	637.838	1.979.641	2.318.330	12.236.136
Interest and fees payable	1.922	-	-	-	1.922
Liabilities from profit	-	-	-	-	-
Liabilities for current income tax	2.251	-	-	-	2.251
Other operating liabilities	31.585	114.486	2.538	2.939	151.548
Provisions	-	-	-	247.195	247.195
Other liabilities and deferred expenses	690.521	168.790	8.828	918.576	1.786.715
Deferred tax liabilities	-	-	-	14.561	14.561
Equity	-	-	-	4.855.611	4.855.611
TOTAL LIABILITIES	11.563.003	931.747	2.003.040	8.401.722	22.899.512

Net liquidity gap:	1.941.252	(109.959)	1.040.386	(2.871.679)	-
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32. INTEREST RATE RISK

The Bank is exposed to interest rate risk that arises from the possibility that changes in interest rates will have negative effect on the Bank's financial results and the Bank's equity.

By contractually agreeing variable interest rates on a monthly basis on most of the loans and deposits, the Bank significantly lessens its exposure to interest rate risk.

The table below summarises the Bank's exposure to interest rate risk as of 31 December 2006:

NOTES**32. INTEREST RATE RISK (continued)**

<i>(In thousands of RSD)</i>	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing assets /liabilities	Total
<u>31 December 2006</u>						
ASSETS						
Cash and cash equivalents	405.708	-	-	-	857.883	1.263.591
Deposits with the Central Bank and securities available for refinancing with the central Bank	6.621.915	-	-	-	3.153.818	9.775.733
Interest and fee receivable	46.823	-	-	-	-	46.823
Loans to and placements with banks	440.852	156.197	-	-	-	597.049
Loans and advances to customers	1.693.134	664.616	2.632.766	3.951.089	-	8.941.605
Securities	54.637	-	23.587	213.158	144.809	436.191
Intangible assets	-	-	-	17.053	-	17.053
Property and equipment	-	-	-	-	1.199.567	1.199.567
Other assets and accruals	21.561	-	-	-	600.339	621.900
TOTAL ASSETS	9.284.630	820.813	2.656.353	4.181.300	5.956.416	22.899.512
LIABILITIES						
Amounts due to banks	3.465.349	10.633	12.033	44.510	71.048	3.603.573
Amounts due to customers	1.632.958	637.838	1.979.641	2.318.330	5.667.369	12.236.136
Interest and fee payable	1.922	-	-	-	-	1.922
Liabilities from profit	-	-	-	-	-	-
Liabilities for current income tax	-	-	-	-	2.254	2.254
Other operating liabilities	-	-	-	-	151.548	151.548
Provisions	-	-	-	-	247.195	247.195
Other liabilities and deferrals	-	-	-	853.200	933.515	1.786.715
Deferred tax liabilities	-	-	-	-	14.561	14.561
Equity	-	-	-	-	4.855.611	4.855.611
TOTAL LIABILITIES	5.100.229	648.471	1.991.674	3.216.040	11.943.101	22.899.515
Net interest risk exposure at:						
<u>31 December 2006</u>	4.184.401	172.342	664.679	965.260	(5.986.685)	-
<u>31 December 2005</u>	224.328	286.370	1.842.096	-	(2.363.229)	-

NOTES**33. CURRENCY RISK**

<i>(In thousands of RSD)</i>	In foreign currency			Total balance in foreign currency	Total balance in dinars	Total
	EUR	USD	Other currencies			
31 December 2006						
ASSETS						
Cash and cash equivalents	297.923	21.615	60.543	380.081	883.510	1.263.591
Deposits with the Central Bank and securities available for refinancing with the central Bank	3.153.818	-	-	3.153.818	6.621.915	9.775.733
Interest and fee receivable	1.071	-	-	1.071	45.752	46.823
Loans to and placements with banks	394.227	-	21.899	416.126	180.923	597.049
Loans and advances to customers	7.612.082	490.928	6.460	8.109.470	832.135	8.941.605
Securities	237.145	11.754	-	248.899	187.292	436.191
Intangible assets and property and equipment	-	-	-	-	1.216.620	1.216.620
Other assets and accrued expenses	-	2.046	40	2.086	619.814	621.900
TOTAL ASSETS	11.696.266	526.343	88.942	12.311.551	10.587.961	22.899.512
LIABILITIES						
Amounts due to banks	3.008.755	363.364	3.101	3.375.220	228.353	3.603.573
Amounts due to customers	8.098.837	174.712	77.879	8.351.428	3.884.708	12.236.136
Interest and fees payable	-	-	-	-	1.922	1.922
Liabilities for current income tax	-	-	-	-	2.251	2.251
Other operating liabilities	8.881	-	9.495	18.376	133.172	151.548
Provisions	-	-	-	-	247.195	247.195
Other liabilities and deferred expenses	1.256.063	1.101	-	1.257.164	529.551	1.786.715
Deferred tax liabilities	-	-	-	-	14.561	14.561
Equity	-	-	-	-	4.855.611	4.855.611
TOTAL LIABILITIES	12.372.536	539.177	90.475	13.002.188	9.897.324	22.899.512
Net foreign currency position						
31 December 2006	(676.270)	(12.834)	(1.533)	(690.637)	690.637	-
31 December 2005	618.098	757.239	(19.623)	1.355.714	(1.355.714)	-

Currency risk is the risk that the value of financial assets and financial liabilities will fluctuate due to changes in foreign currency exchange rates. The Bank's foreign currency risk management policy is to establish and maintain foreign currency assets at least in the amount of the foreign currency liabilities. This ratio is also reconciled from the aspect of matured foreign currency receivables and liabilities.

NOTES**34. RELATED PARTY DISCLOSURE**

The following table represents the summary of Bank's relations with other members of the Group as of 31 December 2006:

a) Erste Bank der oesterreichischen Sparkassen AG

(In thousands of RSD)

	2006
BALANCE SHEET	
Assets	
Loans and advances to customers	17.993
Other assets and accruals in respect of forward transactions	1.402
Total assets	19.395
Liabilities	
Amounts due to customers	1.598.163
Deferrals	22.216
Subordinated liabilities	853.200
Total liabilities	2.473.579
INCOME STATEMENT	
Expenses	
Interest expense of foreign entities	98.262
Other operating expenses	23.853
Total expenses	122.115

Loans and advances to customers amounting to RSD 17.993 thousand (USD 300.000) relate to Bank's receivables from Erste Bank der oesterreichischen Sparkassen AG, in respect of foreign currency arbitral transactions. Through this transaction, the Bank has purchased from Erste Bank der oesterreichischen Sparkassen AG the amount of USD 300.000, and sold EUR 227.825 (RSD 17.998 thousand), which represents the Bank's liability towards Erste Bank der oesterreichischen Sparkassen AG in respect of foreign currency short-term financial investments (Note 24).

Amounts due to customers totaling to RSD 1.598.163 thousand mainly relate to liabilities in respect of long-term loan granted by Erste Bank der oesterreichischen Sparkassen AG, with balance as of 31 December 2006 in the amount of RSD 1.580.000 thousand. Furthermore, amounts due to customers include also the afore-stated amount of liabilities relating to foreign currency arbitral transactions.

Subordinated liabilities amounting to RSD 853.200 thousand, relate to subordinated loan granted by Erste Bank der oesterreichischen Sparkassen AG (Note 27).

NOTES**34. RELATED PARTY DISCLOSURE (continued)**

As of 31 December 2006, Erste Bank der oesterreichischen Sparkassen AG owns 99,99% of Bank's shares (Note 28).

Interest expense amounting to RSD 98.262 thousand, mainly relate to interest expense in respect of a loan granted by the Bank's major shareholder, in the amount RSD 64.162 thousand, as well as to interest expense for deposits in dinars totaling to RSD 33.266 thousand.

b) Slovenska sporitelna, a. s.

<i>(In thousands of RSD)</i>	2006
BALANCE SHEET	
Liabilities	
Amounts due to customers	395.000
Total liabilities	395.000
INCOME STATEMENT	
Expenses	
Interest expense from foreign banks in foreign currency	122
Total expenses	122

Amounts due to customers amounting to RSD 395.000 thousand (EUR 5.000.000) relate to short-term deposits in foreign currency deposited by Slovenska sporitelna, a. s. at interest rate of 3,78% per annum, with time-deposit of 6 days.

c) Erste & Steiermärkische bank d.d., Rijeka

<i>(In thousands of RSD)</i>	2006
BALANCE SHEET	
Liabilities	
Amounts due to customers	678
Deferrals	322
Total liabilities	1.000
INCOME STATEMENT	
Expenses	
Other operating expenses	127.589
Total expenses	127.589

Other operating expenses relate to cost of consulting services that Erste & Steiermärkische bank d.d., Rijeka provided to the Bank in 2006, during the process of operational restructuring and transition to new informational system.

NOTES**34. RELATED PARTY DISCLOSURE (continued)**

- d) **Companies for leasing of real estate, vehicles and machines "S-Leasing", Limited liability company Belgrade**

<i>(In thousands of RSD)</i>	2006
BALANCE SHEET	
Assets	
Loans and advances to customers	3.518
Interest receivables	16
Total assets	3.534
Liabilities	
Other liabilities and deferrals	3.548
	3.548

INCOME STATEMENT

Expenses	
Interest expenses	335
Total expenses	335

Other liabilities relate to long-term liabilities that the Bank has towards the company S-Leasing in respect of purchased vehicles.

35. POST BALANCE SHEET EVENTS

There were no post balance sheet events that would materially influence the Bank's financial statements.

36. EXCHANGE RATES

The official exchange rates for the major currencies used in the translation of the balance sheet items denominated in foreign currencies as of 31 December 2006 and 31 December 2005 were as follows:

Currency	31 Dec. 2006	31 Dec. 2005
USD	59,9757	72,2189
CHF	49,1569	54,9380
EUR	79,0000	85,5000