EUROBANK EFG ŠTEDIONICA A.D. BEOGRAD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 AND INDEPENDENT AUDITOR'S REPORT

Contents:

MGI
MGI AUDITING & ACCOUNTING
CHARTERED ACCOUNTANTS

Belgrade: Makenzijeva 41/II, tel: ++ 381 11 2433 619, 3085 806; fax: 2432 228; e-mail: office@revizija.co.yu
Niš: Generala Milojka Lešjanina 19; tel/fax: ++381 18 522 236; e-mail: rrni@ptt.yu
Novi Sad: Mihajla Pupina 6/V, tel: ++ 381 21 452 873; fax: ++381 21 451 662; e-mail: rrns@ptt.yu
Zrenjanin: Trg Republike 4/II, tel/fax: ++ 381 23 535 039; e-mail: rrzr@ptt.yu

www.revizija.co.yu

No.24/08

"EUROBANK EFG ŠTEDIONICA"A.D.BEOGRAD

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the "Eurobank EFG Štedionica"a.d., (hereinafter referred as "Bank"), which comprise the balance sheet as at December 31, 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Serbia and regulations of National Bank of Serbia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of "Eurobank EFG Štedionica"a.d Beograd as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Serbia and regulations of National Bank of Serbia.

29. February 2008 year

Chartered Accountants AUDITING & ACCOUNTING MGI BELGRADE

MGI Auditing & Accounting

Bogoljub Aleksić,
Certified auditor

All amounts are expressed in 000 RSD unless otherwise stated

	Note	2007	2006
Interest income	5	6,932,926	4,046,286
Interest expense	5	(2,331,565)	(1,165,054)
Net interest income		**4,601,361**	**2,881,232**
Fee and commission income	6	1,226,822	889,425
Fee and commission expense	6	(189,408)	(156,012)
Net fee and commission income		**1,037,414**	**733,413**
Net gains from securities	7	30,883	-
Net loss from securities	7	-	(221,646)
Net gain on exchange	8	498,955	304,964
Other operating income	9	471,215	256,601
Impairment losses on loans and advances and other provisions	10	(786,694)	(31,851)
Operating expenses	11	(4,430,890)	(4,289,598)
Net gain from revaluation of assets & liabilities	12	4,005	32,421
Net loss from revaluation of assets & liabilities			-
Profit before tax		**1,426,249**	**(334,464)**
Income tax	13	(107,553)	143,061
Profit / (loss) after tax		**1,318,696**	**(191,403)**
Earnings per share			
Basic earnings (expressed in RSD per share)	14	**8.31**	**-**

All amounts are expressed in 000 RSD unless otherwise stated

	Note	2007	2006
Assets			
Cash and cash equivalents	15	2,291,344	1,471,226
Deposits with Central Bank and securities refinanceable with Central Bank	16	24,384,452	25,471,373
Interest, fees and commission receivable	17	140,363	73,832
Placements with banks	18	3,270,873	264,069
Loans and advances to customers	19	48,610,632	26,621,695
Trading securities	20	73,620	215,831
Equity investments and other available-for-sale securities	21	20,479	5,667,467
Income tax receivables		-	4,569
Intangible assets	22	965,780	717,165
Property, plant end equipment	23	3,769,997	1,675,058
Other assets, prepayments and accrued income	24	509,845	567,568
Deferred tax asset	25	72,304	169,050
Total assets		**84,109,689**	**62,918,903**
Liabilities			
Due to banks	26	3,263,880	3,761,180
Due to customers	27	56,399,872	42,072,057
Interest, fees and commissions payable	28	392,033	53,885
Liabilities for dividends		700	700
Current tax liabilities	13	6,238	-
Other liabilities	29	257,081	356,611
Provisions	30	96,079	34,636
Other liabilities, accruals and deferred income	31	1,129,315	1,200,928
Total liabilities		**61,545,198**	**47,479,997**
Shareholder's equity			
Share capital and other capital	32	22,422,172	16,366,226
Reserves		568,083	817,140
Accumulated losses		(425,764)	(1,744,460)
Total shareholder's equity		**22,564,491**	**15,438,906**
Total liabilities and shareholder's equity		**84,109,689**	**62,918,903**
Off Balance Sheet			
Funds managed on behalf of third parties	33	2,707,829	1,968,904
Guaranties, sureties, assets pledged as collateral and irrevocable commitments	33	64,590,245	17,891,333
Other off balance sheet positions	33	224,711,785	159,871,510
Total Off Balance Sheet		**292,009,859**	**179,731,747**

All amounts are expressed in 000 RSD unless otherwise stated

	2007	2006
Cash inflow from operating activities		
Inflow from interest	6,778,390	4,023,091
Inflow from fees and commissions	1,478,059	1,043,603
Inflow from other operating income	750,162	439,479
	9,006,611	**5,506,173**
Cash outflow from operating activities		
Outflow from interest	(2,119,782)	(1,098,990)
Outflow from fees and commissions	(254,703)	(155,343)
Outflow from gross salaries, benefits and other personal expenses	(1,314,277)	(1,375,020)
Outflow from taxes, contributions and other duties charged to income	(313,406)	(271,455)
Outflow from other operating expenses	(2,419,099)	(1,328,960)
	(6,421,267)	**(4,229,768)**
Net cash inflow for operating activities before increase or decrease in loans investments and deposits	**2,585,344**	**1,276,405**
(Increase)/Decrease in loans and investments, and increase in deposits		
Decrease in securities	2,729,453	-
Increase in customer deposits	14,663,560	25,031,422
Increase in placements with banks and other financial organizations	(5,491,275)	(18,449,284)
Increase in loans to customers	(21,690,233)	(17,229,688)
Increase/ (Decrease) in deposits by banks and other financial organizations	(518,997)	3,545,997
	(10,307,492)	**(7,101,553)**
Net cash inflow for operating activities before profit tax	**(7,722,148)**	**(5,825,148)**
Profit tax paid	-	-
Dividends paid	-	-
Net cash inflow for operating activities	**(7,722,148)**	**(5,825,148)**
Cash flow from investing activities		
Inflow/(Outflow) for purchase of long term investments	5,418,410	(5,667,467)
Inflow/(Outflow) for obtaining equity instruments	(16,200)	(4,279)
Inflow/ (Outflow) for purchase of intangible assets and fixed assets	(2,760,533)	(960,154)
Net cash outflow from investing activities	**2,641,677**	**(6,631,900)**
Cash flow from financing activities		
Inflow from share issue	6,055,946	11,646,599
Inflow from long term loans	-	-
Net cash inflow from investing activities	**6,055,946**	**11,646,599**
Total net cash inflow/(outflow)	**975,475**	**(810,449)**
Cash at the beginning of the year	**1,471,226**	**2,429,620**
Foreign exchange gains	**11,403,896**	**3,352,393**
Foreign exchange losses	**(11,559,253)**	**(3,500,338)**
Cash at the end of the reporting period	**2,291,344**	**1,471,226**

All amounts are expressed in 000 RSD unless otherwise stated

	Share and other capital	**Share premium**	**Other reserves**	**AFS revaluation reserves**	**Accumulated loss**	**Total shareholder's equity**
As at 1 January 2006	4,719,627	-	568,083	-	(1,553,057)	3,734,653
New issue of shares	6,121,500	5,525,099	-	-	-	11,646,599
Transfer from share premium	4,179,800	(4,179,800)	-	-	-	-
Revaluation of AFS securities	-	-	-	249,057	-	249,057
Current period loss	-	-	-	-	(191,403)	(191,403)
As at 31 December 2006	**15,020,927**	**1,345,299**	**568,083**	**249,057**	**(1,744,460)**	**15,438,906**
						-
Disposal of AFS securities	-	-	-	(249,057)	-	(249,057)
14th issue of shares	1,484,400	671,600	-	-	-	2,156,000
15th issue of shares	2,685,100	1,214,846	-	-	-	3,899,946
Current period profit	-	-	-	-	1,318,696	1,318,696
As at 31 December 2007	**19,190,427**	**3,231,745**	**568,083**	**-**	**(425,764)**	**22,564,491**

1. General information

Eurobank EFG Štedionica a.d. Beograd has been established by merger of Eurobank EFG a.d. Beograd and Nacionalna Štedionica Banka a.d. that was completed on 20 October 2006.

Merger process

On 12th May 2006, the Board of Directors of the EFG Eurobank a.d. Beograd and the Board of Directors of the Nacionalna Štedionica Banka a.d. Beograd adopted the Letter of expression of serious intention for entering into the Merger Agreement between Nacionalna Štedionica Banka a.d. Beograd and EFG Eurobank a.d. Beograd.

On the session of the Board of Directors of the Nacionalna Štedionica Banka a.d. Beograd held on 7th June 2006, the draft Merger Agreement was adopted as well as draft Decision on the Merger of the Nacionalna Štedionica Banka a.d. Beograd with EFG Eurobank a.d. Beograd by which the 30th June 2006 has been defined as the accounting merger date.

The Shareholders' Assembly of the Nacionalna Štedionica Banka a.d. Beograd and the Shareholders' Assembly of the EFG Eurobank a.d. Beograd that were held on 28th July 2006 have adopted the Decision on Merger of the Nacionalna Štedionica Banka a.d. Beograd with EFG Eurobank a.d. Beograd.

On 27th September 2006, the National Bank of Serbia issued its agreement to the draft Agreement on changes and amendments of the Foundation Agreement.

On the sessions held on 28th September 2006, both Assemblies adopted the final Merger Agreement.

On 20th October 2006, the Business Register Agency issued the Decision on merger with acquisition of the Nacionalna Štedionica Banka a.d. Beograd with EFG Eurobank a.d. Beograd by which the process of merger with acquisition has been effected.

On the same date the Business Registers Agency issued the decision regarding the change of the Bank's name to Eurobank EFG Štedionica a.d. Beograd.

The Bank is registered in Serbia for carrying out payment, credit and deposit operations in the country and abroad. The bank operates in accordance with Law on Banks and other Financial Institutions based on principles of liquidity, safety and profitability.

As at 31 March 2007 the Bank has changed registered office to Kolarceva 3 in Belgrade. Previous registered office of the Bank was in Durmitorska 20 in Belgrade.

As at 31 December 2007 the Bank had 1,369 employees (31 December 2006: 1,372 employees). The Bank's network comprises of 103 branches.

The Bank's Registration number is 17171178. The Bank's Tax identification number is 100002532.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis for preparation

The financial statements have been prepared in accordance with Accounting and Auditing Law which requires full compliance with IFRS, as well as in accordance with regulations of the National bank of Serbia. The applied accounting policies differ from the IFRS requirements in the following materially significant areas:

1. "Off balance sheet assets and liabilities" are disclosed in the balance sheet form (Note 33). In accordance with IFRS, off balance sheet items do not represent either assets or liabilities.

2. The Bank has not made certain disclosures in accordance with IAS 1 – Presentation of financial statements since the presentation of the financial statements is defined by the National Bank of Serbia.

a) Amended and new standards and interpretations effective 1 January 2007

The application of the amended and new standards and interpretations listed below did not result in substantial changes to the Bank's accounting policies:

- IFRS 7, Financial Instruments: Disclosures;
- IAS 1, Amendment - Capital Disclosures;
- IFRS 4, Revised Guidance on Implementing IFRS 4, Insurance Contracts;
- IFRIC 8, Scope of IFRS 2;
- IFRIC 9, Reassessment of Embedded Derivatives;
- IFRIC 10, Interim Financial Reporting and Impairment.

b) Standards and Interpretations issued but not yet effective

The following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2007 have not been early adopted:

- IAS 1, Presentation of Financial Statements (effective 1 January 2009);
- IAS 23, Borrowing costs (effective 1 January 2009);
- IFRS 8, Operating Segments (effective 1 January 2009);
- IFRIC 11, IFRS 2 Group and Treasury Shares Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The application of these new standards and interpretations will not have a material impact on the Bank's financial statements in the period of initial application.

These financial statements do not comply with all requirements of IFRS. Therefore, these financial statements are not prepared to present financial position of the Bank, result and cash flows in accordance with accounting principles accepted outside of Republic of Serbia.

2.2. Comparatives

Comparatives for the year ended as at 31 December 2007 have been prepared in accordance with IFRS requirements and regulations of the National Bank of Serbia.

2.3. Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in RSD (Republic Serbia Dinar), which is the Bank's functional and presentation currency.

2.3. Foreign currency translation (continued)

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2.4. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognized at fair value increased for transactions costs for all financial assets not held at fair value through profit or loss.

Financial assets available for sale and financial assets at fair value through profit or loss are stated at fair value.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

2.4. Financial assets (continued)

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated for at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost
- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in net income from financial instruments designated at fair value.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized at fair value. Asset is recognized when risks are transferred to customers. Loans and receivable are subsequently measured at amortized cost using effective interest method.

c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Held-to-maturity investments are stated at amortized cost using effective interest method. The amortized cost is calculated taking into consideration all discount and premiums received at the date of purchase.

2.4. Financial assets (continued)

d) Available-for-sale financial assets (continued)

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. When an available-for-sale financial asset is derecognized, the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

e) Investment in associates

Associated entities are those legal entities in which the Bank has a significant influence, and which are neither dependant entities nor joint investments.

The Bank's investment in its associates is initially recognized at cost. At the balance sheet data, investment in an associate is stated at cost.

2.5. Impairment of financial assets

a) Assets carried at cost and amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and.

The estimated period between a loss occurring and its identification is determined by the local management for each identified portfolio type. In general, the periods used vary between three and twelve moths; in exceptional cases longer periods are warranted.

2.5. Impairment of financial assets (continued)

a) Assets carried at cost and amortized cost (continued)

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually 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 the 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.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current interest rate determined under the contract.

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 the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in impairment charge for credit losses.

2.5. Impairment of financial assets (continued)

b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is recognized in the income statement. Impairment losses recognized in the income statement are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

2.6. Provision for potential loses in accordance with the requirements of the National Bank of Serbia

In accordance with the Decision of the Central Bank of Serbia, the Bank is obliged to classify loans, other placements, guarantees and other on balance sheet and off balance sheet exposures into the categories A, B, C, D and E, based on evaluation of their collectability and associated risk exposures, which depends upon the number of days the payments are in arrears, the financial position of the counterparty, and the quality of the collaterals obtained on the exposure. An estimate of the provision for potential losses is calculated by applying the percentages of 1%-2% for A category, 5%-15% for B category, 20%-35% for C category, 40%-70% for D category and 100% for E category.

The difference in provision calculated in accordance with the requirements of the Central bank and impairment losses calculated in accordance with policy described in the Note 2.5. is charged to the retained earnings and disclosed within special reserves account which is part of the shareholder's equity. Banks operating with losses do not charge those provisions to the accumulated losses. In this situation the Bank is obliged to disclose amount of uncovered provisions for potential losses.

2.7. Offsetting financial instruments

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

2.8. Derivatives

The Bank uses derivative financial instruments such as foreign currency and interest rate derivative contracts to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

2.8. Derivatives (continued)

Embedded derivatives
The Bank negotiates a currency or general price-index clause with the beneficiaries of the loans. General price-indexed loans are embedded derivatives that are not closely related to host contract and are accounted for separately from the host. Embedded derivatives are measured at market value, while the change of their value is stated in the current period profit and loss. The value of embedded derivatives is determined on the basis of official consumer price-index which is applied to the outstanding liability.

Foreign-currency clause is an embedded derivative that is not accounted for separately from the host contract since the economic characteristics and risks of the embedded derivative are closely related to the host contract. Gains/losses arising on this basis are recorded in the income statement as foreign exchange gains/losses.

2.9. Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10. Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other services.

Loan origination fees are deferred and amortized to interest earned on loans and advances over the life of the loan using the straight - line method, which approximates the effective interest rate method.

2.11. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.12. Intangible assets

Licenses
Licenses are initially recognized at cost. They have limited useful life and are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (form 3 to 10 years).

Software
Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (5 to 10 years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the cost of the software development employees and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding 10 years).

Intangible assets include not amortized assets since they are not yet in use.

2.13. Property and equipment

All property and equipment are stated at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income statement of the financial period in which they are incurred.

Borrowing costs are recognized as expenses in the period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50-75
Computer equipment	2-4
Furniture and other equipment	6-9
Motor vehicles	5

The assets' residual value represents the estimated amount that the Bank might obtain at present through the sale of the asset, decreased by the estimated cost of sale. If the Bank expects to utilize the asset until the expiration of its useful life, then the residual value amounts to zero. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

2.13. Property and equipment (continued)

Assets held for re-sale

Foreclosed property acquired as executed collateral and assets obtained form joint ventures is defined as “Property held for re-sale”. Such property is carried at the lower of its carrying amount and selling price less costs to sell.

2.14. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15. Leases

The Bank is the lessee
The leases entered into by the Bank are primarily operating leases. With operating lease a significant part of both risk and benefits remains with the lessor. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.16. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months’ maturity from the date of acquisition, including cash and non-restricted balances with Central Bank, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2.17. Provisions

Provisions for restructuring costs and legal claims are recognized when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same classes of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.18. Employee benefits

a) Employee's benefits

Short term benefits to employees include salaries and social contributions. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to make payments to the pension fund of Republic of Serbia in accordance with the defined contribution plan. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

b) Other employee's benefits

The Bank provides other benefits for the retirement. An employee is usually entitled to these benefits if they were employees of the Bank until reaching the prescribed age for retirement and the minimum required years of employment. The above mentioned benefits are accumulated during the service. The defined retirement obligations are estimated annually by an independent certified actuary through the projected credit unit valuation method. The present value of benefit obligations is determined by discounting the expected future cash payments by reference to the interest rates of the high quality bonds expressed in the same currency, which mature approximately at the same period when retirement obligations are due.

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.19. Income tax and deferred income tax

Income tax presents the amount calculated and paid to the tax authorities based on legislations of Republic of Serbia. Estimated monthly installments are calculated by the Tax authority and paid in advance on a monthly basis.

Income tax at the rate of 10% is payable based on the profit disclosed in the Tax return. In order to arrive at the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year. Tax return is submitted to tax authorities 10 days after submission of the financial statements, i.e. until the 10 March of the following year.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences between the tax basis of assets and liabilities at the balance sheet date, and their amounts disclosed for reporting purposes, which will result in taxable amounts for future periods. Deferred tax assets are recognized for all deductible temporary differences, unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be sufficient to enable realization (utilization) of deductible temporary differences, unused tax assets and unused tax liabilities.

Current and deferred income tax is recognized in the current year income statement.

All amounts are expressed in 000 RSD unless otherwise stated

2.19. Income tax and deferred income tax (continued)

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognized in the income statement together with the deferred gain or loss.

2.20. Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Preference shares that carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognized in the income statement as interest expense on an amortized cost basis using the effective interest method.

Borrowings are classified as current liabilities, unless the Bank has indisputable right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.21. Share capital

a) Share issue costs

Share issue costs directly attributable to the issue of new shares are shown in equity as a deduction.

b) Dividends on ordinary shares

Dividends are recognized as liabilities for the period in which the decision of their payment has been reached. Dividends approved for the year after the balance sheet date are dealt with in the subsequent events note.

2.22. Assets managed on behalf of third parties

Assets and income arising from administrated business operations, where the Bank acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from the financial statements.

3. Risk management policies

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Risk management is done through specialized Risk management department. The Bank has defined procedures for risk identification, measurement and risk management in accordance with regulations and best practices.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Bank is exposed to the following most important risks:

3.1. Credit risk
3.2. Market risk
3.3. Liquidity risk
Other operational risks

Market risk includes:

- foreign currency risk
- interest rate risk
- other price risks

3.1. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, sector risk, repayment risk, etc.).

3.1.1. Management of credit risk

The Bank approves loans in accordance with business policy and by adjusting maturity dates of loans approved and interest rates with the purpose of loans, type of the loan or client and creditworthiness of its clients.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

The Board of Directors has delegated responsibility for the approval of credit exposures to several different levels in accordance with the limits set forth by the Board. The underlying foundation of the credit processes is the application of the "four-eye principle" on one side from the Business Units and on the other side from Risk Management for all exposures above the business unit level of approval. In case of exposures approved within the business unit level of approval, the "four-eye principle" is ensured within that business unit.

3.1.1. Management of credit risk (continued)

Business Units, under the Corporate Banking Division, incorporate the following:

- Large Corporate (LC) Department
- Small & Medium Enterprises (SME) Department

Business Units, responsible for retail lending operations, incorporate the following:

- Consumer lending unit
- Mortgage lending unit
- Small Business lending unit

The Risk Management Division (RMD) incorporates the following units handling credit risk:

- Credit Risk Department (CRD)
- Credit Control Department (CCD)
- Non-Performing Loans Department (NPL)

Credit Control Department and Credit Risk Department are responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. This task is performed by Credit Control Department

- Credit Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned, and provides independent credit opinion. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, countries and industries (for loans and advances), and by issuer, credit rating band and market liquidity (for investment securities).

- Developing and maintaining the Bank's risk grading policy in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is maintained by Credit Control Department. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework for wholesale placements consists of eleven grades and for retail exposures of fourteen grades (delinquency based) reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types is the responsibility of Credit Control Department. Regular reports are provided to various Bank bodies on the credit quality of portfolios and appropriate corrective action is taken. One of its main tasks is providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

3.1.1. Management of credit risk (continued)

The bank has developed and adopted a credit policy for each lending business unit. Each credit policy of Eurobank EFG Stedionica a.d. (hereafter: the Credit Policy) defines basic concepts, guidelines and rules that ensure the proper management of the process of approving, disbursing, monitoring and collecting of loans and other exposures.

Credit Policy defines:

- the goals of the credit policy,
- the basic concepts of credit policy,
- lending principles,
- the organization of credit operations,
- responsibilities and decision making,
- the procedure for granting loans and other placements,
- credit risk,
- collateral instruments,
- procedures for collecting outstanding amounts,

For the purposes of implementing the relevant Credit Policy, the Bank has also passed other necessary acts, decisions, rules, procedures, etc.

When assuming credit risk, the Bank applies the following fundamental rules:

A prerequisite for every financing transaction is the understanding of the economic background of the transaction.

A loan is granted only when the Bank has sufficient information on the borrower's creditworthiness. The Bank will not grant a loan (or increase an existing one) to a borrower who is unwilling or unable to provide sufficient information.

Collateral is accepted only to support an exposure. It cannot serve as a substitute for the borrower's ability to meet obligations (exception: Lombard loans, cash collateralized loans, etc.).

The large and largest exposures towards any borrower (or group of connected borrowers), exposures towards connected persons as well as the total exposure of the Bank (both on and off-balance sheet), is kept within limits prescribed by the Law on Banks and relevant decisions of the National bank of Serbia.

The Bank approves new loans or decides to extend or not to extend the existing ones based on the customer rating of the borrower and its development, as well as details and characteristics of the transaction.

All Bank credit facilities are based on relevant approvals, which lay down the terms and other conditions for their implementation. The approval levels and limits are defined by the relevant Board of Directors Decision on approval levels.

For wholesale placements, there are 5 approval authority levels with the highest one being Board of Directors (or other nominated authority) in case of large exposures and exposures to related parties.

For retail placements, there are also different approval levels depending on the type of business (consumer lending, mortgage lending or SBB lending), with the highest authority being specific Credit Commission for each business type.

3.1.1. Management of credit risk (continued)

In each committee/commission, risk management has the right of vote. All decisions must be unanimous with the exception of very specific and limited (amount wise) wholesale lending cases which are regulated in details by the relevant procedures.

In addition to the client's creditworthiness, risk limits are also determined taking into account various collateral instruments. Risk exposure to individual borrower, including banks, is limited and includes both balance and off balance sheet risk exposures. The total risk exposure per individual client (or group of related parties) with regards to the limits, is considered and analyzed prior to completion of the transaction.

In order to ensure the safety of the business operations, and based on the estimated risks of potential losses, the Bank calculates provisions, which arise from loans and off balance sheet exposures. Levels of provision are related to the risk grade of the placement.

Regular audits of business units and credit processes are undertaken by Internal Audit.

Risk grading system for wholesale clients

The 11 grade system derives the rating of the borrower (and not the credit facility) is based on the weighted average of the following risk parameters:

- Financials
- Sector
- Management
- Operations

In addition, other factors such as debt servicing, change in the borrower's ownership, etc., may affect the final rating of a customer.

The credit rating is based on a profound analysis of qualitative and quantitative factors:

Qualitative factors: are those that deal with the borrower's management, industry, operating conditions, etc.

Quantitative factors: are those that refer to a set of various ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to financial statements etc.)

Each grade carries a defined provision requirement.

Credit related commitments
The primary purpose of undrawn credit commitments is to ensure that funds are available to a customer in accordance with the agreement.

Guarantees and letter of credits carry the same credit risk as loans.

3.1.2. Impairment and provisioning policy

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). Individually impaired assets are those which have been individually assessed for impairment and for which an impairment loss has been recognized. For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. Accounts in portfolios of homogeneous loans are treated as impaired once facilities are 90 days or more overdue for SBB placements, and 180 days or more overdue for mortgage placements.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank. The term 'past due financial asset' is defined as 'day-1 delay'. That is when a counterparty has failed to make a payment when contractually due. The buckets used by the Bank for the purpose of this disclosure are:

- Consumer Lending: 1 – 89 days past due
- Mortgage: 1 – 179 days past due
- SBB: 1– 89 days past due (loans for which specific provisions have been recognized are excluded).
- Corporate Lending: 1 – 359 days past due and internal grading score below eight (loans which have been recognized as individually impaired are excluded).

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Impairment of wholesale placements

For exposures to borrowers with a rating of 8 or worse, NPV charge is calculated in accordance with IAS 39 requirements. This charge is added up to the amount of provisions calculated in accordance with the appropriate provisioning rate and the sum represents total provisions.

Impairment of retail placements

The classification of retail clients is based on the full delinquency analysis. The required provisions are computed by applying the appropriate provisioning rate to the net exposure per each product group and per each delinquency bucket. In case of individually impaired loans, future expected cash-flows are discounted in accordance with IAS 39 requirements, in order to obtain the appropriate impairment charge.

3.1.2. Impairment and provisioning policy (continued)

Special reserves

For both wholesale and retail placements, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates special reserves for estimated losses as defined by the Decision on the Classification of Banks Balance Sheet Assets and Off-Balance Sheet Items, and other relevant regulations of the National Bank of Serbia.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when it is determined that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status. Any write-off is approved by the relevant body in accordance with the decision of Board of Directors.

3.1.3. Collaterals

For a majority of placements granted to borrowers, the Bank will require collateral instrument. Collateral generally is not held over loans and advances to banks. Most often the collateral consists of one or more of the following collateral instruments (or instruments for credit support):

- cash deposits in dinars and foreign currencies,
- guarantees from the government, government funds or first class banks,
- guarantees from parent companies, other legal entities and individual persons,
- letters of comfort from parent companies,
- mortgage over real estate,
- pledge over movable property,
- own blank bills of exchange,
- pledge over shares or ownership stakes
- a pledge over other securities (e.g. bonds) or precious metals,
- assignment of receivables (with or without notification) etc.,
- assignment of insurance policies.

The Bank reserves the right to request any other type of instruments (or variation of the above instruments) which it may deem necessary.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated periodically in accordance with the relevant credit policy except when a loan is individually assessed as impaired in which case a new appraisal is performed if deemed necessary.

3.1.4. Credit monitoring

The Bank constantly monitors the state of the borrower's business and any change in its creditworthines. To this end, besides the regular evaluation of financial statements, the responsible business units carry out regular checks of the borrower's business operations.

The monitoring of the borrower is institutionalized through regular credit reviews. Credit reviews are prepared by the relevant business unit and approved by the relevant approval authority. In case of wholesale customers, the review frequency depends on their risk grade.

All amounts are expressed in 000 RSD unless otherwise stated

3.1.5. Maximum exposure to credit risk before collateral held or other credit enhancements:

	2007	2006
On-balance sheet assets		
Interest, fees and commission receivable	140,363	73,832
Loans and advances to banks	3,270,873	264,069
Loans and advances to customers:		
- Corporate lending	8,119,067	6,513,424
- Consumer lending (including credit cards)	20,136,421	9,999,826
- Mortgages	10,875,387	5,400,760
- Small business lending	9,479,757	4,707,685
Trading assets	73,620	215,831
Investment securities	20,479	5,667,467
Other assets, prepayments and accrued income	509,845	567,568
	52,625,812	**33,410,462**
Off-balance sheet items		
Payment guarantees and performance bonds	16,958,131	3,025,470
Loan commitments and other credit related liabilities	47,632,114	14,865,863
	64,590,245	**17,891,333**
As at 31 December	**117,216,057**	**51,301,795**

3.1.6. Loans and advances

Loans and advances are summarized as follows:

	31 December 2007		**31 December 2006**	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	38,946,598	3,270,873	20,627,852	264,069
Past due but not impaired	9,550,543	-	5,993,845	-
Impaired	1,407,200	-	772,459	-
Total gross amount	**49,904,341**	**3,270,873**	**27,394,156**	**264,069**

All amounts are expressed in 000 RSD unless otherwise stated

3.1.6. Loans and advances (continued)

a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2007 can be assessed by reference to the Bank's standard grading system. The following information is based on that system:

	31 December 2007		31 December 2006	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired - grades:				
Satisfactory risk (wholesale grades 1 to 6)	7,879,578	3,270,873	4,651,668	264,069
Watch list and special mention (wholesale grade 7)	9,466	-	5,684	-
Total retail	31,057,554	-	15,970,500	-
Total gross amount	**38,946,598**	**3,270,873**	**20,627,852**	**264,069**

b) Loans and advances past due but not impaired

Loans and advances past due but not impaired as at 31 December 2007 are as follows:

	Retail customers		Wholesale		
31 December 2007	**Mortgages**	**Consumer lending**	**Small Business lending**	**Corporate lending**	**Total**
Past due up to 29 days	2,327,526	4,159,099	685,049	86,770	7,258,444
Past due 30 - 89 days	438,053	1,601,890	234,054	3,483	2,277,480
Past due 90 - less than 1 year	13,097	-	-	1,522	14,619
Total gross amount	**2,778,676**	**5,760,989**	**919,103**	**91,775**	**9,550,543**
Fair value of collateral	2,602,669	1,078,230	550,078	50,412	4,281,389

Loans and advances past due but not impaired as at 31 December 2006 are as follows:

	Retail customers		Wholesale		
31 December 2006	**Mortgages**	**Consumer lending**	**Small Business lending**	**Corporate lending**	**Total**
Past due up to 29 days	1,647,690	2,533,891	426,889	70,661	4,679,131
Past due 30 - 89 days	267,450	904,847	132,668	1,809	1,306,774
Past due 90 - less than 1 year	7,219	-	-	721	7,940
Total gross amount	**1,922,359**	**3,438,738**	**559,557**	**73,191**	**5,993,845**
Fair value of collateral	1,780,939	623,942	334,892	37,747	2,777,520

All amounts are expressed in 000 RSD unless otherwise stated

3.1.6. Loans and advances (continued)

c) Loans and advances individually impaired

The breakdown of the gross and carrying amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, as at 31 December 2007 are as follows:

	Retail		Wholesale	
31 December 2007	Mortgages	SBB	Corporate lending	Total
Individually impaired loans - gross	6,513	210,624	419,552	636,689
Fair value of collateral	6,513	78,671	124,583	209,767

The breakdown as at 31 December 2006 is as follows:

	Retail		Wholesale	
31 December 2006	Mortgages	SBB	Corporate lending	Total
Individually impaired loans - gross	4,575	125,619	219,306	349,500
Fair value of collateral	4,575	38,175	55,134	97,884

d) Loans and advances renegotiated

Loans and advances renegotiated are as follows:

	2007	2006
Small business lending	32,421	-
Corporate lending	51,026	19,630
Total gross amount	**83,447**	**19,630**

3.1.7. Securities, treasury bills and other eligible bills

As at 31 December 2007, the Bank has treasury bills of the Central Bank in the amount of RSD 4,299,570 thousand and trading securities of Republic of Serbia (frozen savings bonds) in the amount of RSD 73,620. The above mentioned bills and trading securities are not rated. The rating of country is *BB-* based on Standard and Poor's rating.

3.1.8. Repossessed collateral

As at 31 December 2007 Bank had the following assets that were obtained by taking possession of collateral held as security:

Nature of assets	**Carrying amount**
Residential property	12,415

All amounts are expressed in 000 RSD unless otherwise stated

3.1.9. Concentration of risks of financial assets with credit risk exposure

a) Geographical sectors

The following table breaks down the Banks main credit exposure at their carrying amounts, as categorized by the geographical sectors of our counterparties:

	Serbia	Greece	Western Europe	Total
Interest, fees and commission receivable	140,363	-	-	140,363
Loans and advances to banks	3,270,873	-	-	3,270,873
Loans and advances to customers:				
- Corporate lending	7,282,029	799,362	37,676	8,119,067
- Consumer lending	20,136,421	-	-	20,136,421
- Mortgages	10,875,387	-	-	10,875,387
- Small business lending	9,479,757	-	-	9,479,757
Trading assets	73,620	-	-	73,620
Investment securities	20,479	-	-	20,479
Other assets, prepayments and accruals	497,531	-	12,314	509,845
As at 31 December 2007	**51,776,460**	**799,362**	**49,990**	**52,625,812**
As at 31 December 2006	**33,365,909**	**-**	**44,553**	**33,410,462**

All amounts are expressed in 000 RSD unless otherwise stated

3.1.9. Concentration of risks of financial assets with credit risk exposure (continued)

b) Industry sectors

The following table breaks down the Banks main credit exposure at their carrying amounts, as categorized by the industry sectors of our counterparties:

	Commerce and services	Construction	Financial services	Manufacturing	Private individuals	Shipping	Other	Total
Interest, fees and commission receivable	7,244	1,769	2,539	1,206	118,355	751	8,499	140,363
Loans and advances to banks	-	-	3,270,873	-	-	-	-	3,270,873
Loans and advances to customers:								
- Corporate lending	5,978,154	45,079	899,747	491,851	-	44,129	660,107	8,119,067
- Consumer lending	-	-	-	-	20,136,421	-	-	20,136,421
- Mortgages	-	-	-	-	10,875,387	-	-	10,875,387
- Small business lending	2,563,014	180,734	-	535,306	4,370,950	61,890	1,767,863	9,479,757
Trading assets	-	-	-	-	-	-	73,620	73,620
Investment securities	-	-	20,479	-	-	-	-	20,479
Other assets, prepayments and accrued income	35,311	6,894	157,358	955	236,766	332	72,229	509,845
As at 31 December 2007	**8,583,723**	**234,476**	**4,350,996**	**1,029,318**	**35,737,879**	**107,102**	**2,582,318**	**52,625,812**
As at 31 December 2006	**5,049,534**	**168,861**	**2,462,310**	**703,481**	**22,943,848**	**92,996**	**1,989,432**	**33,410,462**

3.2. Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

3.2.1. Foreign exchange risk

Exposure to foreign currency risk is monitored on regular basis by complying with the requirements of the National Bank of Serbia. The Bank maintains its foreign currency position by granting loans that are indexed to foreign currency. The Bank also actively manages the foreign currency risk by careful estimation of the open foreign currency positions and compliance with the risk ratios prescribed by the National Bank of Serbia as well as the limits prescribed in the internal acts enacted by the Bank’s management and risk management commission.

All amounts are expressed in 000 RSD unless otherwise stated

3.2.1. Foreign exchange risk (continued)

The following table shows the Bank's exposure to foreign currency risk as at 31 December. The table includes the Bank's assets and liabilities at carrying amounts, categorized by currency.

As at 31 December 2007	EUR	USD	Other currencies	Total foreign currency	Local currency	Total
Assets				-		
Cash and cash equivalents	1,011,539	32,255	93,895	1,137,689	1,153,655	2,291,344
Deposits with Central Bank and securities refinanceable with Central Bank	13,869,509	-	-	13,869,509	10,514,943	24,384,452
Interest, fees and commission receivable	96,655	347	14,576	111,578	28,785	140,363
Placements with banks	2,237,984	-	-	2,237,984	1,032,889	3,270,873
Loans and advances to customers	25,504,433	39,537	12,252,963	37,796,933	10,813,699	48,610,632
Trading securities	73,620	-	-	73,620	-	73,620
Equity investments	-	-	-	-	20,479	20,479
Income tax receivables	-	-	-	-	-	-
Intangible assets	-	-	-	-	965,780	965,780
Property, plant end equipment	-	-	-	-	3,769,997	3,769,997
Other assets, prepayments and accrued income	148,018	-	16,277	164,295	345,550	509,845
Deferred tax asset	-	-	-	-	72,304	72,304
Total assets	**42,941,758**	**72,139**	**12,377,711**	**55,391,608**	**28,718,081**	**84,109,689**
Liabilities and equity						
Due to banks in the country	1,160,239	228,831	47,842	1,436,912	1,826,968	3,263,880
Due to customers	43,263,023	290,257	8,783,000	52,336,280	4,063,592	56,399,872
Interest, fees and commissions payable	378,434	2,341	5,421	386,196	5,837	392,033
Liabilities for dividends	-	-	-	-	700	700
Other liabilities	167,080	4,863	2,153	174,096	82,985	257,081
Current tax liabilities	-	-	-	-	6,238	6,238
Provisions	64,173	-	-	64,173	31,906	96,079
Other liabilities, accruals and deferred income	419,073	51	227,527	646,651	482,664	1,129,315
Deferred tax liability	-	-	-	-	-	-
Equity	-	-	-	-	22,564,491	22,564,491
Total liabilities and equity	**45,452,022**	**526,343**	**9,065,943**	**55,044,308**	**29,065,381**	**84,109,689**
Net balance sheet position	**(2,510,264)**	**(454,204)**	**3,311,768**	**347,300**	**(347,300)**	**-**
As at 31 December 2006						
Total assets	36,162,806	104,641	3,576,855	39,844,302	23,074,601	62,918,903
Total liabilities and equity	35,892,665	473,541	3,576,855	39,943,061	22,975,842	62,918,903
Net balance sheet position	**270,141**	**(368,900)**	**-**	**(98,759)**	**98,759**	**-**

3.2.1. Foreign exchange risk (continued)

Foreign currency loans and deposits include pure foreign currency loans and deposits as well as indexed loans and deposits. In accordance with the instructions of National Bank of Serbia, loans and deposits in local currency which are indexed to foreign currency are considered as local currency loans/deposits. In the table above, indexed loans and deposits are included within the currency they are indexed to, together with pure foreign currency loans and deposits. As at 31 December 2007, gross loans indexed in foreign currency amounted to RSD 36,929,194 thousand (31 December 2006: RSD 25,866,577 thousand), while deposits indexed to foreign currency amounted to RSD 24,891 thousand (31 December 2006: RSD 119,604 thousand).

3.2.2. Interest rate risk

The Bank is exposed to interest rate risk in the market which can affect its financial position and cash flows. As a result of these changes, the interest margin can be increased; however, the fall in interest margin or loss is also possible due to unexpected changes. The Bank's interest rates are based on the market interest rates and the Bank regularly adjusts them.

The purpose of the risk management activities is to optimize the net interest income, and to maintain the market interest rate on a consistent level in accordance to the Bank's business strategy. The management of the Bank manages maturities matching of the assets and liabilities' on the basis of: macro and micro economic estimations, estimations of the conditions for achieving liquidity, and the estimation of the interest rates' trends.

Credit risk represents the unfavorable change of the loans' price by reference, on one hand, to the level of passive interest rates, and on the other, the possibility of the decrease of the optimal difference between the average active and passive interest rates.

The Bank's exposure to interest rate risk is shown in the table on the next page. The table includes assets and liabilities classified according to the earlier of the date of re-pricing or the maturity date.

All amounts are expressed in 000 RSD unless otherwise stated

3.2.2. Interest rate risk (continued)

As at 31 December 2007	1-30 days	31-90 days	91-180 days	181-365 days	Over 365 days	Non interest bearing	Total
Assets							
Cash and cash equivalents	-	-	-	-	-	2,291,344	2,291,344
Deposits with Central Bank and securities refinanceable with Central Bank	20,880,260	2,456,786	1,047,406	-	-	-	24,384,452
Interest, fees and commission receivable	-	-	-	-	-	140,363	140,363
Placements with banks	3,270,873	-	-	-	-	-	3,270,873
Loans and advances to customers	47,455,139	1,023,399	429	859	128,072	2,734	48,610,632
Trading securities	-	-	9,456	-	64,164	-	73,620
Equity investments	-	-	-	-	-	20,479	20,479
Intangible assets	-	-	-	-	-	965,780	965,780
Property, plant end equipment	-	-	-	-	-	3,769,997	3,769,997
Other assets, prepayments and accrued income	-	-	-	-	-	509,845	509,845
Deferred tax asset	-	-	-	-	-	72,304	72,304
Total assets	**71,606,272**	**3,480,185**	**1,057,291**	**859**	**192,236**	**7,772,846**	**84,109,689**
Liabilities and shareholder's equity							
Due to banks in the country	2,629,264	244,836	55,465	-	-	334,315	3,263,880
Due to customers	29,687,567	4,833,872	4,206,413	11,281,800	717,557	5,672,663	56,399,872
Interest, fees and commissions payable	-	-	-	-	-	392,033	392,033
Liabilities for dividends	-	-	-	-	-	700	700
Other liabilities	-	-	-	-	-	257,081	257,081
Current tax liabilities						6,238	6,238
Provisions	-	-	-	-	-	96,079	96,079
Other liabilities, accruals and deferred income	-	-	-	-	-	1,129,315	1,129,315
Deferred tax liability	-	-	-	-	-	-	-
Shareholder's equity	-	-	-	-	-	22,564,491	22,564,491
Total liabilities and shareholder's equity	**32,316,831**	**5,078,708**	**4,261,878**	**11,281,800**	**717,557**	**30,452,915**	**84,109,689**
Interest repricing gap	**39,289,441**	**(1,598,523)**	**(3,204,587)**	**(11,280,941)**	**(525,321)**	**(22,680,069)**	**-**
As at 31 December 2006							
Total assets	53,568,509	1,491,685	2,758,739	-	289,530	4,810,440	62,918,903
Total liabilities and shareholder's equity	30,348,118	2,986,026	3,279,566	6,594,012	3,020,515	16,690,666	62,918,903
Interest repricing gap	**23,220,391**	**(1,494,341)**	**(520,827)**	**(6,594,012)**	**(2,730,985)**	**(11,880,226)**	**-**

All amounts are expressed in 000 RSD unless otherwise stated

3.2.3. Sensitivity analysis

The management of interest rate risk and currency risk against gap limits is supplemented by monitoring the sensitivity of the Bank's income statements to various interest rate and foreign currency rate scenarios. The sensitivity of the income statement is the effect of the assumed changes in interest rates and FX rate on the net interest income for one year.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates and FX rates (assuming no asymmetrical movements in yield curves and constant balance sheet position) is as follows:

	Sensitivity of income statement	
Interest rate sensitivity	**2007**	**2006**
Increase in basis points		
+100 bps parallel shift	10,820	(34,821)
Foreign exchange sensitivity		
10% depreciation of RSD	19,124	18,764

3.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations which can have a negative result on the Bank's financial results and equity. The Bank manages liquidity risk by obtaining different funding sources that include:

- customer's deposits with different maturities
- deposits from the capital market
- borrowed funds from foreign banks and financial institutions
- share capital

The Bank monitors continuously liquidity risk by monitoring changes in the funding sources that are required for accomplishing business strategy of the Bank. The Bank aims to provide enough sources to fulfill its obligations for payments and new credit disbursements. The Bank manages the liquidity risk by constant monitoring of maturity mismatch of assets and liabilities and by analyzing the projected cash flows in order to enable the Bank fulfilling its obligations at any moment.

3.3.1. Funding approach

Sources of liquidity are regularly reviewed so as to maintain a wide diversification by currency, geography, provider, product and term.

All amounts are expressed in 000 RSD unless otherwise stated

3.3.2. Non-derivative cash flows

The table below presents the cash flow payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are contractual undiscounted cash flows.

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	2,752,366	424,474	89,598	-	-	3,266,438
Due to customers	23,128,815	7,817,448	22,726,882	4,228,584	-	57,901,729
Subordinated liabilities	-	-	16,513	445,719	-	462,232
Other liabilities	649,814	11,106	-	-	-	660,920
Total	**26,530,995**	**8,253,028**	**22,832,993**	**4,674,303**	**-**	**62,291,319**

As at 31 December 2006	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	3,395,601	289,825	80,793	-	-	3,766,219
Due to customers	18,198,078	4,059,614	8,476,883	11,750,581	1,086,901	43,572,057
Subordinated liabilities	-	-	16,512	461,053	-	477,565
Other liabilities	411,196	-	-	-	-	411,196
Total	**22,004,875**	**4,349,439**	**8,574,188**	**12,211,634**	**1,086,901**	**48,227,037**

3.3.3. Off-balance items

a) Loan commitments

The dates of the contractual amounts of the Bank’s off-balance sheet instruments that commit it to extend credit to customers and other facilities (Note 33) are summarized in the table presented under point *e*.

b) Letters of credit and letters of guarantee

Guarantees and acceptances (Note 33) based on the earliest contractual maturity date are also included in the table under point *e*.

c) Operating lease commitments

Where the Banks is the lessee, the future minimum lease payments under non-cancelable finance lease, as disclosed in Note 33, are summarized in the table under point *e*.

d) Capital commitments

As at 31 December 2007, the Bank does not have any capital commitments for the acquisition of buildings and equipment.

All amounts are expressed in 000 RSD unless otherwise stated

3.3.3. Off-balance items (continued)

e) Loan commitments, Letters of credit and letters of guarantee and Operating lease commitments

	No later than 1 year	1-5 years	Over 5 years	Total
As at 31 December 2007				
Loan commitments	4,386,173	4,001,268	30,619	8,418,060
Guarantees and acceptances	6,539,886	5,438,180	4,980,066	16,958,132
Operating lease	70,255	-	-	70,255
Total	**10,996,314**	**9,439,448**	**5,010,685**	**25,446,447**
As at 31 December 2006				
Loan commitments	2,850,833	2,600,661	19,901	5,471,395
Guarantees and acceptances	1,166,769	970,216	888,485	3,025,470
Operating lease	50,808	-	-	50,808
Total	**4,068,410**	**3,570,877**	**908,386**	**8,547,673**

3.4. Fair value of financial assets and liabilities

Fair value is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The Republic of Serbia lacks sufficient market experience, stability and liquidity for purchase and sale of loans and other financial assets and liabilities; official market information is not readily or reliably available. Accordingly, fair value cannot reliably be determined in the absence of an active market, as required by IFRS. According to the Management's opinion, the amounts of assets and liabilities presented in financial statements as at 31 December 2006 are the most reliable estimated values under the circumstances.

The management of the Bank believes that fair value of assets and liabilities which are stated at amortized cost do not differ significantly from their carrying value.

3.5. Capital management

The Bank's objectives, when managing capital, which is a broader concept than "equity" on the face of the balance sheet, are:

To comply with the capital requirements set by the National Bank of Serbia
To provide an adequate level of capital so as to enable the Bank to continue its operations as a going concern
To maintain a strong capital base to support the development of its business.

Capital adequacy, as well as the use of the Bank's capital is monitored on a monthly basis by the Bank's management.

The National Bank of Serbia has defined the following capital limits:

- The minimum amount of the capital of EUR 10 million
- Capital adequacy ratio of 12%
- Gross dinar placements to the citizens in the amount of 150% of the tier 1

All amounts are expressed in 000 RSD unless otherwise stated

3.5. Capital management (continued)

The Bank's total capital comprises of tier 1 and tier 2 capital and deductible items.

Tier 1 capital: share capital from ordinary shares, share premium, statutory reserves, cumulative loss or gain, capital gain and loss from purchased own shares, intangible investments and purchased own actions as tier 1 deductible items.

Tier 2 capital: share capital from priority shares, share premium from priority shares, revaluation reserves related to fixed assets and share in capital, retained earnings for general banking risks up to 1.25% of risk-weighted assets, subordinated liabilities up to 50% of tier 1 capital, and purchased own priority shares as Tier 2 capital deductible items.

Deductible items: collective impairment allowances, share in capital of banks or other financial institutions exceeding 10% of capital of the organisation that is invested into, and 10% of the investing bank capital and the amount of the tier 2 capital of the bank which exceeds its tier 1 capital.

The risk weighted balance and off-balance assets are determined in accordance with the prescribed risk ratios for all types of assets. The risk ratios are divided into five groups (0%, 20%, 50%, 100%, and 125%). When calculating the capital adequacy ratio, and in accordance with the regulations of the National Bank of Serbia, the overall risk-weighted balance and off-balance assets are increased for the amount of the open foreign currency position.

The table below summarizes the structure of the Bank's capital as at 31 December 2007, as well as the capital adequacy ratio:

	2007	2006
TIER 1 capital	20,264,072	14,659,413
TIER II capital	321,745	399,800
Deductible items		
Shortfall amount of provisions against potential losses	(7,147,817)	(2,442,833)
Investments in shares over 10%	(20,479)	-
Total regulatory capital	**13,417,521**	**12,616,380**
Risk weighted assets:		
Balance sheet	31,918,707	22,841,639
Off balance sheet	18,346,921	2,967,119
Open FX position	93,231	1,653,009
Total risk weighted assets	**50,358,859**	**27,461,767**
Capital adequacy	**26.6%**	**45.9%**

4. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Income tax

The Bank is subject to income taxes in Serbia. Certain estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

All amounts are expressed in 000 RSD unless otherwise stated

5. Interest income and expense

	2007	2006
Interest income		
Banks	93,728	87,039
National Bank of Serbia	1,399,946	1,067,731
Companies	1,126,652	666,627
Public entities	1,190	9,046
Citizens	4,171,390	1,942,812
Foreign entities	20,992	17,756
Other clients	771	207
Securities	118,257	255,068
	6,932,926	**4,046,286**
Interest expense		
Banks	306,704	124,834
Companies	207,273	71,270
Public entities	12,568	12,619
Citizens	1,141,901	560,390
Foreign entities	556,245	263,507
Other clients	1,824	637
Securities	105,050	131,797
	2,331,565	**1,165,054**
Net interest income	**4,601,361**	**2,881,232**

6. Fee and commission income and expense

	2007	2006
Fee and commission income		
Fees and Commissions for banking services	916,974	757,684
Commissions for issued guarantees and other warrants	179,577	31,314
Other commission and fees	130,271	100,427
	1,226,822	**889,425**
Fee and commission expense		
Fees from domestic payments	24,939	29,052
Fees from international payments	16,206	7,930
Commissions for guarantees received	8,832	153
Other commission and fees	139,431	118,877
	189,408	**156,012**
Net fee and commission income	**1,037,414**	**733,413**

All amounts are expressed in 000 RSD unless otherwise stated

7. Net gains/losses from securities

	2007	2006
Gain from securities	35,952	334,502
Loss from securities	(5,069)	(556,148)
Net (losses)/gains	**30,883**	**(221,646)**

8. Net foreign exchange gains/ (losses)

	2007	2006
Gain from foreign exchange	28,669,762	27,241,797
Loss from foreign exchange	(28,170,807)	(26,936,833)
Net exchange gains	**498,955**	**304,964**

9. Other operating income

	2007	2006
Income from release of provisions		
-interest and fee receivables (Note 17)	10,361	(25,791)
-loans to customers (Note 19)	134,044	(25,322)
-other assets (Note 24)	1,530	17,570
-securities	4,279	20,577
-off balance sheet items (Note 30)	8,149	74,023
	158,363	**61,057**
Rental income	2,711	3,414
Income from collections of written off receivables	20,041	9,896
Other operating income	1,062	625
Income on sales of fixed and intangible assets	3,814	-
Income from collected damages	1,126	-
Income from maintenance of dormant accounts	279,224	155,059
Other income	4,874	26,550
	471,215	**256,601**

As of 31 December 2007 income from maintenance of the dormant accounts in the amount of RSD 279,224 thousand (31 December 2006: RSD 155,059 thousand) relates to the fee charged for maintenance of dormant accounts. Dormant accounts are accounts without turnover from 2002 and individual balances are less than EUR 30. Since the Bank has maintained database of dormant accounts and it did not close those accounts, the management of the bank has decided to charge a fee for maintenance of dormant accounts, in accordance with internal procedures. Fee is charged by debiting dormant accounts.

All amounts are expressed in 000 RSD unless otherwise stated

10. Impairment losses on loans and advances and other provisions

	2007	2006
Impairment losses		
- interest and fee receivables (Note 17)	37,791	-
- loans to customers (Note 19)	668,692	-
- equity shares in associated company	-	4,279
- other assets (Note 24)	9,414	
- off balance sheet (Note 30)	28,131	-
Subtotal	**744,028**	**4,279**
Other provisions		
Legal cases (Note 30)	31,139	11,322
Retirement indemnities (Note 30)	11,527	16,250
Subtotal	**42,666**	**27,572**
Total provisions	**786,694**	**31,851**

In the year 2006 the Bank has changed accounting policy for impairment losses following changes in the local regulations and requirements of the Central Bank. Starting from 2006 impairment losses are being recognized based on IAS 39, while in the previous years impairment losses have been recognized based on the regulations of the Central Bank as disclosed in Note 2.5 therefore all previously recognized statutory provisions have been released in 2006. Net effect of the changes on the accounting policy in 2006 was net income from release of provisions in the amount of RSD 61,057 thousand (Note 9).

11. Operating expenses

	2007	2006
Net Salaries	944,930	929,098
Taxes and contributions in relation to salaries	362,413	396,432
Other employees' costs	3,650	33,375
Stationary and supplies	165,207	140,494
Administrative expenses	1,323,413	1,388,272
Depreciation and amortization		
- amortization of intangibles (Note 22)	137,296	150,212
- fixed assets (Note 23)	356,362	225,952
Non - material expenses	757,798	539,998
Write off of receivables	15,314	17,084
Indirect taxes	57,197	56,752
Contributions	223,427	219,543
Write off of fixed assets	27,165	3,404
Loss on disposal of fixed assets	68	-
Other	56,650	188,982
	4,430,890	**4,289,598**

All amounts are expressed in 000 RSD unless otherwise stated

11. Operating expenses (continued)

Detailed breakdown of administrative expenses is presented in the table below:

	2007	2006
Transporting services	28,599	24,408
Communication services	89,909	34,128
Telephone	92,878	108,113
Hardware maintenance	31,398	24766
Software maintenance	217,997	104,251
Maintenance of fixed assets	39,786	19,328
ATM maintenance	6,162	4,420
Cleaning	175	9,612
Rental expenses	400,002	518,929
Marketing and advertising	325,520	264,568
Donations	76,950	131,611
Other services	14,037	144,138
	1,323,413	**1,388,272**

As of 31 December 2007, non-material expenses in the amount of RSD 757,798 thousand comprise of the following expenses: expenses for services of EFG Retail Services in the amount of RSD 248,987 thousand, deposit insurance expenses in the amount of RSD 101,069 thousand, security and safeguarding expenses in the amount of RSD 62,356 thousand, intellectual services in the amount of RSD 45,761 thousand, information system services in the amount of RSD 26,916 thousand, cards processing services in the amount of RSD 20,060 thousand and other expense.

12. Income and expenses from revaluation of assets and liabilities

As of 31 December 2007 income from revaluation of assets and liabilities in the amount of RSD 4,005 thousand relates to revaluation of dinar loans with agreed indexation for increase in retail prices (2006: RSD 32,421 thousand).

13. Income tax

Income tax is composed of the following taxes:

	2007	2006
Current income tax	(10,807)	-
Deferred tax	(96,746)	143,061
Total	**(107,553)**	**143,061**

The tax on the Bank's profit or loss before tax differs from the theoretical amount that would arise using the average tax rate:

All amounts are expressed in 000 RSD unless otherwise stated

13. Income tax (continued)

	2007	2006
Profit/ (Loss) before tax	1,426,249	(334,464)
Tax calculated at the rate of 10%	(142,625)	33,446
Tax effect of non deductible expenses	(19,042)	(28,823)
Tax effect from the current year result	**(161,667)**	**4,623**
Tax effect of losses carried forward and tax credits	(197)	138,438
Tax effect of temporary differences	(7,102)	-
Tax effect of recognized deferred tax on tax credits	50,606	-
Utilized unrecognized tax credits	10,807	-
Income tax income	**(107,553)**	**143,061**

As at 31 December 2007, corporate tax payable amounts to RSD 6,238 and comprise of corporate tax liability in the amount of RSD 10,807 thousand for the profit realized in 2007 which is off set with prepaid corporate tax in previous years in the amount of RSD 4,569 thousand. Breakdown is provided below:

	2007	2006
Current tax liability for the profit realized in 2007	10,807	-
Prepaid corporate tax	(4,569)	-
Total tax payable	**6,238**	**-**

14. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	2007	2006
Profit attributable to equity holders of the Company	1,318,696	-
Weighted average number of ordinary shares in issue	158,608	-
Basic earnings per share (expressed in RSD per share)	**8.31**	**-**

15. Cash and cash equivalents

	2007	2006
In RSD		
- current account	676,412	474,851
- cash in hand	463,373	302,796
- other cash and cash equivalents	13,868	14,565
In foreign currency		
- cash in hand	960,803	572,524
- other cash and cash equivalents	1,312	8,560
Foreign currency account		
-other banks	2	2
-foreign banks	175,574	97,928
	2,291,344	**1,471,226**

All amounts are expressed in 000 RSD unless otherwise stated

15. Cash and cash equivalents (continued)

In accordance with the Decision of the National bank of Serbia (Official gazette of RS no.48/2004), mandatory reserves in local currency are included in the balance of the current account, therefore it is not presented separately. As at 31 December 2007 calculated mandatory reserves in local currency amounted to RSD 852,940 thousand. The Bank can use mandatory reserves to maintain its liquidity.

16. Deposits with Central Bank and securities refinanceable with Central Bank

	2007	**2006**
Mandatory reserves in foreign currency	13,869,509	12,195,057
REPO with the Central bank	6,215,373	13,276,316
Treasury bills of the Central bank	4,299,570	-
	24,384,452	**25,471,373**

Pursuant to NBS Decision on mandatory reserves (Official Gazette of Republic of Serbia no. 116/2006, 3/2007, 31/2007 и 93/2007), the Bank is obligated to set aside funds for mandatory reserves in foreign currency on the separate account with NBS which is calculated as a percentage of an average monthly balance of foreign currency deposits. Mandatory reserve is calculated by applying rate ranking from 40% - 45% to the average balance of foreign currency deposits and indexed deposits. The amount of calculated mandatory reserve is decreased by the amount of long term loans insured with the National Corporation. Mandatory reserve at the rate of 100% is calculated on the deposits of the leasing companies, at rate of 20% on the subordinated liabilities.

17. Interest, fees and commission receivable

	2007	**2006**
Banks		
-in RSD	2,539	2,947
- in foreign currency	-	-
Legal entities	-	
-in RSD	40,830	39,655
- in foreign currency	2,180	3,749
Private individuals	-	
-in RSD	159,156	67,685
- in foreign currency	-	-
Interest, fees and commission receivable, gross	**204,705**	**114,036**
Less: Provision for impairment	(64,342)	(40,204)
Interest, fees and commission receivable, net	**140,363**	**73,832**

All amounts are expressed in 000 RSD unless otherwise stated

17. Interest, fees and commission receivable (continued)

Movements in provision for impairment are presented below:

	Allowance for provision
Opening balance 2006	**16,029**
New provisions (Note 9)	25,791
Net foreign exchange	(434)
Write off	(1,182)
Closing balance 2006	**40,204**
New provisions (Note 10)	37,791
Release of provision (Note 9)	(10,361)
Net foreign exchange	142
Write off	(3,434)
Closing balance 2007	**64,342**

18. Placements with banks

	2007	2006
Placements with other banks	3,272,575	250,000
Other placements	15,409	20,524
Settlement account	(17,111)	(6,455)
	3,270,873	**264,069**

All amounts are expressed in 000 RSD unless otherwise stated

19. Loans and advances to customers

Short term loans	**2007**	**2006**
In RSD		
Companies	6,273,402	3,696,214
Private individuals	1,527,627	4,213,195
Foreign entities	7,000	-
Current portion of long term loans	3,800,473	3,178,177
In foreign currency	-	
Companies	152,965	404,971
Private individuals	-	-
Foreign entities	792,362	-
Current portion of long term loans	96,831	48,660
	12,650,660	**11,541,217**
Long term loans		
In RSD		
Companies	6,202,014	2,408,686
Private individuals	34,804,870	16,472,726
Foreign entities	-	-
Current portion of long term loans	(3,800,473)	(3,178,177)
In foreign currency	-	
Companies	110,310	162,560
Private individuals	-	5,816
Foreign entities	33,791	29,988
Current portion of long term loans	(96,831)	(48,660)
	37,253,681	**15,852,939**
Loans to customers, gross	**49,904,341**	**27,394,156**
Less: Allowance for impairment	(1,293,709)	(772,461)
Loans to customers, net	**48,610,632**	**26,621,695**

Interest rates for indexed short-term loans ranged from 4% to 21% per annum and from 5% to 9% per annum on the long term loans. The Bank collects interest from bank overdrafts of citizens in the amount of 14% to 36% per annum.

The Bank approves currency clause RSD loans to retail customers where the interest rate ranged from 13.5% - 18% per annum.

All amounts are expressed in 000 RSD unless otherwise stated

19. Loans and advances to customers (continued)

Movements in provisions for loans and advances to customers are presented below:

	Corporate	Consumer	Mortgage	SBB	Total
Opening balance 2006	**548,825**	**276,160**	**2,451**	**13,294**	**840,730**
Net increase/(release) of provision (Note 9)	(184,589)	153,955	21,044	34,912	25,322
Net foreign exchange	(2,901)	840	(1)	(1,900)	(3,962)
Write off	(83,113)	-	-	-	(83,113)
Other	(6,516)	-	-	-	(6,516)
Closing balance 2006	**271,706**	**430,955**	**23,494**	**46,306**	**772,461**
New provisions (Note 10)	87,115	404,517	16,792	160,268	668,692
Release of provisions (Note 9)	(79,020)	(51,535)	-	(3,489)	(134,044)
Net foreign exchange	(2,076)	326	(5)	(589)	(2,344)
Write off	-	-	-	(11,056)	(11,056)
Closing balance 2007	**277,725**	**784,263**	**40,281**	**191,440**	**1,293,709**

20. Trading securities

	2007	2006
In RSD		
Permanent bills of Republic of Serbia	-	161,380
In foreign currency		
Foreign currency frozen bonds	73,620	54,451
	73,620	**215,831**

Foreign currency frozen bonds are bonds issued by Republic of Serbia based on the Law on Settlement of Public Debt of the Federal Republic of Yugoslavia arising from the Citizens' Foreign Exchange Savings (Official Gazette of Republic of Serbia no. 36/2002). Bonds are zero-coupon bonds and they are transferable. Bonds are denominated in EUR and payable either in EUR or in RSD and are registered in the Central register. Bonds are actively traded in the Belgrade Stock Exchange.

21. Equity investments and other available for sale securities

	2007	2006
Foreign currency frozen bonds	-	5,667,467
Equity shares	20,479	4,279
	20,479	**5,671,746**
Less: Impairment	-	(4,279)
	20,479	**5,667,467**

During 2007 the Bank has sold available for sale portfolio.

As at 31 December 2007 the Bank is holding 25, 56% of the voting rights of the EFG Leasing a.d. Beograd (31 December 2006: 48, 84%).

All amounts are expressed in 000 RSD unless otherwise stated

22. Intangible assets

	Licenses and software	In course of construction	Total
At 1 January 2006			
Cost	737,009	21,823	758,832
Accumulated amortization	(161,746)	-	(161,746)
Net book value	**575,263**	**21,823**	**597,086**
Year ended 31 December 2006			
Opening net book value	**575,263**	**21,823**	**597,086**
Additions	31,049	452,397	483,446
Transfers	194,928	(194,928)	-
Reclassification to PP&E (Note 23)	(215,542)	-	(215,542)
Transfers to/from PP&E (Note 23)	33,958	(22,337)	11,621
Disposals	(2,562)	-	(2,562)
Other	(6,672)	-	(6,672)
Amortization (Note 11)	(150,212)	-	(150,212)
Closing net book value	**460,210**	**256,955**	**717,165**
			-
At 31 December 2006			-
Cost	676,358	256,955	933,313
Accumulated amortization	(216,148)	-	(216,148)
Net book value	**460,210**	**256,955**	**717,165**
Year ended 31 December 2007			
Opening net book value	**460,210**	**256,955**	**717,165**
Additions	59,466	324,007	383,473
Transfers	522,635	(522,635)	-
Transfers to/from PP&E (Note 23)	5,265	(658)	4,607
Other	1,218	(3,387)	(2,169)
Amortization (Note 11)	(137,295)	-	(137,296)
Closing net book value	**911,499**	**54,282**	**965,780**
At 31 December 2007			
Cost	1,259,676	54,282	1,313,958
Accumulated amortization	(348,177)	-	(348,178)
Net book value	**911,499**	**54,282**	**965,780**

Amortization of intangible assets in the amount of RSD 137,296 thousand (2006: RSD 150,212 thousand) is included in operating expenses (Note 11).

All amounts are expressed in 000 RSD unless otherwise stated

23. Property and equipment

	Land and buildings	Equipment and other assets	Small tools	In course of construction and advances	Total
At 1 January 2006					
Cost	451,246	889,919	4,523	203,832	1,549,520
Accumulated depreciation	(72,388)	(195,724)	(3,808)	-	(271,920)
Net book value	**378,858**	**694,195**	**715**	**203,832**	**1,277,600**
Year ended 31 December 2006					
Opening net book amount	378,858	694,195	715	203,832	1,277,600
Additions	5,242	79,473	1,645	346,348	432,708
Transfers	103,001	240,836	-	(343,837)	-
Transfers to/from intangible assets (Note 22)	22,337	-	-	(33,958)	(11,621)
Reclassification to intangible assets (Note 22)	215,542	-	-	-	215,542
Reclassification to other assets	-	6,168	(721)	-	5,447
Disposals	-	(17,163)	-	-	(17,163)
Other	5	131	(1,639)	-	(1,503)
Depreciation (Note 11)	(26,751)	(199,201)	-	-	(225,952)
Closing net book value	**698,234**	**804,439**	**-**	**172,385**	**1,675,058**
At 31 December 2006					
Cost	893,077	1,180,629	-	172,385	2,246,091
Accumulated depreciation and impairment	(194,843)	(376,190)	-	-	(571,033)
Net book value	**698,234**	**804,439**	**-**	**172,385**	**1,675,058**
Year ended 31 December 2007					-
Opening net book amount	698,234	804,439	-	172,385	1,675,058
Additions	5,852	84,568	-	2,409,658	2,500,078
Transfers	188,966	228,817	-	(417,783)	-
Transfers to/from intangible assets (Note 22)	(4,607)	-	-	-	(4,607)
Transfers to equipment	(1,048)	1,048	-	-	-
Disposals	(10,171)	(6,873)	-	-	(17,044)
Write off	(19,164)	(7,962)	-	-	(27,126)
Depreciation	(105,925)	(250,437)	-	-	(356,362)
Closing net book value	**752,137**	**853,600**	**-**	**2,164,260**	**3,769,997**
At 31 December 2007					
Cost	1,031,153	1,453,097	-	2,164,260	4,648,510
Accumulated depreciation and impairment	(279,016)	(599,497)	-	-	(878,513)
Net book value	**752,137**	**853,600**	**-**	**2,164,260**	**3,769,997**

All amounts are expressed in 000 RSD unless otherwise stated

23. Property and equipment (continued)

Depreciation in the amount of RSD 356,363 thousand (2006 RSD: 225,952 thousand) is included in the operating expenses (Note 11).

Rental expenses in the amount of RSD 400,002 thousand (2006: RSD 518,929 thousand) in relation to the rental of property are included in the operating expenses (Note 11).

As at 31 December 2007 there are no charges over the Bank's fixed assets.

24. Other assets, prepayments and accrued income

	2007	2006
Other assets		
Advances	28,581	28,228
Receivables form suppliers	27	16,893
Reposed collaterals	13,500	13,531
Receivables for sold foreclosed assets	7,051	11,740
Receivables form pension fund	40,135	20,438
Cards receivables	54,139	42,131
Receivables from employees	787	327
Overpaid taxes	4,297	2,703
Other receivables	22,261	34,230
Consumables	14,951	14,453
	185,729	**184,674**
Accruals		
In RSD		
Deferred interest receivables	213,001	132,794
Deferred other receivables	42,273	7,457
Prepaid interest expenses	-	-
Prepaid other expenses	101,720	56,211
In foreign currency	-	
Deferred interest receivables	2,926	15,772
Deferred other receivables	2,632	70
Prepaid interest expenses	447	198,830
Prepaid other expenses	-	3,902
	362,999	**415,036**
Other assets and accruals, gross	**548,728**	**599,710**
Less: Impairment	(26,134)	(22,544)
Less: Write off of stock	(12,749)	(9,598)
	(38,883)	**(32,142)**
Other assets and accruals, net	**509,845**	**567,568**

All amounts are expressed in 000 RSD unless otherwise stated

24. Other assets, prepayments and accrued income (continued)

Movements in provision for impairment are presented below:

	Allowance for impairment
Opening balance 2006	**41,753**
Net release pf provisions (Note 9)	(17,570)
Net foreign exchange	(1,439)
Write off	(200)
Closing balance 2006	**22,544**
New provisions (Note 10)	9,414
Release of provisions (Note 9)	(1,530)
Net foreign exchange	(166)
Write off	(4,128)
Closing balance 2007	**26,134**

25. Deferred tax assets

Deferred tax assets are recognized on temporary differences, losses carried forward and unused tax credits.

	2007	2006
Deferred tax assets on unused tax credits		
- from 2007	45,018	-
- from 2006	5,588	-
- from 2004	9,815	9,815
- from 2003	8,172	8,172
- from 2002	-	940
Deferred tax assets on temporary differences	3,711	10,813
Deferred tax assets on losses carried forward	-	139,310
	72,304	**169,050**

Movements in deferred tax assets

	2007	2006
Opening balance of deferred tax (assets)	169,050	25,989
Changes during the year:		
Decrease/(increase) of deferred tax liabilities and (decrease)/ increase of deferred tax assets related to temporary differences	(7,102)	11,630
Deferred tax assets on losses carried forward	(139,310)	131,431
Reversal of tax assets on expired tax credits	(940)	-
Deferred tax assets on tax credits	50,606	-
Total deferred tax (expense)/income for the year	**(96,746)**	**143,061**
Deferred tax assets	**72,304**	**169,050**

All amounts are expressed in 000 RSD unless otherwise stated

25. Deferred tax assets (continued)

Deferred income tax income relates to the following items:

	2007	2006
Depreciation	(7,102)	11,630
Losses carried forward	(139,310)	131,431
Tax credits	49,666	-
	(96,746)	**143,061**

26. Due to banks

	2007	2006
Sight deposits	329,457	444,177
Short term deposit and borrowings	2,929,565	3,311,067
Other liabilities	4,858	5,936
	3,263,880	**3,761,180**

	2007	2006
Banks	2,537,186	3,062,199
Insurance companies	725,941	698,981
Central Bank of Serbia	753	
	3,263,880	**3,761,180**

All amounts are expressed in 000 RSD unless otherwise stated

27. Due to customers

	2007						2006
	Companies	**Public sector**	**Private individuals**	**Foreign entities**	**Other**	**Total**	**Total**
In RSD							
Demand deposits	1,680,651	3,444	1,325,503	28,216	246,000	3,283,814	2,814,012
Short term deposits	659,566	3,900	49,653	-	-	713,119	715,686
Short term borrowings	-	-	-	-	16,354	16,354	-
Current portion of long term deposits transferred to short term deposits	10,759	-	-	-	-	10,759	2,315
Long term deposits	31,190	24,892	19,114	-	-	75,196	34,991
- current portion of long term deposits transferred to short term deposits	(10,759)	-	-	-	-	(10,759)	(2,315)
	2,371,407	**32,236**	**1,394,270**	**28,216**	**262,354**	**4,088,483**	**3,564,689**
In foreign currency							
Demand deposits	2,509,210	-	6,390,057	310,551	39,510	9,249,328	6,155,661
Short term deposits	1,976,551	-	24,503,009	12,438,752	15,843	38,934,155	19,852,939
Short term loans	-	-	-	-	-	-	-
Current portion of long term deposits transferred to short term deposits	-	-	1,331,852	-	-	1,331,852	215,287
Long term deposits	65,664	-	4,038,915	23,327	-	4,127,906	3,020,513
- current portion of long term deposits transferred to short term deposits	-	-	(1,331,852)	-	-	(1,331,852)	(215,287)
Long term loans	-	-	-	-	-		9,478,255
	4,551,425	**-**	**34,931,981**	**12,772,630**	**55,353**	**52,311,389**	**38,507,368**
Total	**6,922,832**	**32,236**	**36,326,251**	**12,800,846**	**317,707**	**56,399,872**	**42,072,057**

The interest rate ranging from 3% to 6% per annum is calculated on demand corporate deposits in local currency, while interest rate on foreign currency deposits varies from 1.5% to 2.25%. Term deposits carry interest rate of 16% to 18%.

The interest rate on the demand deposits of citizens ranged from 0.3% to 3.5% per annum, depending on the currency and maturity while interest rate on term deposits varied from 0.6% to 10%. The lowest interest rate is paid for USD deposits. The interest rate on RSD term deposits of citizens ranged from 6% to 14% per annum.

All amounts are expressed in 000 RSD unless otherwise stated

28. Interest, fee and commission payable

	2007	2006
Interest and fee payable to banks		
In RSD		
- other banks	3,623	4,681
In foreign currency	-	
- other banks	1,083	1,145
	4,706	**5,826**
Interest and fee payable to customers		
In RSD		
- companies	3,983	4,015
- public sector	42	1,697
- foreign entities	-	
- others	2,941	125
commission payable	166	
In foreign currency	-	
- companies	8,480	7,242
- public sector	-	
- foreign entities	9,506	1,605
- others	359,217	33,189
commission payable	2,992	186
	387,327	**48,059**
Total interest, fee and commission payable	**392,033**	**53,885**

29. Other liabilities

	2007	2006
Net salaries	73	-
Tax and contributions liabilities	32,551	65,332
Suppliers	130,821	254,338
Advances received for repayment of foreign currency bonds	27,124	5,370
Other received advances	729	3,938
Other liabilities	65,783	27,633
	257,081	**356,611**

30. Provisions

	2007	2006
Provisions for legal cases	42,494	11,322
Provision for retirement indemnities	27,297	16,250
Provisions for off balance sheet exposures	26,288	7,064
	96,079	**34,636**

All amounts are expressed in 000 RSD unless otherwise stated

30. Provisions (continued)

Movements in total provisions:

	Retirement indemnities	Legal cases	Off balance sheet	Total
Opening balance 2006	-	-	81,087	**81,087**
New provisions (Note 10)	16,250	11,322		27,572
Release of provisions (Note 9)	-	-	(74,023)	(74,023)
Closing balance 2006	**16,250**	**11,322**	7,064	**34,636**
				-
New provisions (Note 10)	11,527	31,139	28,131	70,797
Release of provisions (Note 9)	-		(8,149)	(8,149)
Indemnities paid	(480)			(480)
Net exchange gain/loss	-	33	(758)	(725)
Closing balance 2007	**27,297**	**42,494**	**26,288**	**96,079**

Actuarial assumptions used for retirement indemnities:
Principal actuarial assumptions (expressed as weighted averages)

	2007	2006
	%	%
Discount rate	5.5%	6.5%
National average salary increase	4.5%	4.5%
Inflation rate	3.0%	3.0%

31. Other liabilities, accruals and deferred income

	2007	2006
Accrued interest liabilities		
in RSD	321	4,087
in foreign currency	22,171	340,523
	22,492	**344,610**
Accrued other expenses		
in RSD	60,986	98,035
in foreign currency	3,200	26,760
	64,186	**124,795**
Deferred income		
in RSD	646,081	336,167
in foreign currency	375	356
	646,456	**336,523**
Subordinated liabilities	**396,181**	**395,000**
	1,129,315	**1,200,928**

During 2005, the Bank received subordinated loan from the majority shareholder EFG Eurobank Ergasias, Athens in the amount of EUR 5,000 thousand (as at 31 December 2007: RSD 396,181 thousand). The loan was granted for a period of six years at variable interest rate.

All amounts are expressed in 000 RSD unless otherwise stated

32. Shareholder's equity

Capital of the bank comprises of share capital, share premium, statutory reserves, revaluation reserves and accumulated losses:

	2007	2006
Share and other capital		
Common shares	19,182,900	15,013,400
Preference shares	4,800	4,800
Share premium	3,231,745	1,345,299
Other capital	2,727	2,727
	22,422,172	**16,366,226**
Statutory reserves	568,083	568,083
AFS revaluation reserves	-	249,057
	568,083	**817,140**
Accumulated losses	(1,744,460)	(1,553,057)
Current year profit/ (loss)	1,318,696	(191,403)
	(425,764)	**(1,744,460)**
	22,564,491	**15,438,906**
Number of issued shares:	**191,877**	**150,182**

During 2007, the Bank has sold AFS portfolio and revaluation reserves were transferred to the profit and loss.

Nominal value of the shares amounts to RSD 100,000 per share.

The shareholders structure of the Bank as at 31 December 2007 is presented in the table below:

	Ordinary shares	%	Preference shares	%	Total number of shares	% of the total capital
EFG Eurobank Ergasias	141,868	73.96%	17	35.42%	141,885	73.95%
EFG Private Bank Luxembourg	8,829	4.60%	-	0.00%	8,829	4.60%
Berberis Investments Limited	3,690	1.92%	-	0.00%	3,690	1.92%
EFG N.E. BV Holding Company Holland	37,442	19.52%	-	0.00%	37,442	19.51%
Agromerkantilija zemljoradnicak zadruga	-	0.00%	3	6.25%	3	0.00%
AKT	-	0.00%	1	2.08%	1	0.00%
Bambi banat	-	0.00%	3	6.25%	3	0.00%
Buducnost	-	0.00%	2	4.17%	2	0.00%
Dunav AD	-	0.00%	1	2.08%	1	0.00%
Habit pharm	-	0.00%	5	10.42%	5	0.00%
Kopaonicanka ZP	-	0.00%	2	4.17%	2	0.00%
Saobracajni institut CIP	-	0.00%	3	6.25%	3	0.00%
Siemens IT solutions and service	-	0.00%	2	4.17%	2	0.00%
Stem	-	0.00%	1	2.08%	1	0.00%
TP Beogradelektro	-	0.00%	6	12.50%	6	0.00%
Trustex	-	0.00%	1	2.08%	1	0.00%
ZZ Bajina Basta	-	0.00%	1	2.08%	1	0.00%
Total	**191,829**	**100.00%**	**48**	**100.00%**	**191,877**	**100.00%**

32. Shareholder's equity (continued)

Share issues and the changes in the Eurobank EFG's share capital structure

During 2007 the bank has realized two capital issues. Based on the Decision of the Shareholders' Assembly on the share capital increase without public offer, the 14th share capital issue took place in the amount of RSD 2,156,000 thousand. 14,844 shares were issued with nominal value of RSD 100 thousand per share. Shares were sold at price of RSD 145,243 per share resulting in a share premium in the amount of 671,600 thousand. The share issue was completed as at 14 May 2007. The share issue in its entirety was acquired by the existing shareholder of the Bank, EFG Private Bank Luxembourg.

The 15th share capital issue took place in the amount of RSD 3,899,947 thousand. 26,851 shares were issued with nominal value of RSD 100 thousand per share. Shares were sold at price of RSD 145,244 thousand per share resulting in a share premium in the amount of 1,214,847 thousand. The share issue was completed as at 12 November 2007. The share issue in its entirety was acquired by the EFG New Europe Holding Company Holland.

Donation of the shares to the Republic of Serbia

In accordance with the Sales and purchase agreement for the acquisition of Nacionalna štedionica banka a.d. Beograd, signed between the Republic of Serbia and EFG Eurobank Ergasias Athens, the EFG Eurobank Ergasias has to donate to the Republic of Serbia 1% of the ordinary shares of the Bank determined at the date of completion of the merger between Eurobank EFG a.d. Beograd and Nacionalna štedionica banka a.d. Beograd. The number of shares to be donated to the Republic of Serbia amounts to 1,502 shares. The donation has not been completed yet.

Share premium

Share premium represents the difference between the market price and nominal value of the shares. Pursuant to the Law on securities the market price of the shares is determined as the average price in the stock trade in the six months prior to the date of the shares issue. As at 31.12.2007 the Bank's share premium was RSD 3,231,745 thousand (31 December 2006: RSD 1,345,299 thousand).

Statutory reserves

Statutory reserves in the amount of RSD 533,941 thousand are formed in accordance with the law regulations and the Statute of the Bank, whereas the reserves in the amount of RSD 34,142 thousand represent the reserves from previous years for unidentified losses within loan portfolio.

Shortfall amount of provisions against potential losses

As at 31 December 2007, the uncovered provisions for the potential credit losses for balance sheet and off balance sheet exposures classified according to the Decision of the National Bank of Serbia amounted to RSD 7,147,817 thousand (31 December 2006: RSD 2,442,833 thousand).

Accumulated loss

As at 31 December 2007 the Bank had accumulated losses from previous years in the amount of RSD 1,744,460 thousand. Loss is covered in accordance with local legislation and Statue of the Bank.

All amounts are expressed in 000 RSD unless otherwise stated

33. Off balance sheet

	2007	2006
Funds managed on behalf of third parties	2,707,829	1,968,904
Guarantees, sureties, assets pledged as collateral and irrevocable commitments	64,590,245	17,891,333
Other off balance sheet items	224,711,785	159,871,510
	292,009,859	**179,731,747**

a) *Funds managed on behalf of third parties*

	2007	2006
Assets		
Assets on behalf of government institutions – Agriculture		
Short term	1,510,035	900,215
Long term	1,097,230	1,054,992
Young couples program of Republic of Serbia	100,564	13,697
Total assets	**2,707,829**	**1,968,904**
Liabilities		
Liabilities towards government institutions – Agriculture		
Short term	1,510,035	900,215
Long term	1,097,230	1,054,992
Young couples program of Republic of Serbia	100,564	13,697
Total liabilities	**2,707,829**	**1,968,904**
Difference between assets and liabilities	**-**	-

b) *Guarantees, sureties, assets pledged as collateral and irrevocable commitments*

As at 31 December 2007 guarantees, sureties, assets pledged as collateral and irrevocable commitments comprise of:

	2007	2006
Payment guarantees		
- in RSD	109,724	168,551
- in foreign currency	16,603,805	2,536,609
Performance bonds:		
- in RSD	188,856	62,419
- in foreign currency	55,747	257,891
Undrawn credit facilities	8,418,060	5,471,395
Irrevocable commitments for donation	31,545	99,541
Uncovered nostro letter of credit	66,383	212,015
Irrevocable commitments for spot deals	39,116,125	9,082,912
	64,590,245	**17,891,333**

All amounts are expressed in 000 RSD unless otherwise stated

33. Off balance sheet (continued)

a) Other off balance sheet items

	2007	2006
Frozen bonds in Central register	115,025,950	126,266,585
Collaterals received	45,927,538	13,899,180
REPO securities	10,595,000	13,410,000
Received guarantees and letter of credits	16,575,246	3,038,553
Other off balance sheet items	36,588,051	3,257,192
	224,711,785	**159,871,510**

b) Operating lease commitments

Non-cancelable operating lease rentals are payable as follows:

	2007	2006
Not later than one year	70,255	50,808
Later than one year but no later than five years	-	-
Later than five years	-	-
	70,255	**50,808**

c) Litigations

As at 31 December 2007, there are three legal claims filed against the Bank in respect of payments of frozen bonds made to unauthorized persons based on forged documents. In addition to the claims already filed in court, there are two more case of payment of frozen bonds made to unauthorized person but the clients have not sued the Bank. Although, the Bank acts as an Agent of the Government of the Republic of Serbia, servicing "old foreign currency savings bonds" the Bank has made provision for one claim in the amount of RSD 27,329 thousand. The management of the Bank believes that cash outflow for other cases is remote since the Bank has followed legal requirements and internal procedures for payments of bonds.

As at 31 December 2007, the Bank has made provisions for other legal cases in the amount of RSD 42,494 thousand (31 December 2006: RSD 11,322 thousand) - (Note 30).

All amounts are expressed in 000 RSD unless otherwise stated

34. Compliance with regulatory requirements

The Bank is obliged to comply with ratios defined by the Law on Banks and Other financial institutions. As at 31 December 2007 the Bank's ratios were in compliance with the prescribed levels:

Business indicators	Determined level	2007
Capital adequacy	min 12%	26,6%
Long term investments indicator	max 60%	28.1%
Exposure to related parties	max 20%	6.28%
Biggest loans indicator	max 400%	109.97%
Liquidity indicator:		
first month of reporting period	min 1	1.49
second month of reporting period	min 1	1.77
last month of reporting period	min 1	1.87
Currency risk	max 30%	0.69%

As at 31 December 2007, the Bank was in compliance with all regulatory requirements.

35. Related parties transactions

Eurobank EFG Štedionica is subsidiary of EFG Eurobank Ergasias listed in the Athens Stock Exchange. EFG Eurobank Ergasias is a member of the EFG Group, the ultimate parent company of which is EFG Bank European Financial Group, a bank incorporated in Switzerland, which owns 41% of the ordinary shares. The remaining 59% of the shares are widely held. All the voting rights in EFG Bank European Financial Group are held by the Latsis family, the ultimate controlling party of the Group.

The Bank enters daily into transactions with major shareholders and other related parties in the ordinary course of business.

Transactions with related parties at 31 December 2007 are presented in the table on the next page:

All amounts are expressed in 000 RSD unless otherwise stated

35. Related parties transactions (continued)

	EFG Eurobank Ergasias	EFG Retail services	EFG Property services	EFG Leasing a.d. Beograd	Business exchange	IT Shared Services, Romania	EFG Private bank Luxembourg	RECO Real Property	EFG New Europe Funding BV
Assets									
Foreign currency account	216,209	-	-	-	-	-	-	-	-
Interest and fee receivables	93	-	-	-	-	-	-	-	-
Loans to customers	792,362	62,709	16,313	-	-	-	-	-	-
Equity shares	-	-	-	20,479	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Total assets	**1,008,664**	**62,709**	**16,313**	**20,479**	**-**	**-**	**-**	**-**	**-**
Liabilities									
Due to customers	12,009,489	33,133	37,486	438,599	-	-	-	26,639	-
Borrowings	-	-	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-	-	-
Interest payable	18,152	-	256	364	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-
Total liabilities	**12,027,641**	**33,133**	**37,742**	**438,963**	**-**	**-**	**-**	**26,639**	**-**
Income									
Interest income	106,494	5,802	1,417	-	-	-	-	-	4,597
Gains from securities	-	-	-	-	-	-	-	-	
Fee income	-	724	-	-	-	-	-	-	2,282
Total income	**106,494**	**6,526**	**1,417**	**-**	**-**	**-**	**-**	**-**	**6,879**
Expenses									
Interest expense	527,957	-	-	-	-	-	-	-	400,541
Loss from securities	-	-	-	-	-	-	-	-	-
Services	-	225,834	14,803	-	3,566	119,574	14,767	-	-
Total expenses	**527,957**	**225,834**	**14,803**	**-**	**3,566**	**119,574**	**14,767**	**-**	**400,541**
Off balance sheet	18,498,778	-	-	-	-	-	1,098,129	180,421	13,746,571

As at 31 December 2007, loans to employees amounted to RSD 884,516 (31 December 2006: RSD 510,958 thousand). All loans are given under terms defined in the Bank's lending policy and interest rates vary from 3, 25% to 8, 7% for mortgage loans, while for consumer loans interest rates vary from 7% to 9%.

All amounts are expressed in 000 RSD unless otherwise stated

35. Related parties transactions (continued)

a) Payments to directors and key management personnel

	2007	2006
Salaries and other contributions	77,342	132,628
	77,342	**132,628**

36. Foreign Exchange rates

The official exchange rates of major currencies which were used for translation of balance sheet items as at 31 December were as follow:

	31 December	
	2007	**2006**
USD	53.7267	59.9757
EUR	79.2362	79.0000
CHF	47.8422	49.1569

37. Reconciliation of loans, deposits and other liabilities with clients

As required by the Accounting and Auditing Law, the Bank has performed reconciliation of loans, deposits and other liabilities with clients as at 30 November 2007.

38. Board of directors

Members of the Board of directors of Eurobank EFG Štedionica as at 31 December 2007 are listed below:

Chairman	Members
David Watson	Piergiorgio Pradelli
	Anargyros Kioussis
	Nikolaos Aliprantis
	Evagelos Kavvalos
	Angelos Tsichrintzis
	Slobodan Slović
	Georgios Michelis

39. Post balance Sheet Events

As at 31st January 2008 the Bank has completed 16th issue of shares in the amount of RSD 7,499,870 thousand. 51,652 shares were issued with nominal value of RSD 100,000 per share. Shares were sold at price of RSD 145,200 per share resulting in a share premium in the amount of 2,334,670 thousand. The share issue in its entirety was acquired by the EFG New Europe Holding Company Holland. After the completion of 16th issue of shares EFG New Europe Holding Company Holland holds 97,923 shares which represents 40,2% of the voting rights.