ERSTE BANK a.d. Novi Sad

(English translation of the Report originally issued in Serbian language - for management purposes only)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

ERNST & YOUNG

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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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Erste Bank a.d. Novi Sad (hereinafter referred to as: "the Bank") which comprise the balance sheet as at December 31, 2007 and the related statements of income, shareholders' equity and cash flow for the year then ended, as well as a summary of the most relevant accounting policies and other notes explanatory reports.

Bank Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing, Law on Banks, and other regulations governing bank 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 misstatements, whether due to fraud or error; under the given circumstances.

Auditor's Responsibility

It is our responsibility to express an opinion on these financial statements based on the audit we have conducted. The audit was carried out in accordance with International Standards and 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 risks from material misstatement in 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 referred to above present fairly, in all material respects, the financial position of the Bank at December 31st 2007 and the result of its financial performance and cash flows for the year then ended, in accordance with the Law on Accounting and Auditing, Law on Banks and respective regulations and decisions of the National Bank of Serbia.

Belgrade, March 27, 2008

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

Mirjana Perendija Kovačević
Authorised Auditor

PIB: 101824091 ▸ Matični broj: 17155270 ▸ Upisan i unet osnovni kapital: 15.075,01 EUR
Registarski broj 47839 kod Agencije za privredne registre
Poslovni račun 255-0009930101000-91 kod Privredne Banke Beograd AD

INCOME STATEMENT

	Note	2007 RSD thousand	2006 RSD thousand
Interest income	3	2.302.007	1.282.020
Interest expense	3	(1.069.884)	(547.694)
Net interest income	3	**1.232.123**	**734.326**
Fee and commission income	4	1.146.222	840.566
Fee and commission expense	4	(450.550)	(393.864)
Net fee and commission income	4	**695.672**	**446.702**
Net interest, fees and commission income		**1.927.795**	**1.181.028**
Net foreign exchange gains	5	53.664	379.692
Net gains on sales of securities	6	385.215	35.243
Gains from dividends and shares		1.463	939
Other operating income	7	3.205.672	1.978.706
Losses on impairment and provisions	8	(2.965.000)	(2.702.264)
Other operating expenses	9	(2.353.906)	(2.638.660)
Gains on changes in value of assets and liabilities	10	2.169.495	357.769
Losses on changes in value of assets and liabilities	11	(2.253.520)	(794.500)
Profit/(Loss) before tax		**170.878**	**(2.202.047)**
Current income tax	12	-	(2.251)
Gains from created deferred tax assets and decrease in deferred tax liabilities	12	3.226	-
Loss from decrease in deferred tax assets and created deferred tax liabilities		-	(11.247)
Profit/(Loss) for the year		**174.104**	**(2.215.545)**

Notes 1 - 33 are an internal part of Financial reports.

BALANCE SHEET

	Note	2007 RSD thousand	2006 RSD thousand Restated
Asset			
Cash and cash equivalents	14	3.252.100	1.263.591
Deposits with the Central Bank and securities that can be refinanced with the Central Bank	15	10.919.864	9.775.733
Interest, commissions and fees receivable	16	80.958	46.823
Due from banks	17	2.332.357	597.049
Placements to customers	18	18.629.486	8.941.605
Securities held for trading	19	99.931	232.782
Securities held to maturity	19	1.033.928	58.600
Investments and other securities available for sale	19	70.970	144.809
Income tax advances	12	2.251	-
Intangible assets	20	35.296	17.053
Investment properties	20	-	5.636
Property and equipment	20	870.200	1.193.931
Other assets and accruals	21	532.067	621.900
		37.859.408	**22.899.512**
Liabilities			
Due to banks	22	1.975.173	3.603.573
Due to customers	23	23.801.828	12.236.136
Interest, commissions and fees payable		665	1.922
Current income tax liabilities		-	2.251
Other operating liabilities	24	85.391	151.548
Provisions	25	366.439	247.195
Other liabilities and accruals	26	1.401.566	1.786.715
Deferred tax liabilities		13.211	14.561
		27.644.273	**18.043.901**
Equity			
Shareholders' and other equity		12.279.261	9.629.713
Reserves		23.421	17.258
Accumulated losses		(2.087.547)	(4.791.360)
	27	**10.215.135**	**4.855.611**
		37.859.408	**22.899.512**
Off-balance sheet items			
Managed funds		245.457	222.780
Guarantees, letters of credit, assets held as collateral and irrevocable commitments		4.954.432	2.604.809
Other off-balance sheet items		4.599.345	4.698.540
	28	**9.799.234**	**7.526.129**

Notes 1 - 33 are an internal part of Financial reports.

27 March 2008

On behalf of Erste Bank A.D. Novi Sad

Vlasta Putnik
Head of Accounting department

Sava Dalbokov
Chief Executive Officer

CASH FLOW STATEMENT

	2007 RSD thousand	2006 RSD thousand
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities		
Interests	2.292.903	1.250.244
Fees	1.128.232	842.009
Other operating income	642.497	802.470
Dividend and other share income	1.463	939
Outflow of cash from operating activities		
Interests	(1.055.525)	(548.846)
Fees	(450.174)	(393.375)
Salaries and other personal income	(981.470)	(1.431.048)
Taxes and contributions paid	(214.784)	(70.408)
Other operating expenses	(1.227.651)	(1.145.576)
Net cash inflow from operating activities before increase or decrease in placements and deposits	**135.491**	**-**
Net cash outflow from operating activities before increase or decrease in placements and deposits	**-**	**(693.591)**
Decrease in placements and increase in taken deposits	**13.040.517**	**7.055.927**
Decrease in loans and placements to banks and other financial organizations	-	-
Increase in deposits with banks and other financial organizations	-	3.527.474
Increase in client deposits	13.040.517	3.528.453
Increase in placements and decrease in taken deposits	**(15.273.461)**	**(11.332.362)**
Increase in loans and placements to banks and other financial organizations	(2.879.439)	(7.592.209)
Increase in loans and placements to clients	(9.947.717)	(3.604.589)
Increase in securities and other placements held for trading and short term securities held to maturity	(819.677)	(135.564)
Decrease in deposits from banks and other financial organizations	(1.626.628)	-
Net cash inflow from operating activities before tax		
Net cash outflow from operating activities before tax	**(2.097.453)**	**(4.970.026)**
Income tax paid	(2.302)	(2.251)
Dividends paid	-	-
Net cash outflow from operating activities	**(2.099.755)**	**(4.972.277)**

CASH FLOW STATEMENT (continued)

	2007 RSD thousand	2006 RSD thousand
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities		
Inflow from long-term investment securities	3.963	130.520
Outflow from sales of shares and share investments	76.231	108.447
Outflow from sales of property and equipment	662.107	-
Cash outflow from investing activities		
Investment in long-term securities	-	-
Purchase of intangibles, property and equipment	(184.365)	(369.215)
Net cash inflow from investing activities	**557.936**	**-**
Net cash outflow from investing activities	**-**	**(130.248)**
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities		
Inflow from increase in capital	5.163.138	5.607.385
Inflow from long-term loans and subordinated liabilities	2.551	62.034
Inflow from short-term loans	-	36.111
Cash outflow from financing activities		
Outflow from purchase of own shares	91	-
Outflow from long-term loans and subordinated liabilities	(1.688.913)	(281.761)
Outflow from short-term loans	-	(278.350)
Net cash inflow from financing activities	**3.476.685**	**5.145.419**
TOTAL NET CASH INFLOW	**23.013.602**	**15.896.086**
TOTAL NET CASH OUTFLOW	**(21.078.736)**	**(15.853.192)**
NET CASH INCREASE	**1.934.866**	**42.894**
NET CASH DECREASE		
CASH AT THE BEGINNING OF THE PERIOD	**1.263.591**	**841.005**
FOREIGN EXCHANGE GAINS	**5.636.776**	**3.806.515**
FOREIGN EXCHANGE LOSSES	**(5.583.133)**	**(3.426.823)**
CASH AT THE END OF THE PERIOD	**3.252.100**	**1.263.591**

STATEMENT OF CHANGES IN EQUITY

	2007 RSD thousand	2006 RSD thousand
Share capital		
Balance at the beginning of the period	7.117.380	4.012.090
Issue of shares	2.922.620	3.105.290
Balance at the end of the period	**10.040.000**	**7.117.380**
Share premium		
Balance at the beginning of the period	2.502.095	-
Issue of shares	2.228.932	2.502.095
Loss coverage	(2.502.095)	-
Balance at the end of the period	**2.228.932**	**2.502.095**
Purchased own shares		
Balance at the beginning of the period	(91)	(91)
Change	91	-
Balance at the end of the period	**-**	**(91)**
Other equity		
Balance at the beginning of the period	10.329	10.329
Balance at the end of the period	**10.329**	**10.329**
Revaluation reserves		
Balance at the beginning of the period	6.554	196.173
Restatement	-	(189.680)
Balance at the beginning of the period after restatement	**6.554**	**6.493**
Net gains on securities available for sale	18.758	150
Effect of deferred taxes	(1.876)	(15)
Other	(15)	-
Disposal and retirement of property and equipment	-	(74)
Balance at the end of the period	**23.421**	**6.554**
Statutory reserves		
Balance at the beginning of the period	10.704	10.704
Loss coverage	(10.704)	-
Balance at the end of the period	**-**	**10.704**
Reserves for potential losses		
Balance at the beginning of the period	183.701	-
Increase	287.711	183.701
Balance at the end of the period	**471.412**	**183.701**
Shortfall of reserves for potential losses		
Balance at the beginning of the period	(183.701)	-
Increase	(287.711)	(183.701)
Balance at the end of the period	**(471.412)**	**(183.701)**
Accumulated loss		
Balance at the beginning of the period	(4.791.360)	(2.765.495)
Restatement of the opening balance	-	189.680
Balance at the beginning of the period after restatement	**(4.791.360)**	**(2.575.815)**
Loss coverage	2.512.799	-
Effect of the actuarial gains due to retirement benefits (Note 25)	16.910	-
Current year profit / (loss)	174.104	(2.215.545)
Balance at the end of the period	**(2.087.547)**	**(4.791.360)**
Total equity	**10.215.135**	**4.855.611**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007

1. GENERAL INFORMATION

Erste Bank a.d Novi Sad (hereinafter referred to as “the Bank“) was founded on 25 December 1989, under the name of Novosadska banka a.d. Novi Sad. At the beginning of August 2005, after the successful finalization of the privatization process, it became a member of Erste Bank Group.

By the decision of the Agency for Commercial Registers no. BD 101499/2005 as at 21 December 2005, the change of the name of the Bank to Erste Bank a.d. Novi Sad was registered.

The Bank is registered in the Republic of Serbia for the following activities: payment transaction services, loan and deposit activities in the country, payment cards transactions, transaction with securities of broker-dealer operations and payment transaction services abroad in accordance with the Law on Banks and operates on the principles of stable and secure business.

The Bank’s headquarters is in Novi Sad, 5 Bulevar Oslobodjenja. The Bank’s identification number is 08063818 and Tax identification number is 101626723.

At 31 December 2007 the Bank had 958 employees (2006: 892 employees).

There are 5 business centers, 45 branches, 9 sub-branches and 2 mortgage-loans centers within the Bank.

2. ACCOUNTING POLICIES

2.1. Basis for preparation and presentation of the financial statements

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 regulations 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.

In 2007 the Bank adopted new Rulebook on accounting which was adjusted to the Bank’s new organization. The Bank also adopted Accounting policies that were used to achieve compliance with the Group’s accounting policies.

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 Organizations (Official Gazette of the Republic of Serbia No. 8/07).

The Financial statements have been prepared on the historical cost basis except for securities and other trading investments, investments in shares and other securities available for sale which are measured at fair value.

2. ACCOUNTING POLICIES (continued)

2.2. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques based on the information available on the market, but where this is not feasible, a degree of judgment is required in establishing fair values.

Impairment losses on loans

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement.

In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as historical experience in losses on loans and other factors.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Long-term benefits to employees

Liabilities and expenses from long-tern employee benefits are determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, fluctuation of employees and mortality rates. Due to the long term nature of these liabilities, such estimates are subject to significant uncertainty.

2.3. Changes in accounting policies and adjustments of mistakes from previous years

Restatements of comparative information

In 2007, the Bank changed its accounting policy on subsequent measurement of property and equipment, in order to comply with the accounting policies of the Erste Group. This change relates to subsequent measurement of property and equipment by adoption of the benchmark treatment in accordance with IAS 16 “Property, plant and equipment”, i.e. the cost model. The amount of RSD 189.680 thousand was reclassified from revaluation reserves to retained earnings, since the revaluation reserves relate to the first valuation of property and equipment following the first-time adoption of new accounting regulations of the Republic of Serbia, based on IFRS.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

2. ACCOUNTING POLICIES (continued)

2.3. Changes in accounting policies and adjustments of mistakes from previous years (continued)

Namely, the Bank did not perform valuation of property and equipment as of the date of adoption of new accounting regulations of the Republic of Serbia. Accordingly, in the following periods, the Bank adjusted the carrying values of property and equipment to their fair values. At the time of the change in accounting policy, the assumed fair values of property and equipment as their deemed cost.

2.4. Summary of significant accounting policies

The most important accounting policies used in preparation of the financial statements are as follows:

(1) Foreign currency translation

The financial statements are presented in RSD, which is the reporting and functional currency of the Bank. The Bank's financial statements are expressed in thousands of RSD, except when otherwise indicated.

Foreign currency transactions are translated into dinars at the official exchange rate of the National Bank of Serbia, prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies, at the balance sheet date, are translated into dinars at official middle exchange rate of the National Bank of Serbia prevailing at the balance sheet date.

Exchange rate differences originating from foreign currency translation, as well as from translation of monetary assets and liabilities denominated in foreign currency, are taken to "Income and expenses from foreign exchange differences" in the income statement. Gains and losses originating from translation of financial assets and liabilities with currency clause are recognized in "Income and expenses from revaluation of assets and liabilities.

Contingencies and commitments denominated in foreign currency are translated into dinars at the official middle exchange rate of the National Bank of Serbia prevailing at the balance sheet date.

(2) Financial instruments

(I) Date of initial recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place are recognized on the trade date, i.e. the date that the Bank commits to receive or transfer the assets.

(II) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured at their fair value plus any directly attributable costs of acquisition or issue, except in the case of securities and other placements held for trading.

2. ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

(III) Securities and other placements held for trading

Securities and other placements held for trading, comprising financial instruments held for trading and derivatives are recorded in the balance sheet at fair value. Changes in fair value are recognized in the income statement. Interest and dividend income are recorded in “Interest income”, i.e. “Dividend income” according to the terms of the contract, or when the right to payment has been established.

(IV) Financial liabilities held for trading

The Bank did not have any financial liabilities held for trading.

(V) Financial assets or financial liabilities designated at fair value through profit or loss

The management did not classify financial instruments, on initial recognition, into the category of the financial assets or liabilities recorded at fair value through profit or loss.

(VI) Investments in securities held to maturity

Securities held to maturity are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, investments in securities held to maturity are measured at amortized cost which is calculated by taking into account any discount or premium on acquisition, less allowance for impairment.
Interest income is calculated by taking into account any discount or premiums on acquisition that are part of the effective interest rate, and is recorded in “Interest income”. Fees which are part of the effective income from these instruments are accrued and recorded as deferrals in the income statement during the useful life of the instrument.

(VII) Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as securities and advances held for trading or securities available for sale.

After initial measurement, amounts due from banks and loans and advances to customers are measured at amortized cost which is calculated by taking into account any discount or premium on acquisition, less allowance for impairment. Income and receivables from calculated interest on these instruments are recorded in interest income, i.e. interest and fee receivables.

Fees which are part of the effective income from these instruments are accrued and recorded as deferrals in the income statement during the useful life of the instrument.

2. ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

(VIII) Investment in shares and other securities available for sale

Investment in shares and other securities available for sale are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances. Financial assets available for sale comprise investments in shares of other legal entities and debt securities.

After initial measurement, these instruments are subsequently measured at fair value. Investments in shares, which are not quoted in an active market and whose fair value cannot be determined with certainty, are measured at cost. Unrealized gains and losses are recognized directly in equity in revaluation reserves. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement, in gains or losses from sales of securities. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale securities is reported as interest income using the effective interest rate. Dividends earned whilst holding available for sale financial instruments are recognized in the income statement as other operating income when the right to the payment has been established. The losses arising from impairment of such investments are recognized in the income statement and removed from the available for sale reserve.

(IX) Issued financial instruments and other financial liabilities

Issued financial instruments or their components are classified as liabilities when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, financial liabilities instruments are measured at amortized cost using the effective interest rate method.

(X) Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either the Bank has transferred substantially all the risks and rewards of the asset, or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a “guarantee” over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

2. ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

(X) Derecognition of financial assets and financial liabilities (continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(XI) Determination of fair value

The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market price, without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable price exists and other relevant valuation models.

(XII) Financial assets impairment

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.

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortized cost, 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.

2. ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

(XII) Financial assets impairment (continued)

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 such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

Investments in securities held to maturity

For held to maturity investments the Bank assesses individually whether there is objective evidence 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. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly recognized is reduced and the effects are recognized in the income statement.

Investment in shares and other available for sale investments

For investment in shares and other available for sale investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of other legal entities' equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair values, less any impairment loss on that investment previously recognized in the income statement - is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in equity. Allowance for impairment of investments in shares that are not listed on the active market and whose value cannot be determined with certainty, is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows and recognized in the income statement and not reversed until derecognition.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

2. ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

(XIII) Renegotiated loans

When 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.

(XIV) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

(XV) Hedge accounting

The Bank does not use hedge accounting.

(3) Leasing

The determination of whether an arrangement is, or contains a lease based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the assets.

Bank as a lessee

Financial 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”.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the bank will obtain ownership by the end of the lease term.

Operating lease payments are not recognized in the balance sheet. Any rentals payable are accounted for on a straight-line basis over the lease term and included in other operating expenses.

Bank as a lessor

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Bank leases out all of its investment properties as operating leases, thus generating rental income.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

2. ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

(4) Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured. The following specific recognition criteria must also be met before revenue is recognized.

(I) Interest and similar interest and expense

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available for sale financial instruments, interest income or expense is recorded at the effective interest rate. The calculation of the effective interest rate takes into account all contractual terms of the financial instrument, except fees and incremental costs that are related to the loan approval, but no future credit losses.

(II) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(III) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period.
Loan commitment fees for loans that are likely to be withdrawn and other loan related fees are deferred (together with any incremental costs) and are recorded in deferrals which are recognized in the income statement in income from fee during the useful life of the instrument.

(IV) Fee income from certain performances

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(V) Dividend income

Revenue is recognized when the bank’s right to receive the payment is established.

(VI) Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement in “Other operating income“.

(5) Cash and cash equivalents

For purpose of the cash flows statement, “Cash and cash equivalents” include cash and balances on giro and current accounts held with other banks.

2. ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

(6) Property and equipment

Property and equipment are stated at cost, excluding daily maintenance expenses, less accumulated depreciation and accumulated allowance for impairment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual value over their useful lives. The estimated useful lives are as follows:

Buildings	from 40 to 50 years
Computer hardware	4 years
Other equipment	from 5 to 10 years

Changes in expected useful life of assets are considered as changes in accounting estimations.

Any item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in “Other operating income“ or “Other operating expenses“ in the income statement in the year the asset is derecognized.

(7) Intangible assets

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Licenses for software	10 years
Other intangible assets	4 years

(8) Impairment of non-financial assets

The Bank assesses at each reporting date if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the bank makes an estimate of the assets’ recoverable amount. Where the carrying amount of an asset (or group of asset, cash-generating units) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

2. ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

(9) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of payable and performance guarantees, letters of credit, acceptances and other warranties. Financial guarantees are initially recognized in the balance sheet at fair value, in provisions upon fee inflow from financial guarantee approval. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of the guarantee.

Any increase in the liability relating the financial guarantees is taken to the income statement in "Expenses from indirect placements write-offs and provisions". The premium received is recognized in the income statement in "Net fees and commission income" on a straight-line basis over the life of the guarantee.

(10) Employees benefits

Defined contribution plan

The Bank calculates and pays contributions for pension and health insurance and contributions for unemployment insurance at the rates prescribed by the law on the basis of the gross salaries. The contributions expenses are recognized in the income statement in the same period as appropriate salary expenses. The Bank has no any further liabilities for contributions in this respect.

Long-term employee benefits

In accordance with Labor Law there is a mandatory retirement indemnity equal to 3 average monthly salaries realized in the Republic of Serbia in the month prior to the month of retirement, or equal to 3 average salaries of an employee earned in the month prior to retirement or to payment – depending on what is more favorable for an employee. In addition, in accordance with the collective agreement, a qualifying employee is entitled to a jubilee awards for ten, twenty and thirty years of service held in the Bank. Jubilee awards are paid in the amount of one, two or three average salaries realised in the Bank in the three months prior to the date of payment, depending on how long the continuing work for the employer lasted.

Expenses and liabilities for the plans are not provided by the funds. Liabilities for fees and related expenses are recognized in the amount of present value of estimated future cash flows using actuarial method of projected unit cost. Actuarial gains and losses for retirement indemnity are recognized in the capital, and in respect of jubilee awards in the income statement. Expenses for previously provided services are recognized in the income statement when incur.

(11) 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.

(12) Income tax

Current 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 relating to items recognized directly in equity are also recognized in equity.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

2. ACCOUNTING POLICIES (continued)

2.4. Summary of significant accounting policies (continued)

(12) Income tax (continued)

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 financial reporting purposes.

Deferred tax liabilities are recognized 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; as well as in respect of taxable temporary differences associated with investments in subsidiaries and associates and joint investments 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 recognized 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 utilized 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 and joint investments, deferred tax assets are recognized 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 utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized 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 tax relating to items recognized directly in equity is also recognized in equity.

(13) Comparative data

Reclassification of comparative data was done, when it was necessary, for the purpose of reconciliation with the current year presentation.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

3. INTEREST INCOME AND EXPENSES

	2007 RSD thousand	2006 RSD thousand
Interest income		
Other banks	30.811	37.041
National Bank of Serbia	851.170	471.386
Corporate	683.607	338.618
Public sector	6.807	73.070
Retail	658.175	323.715
Foreign entities	36	38.190
Other customers	1.016	-
Securities	70.385	-
	2.302.007	**1.282.020**
Interest expense		
Related banks	62.322	149.143
Other banks	508.690	173.726
National Bank of Serbia	8.277	13.309
Corporate	188.044	50.341
Public sector	7.504	27.546
Retail	223.085	123.413
Foreign entities	14.276	9.881
Other customers	57.686	335
	1.069.884	**547.694**
Net interest income	**1.232.123**	**734.326**

Total amount of related banks expenses relates to Erste Bank Der Oesterreichischen Sparkassen AG Vienna, which is major shareholder of the Bank.

Interest income and expenses by types of financial instruments:

	2007 RSD thousand	2006 RSD thousand
Interest income		
Deposits with the National Bank of Serbia	851.170	471.386
Due from banks	30.847	37.041
Placement to customers	1.349.605	770.665
Securities held to maturity	70.385	2.928
	2.302.007	**1.282.020**
Interest expenses		
Deposits from banks	463.717	297.259
Deposits from customers	552.056	201.635
Loan payables	54.111	48.800
	1.069.884	**547.694**
Net interest income	**1.232.123**	**734.326**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

4. FEE AND COMMISSION INCOME AND EXPENSES

	2007 RSD thousand	2006 RSD thousand
Fee and commission interest		
Domestic payment transaction services	225.544	175.755
Abroad payment transaction services	26.382	3.807
Foreign exchange transactions	469.669	344.852
Placement transactions	69.247	114.558
Payment cards transactions	89.838	32.897
Guaranties and other sureties transactions	34.217	2.126
Other fees and commissions	231.325	166.571
	1.146.222	**840.566**
Fee and commission expense		
Domestic payment transaction services	22.362	23.222
Abroad payment transaction services	10.786	4.764
Foreign exchange transactions	356.355	326.679
Payment cards transactions	14.611	-
Brokerage fee and commission	473	260
Other fees and commissions	45.963	38.939
	450.550	**393.864**
Net fee and commission income	**695.672**	**446.702**

5. NET FOREIGN EXCHANGE GAINS

	2007 RSD thousand	2006 RSD thousand
Foreign exchange gains	5.636.776	3.806.515
Foreign exchange losses	(5.583.112)	(3.426.823)
Foreign exchange gains	**53.664**	**379.692**

6. NET GAINS ON SALES OF SECURITIES

During 2007, the Bank sold investment in shares of Vojvođanska Banka National Bank of Greece a.d. Novi Sad, Panonska Banka a.d. Novi Sad, Motis a.d. Novi Sad and DDOR Novi Sad a.d.o. Novi Sad whose total book value at the trade date was RSD 51.215 thousand. By selling the above mentioned shares, the bank realized income on sale of securities in the amount RSD 385.215 thousand (2006: RSD 35.243 thousand), out of which the amount of RSD 384.422 thousand relates to sale of securities of DDOR Novi Sad a.d.o. Novi Sad.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

7. OTHER OPERATING INCOME

	2007 RSD thousand	2006 RSD thousand
Releases of allowances for impairment losses of on-balance sheet items:		
- Due from banks (Note 17)	384.286	-
- Placements to customers (Note 18)	1.826.280	1.203.380
- Interest, commissions and fees receivable (Note 16)	80.911	-
- Securities held to maturity (Note 19)	220.758	-
- Investments and other securities available for sale (Note 19)	12.279	216.379
- Securities held for trading (Note 19)	-	43.628
- Other assets and accruals (Note 21)	18.693	208.450
Income from reversal of provisions:		
- Actuarial gains relating to jubilee awards (Note 25)	5.207	-
- Provisions for off-balance sheet items (Note 25)	161.871	81.424
Gains on sales of property and equipment	439.149	-
Rental income	3.551	1.439
Other operating income	52.687	224.006
Total other operating income	**3.205.672**	**1.978.706**

8. LOSSES ON IMPAIRMENT AND PROVISIONS

	2007 RSD thousand	2006 RSD thousand
Additions to allowances for impairment of on-balance sheet items:		
- Due from banks (Note 17)	411.738	5.356
- Placements to customers (Note 18)	1.900.096	1.885.113
- Interest, commissions and fees receivable (Note 16)	45.743	122.678
- Securities held to maturity (Note 19)	258.692	4.330
- Investments and other securities available for sale (Note 19)	14.671	244.045
- Securities held for trading (Note 19)	-	96.255
- Other assets and accruals (Note 21)	18.217	32.072
Additions to provisions:		
- Provisions for long-term employee benefits (Note 25)	-	131.018
- Provisions for legal proceedings (Note 25)	86.913	60.000
- Provisions for off-balance sheet losses (Note 25)	228.930	121.397
Total losses on impairment and provisions	**2.965.000**	**2.702.264**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

9. OTHER OPERATING EXPENSES

	2007 RSD thousand	**2006** RSD thousand
Net salaries	612.965	916.757
Payroll taxes and fees for employees	146.700	128.707
Salary and fee contributions	146.700	128.707
Other personnel expenses	269.773	325.535
Interest expenses and current service costs related to long-term employee benefits (Note 25)	16.114	-
Professional fees	339.212	393.636
Donations and sponsorships	19.802	14.049
Advertising expenses	110.462	84.717
Mail and telecommunication expenses	46.134	29.199
Insurance premiums	41.418	37.052
Maintenance of fixed assets	50.808	24.681
Depreciation of fixed assets (Note 20)	105.969	79.816
Amortization of intangible assets (Note 20)	4.808	2.366
Depreciation of investment properties (Note 20)	119	83
Write-off of non-collectable receivables	-	28.717
Losses on sale and disposal of fixed assets	3.849	595
Rent	264.082	182.301
Material expenses	72.345	123.613
Taxes and contributions	58.009	82.571
Other operating expenses	44.637	55.558
Total other operating expenses	**2.353.906**	**2.638.660**

10. GAINS ON CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2007 RSD thousand	**2006** RSD thousand
Gains on changes in value of financial assets:		
- Loans and placements to banks and customers – foreign currency clause	1.989.859	339.614
- Loans and placements to banks and customers – consumer price index	2.558	-
- Securities and other investments held for trading	42.444	14.339
Gains on changes in value of financial liabilities – foreign currency clause	134.610	3.816
Gains on changes in value of other non-financial assets	24	-
Total gains on changes in value of assets and liabilities	**2.169.495**	**357.769**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

11. LOSSES ON CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2007 RSD thousand	2006 RSD thousand
Losses on changes in value of assets		
- Loans and placements to banks and customers – foreign currency clause	2.082.308	767.196
- Securities and other investments held for trading	13.289	22.976
- Equity shares and other securities available for sale	40.092	-
- Other financial assets	14	-
Losses on changes in value of liabilities – foreign currency clause	117.817	4.328
Total losses on changes in value of assets and liabilities	**2.253.520**	**794.500**

12. INCOME TAX

The components of income tax expense are:

	2007 RSD thousand	2006 RSD thousand
Current income tax	-	(2.251)
Deferred income tax	3.226	(11.247)
Total income tax	**3.226**	**(13.498)**

Amount of prepaid liabilities from current income tax is stated at RSD 2.251 thousand since the same amount was paid in advance during 2007.

Reconciliation of total amount of income tax stated in the income statement with the amount of profit/(loss) before tax mulitiplied by prescribed tax rate is as follows:

	2007 RSD thousand	2006 RSD thousand
Profit/(Loss) before tax	**170.878**	**(2.202.047)**
Income tax rate of 10%	17.088	(220.205)
Expense tax effects not recognized for tax purposes	(12.479)	15.941
Dividend income deductible for tax purposes	(146)	-
Unstated tax credits on investments on property and equipment	2.084	-
Unstated differed tax assets	53.844	190.766
Tax facilities	(57.165)	-
Income tax stated in the income statement	**3.226**	**(13.498)**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

12. INCOME TAX (continued)

Deferred income tax that relates to the amounts charged or credited directly to equity is:

	2007 RSD thousand	2006 RSD thousand
Total deferred tax charged/credited directly to equity	**1.876**	**10.449**

	Deferred tax assets 2007 RSD thousand	Deferred tax liabilities 2007 RSD thousand	Income statement 2007 RSD thousand	Deferred tax assets 2006 RSD thousand	Deferred tax liabilities 2006 RSD thousand	Income statement 2007 RSD thousand
Temporary differences:						
- Property, equipment and intangible assets	-	(3.226)	3.226	10.435	812	812
- Financial assets available for sale	-	1.876	-	-	14	-
Total	**-**	**(1.350)**	**3.226**	**10.435**	**826**	**812**

At 31 December 2007 the Bank did not recognize deferred tax assets from unutilized tax losses carryforward in the amount of RSD 528.724 thousand (2006: RSD 633.195 thousand) and unutilized tax credits carryforward in the amount of RSD 1.819 thousand (2006: RSD 2.482 thousand), due to uncertainty of existence of sufficient amount of future taxable gains against which deferred tax liabilities could be used. Right to carryforward of unutilized tax losses and tax credits are expired in following years:

	Tax losses carryforward 2007 RSD thousand	Tax credits carryforward 2007 RSD thousand	Tax losses carryforward 2006 RSD thousand	Tax credits carryforward 2006 RSD thousand
Up to 1 year	-	-	158.315	-
Over 5 years	528.724	1.819	474.880	2.482
	528.724	**1.819**	**633.195**	**2.482**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

13. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to the owners of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period.

	2007 RSD thousand	2006 RSD thousand
Net profit/(loss) related to shareholders of the Bank's ordinary shares	174.104	(2.215.545)
Weighted average number of ordinary shares for basic earnings per share	711.738	711.738
Earnings per share	0.24	-

Bank did not possess financial instruments that could result in dilution of earnings per share.

14. CASH AND CASH EQUIVALENTS

	2007 RSD thousand	2006 RSD thousand
In RSD		
Gyro account	566.308	512.139
Cash on hand	623.246	369.991
Placed surpluses of the liquid assets with National bank of Serbia	1.700.000	-
	2.889.554	**882.130**
In foreign currency		
Accounts with domestic banks	384	353
Accounts with foreign banks	137.912	175.742
Cash on hand in foreign currency	223.028	203.956
Other monetary assets in foreign currency	16	16
	361.340	**380.067**
Gold and precious metals	1.206	1.394
Balance as of 31 December	**3.252.100**	**1.263.591**

The Bank's obligatory reserves represent the minimum reserves that are set aside in accordance with the Decision of National Bank of Serbia on "Obligatory Reserves of Banks held with the National Bank of Serbia" (Official Gazette No. 93/2007). In accordance with the Decision, banks are obligated to calculate the obligatory reserve denominated in dinars at the rate of 10% (2006:15%) on the basis of average daily amount of deposits in dinars during a month period.

Apart from this, banks calculate obligatory reserve denominated in dinars at the rate of 45% on the basis of average daily carrying balance of deposits in dinars 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 dinars for the previous month for deposits and loans received from abroad.

In December 2007 the amount of calculated obligatory reserve in dinars was RSD 811.928 thousand. During accounting period, the Bank is obligatory to maintain average daily balance of obligatory reserve in dinars on its gyro account.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

15. DEPOSITS WITH THE CENTRAL BANK AND SECURITIES THAT CAN BE REFINANCED WITH THE CENTRAL BANK

	2007 RSD thousand	2006 RSD thousand
In RSD		
Securities issued by National bank of Serbia	306.947	134.710
Repo placements with National bank of Serbia	7.220.663	6.487.205
In foreign currency		
Obligatory reserve in foreign currency	3.392.254	3.153.818
Balance as of 31 December	**10.919.864**	**9.775.733**

The Bank's obligatory reserves denominated in foreign currency with the National Bank of Serbia are set aside in accordance with the Decision of National Bank of Serbia on "Obligatory Reserves of Banks held with the National Bank of Serbia" (Official Gazette No. 93/2007). In accordance with the Decision, 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 kept by the lessors on the special account with the Bank; at the rate of 20% on the basis of average daily carrying amount of subordinated liabilities for the previous month: at the rate of 40% on the basis of liabilities for foreign currency savings held with the Bank.

Calculated obligatory reserve in foreign currency for November 2007 is in the amount of EUR 42.812 thousand, as follows: the amount of EUR 4.851 thousand on foreign currency deposits and loans, the amount of EUR 31.801 thousand on foreign currency savings placed with the Bank, the amount of EUR 2.160 thousand on subordinate liabilities and the amount of EUR 4.000 thousand on foreign currency reserves that lessors keep at the special bank account.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

16. INTEREST, COMMISSIONS AND FEES RECEIVABLE

	2007 RSD thousand	2006 RSD thousand
In RSD		
Banks	1.041	706
National bank of Serbia	8.291	6.104
Corporate	67.826	87.742
Public sector	314	-
Retail	17.186	8.916
Other customers	13.373	42
	108.031	**103.510**
In foreign currency		
Corporate	173.176	173.924
	173.176	**173.924**
Total interest, commissions and fees receivable	**281.207**	**277.434**
Impairment	(200.249)	(230.611)
Balance as of 31 December	**80.958**	**46.823**

Changes in allowances for impairment losses are as follows:

	2007 RSD thousand	2006 RSD thousand
Balance at the beginning of the year	230.611	450.075
Charge for the year (Note 8)	45.743	122.678
Reversal of impairment losses (Note 7)	(80.911)	-
Write-offs	-	(342.142)
Foreign exchange differences	4.806	-
Balance as of 31 December	**200.249**	**230.611**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

17. DUE FROM BANKS

	2007 RSD thousand	2006 RSD thousand
In RSD		
Short-term deposits	2.350.000	-
Short-term loans	4.561	184.606
Other financial placements	-	8
Temporary accounts	(48)	-
	2.354.513	**184.614**
In foreign currency		
Short-term loans	-	180.120
Other financial placements	3.671	241.363
	3.671	**421.483**
Total due from banks	**2.358.184**	**606.097**
Impairment	(25.827)	(9.048)
Balance as of 31 December	**2.332.357**	**597.049**

Changes in allowances for impairment losses are as follows:

	2007 RSD thousand	2006 RSD thousand
Balance at the beginning of the year	9.048	4.781
Charge for the year (Note 8)	411.738	5.356
Reversal of impairment losses (Note 7)	(384.286)	-
Write-offs	-	(1.089)
Foreign exchange differences	(10.673)	-
Balance as of 31 December	**25.827**	**9.048**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

18. PLACEMENTS TO CUSTOMERS

	2007			2006		
	Short-term	Long-term	Total	Short-term	Long-term	Total
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
In RSD Loans and placements						
Corporate	4.992.353	5.286.405	10.278.758	1.884.711	2.514.313	4.399.024
Retail	1.228.458	6.474.543	7.703.001	840.588	3.075.170	3.915.758
Public sector	-	136.918	136.918	-	77.185	77.185
Other customers	-	-	-	173	-	173
Current portion of long-term loans	2.260.271	(2.260.271)	-	2.016.481	(2.016.481)	-
Other long-term financial placements	64	32.061	32.125	-	47.814	47.814
Total in RSD	**8.481.146**	**9.669.656**	**18.150.802**	**4.741.953**	**3.698.001**	**8.439.954**
In foreign currency Loans and placements						
Corporate	1.221.723	1.443.235	2.664.958	1.275.555	1.389.780	2.665.335
Foreign entities	5.373	-	5.373	5.998	-	5.998
Other customers	-	-	-	15.135	-	15.135
Current portion of long-term loans	356.784	(356.784)	-	199.523	(199.523)	-
Other financial placements						
-Foreign entities	94.764	-	94.764	17.993	-	17.993
-Nostro covered letters of credit	6.054	-	6.054	27.218	-	27.218
-Other receivables	37.345	10.328	47.673	38.523	-	38.523
Total in foreign currency	**1.722.043**	**1.096.779**	**2.818.822**	**1.579.945**	**1.190.257**	**2.770.202**
Total placements to customers	**10.203.189**	**10.766.435**	**20.969.624**	**6.321.898**	**4.888.258**	**11.210.156**
Impairment	(518.241)	(1.821.897)	(2.340.138)	(1.820.021)	(448.530)	(2.268.551)
Placements to customers, net as of 31 December	**9.684.948**	**8.944.538**	**18.629.486**	**4.501.877**	**4.439.728**	**8.941.605**

Gross placements to customers at 31 December 2007 include the amount of RSD 1.066.418 thousand relating to loans originating from Paris and London Club of Creditors. Total allowance for impairement of these loans as of 31 December 2007 amounted to RSD 414.849 thousand.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

18. PLACEMENTS TO CUSTOMERS (continued)

Gross placements which are individually assessed for impairment as of 31 December 2007 amount to RSD 1.875.798 thousand (2006: RSD 353.219 thousand).

Changes in allowances for impairment losses are as follows:

	2007 RSD thousand	**2006** RSD thousand
Balance at the beginning of the year	2.268.551	3.304.061
Charge for the year (Note 8)	1.900.096	1.885.113
Reversal of impairment losses (Note 7)	(1.826.280)	(1.203.380)
Write-offs	-	(1.717.243)
Foreign exchange differences	(2.229)	-
Balance as of 31 December	**2.340.138**	**2.268.551**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

19. INVESTMENTS IN SECURITIES AND EQUITY SHARES

	2007			2006		
	Securities and other investments held for trading	Securities held to maturity	Equity shares and other securities available for sale	Securities and other investments held for trading	Securities held to maturity	Equity shares and other securities available for sale
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Unquoted securities and other placements:						
- equity shares	-	-	246.935	-	-	445.129
- other securities	-	1.071.862	-	-	62.930	-
Quoted securities and other placements:						
- equity shares	-	-	85.305	-	-	3.039
- Debt securities issued by Government of the Republic of Serbia	122.366	-	-	309.225	-	-
Total	122.366	1.071.862	332.240	309.225	62.930	448.168
Impairment	(22.435)	(37.934)	(261.270)	(76.443)	(4.330)	(303.359)
Balance at 31 December, net	**99.931**	**1.033.928**	**70.970**	**232.782**	**58.600**	**144.809**

Changes in allowances for impairment losses are as follows:

	2007			2006		
	Securities and other investments held for trading	Securities held to maturity	Equity shares and other securities available for sale	Securities and other investments held for trading	Securities held to maturity	Equity shares and other securities available for sale
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Balance at the beginning of the year	76.443	4.330	303.359	23.816	-	275.693
Charge for the year (Note 8)	-	258.692	14.671	96.255	4.330	244.045
Reversal of impairment losses (Note 7)	-	(220.758)	(12.279)	(43.628)	-	(216.379)
Foreign exchange differences	-	(4.330)	(1.764)	-	-	-
Other movements	(54.008)	-	(42.717)	-	-	-
Balance at 31 December	**22.435**	**37.934**	**261.270**	**76.443**	**4.330**	**303.359**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

20. PROPERTY, EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

Changes in property, equipment, investment property and intangible assets were as follows:

	Land and buildings RSD thousand	Equipment RSD thousand	Leased equipment RSD thousand	Advances and construction in progress RSD thousand	Total fixed assets RSD thousand	Investment properties RSD thousand	Intangible assets RSD thousand
Cost							
Balance at the beginning of the year	**1.066.312**	**770.099**	**242.169**	**79.972**	**2.158.552**	**6.093**	**26.506**
Additions	-	-	-	161.315	161.315	-	23.051
Transfers	70.055	146.943	-	(216.998)	-	-	-
Disposals and write-offs	(449.565)	(236.798)	-	-	(686.363)	(6.093)	-
Other	-	879	-	(10.091)	(9.212)	-	-
Balance at the end of the year	**686.802**	**681.123**	**242.169**	**14.198**	**1.624.292**	**-**	**49.557**
Accumulated depreciation and amortization							
Balance at the beginning of the year	**203.512**	**523.950**	**237.160**	**-**	**964.622**	**457**	**9.453**
Current year depreciation and amortization (Note 9)	27.185	76.361	2.423	-	105.969	119	4.808
Disposal and write-offs	(84.543)	(231.956)	-	-	(316.499)	(576)	-
Balance at the end of the year	**146.154**	**368.355**	**239.583**	**-**	**754.092**	**-**	**14.261**
Net book value							
Balance as of 31 December 2007	**540.648**	**312.768**	**2.586**	**14.198**	**870.200**	**-**	**35.296**
Balance as of 31 December 2006	**862.800**	**246.148**	**5.010**	**79.973**	**1.193.931**	**5.636**	**17.053**

The Bank did not pledge any building as collateral in order to secure loan liabilities repayment.

Due to incomplete cadastre records the Bank does not have title deeds for buildings with net present value at the amount RSD 90.962 thousand as of 31 December 2007. The Bank's management took all necessary measures in order to obtain title deeds.

Net book value of equipment as of 31 December 2007 mostly relates to computer and telecommunication equipment, office furniture and vehicles.

Net book value of intangible assets as of 31 December 2007 mostly relates to software and licenses.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

21. OTHER ASSETS AND ACCRUALS

	2007 RSD thousand	2006 RSD thousand
Receivables from sale	-	4.137
Receivables from sale of assets received on foreclosed loans	1.586	317.093
Receivables from employees	26.738	55
Receivables for corporate tax and contribution prepayment, except income tax	215	164
Advances paid	1.478	1.467
Other receivables from business relationships	466.766	31.308
Inventories	34.319	35.078
Assets received on foreclosed loans	43.317	46.044
Other assets	-	2.973
Accrued expenses for calculated interest:		
- in RSD	26.400	4.996
- in foreign currency	11.695	4.694
Other accruals:		
- in RSD	25.786	280.846
- in foreign currency	-	2.906
Total assets and accruals	**638.300**	**731.761**
Impairment	(106.233)	(109.861)
Balance as of 31 December	**532.067**	**621.900**

Changes in allowances for impairment losses are as follows:

	2007. RSD thousand	2006. RSD thousand
Balance at the beginning of the year	109.861	286.239
Charge for the year (Note 8)	18.217	32.072
Reversal of impairment losses (Note 7)	(18.693)	(208.450)
Write-offs	-	-
Foreign exchange differences	1.335	-
Other changes	(4.487)	-
Balance as of 31 December	**106.233**	**109.861**

22. DUE TO BANKS

	2007				2006			
	On demand	Short-term	Long-term	Total	On demand	Short-term	Long-term	Total
	RSD thousand	RSD thousand	RSD thousand	**RSD thousand**	RSD thousand	RSD thousand	RSD thousand	**RSD thousand**
In RSD								
Deposits:								
- Banks	1	100.000	-	**100.001**	7.507	200.000	-	**207.507**
- Financial organisations	35.928	-	500	**36.428**	706	-	500	**1.206**
- Voluntary pension funds	-	-	-	**-**	2.562	-	-	**2.562**
- Insurance companies	8.491	-	-	**8.491**	1.102	-	-	**1.102**
Loans:								
- National bank of Serbia	-	-	8.861	**8.861**	-	-	10.633	**10.633**
Total in RSD	**44.420**	**100.000**	**9.361**	**153.781**	**11.877**	**200.000**	**11.133**	**223.010**
In foreign currency								
Deposits:								
- Banks	-	1.416.362	-	**1.416.362**	15.436	3.353.954	-	**3.369.390**
- Financial organisations	10	-	-	**10**	-	-	-	**-**
- Insurance companies	362.381	-	32.151	**394.532**	232	-	-	**232**
Other financial liabilities	10.488	-	-	**10.488**	-	10.941	-	**10.941**
Total in foreign currency	**372.879**	**1.416.362**	**32.151**	**1.821.392**	**15.668**	**3.364.895**	**-**	**3.380.563**
Balance as of 31 December	**417.299**	**1.516.362**	**41.512**	**1.975.173**	**27.545**	**3.564.895**	**11.133**	**3.603.573**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

23. DUE TO CUSTOMERS

	2007				2006			
	On demand	Short-term	Long-term	Total	On demand	Short-term	Long-term	Total
	RSD thousand	RSD thousand	RSD thousand	**RSD thousand**	RSD thousand	RSD thousand	RSD thousand	**RSD thousand**
In RSD								
Deposits:								
- Corporate	2.160.995	2.335.202	62.587	**4.558.784**	1.313.255	523.609	11.777	**1.848.641**
- Public sector	8.691	15.436	41.256	**65.383**	35.691	356.000	11.941	**403.632**
- Retail	1.349.637	225.669	28.265	**1.603.571**	1.009.055	125.072	6.357	**1.140.484**
- Foreign banks	7.699	133.104	-	**140.803**	806	-	-	**806**
- Other foreign entities	30.348	3.754	-	**34.102**	2.287	-	-	**2.287**
- Other customers	434.372	242.287	11.235	**687.894**	412.258	211.482	4.711	**628.451**
Total in RSD	**3.991.742**	**2.955.452**	**143.343**	**7.090.537**	**2.773.352**	**1.216.163**	**34.786**	**4.024.301**
In foreign currency								
Deposits:								
- Corporate	835.243	708.545	17.956	**1.561.744**	729.652	207.621	-	**937.273**
- Retail	2.347.722	4.995.310	1.892.029	**9.235.061**	2.066.395	2.349.957	476.141	**4.892.493**
- Foreign banks	439	5.381.052	-	**5.381.491**	42.697	395.000	-	**437.697**
- Other foreign entities	122.727	157.905	7.756	**288.388**	27.677	41.936	-	**69.613**
- Other customers	22.044	-	-	**22.044**	27.596	-	32.055	**59.651**
Loans:								
- Public sector	-	-	91.228	**91.228**	-	-	196.666	**196.666**
- Foreign banks	-	-	-	-	-	-	1.580.000	**1.580.000**
Other financial liabilities	131.335	-	-	**131.335**	38.442	-	-	**38.442**
Total in foreign currency	**3.459.510**	**11.242.812**	**2.008.969**	**16.711.291**	**2.932.459**	**2.994.514**	**2.284.862**	**8.211.835**
Balance as of 31 December	**7.451.252**	**14.198.264**	**2.152.312**	**23.801.828**	**5.705.811**	**4.210.677**	**2.319.648**	**12.236.136**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

24. OTHER OPERATING LIABILITIES

	2007 RSD thousand	2006 RSD thousand
Liabilities for net salaries and contributions	1.885	-
Liabilities for taxes, contributions and other duties, except income tax	7.899	15.063
Liabilities toward suppliers	22.089	14.949
Advances received	9.453	6.757
Other liabilities	44.065	114.779
Balance as of 31 December	**85.391**	**151.548**

25. PROVISIONS

	2007 RSD thousand	2006 RSD thousand
Provisions for long-term employee benefits:		
- jubilee awards	62.324	65.540
- employees retirement benefit	55.417	65.477
Provisions for legal proceedings	138.820	60.000
Provisions for off-balance sheet assets losses	109.878	56.178
Balance as of 31 December	**366.439**	**247.195**

Changes in provisions in the year ended 31 December 2007 were as follows:

	2007 RSD thousand	2006 RSD thousand
Provisions for long-term benefits to employees		
Balance at the beginning of the year	131.018	-
Interest expenses and current service costs (Note 9 and 8)	16.114	131.018
Benefits paid during the year	(7.274)	-
Actuarial gains relating to employees retirement benefit (Note 27)	(16.910)	-
Actuarial gains relating to jubilee awards (Note 7)	(5.207)	-
Balance as of 31 December	**117.741**	**131.018**

Provisions for legal proceedings	2007 RSD thousand	2006 RSD thousand
Balance at the beginning of the year	60.000	-
Charge for the year (Note 8)	86.913	60.000
Amounts utilized	(8.093)	-
Balance as of 31 December	**138.820**	**60.000**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

25. PROVISIONS (continued)

Provisions for off-balance sheet assets losses	2007 RSD thousand	2006 RSD thousand
Balance at the beginning of the year	56.178	16.205
Charge for the year (Note 8)	228.930	121.397
Reversals (Note 7)	(161.871)	(81.424)
Other changes	(13.359)	-
Balance as of 31 December	**109.878**	**56.178**

26. OTHER LIABILITIES AND ACCRUALS

	2007 RSD thousand	2006 RSD thousand
Accrued expenses and deferred income		
Accrued expenses for calculated interest:		
- in RSD	22.985	41.013
- in foreign currency	8.653	10.628
Deferred liabilities for other calculated interest:		
- in RSD	150.495	127.778
Other deferrals:		
- in RSD	173.709	471.142
- in foreign currency	188.128	279.406
	-	-
Other liabilities		
Subordinated liabilities	855.751	853.200
Long-term liabilities for financial lease	1.845	3.548
Balance as of 31 December	**1.401.566**	**1.786.715**

Subordinated liabilities in foreign currency as of 31 December 2007 in the amount of RSD 855.751 thousand relate to subordinate long-term loan granted on 20 December 2005 from Erste Bank der Oesterreichischen Sparkassen AG, Vienna. Subordinate loan was granted at the amount of EUR 10.800.000 for the period of 10 years with 5 years of grace period and interest rate equal to quarterly EURIBOR increased for 2,4% per annum. In accordance with the agreement, loan principal ispaid in 21 equal quarterly repayments and the first repayment is due upon the end of grace period.

27. EQUITY

	2007 RSD thousand	2006 RSD thousand
Share capital – ordinary shares	10.040.000	7.117.380
Share premium	2.228.932	2.502.095
Revaluation reserves	23.421	6.554
Reserves from profit and other reserves	-	10.704
Accumulated loss	(2.087.547)	(4.791.360)
State and other capital	10.329	10.329
Treasury shares	-	(91)
Balance at 31 December	**10.215.135**	**4.855.611**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

27. EQUITY (continued)

Share capital

As of 31 December 2007 the total number of the Bank's registered shares was 1.004.000 ordinary shares with nominal value of RSD 10.000 (2006: 711.738 ordinary shares with nominal value of RSD 10.000).
As of 31 December 2007 the Bank subscribed and fully paid capital paid was 1.004.000 ordinary shares with nominal values of RSD 10.000 (2006: 711.738 ordinary shares with nominal value of RSD 10.000).

New share issue

According to the Bank's shareholders assembly Decision no. 1V-185/2007-2 dated 10 December 2007 on increase of share capital by issuing 292.262 ordinary shares of the 30th issue, at the nominal value of RSD 10 thousand, the Bank increased its share capital on 19 December 2007 in the amount of RSD 5.151.552 thousand, out of which the amount of RSD 2.922.620 thousand relates to share capital and the amount of RSD 2.228.932 thousand relates to share premium. The shares were subscribed and paid by the Bank's existing shareholders Erste Bank Der Oesterreichischen Sparkassen AG, Vienna and Steiermarkische Bank UND Sparkassen AG, Graz.

Treasury shares

At 31 December 2007 the Bank had no treasury shares.

Share premium

Share premium comprises positive difference between achieved selling value of shares and their nominal value, as well as gains and losses from trading with own shares. During 2007, in accordance with the Decision on loss coverage no. 2719/2007/25/2c the Bank covered part of the loss in the amount of RSD 2.502.095 thousand out of share premium that had been formed in previous years. On 19 December 2007 the Bank issued ordinary shares of the 30th issue, where the Bank realized share premium in the amount of RSD 2.228.932 thousand.

Accumulated loss

As of 31 December 2007 accumulated loss is stated in the amount RSD 2.087.547 thousand (2006: RSD 4.791.360 thousand, i.e. RSD 4.981.040 thousand, reduced for the amount of restatements in 2007 in the amount of RSD 189.680 thousand). In 2007, the Bank covered a part of losses from previous years in the amount of RSD 2.512.799 thousand and formed retained earnings in the amount of RSD 380.694 thousand which reduced the amount of accumulated losses. Retained earnings were formed from reduction of deferred tax liabilities in the amount of RSD 3.226 thousand, actuarial gain in the amount of RSD 16.910 thousand, profit before tax in the amount of RSD 170.878 thousand and above mentioned restatement in the amount of RSD 189.680 thousand (Note 2.3.).

Revaluation reserves

Revaluation reserves in the amount of RSD 23.421 thousand (2006: RSD 6.554 thousand) as of 31 December 2007 relate to effects of changes in fair value of financial instruments available for sale.

In 2007, the restatement to the opening balance of revaluation reserves opening balance was made with respect to an error from prior years in the amount of RSD 189.680 thousand. The amount represents effects of valuation of property and equipment which was not treated as an increase of the equity in accordance with IFRS 1 upon the first time adoption of International Financial Reporting Standards (in 2003). The amount was reclassified to the retained earnings.

27. EQUITY (continued)

Reserves from profit

Reserves from profit are formed in accordance with regulations on reserves for potential losses, while reserves for general banking risks and reserves from allocation of profit are formed in accordance with the Bank's statute and other acts.

Reserves from profit amount to RSD 471.412 thousand (2006: RSD 183.701 thousand) are calculated as the difference between total impairment of balance sheet assets and provisions of off-balance sheet assets and total special reserve for estimated losses calculated in accordance with the Decision on balance sheet assets and off-balance sheet items classification (Official Gazette of the Republic of Serbia No. 57/2006). As of 31 December 2007, shortfall of reserves for potential losses on balance sheet and off-balance sheet assets classified in accordance with the Decision of the National bank of Serbia amounted to RSD 471.412 thousand (2006: RSD 183.701 thousand).

28. OFF-BALANCE SHEET ITEMS

	2007 RSD thousand	**2006** RSD thousand
Managed funds	245.457	222.780
Guarantees, sureties, assets pledged as collateral and irrevocable commitments	4.954.432	2.604.809
Other off-balance sheet items	4.599.345	4.698.540
Balance at 31 December	**9.799.234**	**7.526.129**

Managed funds

	2007 RSD thousand	**2006** RSD thousand
Short-term placements – public sector	7.952	126.040
Long-term placements – public sector	237.505	96.740
Balance at 31 December	**245.457**	**222.780**

Managed funds mostly relate to the assets of the Ministry of agriculture which represent the source of long-term loans to farms in the amount of RSD 57.695 thousand, while the amount of RSD 179.810 thousand relates to assets insured with the National mortgage insurance corporation.

Guarantees and other potential liabilities

	2007 RSD thousand	**2006** RSD thousand
Guarantees and issued acceptances and endorsements		
Financial guarantees issued for loans	507.750	457.765
Other financial guarantees issued	1.527.928	302.174
Performance guarantees	425.580	391.073
Issued acceptances and endorsements	57.926	9.504
Total guarantees and issued acceptances and endorsements	**2.519.184**	**1.160.516**
Irrevocable commitments	2.435.248	1.444.293
Balance at 31 December	**4.954.432**	**2.604.809**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

28. OFF-BALANCE SHEET ITEMS (continued)

Guarantees and other contingencies and commitments

Irrevocable commitments relate to contractual commitments to make loans that cannot be cancelled unilaterally, such as: overdrafts, revolving loans to companies, multi-purpose revolving loans, foreign currency buying and selling throughout forward transactions, and other irrevocable commitments. Since irrevocable commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The Bank monitors the term to maturity of credit commitments because longer-term commitments have a greater degree of loan risk than short-term commitments.

Other off-balance sheet items

	2007 RSD thousand	2006 RSD thousand
Deposited foreign currency savings bonds	3.228.970	3.792.492
Received guarantees from foreign banks and other financial organizations	306.333	882.306
Other	1.064.042	23.742
Balance at 31 December	**4.599.345**	**4.698.540**

Lease commitments

Operating lease commitments – Bank as a lessee

The Bank has contracted agreements on operating leases on premises and equipment. Total future minimal installments in respect of agreement on operating leases that cannot be cancelled, as of 31 December are shown in the following table:

	2007 RSD thousand	2006 RSD thousand
Within one year	66.429	50.813
More than one year but not more than five years	115.147	165.550
More than five years	147	15.633
Balance as of 31 December	**181.723**	**231.996**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

29. RELATED PARTIES DISCLOSURES

Fees to members of the Executive board, other key personnel and members of the Board of Directors and the Supervisory Board

Total amount of the expenses for the fee to the Bank's executive personnel and a member of the Board of Directors (bonus for management personnel and salary for the member of the Board of directors which is paid monthly) for the year ended 31 December 2007 amounts of RSD 33.002 thousand (2006: RSD 12.462 thousand), and relates to short-terms fees.

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

In its regular course of operations, the Bank enters into business relationships and arrangements with the members of the Executive Board, other key personnel and related parties, at common market conditions. Balances at the end of the year and effects of those transactions are presented as follows:

	Balance as of 31 December 2007 RSD thousand	**Income/expenses 2007** RSD thousand	**Balance as of 31 December 2006** RSD thousand	**Income/expenses 2006** RSD thousand
Overdrafts, credit cards, cash and consumer loans	517	126	305	73
Other placements and receivables	6	-	5	-
Total impairment of placements	(4)	(25)	(6)	(38)
Deposits	35.002	(795)	6.338	(906)

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

29. RELATED PARTIES DISCLOSURES (continued)

Transactions with other related parties

The Bank enters into business relations with its parent legal entity and other members of Este Group. Following table shows balances of receivables and liabilities, as well as appropriate income and expenses based on business relationship with other related parties, as of balance sheet date:

	2007 RSD thousand	**2006** RSD thousand
Due from banks	**175.096**	**49.397**
- current accounts	80.332	31.404
- other placements	94.764	17.993
Other assets	**207**	**1.402**
Due to banks	**5.594.185**	**2.016.378**
- demand deposits	15.373	842
- terms deposits	5.460.551	1.975.000
- other	118.261	40.536
Subordinated liabilities	**855.751**	**853.200**
Interest income	3.729	-
Interest expenses	78.456	110.223
Fee and commission income	3.846	-
Fee and commission expenses	7.660	-
Other income	-	-
Operating lease expenses	-	-
Other expenses	70.185	135.583

Terms and conditions of transactions with related parties

The above mentioned balances of receivables and liabilities as well as balances of income and expenses arising from relationships with related parties represent the result of usual business activities. The Bank collects and pays interest calculated using the usual market based interest rates. There have been no collaterals provided for any related party receivables. The Bank neither issued any guarantees to the related parties nor used any of their guarantees.

30. RISK MANAGEMENT

30.1. Introduction

Risk is inherent in the Bank's activities but it is 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 operating risks.
The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors and Executive Board are ultimately responsible for identifying and controlling risks. However, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors and Executive Board

The Board of Directors and Executive Board are responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk management department

The risk management department has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. .

The risk management department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

The risk management department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralized unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Treasury department

Treasury department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited at least annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk management and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience received on bank group level, adjusted to reflect the economic environment.

30. RISK MANAGEMENT (continued)

30.1. Introduction (continued)

Risk management and reporting systems (continued)

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information complied from all the businesses is examined and processed in order to identify, analyze and control early risks. This information is presented and explained to the Board of Directors, Executive Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, market risk measurement, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses and takes adequate measures on a quarterly basis.

Excessive risk concentration

Concentrations arise when a significant 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, political or other conditions. Concentrations indicate the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

30.2. Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit, which may require that the Bank makes payments on their behalf. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements or other hedging instruments:

		Gross carrying amount		Gross maximum exposure	
		2007	**2006**	**2007**	**2006**
	Notes	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Cash and cash equivalents (excluding cash on hand)	14	2.405.826	689.644	2.405.826	689.644
Deposits with the Central bank and securities that can be refinanced with the Central bank	15	10.919.864	9.775.733	10.919.864	9.775.733
Interest, commissions and fees receivable	16	281.207	277.434	80.958	46.823
Due from banks	17	2.358.184	606.097	2.332.357	597.049
Placements to customers	18	20.969.624	11.210.156	18.629.486	8.941.605
Securities and other trading investments	19	122.366	309.225	99.931	232.782
Securities held to maturity	19	1.071.862	62.930	1.033.928	58.600
Equity shares and other securities available for sale	19	332.240	448.168	70.970	144.809
Other assets	21;12	606.232	696.683	71.914	74.783
Total		**39.067.405**	**24.076.070**	**35.645.234**	**20.561.828**
Contingent liabilities	28	2.519.184	1.160.516	2.519.184	1.160.516
Commitments	28	2.435.248	1.444.292	2.435.248	1.444.292
Total financial guarantees		**4.954.432**	**2.604.809**	**4.954.432**	**2.604.809**
Total credit risk exposure		**44.021.837**	**26.680.879**	**40.599.666**	**23.166.637**

30. RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed with setting the limits by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2007 was RSD 797.952 thousand (2006: RSD 932.317 thousand), before taking account of deductions (collateral or other credit risk enhancements), i.e. the amount of RSD 750.299 thousand (2006: RSD 187.296 thousand) net of such protection.

Gross maximum credit risk exposure is analyzed by the following geographical regions as follows:

	Accounts with NBS, other banks and other due from banks	Placements to customers	Equity shares and securities	Interest, fees and other assets	Contingent liabilities and commit-ments	Total 2007
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Serbia						
- Belgrade	6.179.333	6.679.618	513.739	262.354	986.469	14.621.512
- Vojvodina	7.936.629	8.681.624	667.716	340.986	1.282.132	18.909.087
- Other parts of Serbia	281.142	303.904	23.374	11.936	44.882	665.238
European Union	94.764	-	-	-	-	94.764
Total	14.491.868	15.665.146	1.204.829	615.276	2.313.482	34.290.601

	Accounts with NBS, other banks and other due from banks	Placements to customers	Equity shares and securities	Interest, fees and other assets	Contingent liabilities and commit-ments	Total 2006
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Serbia						
- Belgrade	4.589.727	2.991.449	185.992	285.143	320.033	8.372.344
- Vojvodina	5.947.361	3.888.042	241.737	370.606	415.953	10.863.699
- Other parts of Serbia	208.820	136.103	8.462	12.973	14.561	380.918
European Union	17.993	-	-	-	-	17.993
Total	10.763.901	7.015.593	436.191	668.723	750.546	19.634.954

30. RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in value.

An industry sector analysis of the Bank's financial assets, before and after taking into account impairment, is as follows:

	Gross carrying amount 2007	Gross maximum exposure 2007	Gross carrying amount 2006	Gross maximum exposure 2006
	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Due from banks	15.683.874	15.658.047	11.071.474	11.062.466
Retail	7.909.929	6.265.602	3.847.929	3.646.038
Manufacturing industry	7.126.723	3.469.845	4.514.736	1.217.922
Trade	4.881.638	3.615.693	1.990.148	1.324.528
Mining and energetic	845.850	775.206	1.003.714	327.097
Agriculture, hunting, fishing and forestry	1.013.041	827.098	519.181	439.721
Engineering	1.550.884	1.049.828	591.733	414.493
Transport and communications	1.157.952	880.589	334.902	236.032
Services, tourism and catering	633.378	417.689	180.073	160.133
Other	3.218.568	1.331.004	2.626.989	806.524
Total	**44.021.837**	**34.290.601**	**26.680.879**	**19.634.954**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

- for commercial lending, charges over real estate properties, inventory and trade receivables,
- for retail lending, mortgages over residential properties.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Collateral and other credit enhancements (continued)

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement. Management also monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

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 asset for loan-related balance sheet lines, based on the Bank's credit rating system:

		Neither past due nor impaired				
	Notes	**High grade 2007**	**Standard grade 2007**	**Sub-standard grade 2007**	**Past due or individually impaired 2007**	**Total 2007**
		RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Due from banks	17	**1.495**	**1.756.054**	**600.439**	**196**	**2.358.184**
Placements to customers	18	**9.054.850**	**9.066.422**	**745.591**	**2.102.761**	**20.969.624**
- Corporate lending		691.457	4.244.771	202.349	453.722	5.592.299
- Small business lending		1.065.898	4.656.509	540.438	1.411.479	7.674.324
- Consumer lending		7.297.495	165.142	2.804	237.560	7.703.001
Securities	19	**530.123**	**509.681**	**217.752**	**268.912**	**1.526.468**
- held for trading		122.366	-	-	-	122.366
- available for sale		-	36.712	36.822	258.706	332.240
- held to maturity		407.757	472.969	180.930	10.206	1.071.862
Total		**9.586.468**	**11.332.157**	**1.563.782**	**2.371.869**	**24.854.276**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Collateral and other credit enhancements (continued)

	Notes	Neither past due nor impaired				
		High grade 2006	Standard grade 2006	Sub-standard grade 2006	Past due or individually impaired 2006	Total 2006
		RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Due from banks	17	**605.832**	**-**	**-**	**265**	**606.097**
Placements to customers	18	**6.546.729**	**2.649.393**	-	**2.014.034**	**11.210.156**
- Corporate lending		523.740	1.892.008	-	462.414	2.878.162
- Small business lending		2.181.069	744.515	-	1.490.652	4.416.236
-Consumer lending		3.841.920	12.870	-	60.968	3.915.758
Securities held to maturity and available for sale	19	**443.133**	**79.314**	**-**	**297.876**	**820.323**
-The Government of Serbia		309.225	-	-	-	309.225
-Quoted securities		119.325	30.967	-	297.876	448.168
-Unquoted securities		14.583	48.347	-	-	62.930
Total		**7.595.694**	**2.728.707**	**-**	**2.312.175**	**12.636.576**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.2. Credit risk (continued)

Collateral and other credit enhancements (continued)

The table below shows the carrying amount for renegotiated loans and placements to banks and customers, by class:

	2007	2006
	RSD thousand	RSD thousand
Placements to customers		
- Corporate lending	183.060	179.415
- SME lending	74.898	31.155
Total	**257.958**	**210.570**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue, or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the 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 counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, the realizable value of collateral and the timing of the realization of collateral, the availability of other financial support to customers, the possibility of collecting receivables and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention and more frequent assessment.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) as well as for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review that represents specific group of loans and placements 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 identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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

30. RISK MANAGEMENT (continued)

30.3. Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payments obligations when they fall due. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains obligatory reserves in dinars and in foreign currency in accordance with requirements of National Bank of Serbia.

The liquidity position is stated by the liquidity ratio which represents the ratio of the sum of primary and secondary liquidity assets (cash, funds on the accounts with other banks, deposits with the National Bank of Serbia, receivables in the process of realization, irrevocable credit lines, quoted financial instruments and other receivables of the Bank that are due within one month) to the sum of on demand liabilities without contracted maturity and liabilities with contracted maturity within the following month. During the year, aforementioned ratio was as follows:

	2007	**2006**
in %		
Average during the period	1,39	3,18
Highest	2,38	4,22
Lowest	1,22	2,51

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.3. Liquidity risk and funding management (continued)

The table below summarizes the maturity profile of the Bank's financial assets and liabilities, taking into consideration the contractual maturities of these assets and liabilities:

	Up to three days	Three days to one month	One to three months	Three months to one year	One to five years	Over five years	Total 2007
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
ASSETS							
Cash and cash equivalents	3.250.894	-	-	-	-	1.206	3.252.100
Deposits with Central bank and securities refinanceable with Central bank	10.919.864	-	-	-	-	-	10.919.864
Interest, commissions and fees receivable	80.958	-	-	-	-	-	80.958
Due from domestic banks	-	2.332.357	-	-	-	-	2.332.357
Placements to customers	-	1.611.482	1.764.546	4.933.459	6.961.075	3.358.924	18.629.486
Securities and other investments held for trading	-	-	-	9.659	67.645	22.627	99.931
Investments in securities held to maturity	-	160.370	310.921	218.343	344.294	-	1.033.928
Investment in shares and other securities available for sale	53.133	-	-	-	-	17.837	70.970
Income tax prepayment receivables	2.251	-	-	-	-	-	2.251
Intangible assets	-	-	-	-	-	35.296	35.296
Investment properties	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	870.200	870.200
Other assets and accruals	-	532.067	-	-	-	-	532.067
Total assets	**14.307.100**	**4.636.276**	**2.075.467**	**5.161.461**	**7.373.014**	**4.306.090**	**37.859.408**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.3. Liquidity risk and funding management (continued)

LIABILITIES	Up to three days	Three days to one month	One to three months	Three months to one year	One to five years	Over five years	Total 2007
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Due to domestic banks	506.812	1.416.481	-	10.368	32.651	8.861	1.975.173
Due to customers	7.319.920	9.169.893	2.264.420	4.131.346	607.041	309.208	23.801.828
Interest and fee liabilities	-	665	-	-	-	-	665
Other operating liabilities	85.391	-	-	-	-	-	85.391
Provisions	-	-	109.878	-	-	256.561	366.439
Other liabilities and accruals	-	405.310	131.707	4.999	329.799	529.751	1.401.566
Deferred tax liabilities	-	-	-	-	-	13.211	13.211
Total liabilities	**7.912.123**	**10.992.349**	**2.506.005**	**4.146.713**	**969.491**	**1.117.592**	**27.644.273**
Equity	**-**	**-**	**-**	**-**	**-**	10.215.135	10.215.135
Total liabilities and equity	**7.912.123**	**10.992.349**	**2.506.005**	**4.146.713**	**969.491**	**11.332.727**	**37.859.408**
Net liquidity gap as of 31 December 2007	**6.394.977**	**(6.356.073)**	**(430.538)**	**1.014.748**	**6.403.523**	**(7.026.637)**	**-**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.3. Liquidity risk and funding management (continued)

	Up to three days	Three days to one month	One to three months	Three months to one year	One to five years	Over five years	Total 2006
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
ASSETS							
Cash and cash equivalents	1.262.197	-	-	-	-	1.394	1.263.591
Deposits with the Central bank and securities that can be refinanced with the Central bank	9.775.733	-	-	-	-	-	9.775.733
Interest, commissions and fees receivable	46.823	-	-	-	-	-	46.823
Due from banks	-	440.852	156.197	-	-	-	597.049
Placements to customers	-	1.693.134	664.616	2.632.766	1.746.479	2.204.610	8.941.605
Securities and other trading instruments	-	-	-	56.482	77.770	98.530	232.782
Securities held to maturity	-	54.637	-	3.963	-	-	58.600
Equity shares and other securities available for sale	-	-	-	-	-	144.809	144.809
Receivables for overpaid income tax	-	-	-	-	-	17.053	17.053
Intangible assets	-	-	-	-	-	1.199.567	1.199.567
Other assets and accruals	-	230.879	975	387.073	2.973	-	621.900
Total assets	**11.084.753**	**2.419.502**	**821.788**	**3.080.284**	**1.827.222**	**3.665.963**	**22.899.512**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.3. Liquidity risk and funding management (continued)

	Up to three days	Three days to one month	One to three months	Three months to one year	One to five years	Over five years	Total 2006
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
LIABILITIES							
Due to banks	227.545	3.308.852	10.633	12.033	44.510	-	3.603.573
Due to customers	5.667.369	1.632.958	637.838	1.979.641	85.216	2.233.114	12.236.136
Liabilities for interest and fees	-	1.922	-	-	-	-	1.922
Liabilities arising from profit	-	2.251	-	-	-	-	2.251
Other operating liabilities	151.548	-	-	-	-	-	151.548
Provisions	-	-	-	-	-	247.195	247.195
Other liabilities and accruals	-	690.521	168.790	8.828	162.514	756.062	1.786.715
Deferred tax liabilities	-	-	-	-	-	14.561	14.561
Total liabilities	**6.046.462**	**5.636.504**	**817.261**	**2.000.502**	**292.240**	**3.250.932**	**18.043.901**
Equity	**-**	**-**	**-**	**-**	**-**	4.855.611	4.855.611
Total liabilities and equity	**6.046.462**	**5.636.504**	**817.261**	**2.000.502**	**292.240**	**8.106.543**	**22.899.512**
Net liquidity gap as of 31 December 2006	**5.038.291**	**(3.217.002)**	**4.527**	**1.079.782**	**1.534.982**	**(4.440.580)**	**-**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.4. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank is not exposed to the risk of changes in equity instruments price and the price of goods. Except for the concentration of foreign currency risk, the Bank has no significant concentration of market risk for other items.

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. The Board of Directors has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis to ensure positions are maintained within the established limits.

The following table presents the Bank's exposure to changes in the interest rate risk as of 31 December 2007. Assets and liabilities are stated as of the date of remaining maturity.

	Up to a month	Month to three months	Three to six months	Six to twelve months	Over one year	Non interest-bearing	Total
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
ASSETS							
Cash and cash equivalents	2.511.929	-	-	-	-	740.171	3.252.100
Deposits with the Central Bank and securities refinanciable with the Central Bank	7.527.610	-	-	-	-	3.392.254	10.919.864
Interest, commissions and fees receivable	80.958	-	-	-	-	-	80.958
Due from domestic banks	2.332.357	-	-	-	-	-	2.332.357
Placements to customers	1.611.482	1.764.546	1.340.366	3.593.093	10.319.999	-	18.629.486
Securities and other placements held for trading	-	-	-	-	-	99.931	99.931
Investments in securities held to maturity	160.370	310.921	97.222	121.121	344.294	-	1.033.928
Investments in shares and other securities available for sale	-	-	-	-	-	70.970	70.970
Income tax prepayment receivables	-	-	-	-	-	2.251	2.251
Intangible assets	-	-	-	-	-	35.296	35.296
Property and equipment	-	-	-	-	-	870.200	870.200
Other assets and accruals	-	-	-	-	-	532.067	532.067
Total assets	**14.224.706**	**2.075.467**	**1.437.588**	**3.714.214**	**10.664.293**	**5.743.140**	**37.859.408**

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.4. Market risk (continued)

Interest rate risk **(continued)**

LIABILITIES	Up to a month	Month to three months	Three to six months	Six to twelve months	Over one year	Non interest-bearing	Total
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Due to domestic banks	1.568.361	-	-	-	-	406.812	1.975.173
Due to customers	9.169.882	2.264.420	1.461.334	2.366.335	804.163	7.735.694	23.801.828
Interest and fee liabilities	665	-	-	-	-	-	665
Other operating liabilities	-	-	-	-	-	85.391	85.391
Provisions	-	-	-	-	-	366.439	366.439
Other liabilities and accruals	-	-	-	-	855.751	545.815	1.401.566
Deferred tax liabilities	-	-	-	-	-	13.211	13.211
Equity	-	-	-	-	-	10.215.135	10.215.135
Total liabilities and equity	**10.738.908**	**2.264.420**	**1.461.334**	**2.366.335**	**1.659.914**	**19.368.497**	**37.859.408**
Net exposure to interest risk at 31 December 2007	3.485.798	(188.953)	(23.746)	1.347.879	9.004.379	(13.625.357)	-
At 31 December 2006							
Total assets	9.284.630	820.813	955.575	1.700.778	4.181.300	5.956.416	22.899.512
Total liabilities and equity	5.100.229	648.471	856.162	1.135.512	3.216.040	11.943.098	22.899.512
Net exposure to interest risk	4.184.401	172.342	99.413	565.266	965.260	(5.986.682)	-

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board of Directors set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

The following table presents the Bank’s exposure to foreign currency risk at 31 December 2007. The table includes assets and liabilities at their carrying amounts. Also, placements to customers, as well as liabilities to customers stated in EUR include placements in dinars, i.e. deposits with the contracted foreign currency clause in the foreign currency.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

30. RISK MANAGEMENT (continued)

30.4. Market risk (continued)

Foreign currency risk (continued)

	EUR	USD	CHF	Other currencies	Total in foreign currencies	Total in dinras	Total
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	**RSD thousand**
ASSETS							
Cash and cash equivalents	278.835	18.689	8.931	54.886	361.341	2.890.759	**3.252.100**
Deposits with the Central Bank and securities refinanciable with the Central Bank	3.392.254	-	-	-	3.392.254	7.527.610	**10.919.864**
Interest, commissions and fees receivable	52.134	7	8	-	52.149	28.809	**80.958**
Due from domestic banks	3.634	-	-	-	3.634	2.328.723	**2.332.357**
Placements to customers	15.659.639	457.630	130.247	-	16.247.516	2.381.970	**18.629.486**
Securities and other placements held for trading	99.931	-	-	-	99.931	-	**99.931**
Investments in securities held to maturity	532.756	-	-	-	532.756	501.172	**1.033.928**
Investments in shares and other securities available for sale	43	-	-	-	43	70.927	**70.970**
Income tax prepayment receivables	-	-	-	-	-	2.251	**2.251**
Intangible assets	-	-	-	-	-	35.296	**35.296**
Property and equipment	-	-	-	-	-	870.200	**870.200**
Other assets and accruals	39.894	5.471	67	21	45.453	486.614	**532.067**
Total assets	**20.059.120**	**481.797**	**139.253**	**54.907**	**20.735.077**	**17.124.331**	**37.859.408**
LIABILITIES							
Due to domestic banks	1.561.734	216.296	38.873	4.489	1.821.392	153.781	**1.975.173**
Due to customers	16.881.089	277.309	69.165	42.821	17.270.384	6.531.444	**23.801.828**
Interest and fee liabilities	-	-	-	-	-	665	**665**
Other operating liabilities	5.878	5	9	-	5.892	79.499	**85.391**
Provisions	68.543	9.838	2.573	630	81.584	284.855	**366.439**
Other liabilities and accruals	1.099.408	2.012	27.875	109	1.129.404	272.162	**1.401.566**
Deferred tax liabilities	-	-	-	-	-	13.211	**13.211**
Equity	-	-	-	-	-	10.215.135	**10.215.135**
Total liabilities and equity	**19.616.652**	**505.460**	**138.495**	**48.049**	**20.308.656**	**17.550.752**	**37.859.408**
Net foreign currency gap as at 31 December 2007	**442.468**	**(23.663)**	**758**	**6.858**	**426.421**	**(426.421)**	**-**
As at 31 December 2006							
Total assets	11.696.266	526.343	-	88.942	12.311.551	10.587.961	**22.899.512**
Total liabilities and equity	12.372.536	539.177	-	90.475	13.002.188	9.897.324	**22.899.512**
Net foreign currency gap	**(676.270)**	**(12.834)**	**-**	**(1.533)**	**(690.637)**	**690.637**	**-**

30. RISK MANAGEMENT (continued)

30.4. Market risk (continued)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal implications or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

31. CAPITAL MANAGEMENT

The Bank's objectives in respect of capital management are:

- to ensure compliance with the requirements of the National Bank of Serbia,
- to ensure a possibility of a long-term continuation of operations with providing of profit to shareholders and benefits to other interested parties,
- to provide solid capital base which would represent a support to the further development of the Bank's operations.

Bank's management monitors regularly the Bank's capital adequacy ratios and other ratios established by the National Bank of Serbia and delivers quarterly reports on achieved values of ratios. Pursuant to the Law on banks in the Republic of Serbia, banks are obligated to maintain minimal capital in the amount of EUR 10 million, in dinars calculated at the official middle exchange rate, adequacy ratio of 12% minimum, as well as to comply the volume and structure of its operations with ratios prescribed by the Decision on risk management (Official Gazette of the Republic of Serbia No. 86/2007) and the Decision on capital adequacy (Official Gazette of the Republic of Serbia No. 56/2007).

Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristic of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from previous years.

Calculation of the Bank's capital and its adequacy ratio is done in accordance with the Decision on a bank's capital adequacy, defined by the National Bank of Serbia (Official Gazette No. 56/2007). Tier I capital of the Bank is defined by the above mentioned Decision and its amount has to make at least 50% of the Bank's capital. The following table summarizes calculated amounts of Tier I capital, Tier II capital and total capital of the Bank, as well as calculated capital adequacy.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

31. CAPITAL MANAGEMENT (continued)

	2007 RSD thousand	2006 RSD thousand
Tier I capital	10.146.089	4.631.994
Tier II capital	536.871	907.089
Total	10.682.960	5.539.083
Deductible items	(471.412)	(183.701)
Capital	**10.211.548**	**5.355.382**
Total risk balance sheet assets	21.883.893	13.870.320
Total risk off-balance sheet assets	3.804.663	2.266.999
Total opened foreign currency position	442.124	324.297
Total risk assets	**26.130.680**	**16.461.616**
Capital adequacy at 31 December	**39,08**	**32,5**

The Bank is obligated to comply its volume and structure of activities with ratios prescribed by the Decision on risk management (Official Gazette of the Republic of Serbia No. 86/2007).

As of 31 December 2007, realized performance ratios of the Bank were as follows:

Ratio	**Prescribed value**	**Realized value**
Bank's investment	max. 60%	8,8%
Exposure to entities related to the Bank	max. 20%	6,9%
Ratio of large and the largest possible exposure	max. 400%	6,9%
Average monthly liquidity ratio:		
–in the first month of reporting period	min. 1.00	1,22
– in the second month of reporting period	min. 1.00	1,3
–in the third month of reporting period	min. 1.00	1,44
Foreign currency risk ratio	max. 30%	4,37%
The Bank's exposure to the group of related parties	25%	5,49%
Gross retail placements	150%	69,98%
The Bank's exposure to the party related to the Bank	5%	0,09%
The Bank's investments in parties which do not operate in financial sector	10%	0,25%

32. EVENTS AFTER THE BALANCE SHEET DATE

The Bank did not have any significant post balance sheet events that would have materially significant influence on the financial statements.

NOTES TO THE FINANCIAL STATEMENT for the year ended 31 december 2007 (continued)

33. EXCHANGE RATES

The exchange rate set at the inter-bank foreign currency market applied to balance sheet items as of 31 December 2007 and 31 December 2006 transaction for the following currencies is:

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