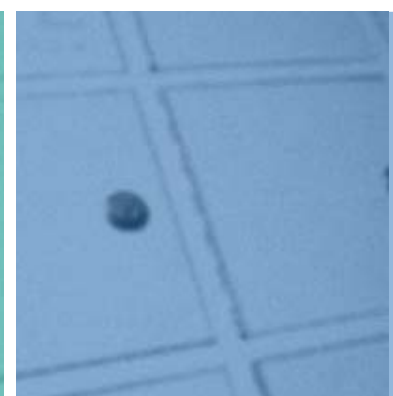
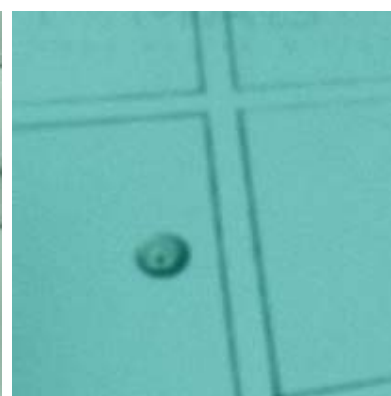




Contents



4	Financial Highlights
6	Introduction by the Management Board President
8	Report from the President of the Executive Board
12	Macroeconomic Environment and Banking Sector in 2006
20	Banca Intesa Beograd in 2006
22	Retail Banking
30	Corporate Banking
36	Treasury and Investment Banking
42	Intesa Leasing Beograd
44	Corporate Social Activities in 2006
50	Organization Structure
52	Addresses of Branch Offices
58	Financial Statements



A black and white photograph showing a close-up of several interlocking gears. The gears are arranged in a circular pattern, with the teeth of one gear meshing with the teeth of the adjacent gear. The lighting creates strong highlights and shadows, emphasizing the three-dimensional texture of the metal teeth. The background is a soft, out-of-focus light gray.

FINANCIAL HIGHLIGHTS

Most important financial indicators

(in thousands of RSD)

Banca Intesa Beograd	2006	2005
INCOME STATEMENT		
Net interest income	4.573.850	3.241.700
Net income on fees and commissions	3.077.013	2.480.222
Profit before taxation	1.097.623	1.662.542
Profit on created deferred tax assets and reduction of deferred tax liabilities	197.171	63.710
Loss on reduction of deferred tax assets and creation of reduction of deferred tax liabilities	-9.714	-26.237
Profit	1.285.080	1.700.015
BALANCE SHEET		
Loans and advances to banks	3.269.572	529.226
Loans and advances to clients	55.434.837	41.642.418
Obligations to banks	4.128.529	2.014.609
Obligations to clients	100.889.051	67.534.268
Capital	12.194.818	10.906.797
Balance sheet-Net	125.220.369	82.132.473
BUSINESS RATIOS		
Profit before taxation / Assets	0,88%	2.02%
Provision expenses, net / Assets	3,51%	2.82%
Net Assets per employee	51.173	36.568
Capital adequacy	16.13%	18.65%
Number of employees	2.447	2.246
Number of branch offices	168	150



INTRODUCTION BY THE MANAGEMENT BOARD PRESIDENT

In its second year of business operation within the Intesa Sanpaolo Group, the results of Banca Intesa Beograd point to a continuing success in the Serbian banking market. Despite the more intense competition, in 2006 Banca Intesa Beograd succeeded again in assuming the leading position in many areas of banking operation, realising enormous results and increasing its market share.

One of the main challenges and main limiting factors of the banking sector's growth are the macroeconomic environment and particularly restrictive monetary policy. The GDP growth in 2006 was 5.8%. Despite the slight slowdown in comparison with the previous year, Banca Intesa Beograd still presents one of the highest growth rates in the region. In the same period, the government recorded a budget surplus of RSD 30.3 billion, which shows an increase of almost 13% related to year 2005. This indicates the greater stability of the Serbian economy.

However, from the macroeconomic point of view, the negative effect on the economy arises from the growing foreign trade deficit that reached EUR 5.4 billion in 2006, which indicates 11% increase in a year. This deficit is partly due to the heated economic activity, but most of it was based on increased household spending.

Under these circumstances, the National Bank of Serbia decided to keep its restrictive monetary policy with the objective of establishing the foundation of price stability.

As a result of such a monetary and fiscal policy, the inflation decelerated to 6.6% and the inflationary expectations reduced significantly. From the banking sector's point of view the adopted policy framework will be even more challenging.

The gradual liberalisation of the foreign exchange market, and the increased inflow of foreign capital, contributed to the strengthening of the domestic currency, which appreciated nominally by 7.6% in 2006.

Banca Intesa Beograd recorded sound growth in the year 2006, which is indicated by the 65% increase in total assets, operating income of EUR 110 million and net profit of EUR 16 million. These results reconfirm the appropriateness of the applied policy in this changing environment.

Based upon the experiences of the parent company, Banca Intesa Beograd significantly improved its operation, which was aiming to satisfy the needs of its customers. This implied, inter alia, enormous organisational changes, which are certainly deemed to be a very demanding and comprehensive task.

Towards the end of 2006, the merger of Banca Intesa Group and Sanpaolo IMI was announced, whereby Banca Intesa Beograd became part of one of the largest European banking groups, creating an even more stable background for the future.

There is no doubt that the bank's success in 2006 is a result of endeavour, high professionalism, expertise and team work of both the employees and the management of Banca Intesa Beograd. On this occasion I would like to thank them for their efforts and personal commitment, and express my belief that for the challenges of the future they will again give their contribution to further dynamic development of the bank and maintenance of its leading position at the local market.



Dr. György Surányi

President of the Managing Board





REPORT FROM THE PRESIDENT OF THE EXECUTIVE BOARD

Dear shareholders and business partners,

It is my particular pleasure to present to you, on behalf of the Executive Board, the operating results of Banca Intesa Beograd for 2006, which mark the continuance of several years of successful operations, based on proactive attitude and innovative approach and finding new ways of meeting customer needs.

Despite an exceptionally restrictive monetary environment and intense competition in the banking market of Serbia, Banca Intesa Beograd managed to retain and strengthen its market position and achieve strong growth in all business segments.

National Bank measures directed at decelerating the lending activity and bank borrowing abroad, tightened additionally in 2006. In addition to increasing the required reserve rate, new limits to retail loan portfolio growth were introduced. However, the REPO rate proved to be the most efficient instrument in curbing inflation.

In such circumstances Banca Intesa Beograd realized a growth of total balance sheet assets of 65 %, amounting to EUR 1,667 million, growing faster than the market average.

The increase of SME loan portfolio contributed most to the growth of balance sheet assets. Evident growth was noted in corporate business in general, where the volume of loan portfolio was EUR 550 million, which constitutes a 40% growth compared to the volume of loans in the previous year.

The expansion of the retail product portfolio, in particular the introduction of long-term mortgage loans, led to a strong lending growth, so retail loans at the end of 2006 grown in total by 54% and reached EUR 215 million.

Such strong total asset growth was also due to the growth of total corporate and retail deposits of 43%, mostly owing to the increased retail savings deposits, which increased by 59%. Total corporate and retail deposits in 2006 reached EUR 1,016 million, of which almost EUR 554 million are corporate deposits, and 462 million are retail deposits.

Last year was marked with a strong client base growth, reflected in over 215,000 new clients, which brings the total number of clients to 950,000. The expansion of branch network, modernisation and visual harmonisation of all our sub-branches, which numbered 168 at year end, will allow us in the following period to maximise the potential of our rich offer.

Such a dynamic growth was realised with a stable level of share in all major segments of the banking market, confirmed by the fact that in 2006 we retained a high ranking position in total loans, deposits and balance sheet assets.

Banca Intesa retained the leading position in total revenue, which was 17% higher on the previous year and amount to EUR 110 million despite intensified competition which led to the reduction in interest spreads and fees. At the same time the banks were faced with increasing costs of investment in technical and technological development, organisational adjustment to the policies of the new owner, and investments into the development of the branch network. Total costs in the banking industry in 2006 rose by 48%. Banca Intesa reported total costs at the level of EUR 68 million, which is 39% higher over the previous year. The realised net profit in the amount of EUR 16 million continues the successful trend from previous years.

Apart from strongly growing volume of operations, last year in Banca Intesa was marked with numerous innovations, both in our offer and the work processes and organisation. We introduced a complete offer for small businesses, launched several new banking products intended for corporate clients, developed favourable credit lines for local governments and small and medium enterprises. To retail customers we offered several models of mortgage loans, through our network of mortgage loan centres, which are a unique service concept in our market. In our card operations we made a significant step by bringing the prestigious American Express card back to Serbia, but also by numerous improvements on the existing card products, by which we reinforced our reputation of leader in this business segment.

In the following year, we will continue to improve our offer and services, believing that constant market driven innovation, coupled with quality customer relationship, is a key to competitiveness and future market growth.





Our business success in 2006 was also confirmed by the recognition given by a London financial magazine, Finance Central Europe, which declared Banca Intesa ad Beograd the best bank in Serbia. Upon review of operations of the banks from the region of South East Europe, which includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, FYR Macedonia, Moldavia, Romania Serbia, Montenegro, Slovenia and Turkey, Banca Intesa ad Beograd was for 2006 rated the best medium size bank in South East Europe.

Banca Intesa, in its striving to act as a socially responsible institution, in 2006 as well, was actively involved in the life of both the immediate and broader community. Constant monitoring of current issues and trends in the society allows us to be proactive, and, in accordance with our capabilities, contribute to its development. We devoted special attention to humanitarian activities, activities directed towards the development of sport, culture, art, science and education.

The support of our parent group, as well as our majority shareholder, and the fact that Banca Intesa is part of one of the largest European banking groups, which is exceptionally active in the countries of Central and Eastern Europe, were of significant help to the bank in retaining its leading position in the Serbian market. We are entering the next year as a part of yet stronger banking group, Intesa Sanpaolo, which will give an additional impetus to our development and strengthening our market position.

Finally, I would like to use this opportunity to give credit to all employees of Banca Intesa Beograd, as well as to my colleagues, members of the Executive Committee, for their commitment and exceptional results achieved in 2006. I would also like to thank our esteemed clients for their trust and our business partners for their professional cooperation.

Respectfully,



BANCA INTESA

Draginja Đurić

President of the Executive Board





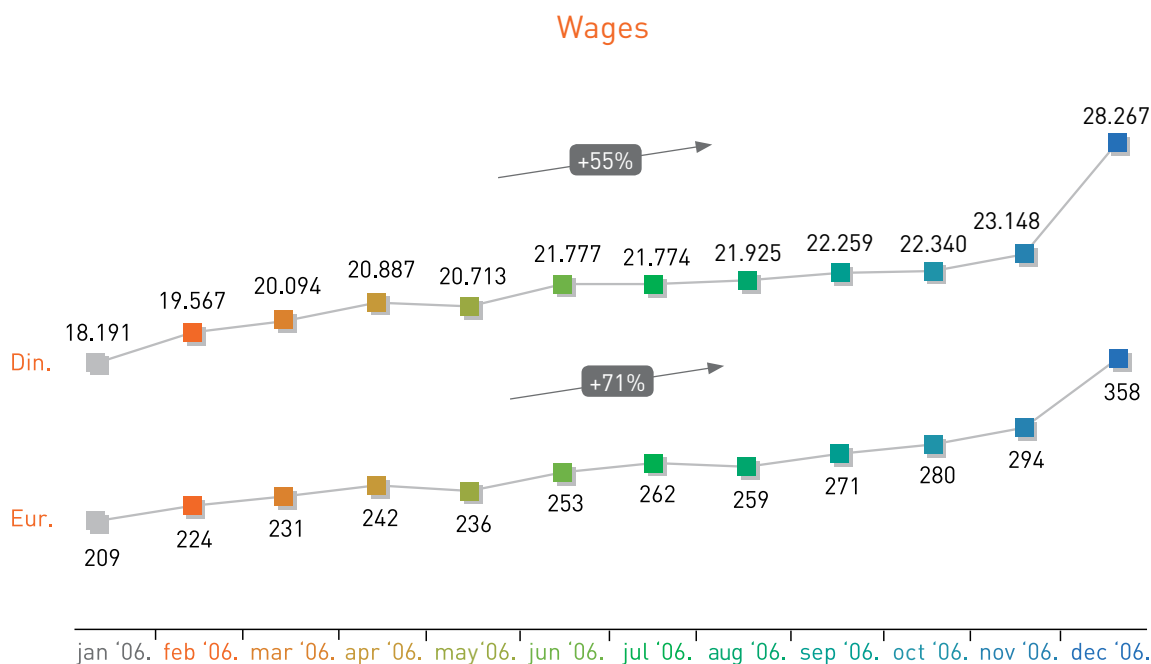
MACROECONOMIC
ENVIRONMENT IN 2006



The most important and comprehensive macroeconomic aggregate, gross domestic product, achieved a 5.8% growth in 2006, at constant prices. Although slightly lower than expected, such growth reflects the success of the country's economic policy and sends a positive signal to foreign investors. Leaders of last year's economic activity were transport, financial intermediation and construction industries. Industrial production in this period exhibited a 4.4% growth, with the greatest contribution of the processing industry.

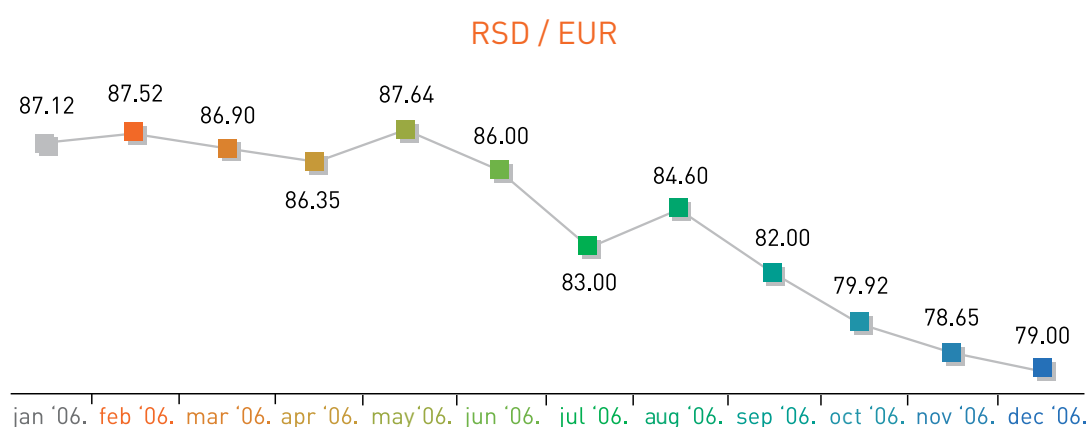
The overall rise in productivity was also assisted, apart from rising production and directing grey segments of economy into the mainstream, by the reduction of the number of employees compared to the previous year. Namely, official statistics indicates a drop of employment by 1.3%, bringing the unemployment rate to as much as 33.4%. However, this should be taken with some reserve. The labour force survey, which does not take into account the formal status of respondents, but determines the employment status on the basis of activity the person performed in a particular period, shows that the unemployment rate was much lower and that in 2006 it was 20.9%. In any case, unemployment is still high and points to insufficient adjustment of the Serbian economy.

Wages continued to rise in 2006 as well, so that they were higher in nominal terms in comparison with 2005 by 24.4%. In real terms, wages rose by 11.4%. Such wages growth presented an additional challenge for monetary policymakers with regard to the controlling price rises.

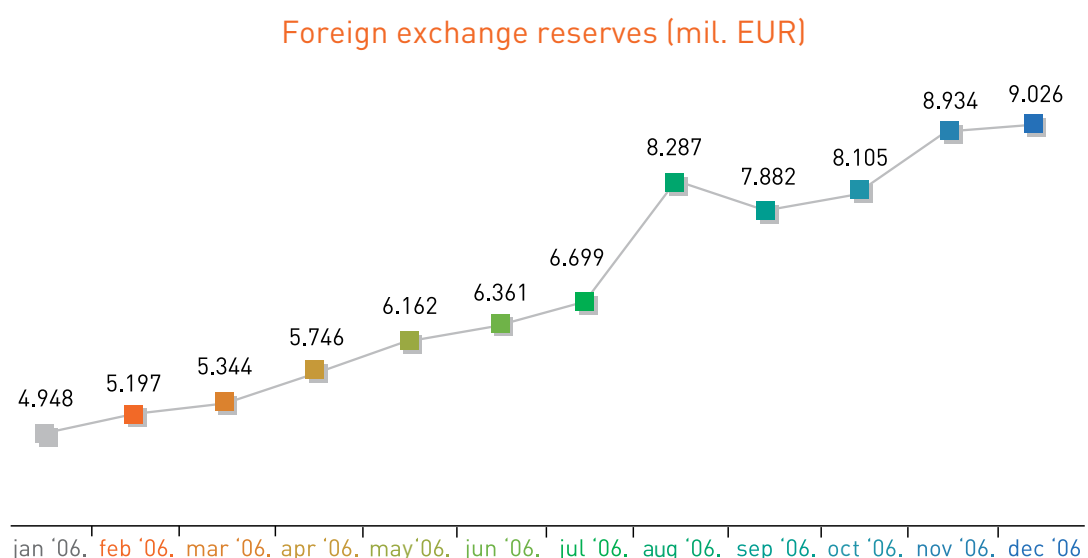


One of the main channels to amortise growing personal spending (arising from wage rise) and thus mitigate its effects on inflation is the growth of exports. Towards the end of 2006, exports almost reached EUR 10.5 billion, with increasing export-import ratio, which was about 50%. Compared to the previous year, 2006 exports were up 24%, while imports were up 41 %, despite considerable appreciation of the dinar.

Last year was marked by dinar appreciation of 7.6%. The main reason for the strengthening of the domestic currency last year was significant inflows of foreign capital and manner in which RSD exchange rate is determined. Namely, in 2006, NBS continued in the direction towards free market rate for the dinar, which is its final goal.

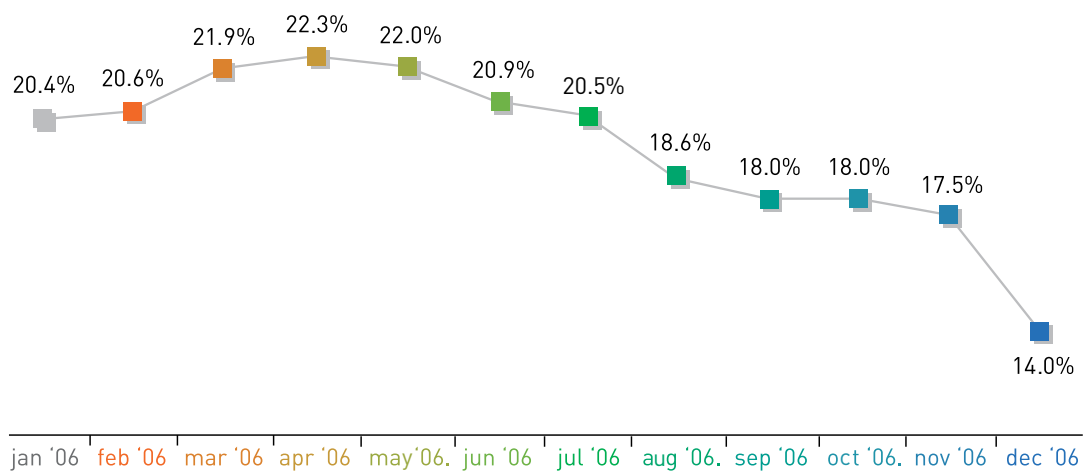


High level of capital inflows directly affected the rise in foreign exchange reserves, which almost doubled in 2006, reaching EUR 9,026 million. Concurrently with accumulating foreign exchange, the National Bank of Serbia also released dinars on the market, which is reflected in the rise of monetary aggregate M1 of 38% in 2006 accompanied with declining foreign exchange reserves/money supply M1 ratio



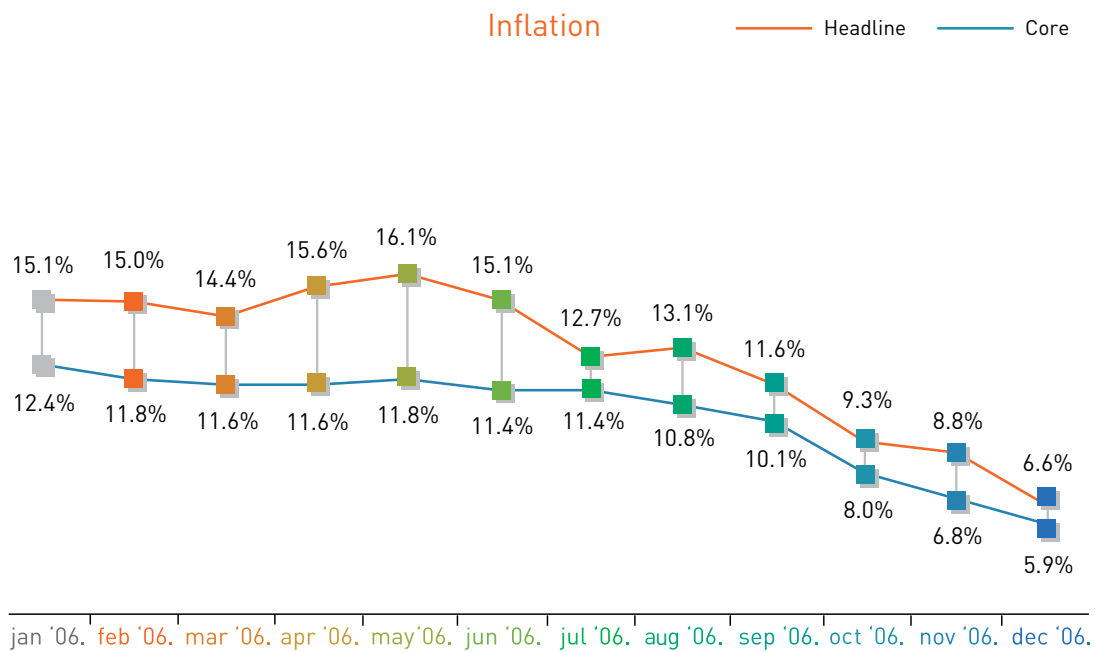
Such a high increase of money supply threatened to translate into price rises, which the Central Bank managed to prevent by monetary policy instruments. Since the raising the level of the required reserve proved insufficiently effective, this instrument was gradually replaced by other restrictive measures, but it eventually turned out that REPO operations contributed mostly to the mitigation of the effects of increased money supply. The interest rate on REPO operations went as high as 22.3%, but it dropped to 14% by December.

Repo rates



Such a high price of dinar sterilisation, however, produced results very quickly, since the core inflation was reduced by the end of the year to 5.9% with headline inflation of 6.6% at the annual level.

In this period, the National Bank of Serbia devoted particular attention to reducing inflationary expectations, primarily by frequent press releases and publishing quarterly inflation reports.





BANKING SECTOR IN 2006

The banking sector has become one of the major factors in the economic development of Serbia. The number of banks compared to the previous year decreased, so that a total of 37 banks operated in Serbia at the end of 2006. The decrease was due to the revocation of licence of MB Banka a.d. Niš and the following acquisitions:

- Alpha Bank a.d. Beograd merged with Jubanka a.d. Beograd (the present name is Alpha Bank a.d. Beograd),
- Nacionalna štedionica merged with EFG Eurobank

There were some other major events in the banking market last year:

- Sanpaolo IMI acquired Panonska banka
- OTP Bank became the majority shareholder of Niška banka, Kulska banka and Zepter banka
- NBG became the owner of Vojvođanska banka
- Credy Agricole took over the remaining shares of Meridian banka
- Laiki Bank took over the remaining shares of Centrobanka
- ATE bank acquired 20% of share capital of AIK banka
- KBC reached an agreement on taking over 70 -100% of A banka

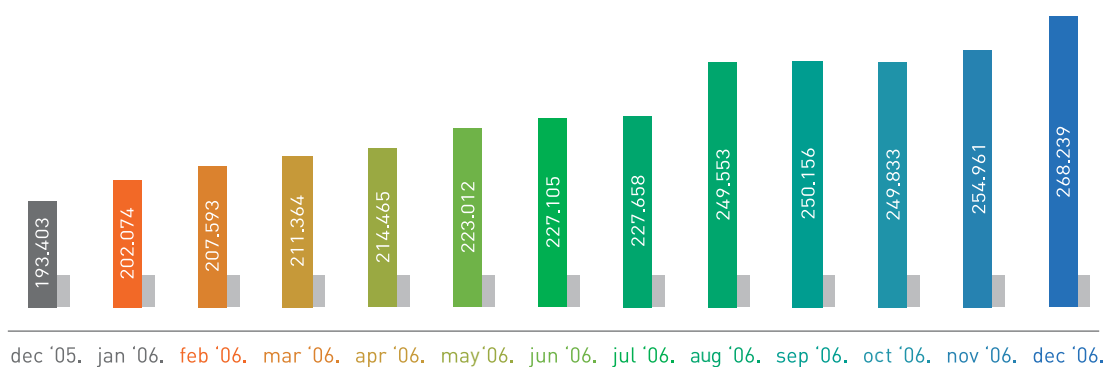
Net total assets increased by as much as 51% over the previous year, although the concentration of the banking sector is now somewhat diluted. Namely, top 5 banks hold over 47% of total net assets, compared to 50% in 2005.

The increase of total loans in 2006 was 17%, while retail loans rose by as much as 56% despite the restrictive policy of monetary authorities. The total growth of corporate loans is below the growth of economic activity, and amounts to only 3%, which may be explained by an increasing share of cross-border loans.

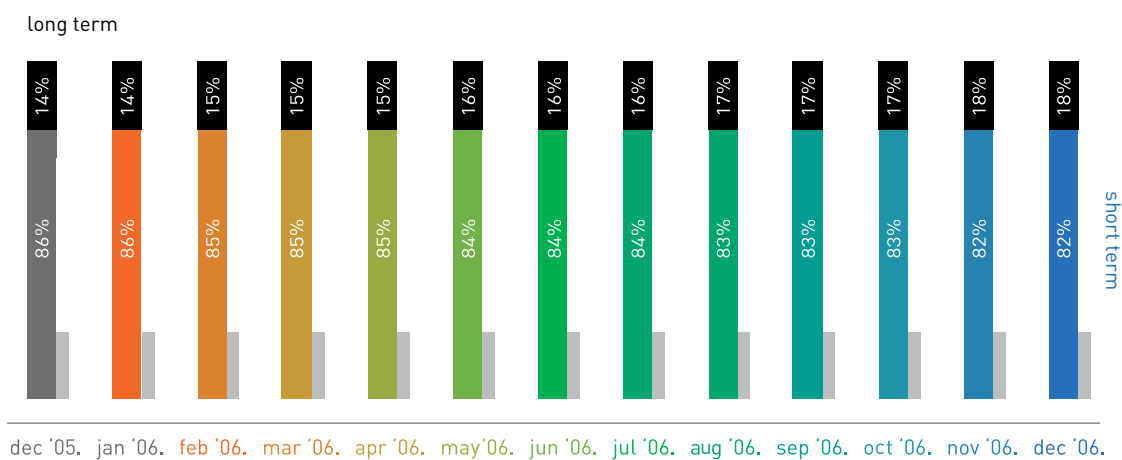
Deposits, on the other hand, recorded a 41% increase at the industry level. Corporate deposits achieved a growth of 43%, while retail deposits grew by 39% year-on-year. FX savings still dominate the retail deposit portfolio with a share of as much as 97%. In 2006, the trend of rising share of long-term deposits continued.

Retail savings on the banking sector level

(in millions of RSD)



Term Structure of Retail Savings



The banking sector in 2006 earned a profit of RSD 16.5 billion, which is up 128% over the previous year. The high concentration in the sector is also reflected on the profitability side, since top 10 banks realise over 80% of the entire sector's profit.



BANCA INTESA
BEOGRAD IN 2006

In 2006, Banca Intesa Beograd made growth in gross balance sheet assets of 65 percent, and total balance sheet sum at the end of year was 1.667 million Euros, which is 10.7 percent of total balance sheet sum of Serbian banking sector.

As a result of dynamic credit activity of the bank, total loans and advances to economy and population in 2006 had 43 percent of increase, reaching 765 million Euros at the end of year. Deposit potential of economy and population also had 43 percent of increase. In 2006, total deposits of economy and population reached 1.016 million Euros, which is 14.3 percent of total deposits of banking sector.

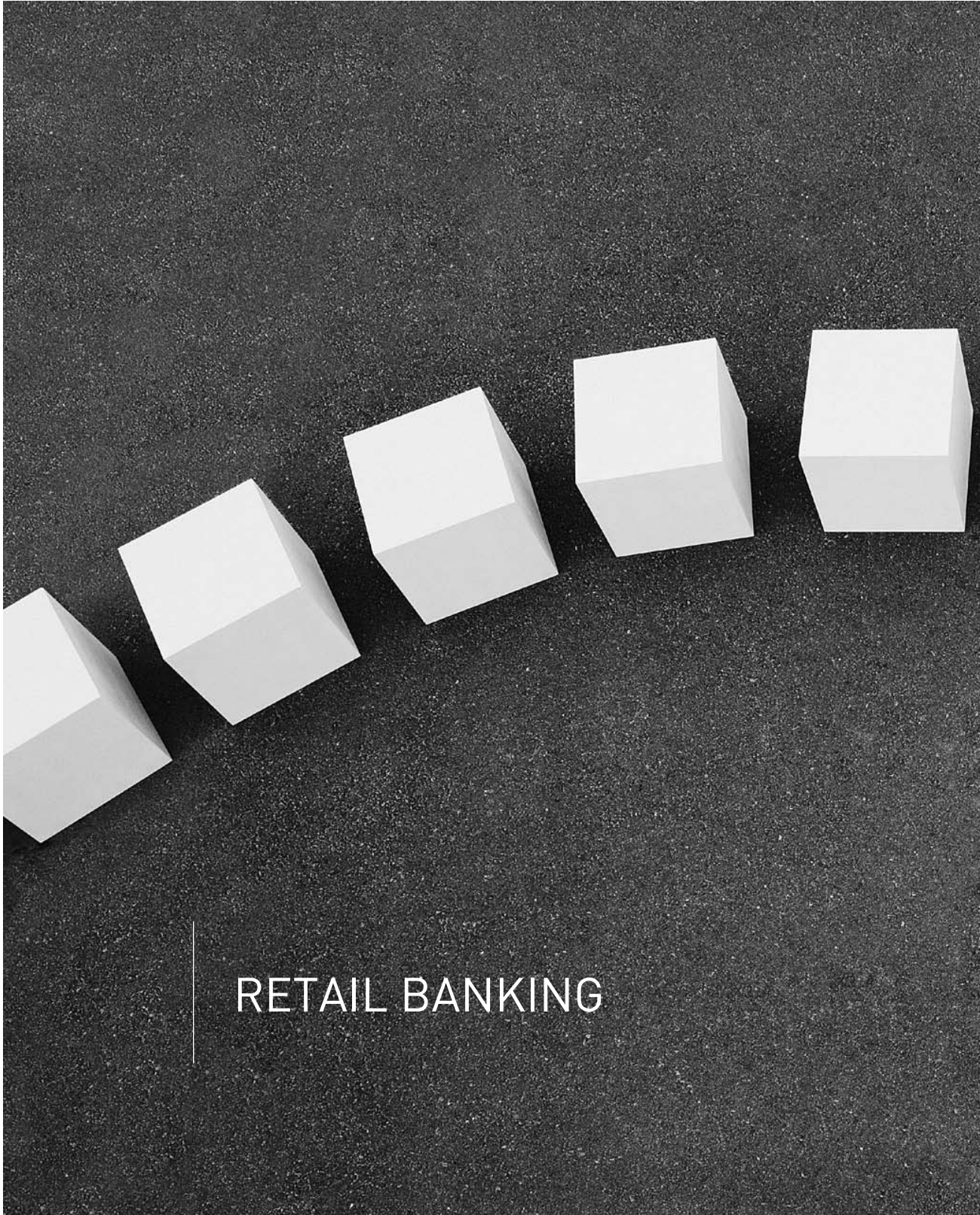
Previous year also characterized strong growth of client base, and is showed in nearly 215,000 new clients, which made for total amount of clients to reach 950.000.

Significant growth of amount of operations resulted in incensement of total revenues of 17 percent against previous year. Despite increased competition which led to lowering of interest margins and fees, Banca Intesa Beograd made total revenues of 110 million Euros, and with recorded net profit of 16 million Euros it confirmed continuity of successful operations from previous years.

Besides the strong growth in amount of its operations, previous year for Banca Intesa was marked with numerous innovations, both in its offer to the market and in its work processes and work organization.

In 2006, Banca Intesa actively participated in life of both close and wide community, paying special attention to humanitarian activities, activities directed toward promotion of development of sport, culture, art, science and education.

Banca Intesa enters the next year as a part of stronger bank group, Intesa Saopaolo, which will provide additional impulse for development and strengthening of position in market.



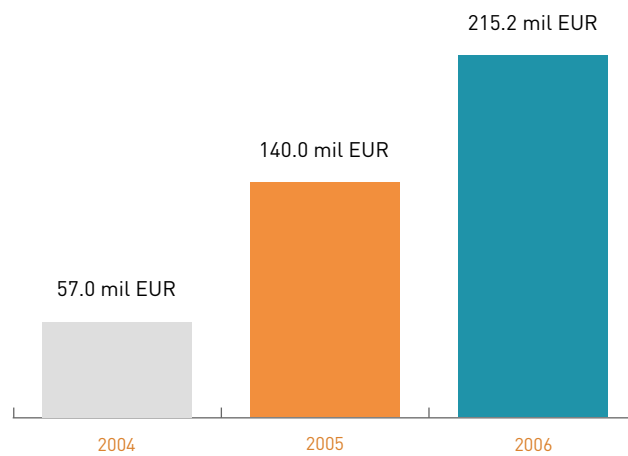
RETAIL BANKING



A strong growth of the loan portfolio, significant client acquisition and introduction of a large number of new products marked the year of 2006 in retail business.

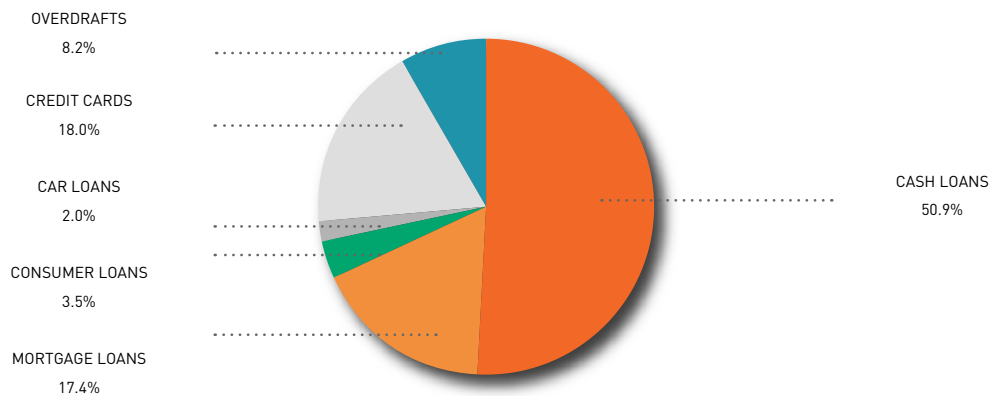
The loan portfolio increased by 54 percent last year, reaching EUR 215 million. Dynamic lending activity reinforced the market share of Banca Intesa in retail business, which is 8.3 percent.

Loan portfolio growth



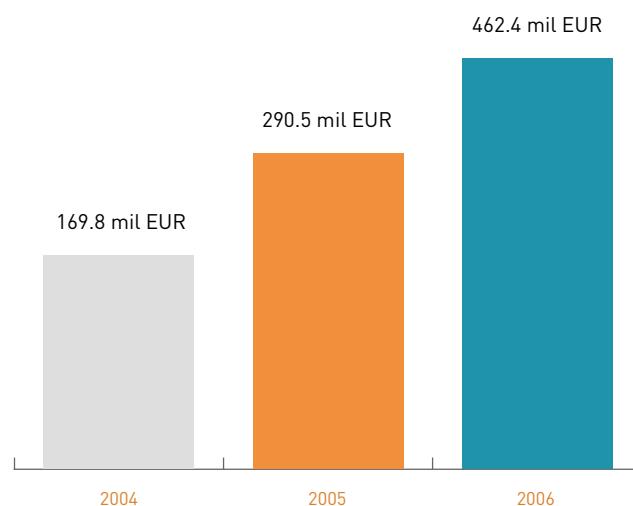
The loans with a tenor of over one year have the greatest share of the loan portfolio - 72 percent, or EUR 154.8 million. Cash loans dominate the portfolio structure with a share of 51 percent.

Loan portfolio structure



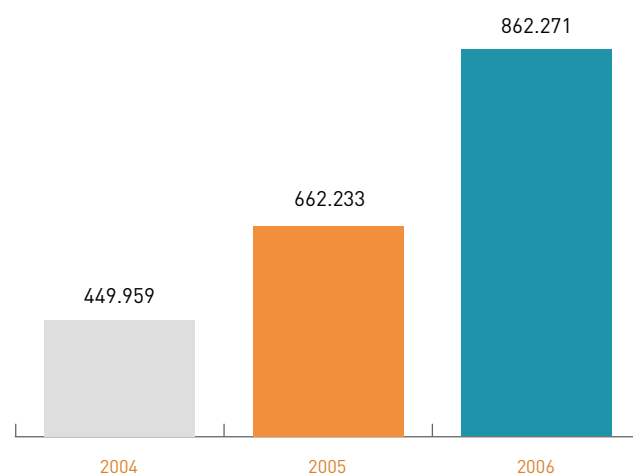
Retail deposits in 2006 increased by 59.2 percent, which puts the total amount of retail deposits to EUR 462.4 million.

Retail deposit growth



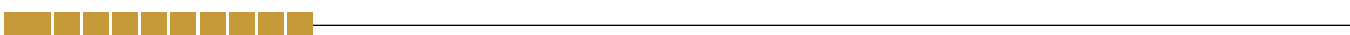
In the previous year the bank attracted over 200 thousand new clients from the retail segment, bringing the total number of clients to 862,271.

Client number growth



The achievement of such good results was supported by significant innovation in offer, as well as constant efforts directed at improving the lending and savings terms for retail clients.

The most important improvement of offer refers to the introduction of housing / mortgage loans, which were offered to the market in May in several models: loans insured with the National Mortgage Insurance Corporation, loans for young people subsidised by the Government of Serbia, loans for the purchase of non-registered real property, etc.



Several months after the introduction of mortgage loans, Banca Intesa ad Beograd implemented a unique concept of selling mortgage loans in the local market, through a network of specialised selling points, the so-called mortgage loan centres.

These centres offer customers a higher level of service, which, apart from the processing of loans, also includes advisory services in the process of obtaining legal documents and in the selection of the appropriate real property. Mortgage Loan centres have been opened in Belgrade, Novi Sad and Pancevo, while in 2008 we expect to open such selling points in other cities and towns in Serbia as well.

The introduction of the so-called mobile advisors, who are also part of these specialised centres' teams, enables the sale of mortgage loans "on site".

The entire selling process, regardless of the point of sale, is supported by the automated system of approval and processing, so clients, with complete and proper documents may finalize the loan in 7 days.

The development of the mortgage loan offer and this new, unique service model, aims at establishing long-term customer relations, as well as achieving a greater stability of the entire retail portfolio.

In the beginning of the year the market was presented the so-called Intesa Hit current account, which joins a range of modern banking products, available with the current account. Apart from the overdraft and a debit card, the customers can also have a credit card, e-banking services, possibility to exchange dinars for euros at a more favourable rate, standing order, additional health insurance, as well as loans under more favourable conditions. Intesa Hit was one of the major drivers of customer base growth, which is proven by the fact that 275,000 of these accounts were opened in 2006.

In 2006, the bank presented another new product, the so-called Quick Consumer Loan, intended for the purchase of goods and services, obtained at the point of sale, without going to the bank.

On the basis of the agreement on business co-operation, the bank establishes electronic communication with the stores selling goods and services, making it possible for them to forward loan applications to the bank.

To attract new clients, in 2006, Banca Intesa ad Beograd introduced a model of the loan for settling private individuals' liabilities related to their current accounts, credit cards and loans with other banks, as well as cash loans for the employees of companies under restructuring.

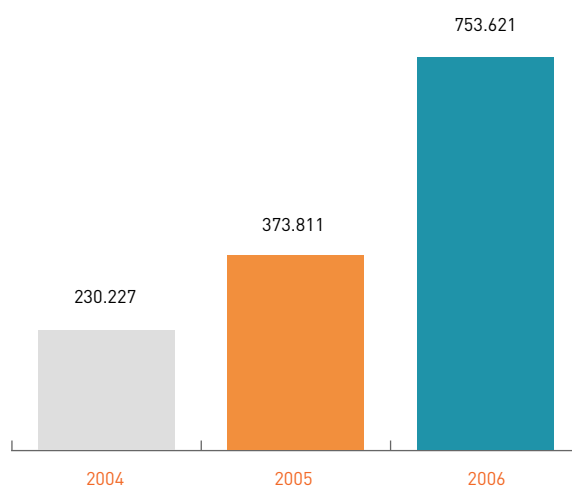
Apart from the introduction of new products, significant efforts were directed at improving the existing services and improving service quality.

The business network was expanded by opening of 23 new sub-branches, which put the number of sub-branches to 168.

PAYMENT CARDS

By the number of issued cards, volume and number of transactions, as well as variety of offer, Banca Intesa ad Beograd justified its reputation of market leader in card operations in 2006 too.

Growth of the number of issued cards



In 2006 the number of payment cards issued was 379,810, which brings the total number of issued cards over 750,000. The amount of approved limits increased by as much as 271 percent, to EUR 95 million. The total of 9.5 million transactions was effected with Banca Intesa Beograd payment cards of in 2006, the aggregate value of which was EUR 350 million.

In May, on the basis of exclusive cooperation agreement, Banca Intesa ad Beograd, after a fifteen year break, brought back the prestigious American Express into the market of Serbia. Today, Banca Intesa ad Beograd is the only bank in Serbia which issues all the best known world card brands: MasterCard, Visa, American Express, as well as the domestic DinaCard. The portfolio structure is dominated by MasterCard, with the share of 85 percent, followed by Visa with 12 percent.

In the course of last year, Banca Intesa ad Beograd transferred all payment cards to a chip platform, which provides the maximum security of payment. The latest chip cards are impossible to copy, so international cards associations recommend them as an efficient tool to combat their abuse.

The Bank introduced a series of novelties aimed at improving the quality of service, simplifying and shortening the card issuing procedure and improving their function. Since last year, Banca Intesa has made it possible for the users of MasterCard and Visa credit cards payment in interest free instalments, as well as delayed payments at certain points of sale.



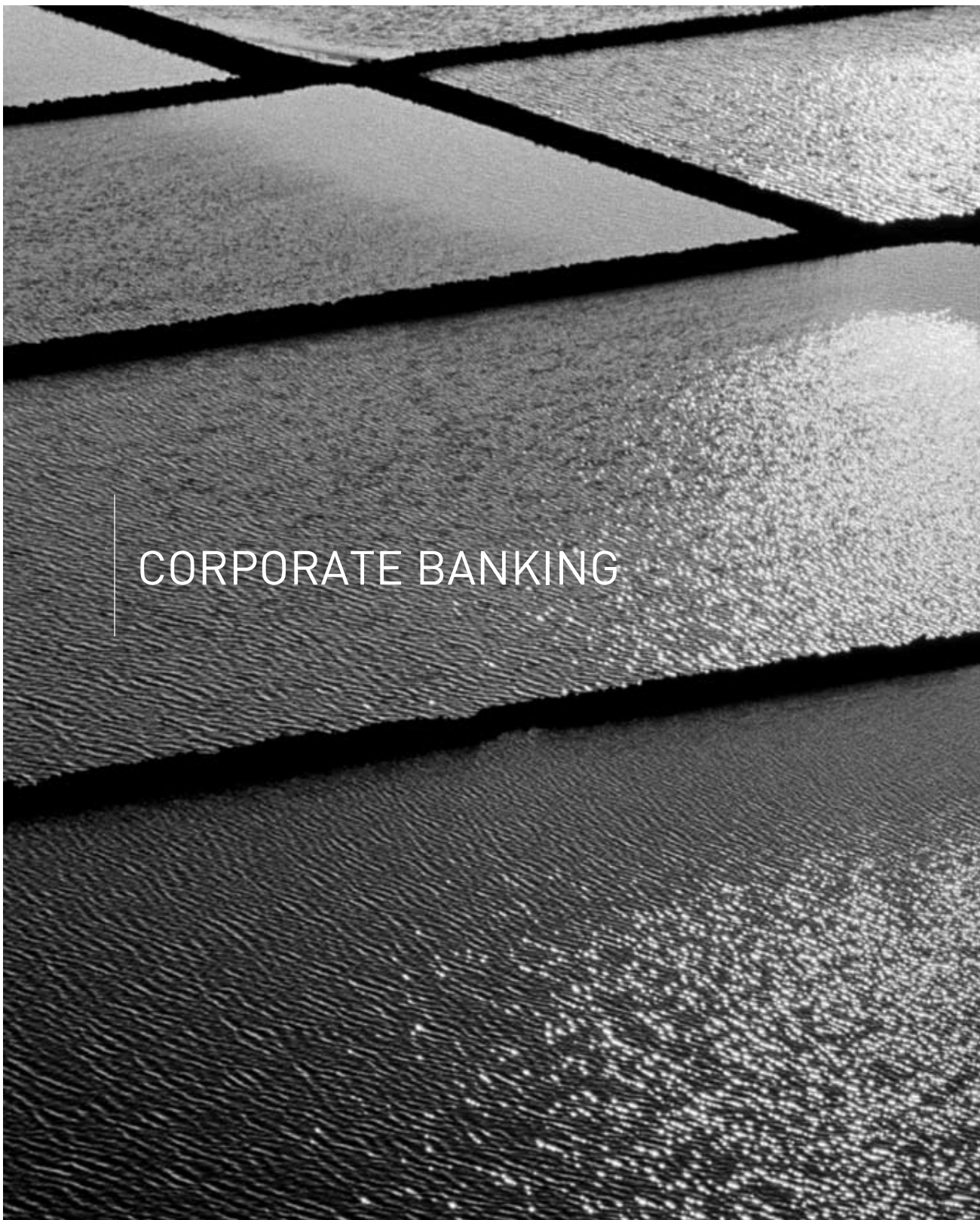
SMALL BUSINESSES

Relying on the estimates that the small business segment will witness accelerated growth in the following years, and the fact that 95 percent of all registered businesses in the country belongs to this category, in 2006, Banca Intesa ad Beograd introduced a complete offer intended for micro companies and entrepreneurs, under the name of IntezaBiz. The backbone of the IntezaBiz model includes the services of maintaining the current account of the firm, with the possibility to use an overdraft facility, free Visa Business Electron card, MasterCard Business credit card, free electronic banking services, as well as Intesa Hit personal current account for the firm's owner. To solve their liquidity problems, small enterprises and entrepreneurs have available two models of short-term loans: secured and unsecured, while the BizInvest investment loan enables the funding of development projects over a longer term and with lower interest rate burden.

The Bank ended 2006 with over 82 thousand customers from the small business segment.

In addition to the bank's products, small businesses and entrepreneurs have access to constant professional support, both by small business advisors who exist in all sub-branches and professional teams of the Bank.

Striving to contribute to the development of entrepreneurship in Serbia, in October Banca Intesa ad Beograd signed the agreement with the City Assembly of Belgrade on joint financing of small and medium-sized enterprises and entrepreneurs from the territory of the City of Belgrade, under the terms and conditions considerably more favourable than the ones on the market. In 2006, agreements were signed with the AP Vojvodina Guarantee Fund on granting start-up loans to unemployed women and loans for the purchase of equipment to female entrepreneurs from Banat, as well the agreements with several municipalities from Vojvodina.■



CORPORATE BANKING

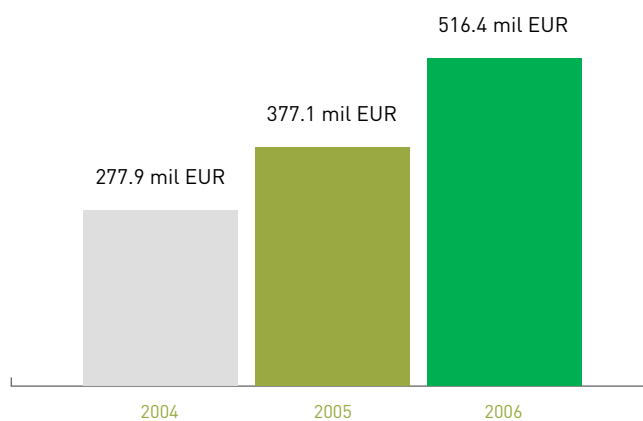


In 2006, Banca Intesa ad Beograd achieved significant growth in corporate operations, in particular with small and medium sized enterprises and confirmed its position as one of the leading financial institutions giving active support to the development of local economy.

The success of corporate operations is primarily reflected in a significant increase of the loan portfolio by as much as 37% percent, i.e. by more than EUR 139 million.

The greatest increase was achieved in long-term loans to small and medium-sized enterprises owing primarily to special credit lines intended for the funding of the development of this sector.

Growth of corporate loans

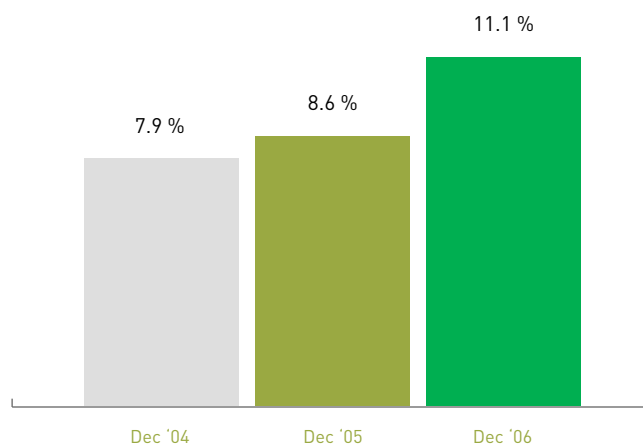


*Data for 2004 include large corporate, SME as well as small business segment, whereas data for 2005 and 2006 refer only to large corporate and SME segment.

As a result of strong lending activity, the bank's market share in corporate operations rose from 8.6% in 2005 to 11.1% at the end of 2006.

The achieved result is even more important considering increasing competition, which exerted a strong pressure on interest rates, in the environment of a very restrictive monetary policy.

Corporate loan market share

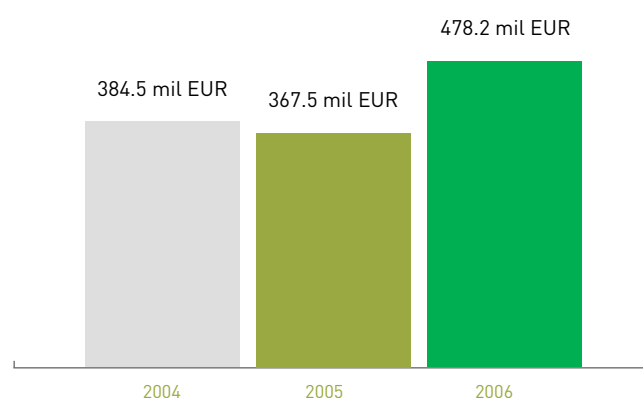


*Market share refers to the entire corporate operations, including large corporate, SME as well as small business segment.

The success of strong lending activity is reflected not only in a substantial increase in loan portfolio volume, but also in considerable diversification thereof, so that at the end of 2006, the share of small and medium sized enterprises in the overall portfolio of the Bank was 40%.

In 2006 the volume of corporate deposits recorded a considerable increase of about 30%, or EUR 111 million. At the end of year 2006, total corporate deposits amounted to EUR 478,2 million EUR, which allowed the bank to retain its high market share of 16.1% at the end of 2006.

Corporate deposit growth

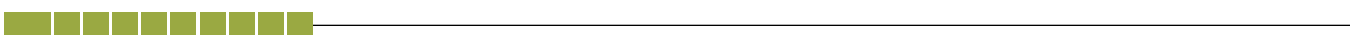


*Data for 2004 include large corporate, SME as well as small business segment, whereas data for 2005 and 2006 refer only to large corporate and SME segment.

Compared to 2005, when corporate operations included all legal entities and entrepreneurs, in 2006 customers were divided between the Corporate Division and Retail Division within which a special department for small business was formed.

Last year saw a considerable increase of the customer base, with more than 400 new clients, so the total number of corporate clients doing business through Banca Intesa ad Beograd as at end of 2006 exceeded 6,000. Of those, over 90 percent are small and medium-sized enterprises and local governments, and the rest are large companies, including the largest local and foreign companies operating on the Serbian market.

In its efforts to encourage the development of entrepreneurship, higher employment, and economic development in general, Banca Intesa ad Beograd launched numerous initiatives and projects in cooperation with other local and foreign institutions. The funds granted to the Republic of Serbia by the Italian Government for the support to the development of small and medium-sized enterprises are distributed through Banca Intesa, as well as the funds transferred to the parent group of Banca Intesa by the Council of Europe Development Bank intended for the development of projects by local governments and entrepreneurship sector. Another credit line for infrastructural projects was obtained from the European Investment Bank.



In 2006, the range of products Banca Intesa ad Beograd offers to corporate clients expanded with the introduction of the credit facility for the funding of housing and office buildings intended for sale on the market, under the name of Intesa Construction.

The Bank also has a wide network of over 200 correspondent banks, which allows it faster and more efficient communication with all parts of the world. Approved trade finance facilities with over 20 banks enable smooth running of documentary and guarantee operations.

Intending to be strong support and partner in the development of the Serbian Economy, Banca Intesa ad Beograd will continue in future to improve the quality of its services in parallel with constant innovation of its offer, placing increasing emphasis on the advisory role of the banker.





TREASURY AND
INVESTMENT BANKING

FOREIGN EXCHANGE AND MONEY MARKET IN 2006

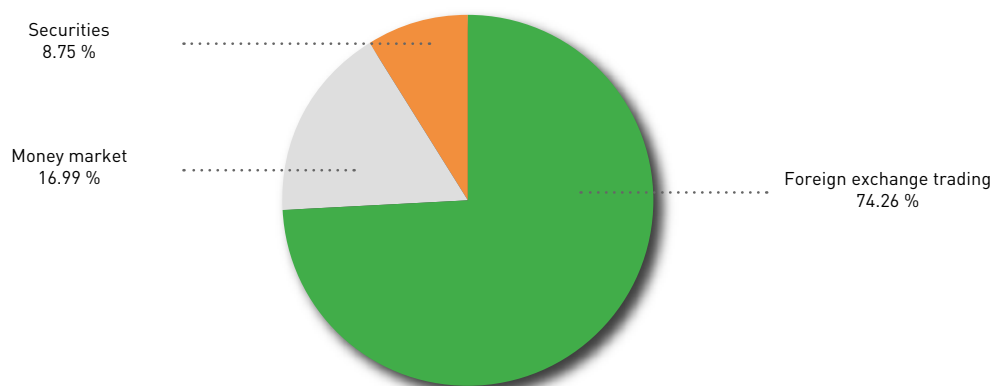
The trends on the FX and money market in 2006 were primarily the consequence of restrictive monetary policy of the NBS directed at curbing inflation, reflected in high required reserve rate and high interest rates. Moreover, the change of methodology in calculating the maximum open position of banks as well as high inflow of foreign exchange from abroad (on the basis of bank borrowings abroad and privatisation proceeds) also had a strong impact. All these factors caused a significant Dinar appreciation (from RSD 85.5 to the euro as at end of 2005, to RSD 79.00 to the EURO as at end of 2006) as well as increased daily fluctuations of the exchange rate.

The Treasury Department tried in such conditions to increase the volume of transactions on the FX market primarily with corporate clients as well as to significantly increase the amount of funds invested in REPO securities with the NBS.

REVENUE STRUCTURE

In the Treasury Department revenue structure, the revenue earned in foreign exchange trading has a share of 74.26%. Money market transactions account for 16.99% of the revenue, while the rest of the revenue relates to securities trading.

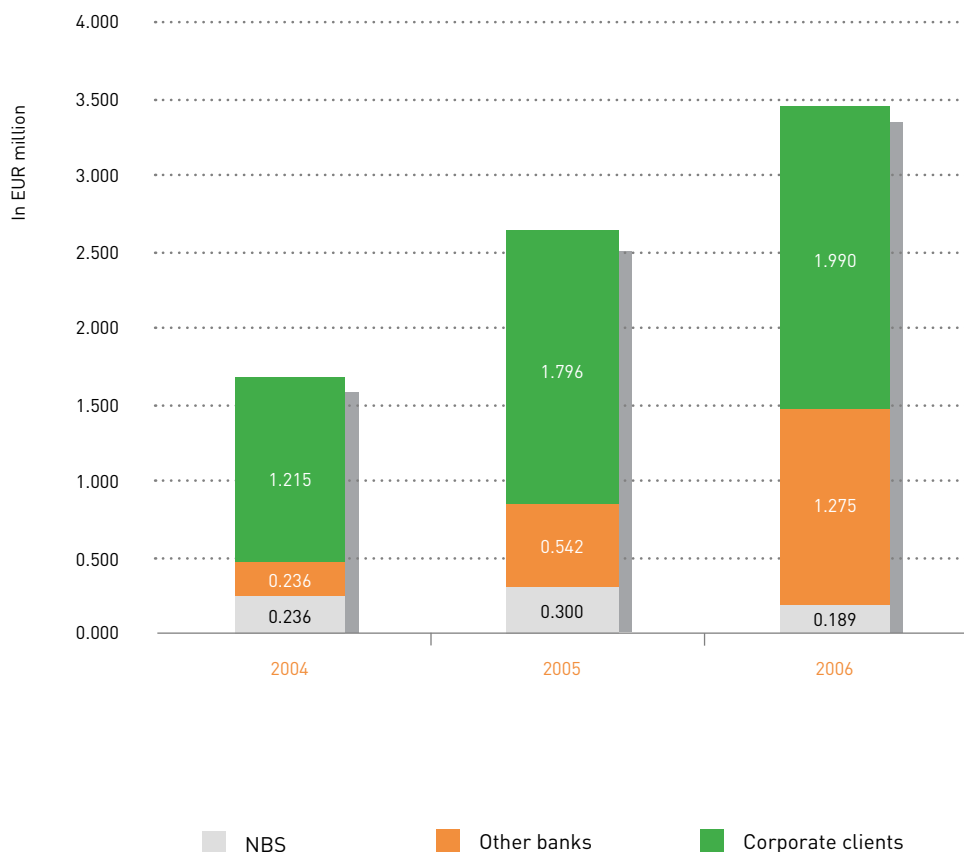
Revenue Structure



FOREIGN EXCHANGE TRADING

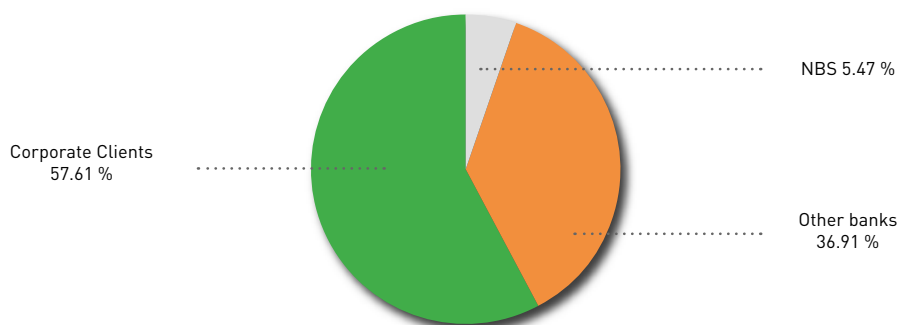
Banca Intesa ad Beograd continued in 2006 to further increase the volume of foreign exchange trading, both with its clients and other banks. The volume of FX trading was higher by 30% compared to the trading volume in 2005.

Total FX buying and selling transactions within Treasury Department



The largest share of fx trading transactions comprises transactions with corporate clients (57.61%), while the share of transactions with other banks is 36.91% and with the NBS 5.47%.

Breakdown of foreign exchange trading

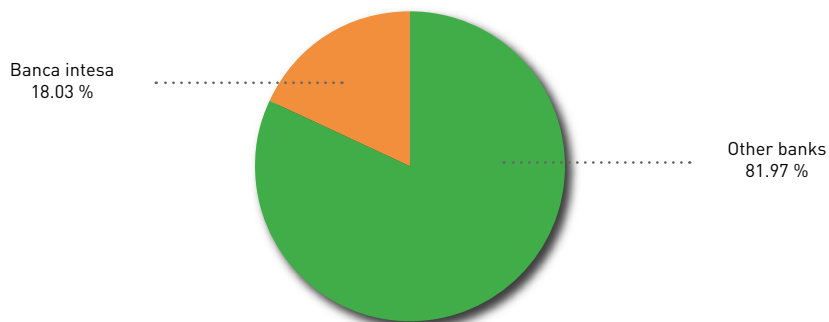


The share of Banca Intesa ad Beograd in the total volume of FX trading with other banks and the NBS is 19.99% while the share in total FX trading with corporate clients (including non-residents and foreign banks) is 11.4%.

SECURITIES

Banca Intesa took up the leading position 2006 in the amount of investment into REPO securities with the National Bank of Serbia with a share of 18%.

Securities (Balance as at 31/12/06)





INTESA LEASING
BEOGRAD

In March 2006, Intesa Leasing started its operations, established by pooling the powers of Banca Intesa Beograd and experience in leasing operations of CIB Leasing.

With its unique market activities, Intesa Leasing managed in short period of time to list itself with leading leasing companies in Serbia. Testifying this is the fact that in only nine months of operations it entered into 844 agreements and it made cooperation with 593 clients. The fact that large number of clients concluded more than one agreement serves as a confirmation of satisfaction with services.

Result of such a dynamic activity is the balance sheet sum of 21.65 million Euros, which is 2.1 percent of total balance sheet sum of Serbian leasing sector. Market participation of Intesa Leasing in new production of the sector is 4.6 percent.

Product range offered by Intesa Leasing covers financing of private autos, commercial vehicles and industrial equipment.

The product whit which Intesa Leasing started its operations segment of financing vehicles is leasing new passenger vehicles and light delivery vehicles. Although it operates for a long time in Serbian market, Intesa Leasing managed to perform a market breakthrough, introducing a number of improvements over the offers of competition, primarily in extending the financing time-limits, up to 7 years, and introducing the first model of financing with redemption value.

In segment of financing commercial vehicles, the offer is divided in seven categories (financing light delivery vehicles 1.5 to 3.5 t gross capacity, light delivery and commercial vehicles 3.5 to 6.5 t, program of medium commercial vehicles 6.5 to 19 t, program of heavy commercial vehicles over 19 t capacity, financing trailers, buses and special vehicles), together with improvements toward extending financing time-limits and lowering minimal participation.

In segment of financing equipment there are several categories of products: financing construction equipment, agricultural mechanization, industrial equipment, IT equipment, press equipment, and other equipment, within which we made it possible to pay installments in three and six months annuities, as well as possibility to suspend payments of installments in periods determined by client, provided it executes operations of seasonal character.


Cooperating with external partners, Intesa Leasing organized more than 50 promotional activities across whole Serbian territory, and other initiatives were also initiated toward improving products (extending time limits of payments, financing indexed in other currencies, products with modified variances of Casco insurance, etc.)

Intesa Leasing services are available at the company's main office in Belgrade and in 44 branch-offices of Banca Intesa Beograd across the country, while in all bank's branch-offices basic information on leasing services can be obtained.



CORPORATE
SOCIAL ACTIVITIES IN 2006





Banca Intesa Beograd, in accordance with the parent group policy, devotes special attention to corporate social responsibility, with the aim of contributing as much as possible to the welfare and development of the community through intensive involvement and creatively designed projects.

The Bank's activities in this field were focused last year on the development and promotion of sports, humanitarian activities, culture, science and environmental protection. Most of these activities were implemented at the local level, which had a high impact on the local population and community.

HUMANITARIAN ACTIVITIES

Charity and humanitarian activities of the Bank are for the most part directed at children who have lost or both of their parents, abandoned children and people with disabilities.

The most important project in this segment is the support to the non-governmental organisation "Naša Srbija", also supported by the People's office of the President of Serbia and President himself. Banca Intesa Beograd has supported "Naša Srbija", for three consecutive years, and we also plan to continue our cooperation in 2007. and years to come. Continuously supporting "Naša Srbija", Banca Intesa Beograd earmarks a part of revenues from MasterCard services for this humanitarian organisation. By inviting its clients to help "Naša Srbija" by using credit cards, Banca Intesa Beograd became the first benefactor supporting this manner of humanitarian work in our country.

For years, the Bank has cooperated with many associations aiding persons with disabilities, such as "Mali veliki ljudi" (children and persons with special needs) and „Plegiales“ (organisation of paraplegics), and considerable donations are traditionally given to the Institute for Children without Parental Care in Zvečanska Street in Belgrade, Serbian Red Cross, people from Kosovo and Metohia, many hospitals, health care institutions and pre-school facilities. Through individual donations, Banca Intesa Beograd helped many people in need to achieve a better quality of life.

DEVELOPMENT OF SPORT

Wishing to participate in the achievement of even better results of our athletes who are our best promoters on the European and world scene, the Bank offers considerable support to the development of sports in Serbia. In this manner, the Bank also contributes to the guiding of young people towards recognizing and nurturing true values, such as: healthy life-style, fair play, solidarity and team work.

In 2006, the Bank supported several football clubs in the First Division, as well as many local football clubs. We also provided support to the Basketball Association, Olympic Committee and Water Polo Association, as well as many local basketball and volley ball male and female clubs. Banca Intesa Beograd was present, in the capacity of sponsor or donor, at chess tournaments and competitions in many new and so-called extreme sports, such as go-cart races, American football, martial arts and other.

One of the most significant projects relating to the support to sport in 2006 was definitely the partnership with the World Camp International, and joint organisation of „Banca Intesa Milan Junior Camp“, a camp where the boys aged six to sixteen trained football over the period of two weeks under the supervision of the coaches of the Italian First Division team and many time champion, football club AC Milan. This event attracted a lot of media attention and was received very favourably by the public, so it is now viewed as the beginning of traditional cooperation between the Bank and the World Camp International.


Last year was marked with the commencement of yet another long-term relationship. Namely, Banca Intesa Beograd was the general sponsor of the 19th Belgrade marathon, the most famous local marathon whose reputation travels across the borders of this country. This is a family sports event and attracts many renowned guests from abroad, so it is completely in harmony with the image and policy of Intesa Sanpaolo Group. The cooperation of the strongest – top banking group and one of the top sports event in the country – resulted in excellent organisation and implementation, as well as ultimate experience for all participants, professional and recreational marathon runners.

SUPPORT TO CULTURE

Banca Intesa Beograd has so far given a great contribution to this area of social life, supporting many local cultural events, ethno events and organisations and clubs which are engaged in the preservation of cultural and traditional values of the Serbian people.

This year began from now on traditional partnership between the Bank and the National Theatre in Belgrade, one of the oldest and certainly most important theatre in Serbia. Another cooperation of exceptional significance was the donation to the Italian Cultural Centre, by which the Bank helped in the adaptation of the premises and move of this institution to a new location, with the aim of contributing to the strengthening of ties between Italian representatives in our country and the local community through a local bank which is part of an international, but primarily Italian banking group.

Banca Intesa Beograd devotes a lot of attention to nurturing and supporting cultural, historical



and traditional heritage of the national minorities living in Serbia, with a view to intensifying inter-cultural and inter-ethnic cooperation in the Serbian society and promotion the development of European values.

Donations were also granted to the Serbian Orthodox Church, the Holy Synod of Bishops, Chilandar Monastery and other monasteries in Serbia. Having in mind the importance of the cultural and historical heritage, in particular in a society in transition, the Bank will continue to direct its support to this area.

SUPPORT TO EDUCATIONAL INSTITUTIONS

Banca Intesa Beograd believes that providing support to young people and students contributes a great deal to a better future of our country. In accordance with this, the Bank, had a significant part in supporting and assisting educational institutions in Serbia, as was the case in previous years. We contributed to many activities connected with education and student activities, primarily to the organisations of Belgrade University, and universities in Novi Sad and Kragujevac (in particular the Schools of Law, Economics and Organisational Sciences), as well as many secondary and primary schools.

In cooperation with the Intesa Sanpaolo Group we began the implementation of the Intesa Bridge project which involves lending to the students from selected faculties aimed at supporting and facilitating the process of studying. This project also envisages the possibility of sending the best students to related schools in Italy, thus providing them with to degrees, as well as the unforgettable experience of studying in international and multicultural environment. In 2006, we established initial contacts with two Belgrade University schools, which expressed strong interest in the cooperation on this project, and, through our parent group, we began work on establishing cooperation with counterpart schools in Italy. The practical implementation of the Intesa Bridge project is expected in 2007.

ENVIRONMENTAL PROTECTION

Last year, the Bank granted several donations for the conservation of the Fruška Gora National Park in Vojvodina, as well as the Tara National Park, which is partly located in Serbia and partly in Montenegro. In this manner, Banca Intesa Beograd assumed a role in preserving the environment, as well as the cultural and historical heritage in all these areas, having in mind their value for future generations.



ORGANIZATIONAL
STRUCTURE OF THE BANK



ADDRESSES OF BRANCH OFFICES

LOCATION	Regional Center	Regional Center	Address
Ada	ADA	Novi Sad	Save Kovačevića 1
Aleksandrovac	ALEKSANDROVAC	Kragujevac	Trg oslobođenja bb
Aleksinac	ALEKSINAC	Niš	Knjaza Miloša 115
Apatin	APATIN	Novi Sad	Petefi Šandora 2
Arandjelovac	ARANĐELOVAC	Kragujevac	Knjaza Miloša 192
Arilje	ARILJE	Užice	Stevana Čolovića 2
BačkaPalanka	BAČKA PALANKA	Novi Sad	Žarka Zrenjanina 43
BačkaTopola	BAČKA TOPOLA	Novi Sad	Glavna 22
BajinaBašta	BAJINA BAŠTA	Užice	M. Obrenovića 22
Bečej	BEČEJ	Novi Sad	Trg Oslobođenja 1
Beočin	BEOČIN	Novi Sad	Trg cara Lazara 1
Beograd	BEOGRAD	Beograd	Otona Župančića 1
Beograd	BEOGRAD II	Beograd	Požeška 128
Beograd	BEOGRAD III	Beograd	Požeška 45
Beograd	NOVI BEOGRAD I	Beograd	Tošin bunar 159
Beograd	NOVI BEOGRAD II	Beograd	Milentija Popovića 7v
Beograd	NOVI BEOGRAD III	Beograd	Nedeljka Gvozdenovića 24
Beograd	NOVI BEOGRAD IV	Beograd	Jurija Gagarina 151 lokali 5 i 6
Beograd	NOVI BEOGRAD V	Beograd	Bul. Arsenija Čarnojevića 54
Beograd	BEOGRAD IV	Beograd	Bul.Kralja Aleksandra 288
Beograd	BEOGRAD V	Beograd	Marijane Gregoran 60
Beograd	BEOGRAD V	Beograd	Ustanička 69
Beograd	BEOGRAD VII	Beograd	Mirijevski venac 23
Beograd	BEOGRAD VIII	Beograd	Bul.Kralja Aleksandra 67
Beograd	BEOGRAD IX	Beograd	Bulevar Kralja Aleksandra 73
Beograd	BEOGRAD X	Beograd	Kumodraška 162
Beograd	BEOGRAD XI	Beograd	Bulevar Kralja Aleksandra 174
Beograd	BEOGRAD XII	Beograd	Resavska 1-3
Beograd	BEOGRAD XIII	Beograd	Knez Mihailova 30
Beograd	BEOGRAD XIV	Beograd	Kolarčeva 5
Beograd	BEOGRAD XV	Beograd	Studentski trg 7
Beograd	BEOGRAD XVI	Beograd	Kralja Milana 23
Beograd	BEOGRAD XVII	Beograd	Makedonska 42
Beograd	BEOGRAD XIX	Beograd	TEMPO/ Viline vode bb
Beograd	BEOGRAD XX	Beograd	Karađorđeva 67
Beograd	BEOGRAD XXI	Beograd	Bul.Oslobođenja 3
Beograd	BEOGRAD XXII	Beograd	Sarajevska 38a
Beograd	BEOGRAD XXIII	Beograd	Vojvode Stepe 99
Beograd	BEOGRAD XXIV	Beograd	Cara Nikolaja II 82-84
Beograd	BEOGRAD XXV	Beograd	Ruzveltova 23
Beograd	BEOGRAD XXVI	Beograd	Vukasovićeva 50 a
Beograd	BEOGRAD XXVII	Beograd	Radnička 55



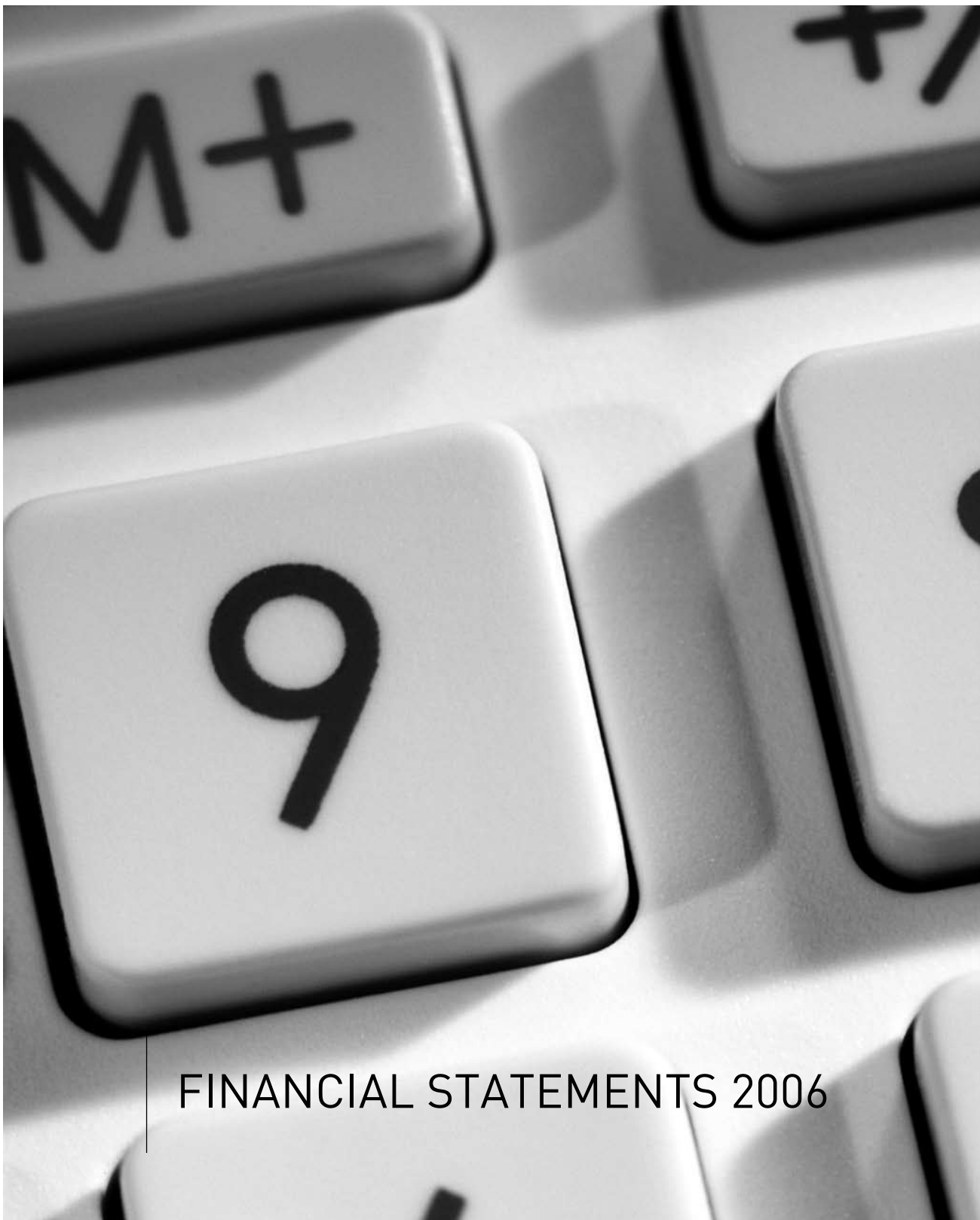
LOCATION	Regional Center	Regional Center	Address
Beograd	BEOGRAD XXVIII	Beograd	Sarajevska 31
Beograd	BEOGRAD XXIX	Beograd	Svetogorska 47
Beograd	BEOGRAD XXX	Beograd	Vase Pelagića 48b
Beograd	BEOGRAD XXXI	Beograd	Vidikovački venac 80b
Beograd	NOVI BEOGRAD VI	Beograd	Goce Delčeva 34
Beograd	NOVI BEOGRAD VII	Beograd	Partizanske avijacije 14
Beograd	BEOGRAD XXXIII	Beograd	Višnjićeva 9
Beograd	BEOGRAD XXXIV	Beograd	27. marta 23
Bor	BOR	Niš	Đorđa Vajferta 3
Brus	BRUS	Kragujevac	Kralja Petra I bb
Bujanovac	BUJANOVAC	Niš	Karađorđa Petrovića 111
Crvenka	CRVENKA	Novi Sad	M. Pijade 49
Čačak	ČAČAK	Užice	Kuželjeva 1
Čajetina	ČAJETINA-Zop	Užice	Zlatiborska 11
Ćićevac	ĆIĆEVAC	Kragujevac	Karađorđeva bb
Ćuprija	ĆUPRIJA	Kragujevac	Karadjordjeva 57
Despotovac	DESPOTOVAC	Kragujevac	D.S.Lazarevića 36
GornjiMilanovac	GORNJI MILANOVAC	Užice	Karađorđeva 1
Horgoš	HORGOS	Novi Sad	Železnička 1
Ilnđija	INĐIJA	Novi Sad	Novosadska 15
Ivanjica	IVANJICA	Užice	Majora Ilića 1
Jagodina	JAGODINA	Kragujevac	Narodne omladine bb
Kanjža	KANJŽA	Novi Sad	Maršala Tita 3
Kikinda	KIKINDA	Pančevo	Braće Tatić 16
Kladovo	KLADOVO	Niš	22. Septembra 9
Koceljeva	KOCELJEVA	Užice	Nemanjina 80
Kosjerić	KOSJERIĆ	Užice	Karađorđeva 58
Kostolac	KOSTOLAC	Pančevo	Nikole Tesle 5-7
Kovačica	KOVAČICA	Pančevo	Maršala Tita 50
Kovin	KOVIN	Pančevo	Cara Lazara 73
Kragujevac	KRAGUJEVAC I	Kragujevac	Save Kovačevića 12 b
Kragujevac	KRAGUJEVAC II	Kragujevac	Trg slobode 3
Kragujevac	KRAGUJEVAC III	Kragujevac	Kralja Petra I 46
Kragujevac	KRAGUJEVAC IV	Kragujevac	Kralja Alek. I Karađorđevića 120
Kraljevo	KRALJEVO I	Kragujevac	Trg Jovana Sarića 8
Kraljevo	KRALJEVO II	Kragujevac	Trg Jovana Sarića 1
Kruševac	KRUŠEVAC I	Kragujevac	Čolak Antina 9
Kruševac	KRUŠEVAC II	Kragujevac	Mirka Tomića 4
Kruševac	KRUŠEVAC III	Kragujevac	Birčaninova2
Kruševac	KRUŠEVAC IV	Kragujevac	Radomira Jakovljevića bb
Kučevo	KUČEVO	Pančevo	Trg Veljka Dugoševića 2
Lajkovac	LAJKOVAC	Užice	Kralja Petra I 2



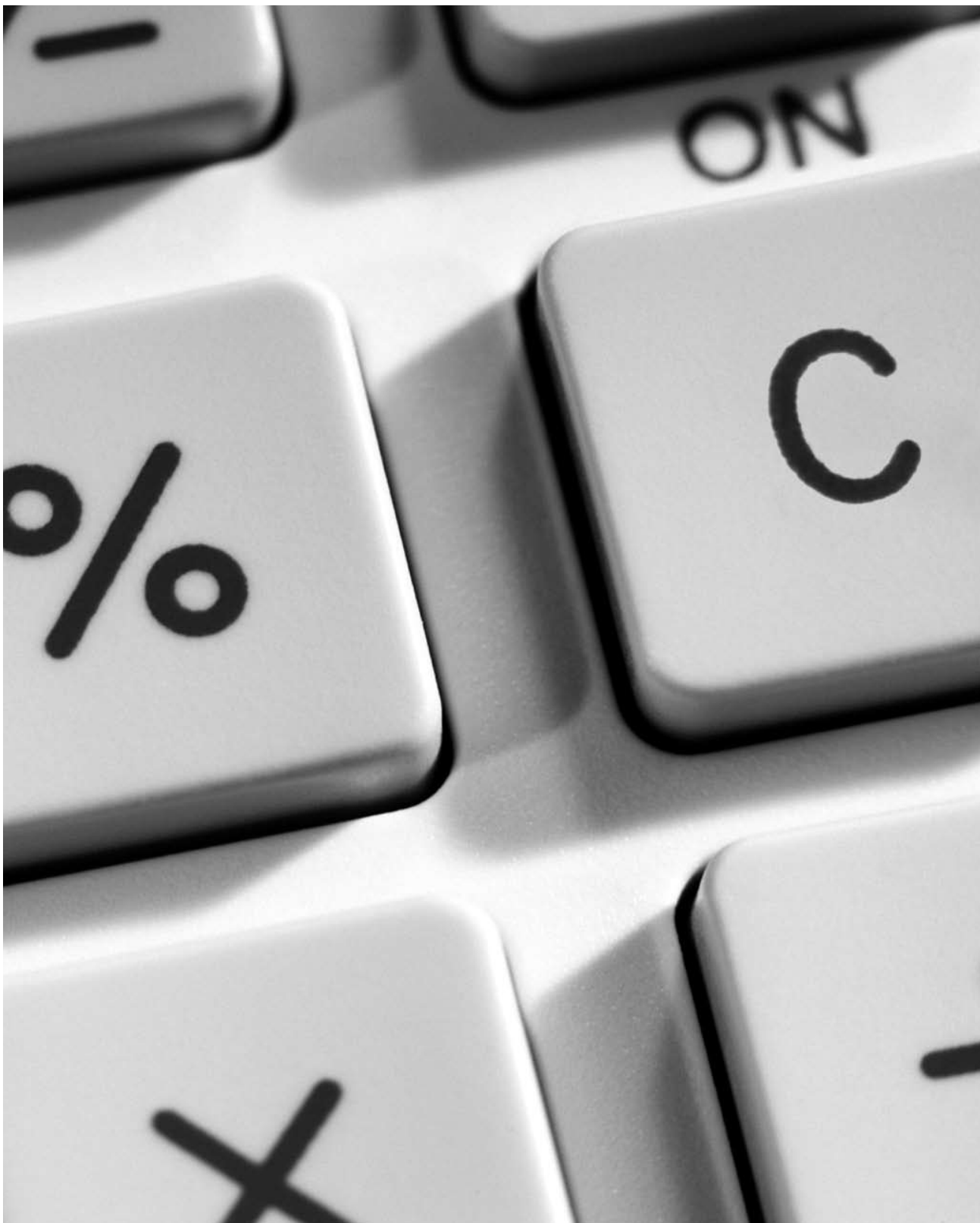
LOCATION	Regional Center	Regional Center	Address
Lazarevac	LAZAREVAC	Užice	Karađorđeva 41
Leskovac	LESKOVAC I	Niš	Trg revolucije 7
Leskovac	LESKOVAC II	Niš	Bulevar Oslobođenja 170
Loznica	LOZNICA	Užice	Trg Vuka Karađžića bb
Ljig	LJIG	Užice	Vojvode Mišića 12
Ljubovija	LJUBOVIIJA	Užice	Karađorđeva 8
Mionica	MIONICA	Užice	Dr Jove Aleksića 21
Mladenovac	MLADENOVAC	Kragujevac	Kralja Petra I 217
Negotin	NEGOTIN	Niš	Trg Đorđa Stanojevića 70/2
Niš	NIŠ I	Niš	Nade Tomić 8a
Niš	NIŠ II	Niš	Sindelićev trg 18
Niš	NIŠ III	Niš	Vizantijski bulevar 76
Niš	NIŠ IV	Niš	Obrenovićeva 82
Niš	NIŠ V	Niš	Obrenovićeva 13
Niš	NANA	Niš	Vazduhoplovaca 1/11
Niš	NIŠ VII	Niš	Bulevar Nemanjića 28-32
Nova Varoš	NOVA VAROŠ	Užice	Svetog Save 31
Novi Bečej	NOVI BEČEJ	Pančevo	Trg Oslobođenja 5
Novi Pazar	NOVI PAZAR	Kragujevac	Avnoja 6
Novi Sad	NOVI SAD I	Novi Sad	Bul. Mihaila Pupina 4
Novi Sad	NOVI SAD II	Novi Sad	Bul. Oslobođenja 32
Novi Sad	NOVI SAD III	Novi Sad	Bul. Jovana Dučića 1
Novi Sad	NOVI SAD IV	Novi Sad	Bul. Cara Lazara 79A
Novi Sad	NOVI SAD V	Novi Sad	Bul. Oslobođenja 76A
Novi Sad	NOVI SAD VI	Novi Sad	Fruškogorska 10
Novi Sad	NOVI SAD VII	Novi Sad	Braće Ribnikar 25a
Novi Sad	NOVI SAD VIII	Novi Sad	Rumenačka 33
Novi Sad	NOVI SAD IX	Novi Sad	Kisačka 27
Novi Sad	NOVI SAD X	Novi Sad	Kosovska 1
Obrenovac	OBRENOVAC	Užice	Vuka Karađžića 79
Pančevo	PANČEVO I	Pančevo	Štrosmajerova 1
Pančevo	PANČEVO III	Pančevo	Karađorđeva 2-4
Pančevo	PANČEVO IV	Pančevo	Svetog Save 8a
Paraćin	PARAĆIN II	Kragujevac	Kralja Petra I 4
Petrovac na Mlavi	PETROVAC NA MLAVI	Pančevo	Bate Bulića 47a
Pirot	PIROT I	Niš	Branka Radičevića 18
Pirot	PIROT II	Niš	Ćirila i Metodija 1
Požarevac	POŽAREVAC	Pančevo	Trg R. Vujovića 12
Požega	POŽEGA	Užice	Knjaza Miloša 6
Preševo	PREŠEVO	Niš	Maršala Tita 40
Priboj	PRIBOJ	Užice	Veljka Vlahovića 14
Prijepolje	PRIJEPOLJE	Užice	Sandžačkih brigada 39



LOCATION	Regional Center	Regional Center	Address
Prokuplje	PROKUPLJE	Niš	9.oktobar 6
Raška	RAŠKA	Kragujevac	Miluna Ivanovića 8
Ruma	RUMA	Novi Sad	Glavna 164
Sjenica	SJENICA	Kragujevac	Milorada Jovanovića bb
Smederevo	SMEDEREVO	Smederevo	Cvijičeva br. 3
SmederevskaPalanka	SMEDEREVSKA PALANKA	Kragujevac	Svetog Save 19
Sombor	SOMBOR	Novi Sad	Venac Stepe Stepanovića 32
Srbobran	SRBOBRAN	Novi Sad	Miloša Crnjanskog 1
Sremska Mitrovica	SREM. MITROVICA I	Novi Sad	Kralja Petra I 6
Sremska Mitrovica	SREM. MITROVICA II	Novi Sad	Svetog Dimitrija 2
Subotica	SUBOTICA	Novi Sad	Dimitrija Tucovića 2
Surdulica	SURDULICA	Niš	Kralja Petra I bb
Svilajnac	SVILAJNAC	Kragujevac	Svetog Save 52
Šabac	ŠABAC	Užice	Gospodar Jevremova 44
Šid	ŠID	Novi Sad	Svetog Save 4-6
Temerin	TEMERIN	Novi Sad	Košut Lajoša 31/1
Titel	TITEL	Novi Sad	Glavna 27
Topola	TOPOLA	Kragujevac	Karalja Aleksandra 7
Trstenik	TRSTENIK	Kragujevac	Cara Dušana bb
Tutin	TUTIN	Kragujevac	Pešterska bb
Ub	UB	Užice	Kralja Petra 60
Užice	UŽICE I	Užice	Dimitrije Tucović 129
Užice	UŽICE II	Užice	Dimitrija Tucovića 59
Valjevo	VALJEVO I	Užice	Karađorđeva 71
Valjevo	VALJEVO II	Užice	Vuka Karađžića 5
Velika Plana	VELIKA PLANA	Kragujevac	Momira Gajića 2
Veliko Gradište	VELIKO GRADIŠTE	Pančevo	Kneza Lazara 50
Vladičin Han	VLADIČIN HAN	Niš	Vojvode Sindelića 1
Vladimirci	VLADIMIRCI	Užice	Svetog Save 12
Vlasotince	VLASOTINCE	Niš	Nemanjina 2
Vranje	VRANJE	Niš	Kralja Stefana Prvovenčanog 68
Vrbas	VRBAS	Novi Sad	Maršala Tita bb MAXI
Vrnjačka Banja	VRNJAČKA BANJA	Kragujevac	Kruševačka 1
Vršac	VRŠAC	Pančevo	Sterijina 19a
Vršac II	VRŠAC	Pančevo	Dositejeva 1
Zaječar	ZAJEČAR	Niš	Nikole Pašića 70
Zemun	ZEMUN	Beograd	Glavna 30
Zemun	ZEMUN II	Beograd	Gornjogradska 11a
Zlatibor	ZLATIBOR	Užice	Jezero bb
Zrenjanin I	ZRENJANIN	Pančevo	Kralja Aleksandra I Karađorđevića bb
Zrenjanin II	ZRENJANIN	Pančevo	Bul. Veljka Vlahovića bb
Žabalj	ŽABALJ	Novi Sad	Trg Svetog Save 3



FINANCIAL STATEMENTS 2006



BANCA INTESA BEOGRAD a.d. Belgrade

***FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2006***



Banca Intesa Beograd a.d. Belgrade
Financial statements for the year ended 31 December 2006

CONTENTS

Independent Auditor's Report	1
Income Statement	2
Balance Sheet	3
Cash Flow Statement	4-5
Statement of Changes in Equity	6
Notes to the Financial Statements	7-40

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
BANCA INTESA BEOGRAD A.D. BELGRADE**

We have audited the accompanying financial statements of Banca Intesa Beograd a.d. Belgrade (hereinafter referred to as: "the Bank") which comprise the balance sheet as at December 31, 2006 and the related statements of income, shareholders' equity and cash flow for the year then ended, as well as a summary of the most relevant accounting policies and other notes explanatory reports.

Bank Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing, Law on Banks, and other regulations governing bank operations and financial reporting. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; under the given circumstances.

Auditor's Responsibility

It is our responsibility to express an opinion on these financial statements based on the audit we have conducted. The audit was carried out in accordance with International Standards and Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.


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

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

Opinion

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

Belgrade, February 2, 2007


Mirjana R. Kovačević
Authorised Auditor



■ PIB - 101824091 ■ Matični broj - 17155270 ■ Upisan i unet osnovni kapital 15.075,01 EUR

■ RegistarSKI broj 47839 kod Agencije za privredne registre ■ Poslovni račun 255-0009930101000-91 kod Privredne Banke Beograd AD

INCOME STATEMENT

<i>(in thousands of RSD)</i>	Note	2006	2005
Interest income		7.626.310	4.671.754
Interest expenses		(3.052.460)	(1.430.054)
Net interest profit	3	4.573.850	3.241.700
Fee and commission income		3.962.308	2.790.601
Fees and commission expenses		(885.295)	(310.379)
Net interest fee and commission income	4	3.077.013	2.480.222
Net gain from sale of securities	5	39.365	134.473
Net income from exchange rate differences	6	2.861.790	179.959
Income from dividends and investments in shares		776	16.096
Other operating income	7	2.155.525	2.279.428
Impairment and provision charges	8	(4.400.697)	(4.467.665)
Other operating expenses	9	(5.348.728)	(4.163.016)
Income / (Expenses) from changes in value of assets and liabilities	10	(1.861.271)	1.961.345
		(6.553.240)	(4.059.380)
Profit from ordinary operations		1.097.623	1.662.542
Net non-operating income/ (expenses)		-	-
Profit before taxation		1.097.623	1.662.542
Income tax	11	187.457	37.473
Net profit		1.285.080	1.700.015

BALANCE SHEET

<i>(in thousands of RSD)</i>	Note	2006	2005
Assets			
Cash and cash equivalents	12	7.731.043	13.187.444
Deposits with Central Bank and securities that may be refinanced with Central Bank	13	50.822.368	17.566.214
Interest and fees receivables	14	441.090	260.544
Placements with banks	15	3.269.572	529.226
Loans and advances to customers	16	55.434.837	41.642.418
Securities and other placements held for trading	17	211.806	849.900
Investments in securities held to maturity	18	208.470	552.361
Investments in shares and other securities available for sale	19	160.700	44.998
Current assets available for sale		9.659	-
Receivables for overpaid income tax		86.191	78.796
Intangible assets	20	705.313	425.231
Property and equipment	21	4.805.927	4.878.351
Other assets and accruals	22	858.110	1.772.315
Deferred tax expenses		475.283	344.675
		125.220.369	82.132.473
Liabilities			
Liabilities to banks	23	4.128.529	2.014.609
Liabilities to customers	24	100.889.051	67.534.268
Interest and fee payable		2.313	1.149
Securities liabilities		165	1.142
Profit liabilities		-	-
Other operating liabilities	25	896.758	590.004
Provisions	26	1.062.439	505.884
Other liabilities and accrued costs	27	6.014.557	490.032
Deferred tax liabilities		31.739	88.588
		113.025.551	71.225.676
Shareholders' equity			
Share capital		5.180.100	5.180.100
Capital reserves		5.726.558	3.879.206
Accumulated profit		1.288.160	1.847.491
	28	12.194.818	10.906.797
		125.220.369	82.132.473
Off-balance sheet items	29	60.167.637	33.347.019

Belgrade, 26 April 2007

On behalf of
Banca Intesa Beograd a.d. Belgrade





Member

Ms. Draginja Đurić
Chairwoman of the Executive Board

CASH FLOW STATEMENT

<i>(in thousands of RSD)</i>	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities		
Interest receipts	6.858.786	4.252.234
Fee receipts	4.202.307	2.937.316
Inflow from other operating income	1.104.563	2.299.699
Inflow from dividends and investments in shares	776	1.165
	12.166.432	9.490.414
Cash outflow from operating activities		
Interest paid	(1.926.635)	(848.775)
Fees paid	(1.020.756)	(379.579)
Payment of gross salaries, benefits and other personal expenses	(2.319.408)	(1.928.888)
Taxes, contributions and other duties paid	(134.771)	(131.409)
Other operating expenses	(2.470.668)	(2.025.644)
	(7.872.238)	(5.314.295)
Net cash inflow from operating activities before increase/decrease in placements and deposits	4.294.194	4.176.119
Decrease in placements and increase in taken deposits		
Decrease in securities and other securities held for trading, including short-term securities held to maturity	987.866	-
Increase in deposits from banks and other financial organisations	2.576.848	162.898
Clients' deposit increase	27.448.454	19.864.210
	31.013.168	20.027.108
Increase in placements and decrease in taken deposits		
Increase of loans and placements to banks and other financial organisations	38.456.835	7.006.484
Increase of loans and placements to clients	16.461.936	16.999.831
Increase in securities and other placements held for trading and short-term securities held to maturity	-	35.668
Decrease of deposits from banks and other financial organisations	-	-
Decrease in clients' deposits	-	-
	54.918.771	24.041.983
Net cash (outflow) /inflow from operating activities before tax	(19.611.409)	161.244
Paid income tax	79.038	78.796
Net cash (outflow) / (inflow) from operating activities	19.690.447	82.448

(in thousands of RSD)

	2006	2005
CASH FLOW FROM INVESTMENT ACTIVITIES		
Cash inflow from investment activities		
Income from sales of shares and stake	18.705	81
Inflow from sale of intangible and fixed assets	1.020.830	38.111
	1.039.535	38.192
Cash outflow from investment activities		
Outflow from purchase of shares and share stake	(202.497)	-
Outflow from purchase of intangible and fixed assets	(1.492.424)	(1.106.524)
	(1.694.921)	(1.106.524)
Net cash inflow / (outflow) from investment activities	(655.386)	(1.068.332)
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities		
Inflow from long-term loans and subordinate liabilities	15.767.038	895.056
Net inflow from taken out short-term loans	-	832.007
Net inflow from securities	-	476
	15.767.038	1.727.539
Cash outflow from financing activities		
Outflow from repayment of long-term loans and subordinated liabilities	(2.670)	(2.434)
Net outflow from short-term loans	(461.175)	-
Net outflow from securities	(905)	-
	(464.750)	(2.434)
Net cash inflow / (outflow) from financing activities	15.302.288	1.725.105
TOTAL NET CASH INFLOW	59.986.173	31.283.253
TOTAL NET CASH OUTFLOW	(65.029.718)	(30.544.032)
NET CASH (DECREASE) / INCREASE	(5.043.545)	739.221
CASH AT THE BEGINNING OF PERIOD	13.187.445	11.953.081
EXCHANGE RATE DIFFERENCES, NET	(412.857)	495.143
CASH AT THE END OF PERIOD (Note 10)	7.731.043	13.187.445

STATEMENT OF CHANGES IN EQUITY

<i>(in thousands of RSD)</i>	Share capital	Revaluation reserves	Reserves from Profit for Estimated loss	Other reserves From profit	Accumulated profit	Total capital
Opening balance as of January 1, 2005	5.180.100	559.356	436.338	1.111.726	1.700.648	8.988.168
Allocation of accrued profits	-	-	62.957	1.637.691	(1.700.648)	-
Deferred tax assets based on unused tax loans	-	-	-	-	280.965	280.965
Deferred tax liabilities based on capital assets depreciation estimation	-	-	-	-	(62.351)	(62.351)
Transfer of provision for category "A" Based on of-balance sheet records	-	-	71.138	-	(71.137)	-
Reserves for A placements in 2005	-	-	-	-	-	-
Current year result	-	-	-	-	1.700.015	1.700.015
Closing balance as of December 31, 2005	5.180.100	559.356	570.434	2.749.416	1.847.492	10.906.798
Allocation of accrued profit from 2005	-	-	-	1.847.492	(1.847.492)	-
Increase Revaluation reserves based on fair capital asset value – structures	-	2.941	-	-	3.080	2.941
Provision increase Missing reserve amount from profit for estimated losses	-	(3.080)	-	-	-	(3.080)
Provision increase Missing reserve amount from profit for estimated losses	-	-	2.098.736	-	-	2.098.736
Missing reserve amount from profit for estimated losses	-	-	(2.098.736)	-	-	(2.098.736)
Current year result	-	-	-	-	1.285.080	1.285.080
Balance as of December 31, 2006	5.180.100	559.217	570.434	4.596.908	1.288.160	12.194.818

NOTES TO THE FINANCIAL STATEMENT

1. CORPORATE INFORMATION

Banca Intesa Beograd ad Beograd (hereinafter referred to as: "the Bank") was incorporated as a joint stock company, based on the concluded Agreement on Foundation and Business Operation of Delta banka (mixed-capital) as a joint-stock company dated September 16, 1991. On September 19, 1991, the National Bank of Yugoslavia issued a certificate and license for the foundation of Delta banka (mixed-capital) as a joint-stock company, Belgrade.

The Bank was registered with the Commercial Court in Belgrade on October 16, 1991, after which it began operating. On June 7, 1995, a new Agreement on Foundation was concluded, with a new Statute adopted at the general Assembly meeting held on July 10, 1995, thus reconciliation of the Bank's acts with the provisions of the Law on Banks and other financial organisations.

Based on the general manager's decision No. 18600, dated November 7, 2005, approval of the National Bank of Serbia and certificate of the Business Entities registry No BD 98737/2005, dated November 29, 2005, a change in name was made, into Banca Intesa ad Beograd.

At the Bank's general assembly, held on September 29, 2006, the following decisions were made:

- Decision to adopt Statute, No. 19522/1.
- Decision to adopt the Agreement on Foundation, No. 19521/1.
- Decision to appoint president and members of the Board of Directors, No. 19523.
- Decision to appoint president and members of the Executive Board, No. 19524,

which together with the National Bank of Serbia's approval of these decisions, the reconciliation of Bank acts with the Law on Banks was carried out.

By decision of the Agency for Commercial Registries, BD. 159633/2006 dated October 5, 2006 the abovementioned alterations and change of legal form into a closed joint-stock company was finalised.

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

As of December 31, 2006 the Bank's Head Office was located in Belgrade, 7b, Milentija Popović a St. with its associated organisational divisions in Belgrade, 6 regional centres and 164 branch offices.

The Bank had 2,447 employees on December 31, 2006 (2,245 employees on December 31, 2005).

The Bank's VAT registration number is 100001159.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for preparation and presentation of financial statements

The Bank's financial statements for the year 2006 have been prepared in accordance with the regulations of the Republic of Serbia, based on the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia, No. 46/2006), Law on Banks and Other Financial Organisations and other by-laws of the National Bank of Serbia issued based on the aforementioned laws.

In the preparation of these financial reports the Bank had adopted and applied accounting policies in line with the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia, 46/2006) proscribing that banks prepare financial statements according to the law and professional and internal regulations.

The Bank's financial statements for the year 2006 have been presented in the format prescribed by the Rules on the Format and Contents of Positions in the Forms of Financial Statements for Banks and Other Financial Organisations (Official Gazette of the Republic of Serbia, No. 8/2007).

In the preparation of the shown financial statements, the Bank administered accounting policies explicated in the Note on financial statements 2.

The bank maintains and prepares financial statements in dinars (RSD), the official reporting and functional currency in the Republic of Serbia. The Bank's financial statements are expressed in thousands of dinars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Interest income and expenses

Interest income and expense, including the penalty interest and other income and other expenses from interest bearing assets, i.e. liabilities are recognized on an accrual basis based on obligatory terms defined by a contract signed between the Bank and a customer.

Income and expense from interest is recorded in the income statement for the period that they relate to in accordance with the principle of causality of income and expense, which is defined by contract between the Bank and the customers.

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

Interest is suspended for all loans and advances to corporate and retail customers that are more than 60 and 90 days overdue, which can be found on allowance accounts.

2.3. Fee and Commission Income and Expenses

Fee income and expenses arise from providing i.e. use of banking services and are recorded in the balance sheet at the moment they occur, i.e. at the moment the services are used.

Fees for approving long-term loans which are calculated, charged and paid out in one instalment (in advance) have a straight-line deferral for the period of loan use.

2.4. Foreign Currency Translation

Foreign currency transactions are exchanged into dinars at the official rate of the National Bank of Serbia on the balance sheet date. Profit and loss arisen based on recalculating the balance sheet positions expressed in the foreign currency have been presented in the balance statement.

Foreign currency transactions have been translated into EUR at the mean rate set at the Interbank foreign currency market prevailing at the transaction date. Net foreign exchange gains or losses that had arisen during the transactions are entered into the balance statement as gains or losses.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. *Securities income*

Trading securities are initially recorded at cost. All realised and unrealised gains from the change in market value of these securities are charged to income or expenses if a market value exists. Gains and losses from trading securities, the market value of which is unknown, are recorded during their sale. For estimated risks that placements into securities will not be charged, the Bank conducts impairment.

Securities held to maturity measured at amortised cost using the effective interest rate method, less impairment, if any.

Securities available for sale are recorded at cost or market value depending on which is lower. All realised and unrealised gains from sale are recorded in the income statement. Accepted dividends based on investments into shares of other legal entities are recorded as income from dividends at the moment of the collection. For estimated risks that placements into securities will not be charged, the Bank will conduct impairment.

2.6. *Cash and Cash Equivalents*

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash (gyro account and treasury), funds on accounts with other banks, checks in foreign currency and free assets with the National bank of Serbia.

2.7. *Loans and advances to banks*

Placements to banks are recorded at the date of the balance statement at the nominal value equal to the approved placement less the repaid principle sum as well as appreciation.

2.8. *Loans and advances to customers*

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

Loans and advances in dinars, with contracted foreign exchange rate clause or consumer price index clause, are revalued in accordance with the contract signed for each of the loans. The difference between the nominal value of the uncollected amount of the principal and the amount calculated from foreign currency and retail price index clause applied is disclosed within loans and advances to customers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9. *Securities held for trading*

Securities and other trading investments have been primarily acquired for generating profit from short-term price fluctuations or margin.

Trading securities include bonds of the Republic of Serbia in respect of the citizens' foreign currency savings and quoted equity instruments. Trading securities are initially recorded at cost, while at the balance sheet date they are recorded at market value. Gains or losses on investments held for trading are recognised in the income statement.

2.10. *Securities Held to Maturity*

Securities held-to-maturity, represent financial assets with fixed payments or payments that could be determined, as well as with fixed maturity dates. Securities held-to-maturity, consist of bonds of the Republic of Serbia in respect of foreign currency citizens' savings.

Securities held-to-maturity, are measured at amortised cost using the effective interest rate method, less impairment.

2.11. *Investments in Shares and other Securities Available for Sale*

Securities intended to be held for an indefinite period of time, and that could be sold in order to maintain the liquidity or due to changes in interest rates, foreign exchange rates or value of equity, are classified as "securities available for sale". Securities available for sale are not the ones held to maturity or trading.

Investment securities comprise equity instruments of other legal entities that do not have a quoted market price in an active market.

Investments in shares of other legal entities with no quoted market value on the active market are excluded from fair valuation and are measured at cost, less any provision for potential losses. Dividends from investments into shares of other legal entities are recorded as income from dividends at the moment of their collection.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. Impairment of financial assets

Impairment of the financial assets is recognized on the basis of management evaluation on their collect-ability. The management of the Bank on the balance sheet date evaluates the existence of the objective evidence of the impairment of the financial assets. If the existence of the objective evidence is ascertained, the amount of impairment is estimated as the difference between their book value and the present value of the future cash flows calculated using the specific effective interest rate for the specific financial asset. The amount of increase/decrease of the impairment is recorded in the income statement.

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

2.13. Property, equipment and intangible assets

Property and equipment, investment property and intangible assets are stated at revalued cost, less accumulated depreciation/amortization. As of January 1, 2004, buildings were valued in accordance with IAS 16. Property, plant and equipment acquired during the years 2004 and 2005 are stated at cost, less accumulated depreciation.

Intangible assets comprise investments into fixed assets of other legal entities, licenses and similar rights as well software that is not an integral part of the accompanying hardware and investments into rented business premises for a period longer than 4 years and a limited period of use (regulated by contract).

Depreciation/amortization of property and equipment and intangible assets is provided by applying the proportional method, and is designed to write off the cost of fixed assets on a straight lines basis over their estimated useful lives. The applied annual depreciation rates based on the estimated time of use of the fixed assets are as follows:

Buildings	1.3%
Computers	20.0%
Furniture and other equipment	7% - 25%
Licenses and similar rights	10%
Software	20%-33%
Investments into fixed assets of other legal entities	10%-50%

Calculation for depreciation is not conducted for fixed assets in preparation phase. The calculation for depreciation for fixed assets and intangible assets starts when these assets are put to use. The calculated depreciation cost is recognised as an expense of the period in which it occurred.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13. *Property, equipment and intangible investments (continued)*

The investment and current maintenance expenses are recorded in the income statement at the moment they occur. The expenses related to reconstruction and improvements, which change the capacity or the purpose of the fixed assets, are capitalised and they increase the purchase cost of a fixed asset.

When determining the base for calculating the depreciation of buildings, an alternative approach was adopted. It takes the estimated or revalued value as a base for calculation of depreciation.

For other fixed assets a basic procedure was adopted where the base for calculating depreciation is the cost value or the purchase price.

When the base for depreciation is determined, the cost, i.e. estimated value is not impaired by the amount of the remaining value because it is estimated that after the useful lives, the value of one fixed asset is equal to zero.

The annual depreciation rates that the Bank had applied in calculating the depreciation charge for the 2005 financial reporting purposes differ from the depreciation rates that are recognised in the Bank's Tax return for determining the taxable income. The calculation of the depreciation for tax purposes is determined by the Law on Corporate Income Tax and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes, which prescribes depreciation of buildings by applying the proportional method, while other fixed assets and intangible investments are depreciated by applying the decelerated method, where the depreciation rates are set by depreciation groups.

2.14. *Employees' benefits*

The Bank has neither pension funds nor share-based remuneration options, and consequently there are no identified obligations as of December 31, 2006. Employee benefits include severance payments to each employee when he/she retires. In line with the standing law, the Bank is under an obligation to pay thrice the average monthly salary that the employee had at the Bank. These payments are recognised in the income statement as liabilities in accordance with the estimation of an authorised actuary in discounted value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Capital

The capital of the Bank includes shareholder's equity, reserves and accumulated loss. Shareholder's equity comprises the deposits amounts (monetary) of the establishers of the Bank. For their investments into the Bank's capital, the shareholders have received relevant investment securities, i.e. confirmations in line with the Law on Securities.

Reserves from Profits for Estimated Losses

Reserves from profit from estimated losses are calculated as the difference between the total provisions and reserves evaluated in accordance with the internal principles of the Bank, and the special reserves for the evaluated losses calculated in accordance with the Decision on the classification of Balance sheet assets and off-balance sheet items (Official Gazette of the Republic of Serbia no. 57/2006), prescribed by the National Bank of Serbia. The missing amount for coverage of the aforementioned reserves is recognised as a deductible capital item in line with the stated Decision.

2.16. Income tax

Current income tax

Income tax represents the amount calculated and payable under tax regulations of the Republic of Serbia. The taxable income is determined by the tax authority and is paid monthly. Final tax on profit of 10% (starting from January 1, 2005) is determined by the Bank's Tax return. The tax base comprises profit reported in the income statement adjusted for certain income and expenses, as prescribed by the tax regulations, minus investments into fixed assets and salary payments to new employees.

The Law on Income Tax applicable in the Republic of Serbia does not allow any tax losses of the current period to be used to recover taxes paid within a specific carry back period. However, any current year losses disclosed in the Tax return may be used for reduction of the taxes to be paid in future periods, but no longer than ten years.

Deferred income tax

Deferred income tax is provided and recorded, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Bank's financial statements. Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities at the balance sheet date, and their amounts disclosed for financial reporting purposes, which will result in taxable amounts for future periods.

Deferred tax assets are recognised 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 realisation (utilization) of deductible temporary differences, unused tax assets and unused tax liabilities. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17. Comparative data

These financial statements show the comparative figures for the year 2005 and they were reclassified in order to reconcile them with the figures for the year 2006. The comparative figures for the year 2005 were not adjusted, although the amounts of the value of impairment of the financial assets and the amounts of the provision, measured in accordance with the Decision on the Criteria for Classification of the Balance Sheet Assets and Off-Balance Sheet Items, were stated due to the changes in NBS regulations. As of 31 December 2006, the Bank estimated the impairment of the financial assets and provision in line with the accounting policy stated in Note 2.12.

3. INTEREST INCOME AND EXPENSES

<i>(in thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Interest income		
Banks	1.705.730	1.094.226
Enterprises	3.114.513	2.285.905
Public sector	121.057	50.934
Other customers	139.036	133.584
Foreign entities	3.554	23.024
Citizens	2.332.590	868.987
Securities	209.830	215.094
	<u>7.626.310</u>	<u>4.671.754</u>
Interest expenses		
Banks	526.595	127.483
Enterprises	1.068.610	469.281
Public sector	567.180	338.938
Other customers	125.055	80.908
Foreign entities	146.990	323
Citizens	618.030	413.121
	<u>3.052.460</u>	<u>1.430.054</u>
Net gains from interest	<u>4.573.850</u>	<u>3.241.700</u>

4. FEE AND COMMISSION INCOME AND EXPENSES

<i>(in thousands of RSD)</i>	2006	2005
Fee and commission income		
Banking services	2.619.441	2.089.880
Commissions on issued guarantees	317.299	307.281
Other fee and commissions	1.025.568	393.440
	3.962.308	2.790.601
Fee and Commission expenses		
Payment transaction service fees:		
- in the country	104.763	104.659
- abroad	28.822	51.777
NBS fee and commission (MTD and other)	74.419	129.785
Based on foreign currency purchase from banks	32.255	5.807
Credit Bureau Expenses	18.621	15.577
Payment cards operation expenses	593.380	-
Other fees and commissions	33.035	2.774
	885.295	310.379
Net income from fees and commissions	3.077.013	2.480.222

5. NET INCOME FROM SALE OF SECURITIES

<i>(in thousands of RSD)</i>	2006	2005
Income from sale of securities	82.493	135.900
Expenses from sale of securities	(43.128)	(1.427)
Net income from sale of securities	39.365	134.473

6. NET FOREIGN EXCHANGE GAINS/ (LOSSES)

<i>(in thousands of RSD)</i>	2006	2005
Foreign exchange gains	26.161.360	12.830.524
Foreign exchange losses	(23.299.570)	(12.650.565)
Net foreign exchange gains/ (losses)	2.861.790	179.959

7. OTHER OPERATING INCOME

<i>(in thousands of RSD)</i>	2006	2005
Reversal of specific provision against losses in respect of balance sheet items	1.961.615	2.155.613
Gains from sale of fixed assets and investments in shares	168.615	26.439
Rental income	4.661	4.343
Refunded expenses	3.516	847
Income from previous years	-	3.495
Other income	17.118	88.691
Total other operating income	2.155.525	2.279.428

8. LOSSES ON IMPAIRMENT AND PROVISIONS

<i>(in thousands of RSD)</i>	2006	2005
Impairment of		
- Placements to customers	3.800.336	4.070.026
- Interest and Fee Receivables	41.990	95.640
- Other assets	1.816	56.391
	3.844.142	4.222.057
Provisions		
- for estimated losses against losses in respect of off- balance sheet assets	429.792	245.608
- for employee retirement packages	105.588	-
- for litigation	16.282	-
- for restructuring expenses	4.893	-
	556.555	245.608
Total losses on impairment and provisions	4.400.697	4.467.665

9. OTHER OPERATING EXPENSES

<i>(in thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Net salaries and benefits	1.443.050	1.163.641
Expenses for taxes and contributions to salaries and salary fees	619.537	488.241
Services	539.764	467.978
Depreciation	509.265	300.729
Advertising, marketing and representation	432.878	280.766
Taxes and contributions	416.874	314.625
Rental expenses	311.362	160.451
Material and energy	300.615	222.493
General administrative expenses	235.885	469.953
Insurance premiums	204.536	71.965
Maintenance expenses	161.510	97.988
Sponsorship and donations	68.198	82.650
Losses from sale of investments in shares	60.562	-
Damages	12.392	1.786
Other personal expenses	9.379	5.741
Losses from sale of fixed assets	6.719	13.938
Direct write-off of receivables	2.087	4.213
Other expenses	14.115	15.858
	<u>5.348.728</u>	<u>4.163.016</u>

Salary expenses in 2006 include both salaries and salary fees to the management and members of the Bank's Executive board in the total amount of RSD 61.803 thousand.

10. INCOME AND EXPENSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

<i>(in thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Income from change in value	186.413	2.013.682
Expenses from change in value	(2.047.685)	(52.337)
As of December 31	<u>(1.861.272)</u>	<u>1.961.345</u>

11. INCOME TAX

(in thousands of RSD)

	<u>2006</u>	<u>2005</u>
Current tax calculated in Tax return	-	-
Deferred tax liabilities	187.457	37.473
Total income tax as of December 31	<u>187.457</u>	<u>37.473</u>

The table below shows the reconciliation of profit as reported in the income statement and total tax expenses:

(in thousands of RSD)

	<u>2006</u>	<u>2005</u>
Profit for the year	1.097.623	1.662.542
Income tax calculated at tax rate of 10%	109.762	166.254
Tax effects of expenses not recognised in the Tax return	79.235	185
Tax effects of temporary difference in depreciation calculated for financial and taxation purposes	(4.486)	(9.620)
Deduction for newly hired employees	(184.513)	(106.301)
Used tax credits on investments in property and equipment	-	(50.518)
Income tax in the Tax returns	-	-

The Bank, using its right on allowances from Article 49 of the Income Tax Law, is exempted from paying income tax for the business year 2006.

The prescribed tax rate for the year 2006 was 10, 00%, whilst the effective tax rate was 0%.

12. CASH AND CASH EQUIVALENTS

<i>(in thousands of RSD)</i>	2006	2005
In dinars		
Gyro account	4.268.358	4.022.611
Cash in hand	1.146.402	887.797
	5.414.760	4.910.408
In foreign currency		
Foreign currency accounts with banks abroad	1.877.756	7.803.803
Cash in hand	377.140	419.874
Cheques	61.387	53.359
	2.316.283	8.277.036
Balance at December 31	7.731.043	13.187.444

The obligatory reserve is the minimal reserve in dinars which the Decision of the National Bank of Serbia anticipates (Official Gazette of the Republic of Serbia No. 96/2006), prescribing for banks to calculate the obligatory reserve in dinars at a rate of 15% (2005: 18%) of the average daily balance of prescribed deposits in RSD during one month. Apart from this, banks are obliged to include in the required reserve in RSD, amounting to 40% of the average daily balance of deposits in RSD in the previous month that are indexed with foreign currency clause, as well as of the average daily balance of liabilities in RSD in the previous month in respect of deposits and credits received from foreign countries with the repayment period longer than two years ; 60% of the average daily balance of liabilities in RSD in the previous month in respect of deposits and credits received from foreign countries with the repayment period up to two years. (Official Gazette of the Republic of Serbia No. 49 dated June 8, 2006)

The calculated obligatory reserve in dinars for obliged to maintain the average daily balance of the allocated obligatory reserve in RSD on its gyro account. As of December 31, 2006 the Bank had balance on its assets above the amount of the calculated required reserve in RSD on its gyro account.

13. DEPOSITS WITH CENTRAL BANK

<i>(in thousands of RSD)</i>	2006	2005
Obligatory foreign currency reserve	24.033.794	13.554.961
Deposited surpluses in liquid assets	-	810.000
NBS Securities	2.338.574	-
Placements with NBS on the basis of REPO operations	24.450.000	3.201.253
Balance as of December 31	50.822.368	14.364.961

The obligatory reserves in foreign currency represent the minimal reserve in foreign currency allocated in line with the National Bank of Serbia's Decision on Banks' Required Reserves Held with the National Bank of Serbia (Official Gazette of the Republic of Serbia No 96/2006) which prescribes that banks are required to allocate the obligatory reserves to their account amounting to 40% (2005: 38%) of the average daily balance of foreign currency deposits during one month. Exceptionally, Banks calculate the foreign currency obligatory reserve at a rate of 100% of the average daily carrying balance of foreign currency assets in the previous calendar month that lease issuers keep on a separate account at the bank; at a rate of 20% to the amount of the average daily carrying balance of foreign currency subordinated commitments during the previous month; at a rate of 60% to the amount of the average daily carrying balance of commitments during the previous month on the basis of foreign currency deposits and loans received from abroad with a repayment period of up to two years.

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

In accordance with the New Chart of Accounts for Banks and Other Financial Organisations, other short-term deposits and securities which can be refinanced at NBS are recognised within the scope of the Deposits with Central Bank, whilst previously they were recognised within the scope of the Placements to Banks position.

The interest rate calculation to the surplus of liquid assets which the Bank had deposited with the National Bank of Serbia has been determined at an interest rate equal to the reference interest rate, less 3%, making it 11%.

The interest rate of the realised average balance of the allocated obligatory reserve, not exceeding the calculated obligatory reserve amount, is 2.5%. Interest is not paid for the amount of the realised average balance of the allocated foreign reserve.

REPO transactions are recognised as transactions of financing or borrowing. They represent purchase and sale of securities in which the contractual parties made an agreement, for the seller to sell them to the buyer at cost value with an obligation on the part of the buyer to sell them to the seller on the contracted date of repurchase at the contracted repurchase price.

14. INTEREST AND FEE RECEIVABLES

<i>(in thousands of RSD)</i>	2006	2005
In dinars		
Banks	25.515	30.786
Customers	468.377	257.713
	493.892	288.499
In foreign currencies		
Banks	6	683
Customers	37.777	22.113
	37.783	22.796
Total interest and fees	531.675	311.295
Impairment	(90.585)	(50.751)
Balance as of December 31	441.090	260.544

15. LOANS AND ADVANCES TO BANKS

<i>(in thousands of RSD)</i>	2006	2005
In dinars		
Short-term	1.923.813	222.551
Long-term	-	-
In foreign currency		
Short-term	1.437.646	327.090
Long-term	-	25.650
Temporary accounts	(31.718)	(46.065)
Total loans and advances to banks	3.329.741	529.226
Impairment	(60.169)	-
Balance at December 31	3.269.572	529.226

16. LOANS AND ADVANCES TO CUSTOMERS

<i>(in thousands of RSD)</i>	2006	2005
In dinars		
Short-term	29.401.169	22.191.312
Long-term	26.319.788	16.793.468
	55.720.957	38.984.780
In foreign currency		
Short-term	3.724.452	5.271.383
Long-term	948.048	498.873
	4.672.500	5.770.256
Total loans and advances to customers	60.393.457	44.755.036
Impairment	(4.958.620)	(3.112.618)
Balance as of December 31	55.434.837	41.642.418

Time deposits in foreign currencies mostly refer to deposited funds with several European banks, with maturity date of up to 30 days and an annual interest rate ranging from 1.96% - 5.85% depending on currency.

17. SECURITIES HELD FOR TRADING

<i>(in thousands of RSD)</i>	2006	2005
Securities held for trading		
<i>Republic of Serbia's bonds on the basis of foreign currency savings</i>		
Nominal value	277.669	1.022.350
Deviation from nominal value	(83.319)	(233.507)
	194.350	788.843
Banks' shares	17.632	61.057
Impairment of investments in shares of banks	(176)	-
	17.456	61.057
	211.806	849.900

Securities held for trading comprise foreign currency savings bonds of the Ministry of Finance of the Republic of Serbia and Poštanska štedionica shares.

18. SECURITIES HELD TO MATURITY

<i>(in thousands of dinars)</i>	<u>2006</u>	<u>2005</u>
Securities held to maturity		
<i>Republic of Serbia's bonds on the basis of foreign currency savings</i>		
Nominal value	212.580	574.093
Deviation from nominal value	(4.110)	(21.732)
	<u>208.470</u>	<u>552.361</u>

19. SECURITIES AVAILABLE FOR SALE

<i>(in thousands of dinars)</i>	<u>2006</u>	<u>2005</u>
Securities available for sale		
Treasury bills of domestic banks in dinars	-	1.035
Investments in shares	221.338	44.998
	<u>221.338</u>	<u>46.033</u>
Impairment	(60.638)	(1.035)
Balance as of December 31	<u>160.700</u>	<u>44.998</u>

On December 31, 2006, the Bank had investments in shares of the following legal entities:

<i>(in thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
IntesaL	155.994	28.235
MasterCard	3.432	10.079
Monetary Market	1.321	1.321
Veeda DOO, Vranje	29	29
AIK bank	-	-
MB bank	-	1.948
Poštanska štedionica	-	3.041
Poslovni inkubatori , Beočin	-	33
SWIFT	-	312
Investments in shares of other legal entities as of December 31:	<u>221.338</u>	<u>44.998</u>

Based on the Decision of Banca Intesa a.d. Beograd Assembly dated March 28, 2006, the Bank executed the sale of 49% of investments in shares to CIB Leasing Ltd Budapest, Hungary.

On December 28, 2006 Banca Intesa AD Beograd Assembly made a Decision on Investing Assets into Intesa Leasing equity proportionate to share in equity, i.e. 51% in the amount of RSD 200,175 thousand.

19. SECURITIES AVAILABLE FOR SALE (Continued)

Based on the Decision of ALCO Board from the year 2005, AIK Bank a.d. Nis shares were reclassified from the chart of securities available for sale to the chart of securities held for trading and sold on the Belgrade Stock Exchange in August 2006.

Based on Central Bank of Serbia's notification on the opening of bankruptcy proceedings at MB Bank AD Nis, Banca Intesa recognized impairment in the full amount of its investments in MB Bank AD Nis shares.

Poštanska štedionica shares, based on the ALCO Board Decision, were also reclassified from the chart of securities available for sale to the chart of securities held for trading, where they can be found today.

Poslovni inkubator Beočin was, as an inactive enterprise, erased from the Court Registry of Business Entities as the Bank recognized impairment in the full amount of its investment in these shares.

The Bank's Assembly made a Decision, No 7764, based on the offer given by SWIFT dated April 28, 2006, on the acquisition of 11 SWIFT shares at EUR 2,440 per share in the total amount of EUR 26,840 or RSD 2,322 thousand. Banca Intesa ad Beograd was after that acquisition in possession of a total of 13 SWIFT shares which Banca Intesa SPA Milano sold for EUR 31,720 based on the Decision of the Bank's Assembly dating June 9, 2006 and in respect to the Purchase and Sale Agreement dating July 17, 2006.

Compliant to the MasterCard Statute and membership in that organisation, in 2005 the Bank received 11,300 complimentary Class A MasterCard shares. After reclassifying the Class A shares into Class B shares, Banca Intesa then held 15,255 Class B MasterCard shares. MasterCard purchased 9,000 pieces of such reclassified Class B shares for USD 276,881,40, making the MasterCard Class B share balance in Banca Intesa AD Beograd portfolio as of December 31, 2006 – 6,255 in the total value of RSD 3,432 thousand.

20. INTANGIBLE ASSETS

<i>(in thousands of RSD)</i>	2006	2005
Investments into market and technology growth	327.545	169.850
Licenses and similar rights	240.557	200.994
Advance payments for intangible assets	6.827	-
Software	295.995	91.491
Total intangible assets	870.924	462.335
Accumulated depreciation of intangible assets	(165.611)	(37.104)
Balance at December 31	705.313	425.231

20. INTANGIBLE ASSETS (Continued)

Movements in intangible assets are represented in the table below:

<i>(in thousands of RSD)</i>	Investments into market growth	Licenses and similar rights	Advance payments for intangible assets	Software	Total
COST					
Balance at January 1, 2006	169.850	200.994	-	91.492	462.336
Increase during the year	157.695	39.563	408.588	204.503	810.350
Disposal and write-offs	-	-	(401.761)	-	(401.761)
Balance at December 31, 2006	327.545	240.557	6.827	295.995	870.925
ACCUMULATED AMORTISATION					
Balance at January 1, 2006	34.577	1.668	-	859	37.104
Amortisation	36.400	22.561	-	69.546	128.507
Balance at December 31, 2006	70.977	24.229	-	70.405	165.611
Net book value at December 31, 2006	256.568	216.328	6.827	225.590	705.313
Net book value at December 31, 2005	135.273	199.326	-	90.633	425.231

21. PROPERTY AND EQUIPMENT

<i>(in thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Buildings	3.256.569	3.770.600
Equipment and other fixed assets	2.453.514	1.819.815
Advance payments and fixed assets under construction	156.849	74.707
Equipment - financial leasing	54.516	-
Total property and equipment	5.921.448	5.665.122
Accumulated depreciation	(1.115.521)	(786.771)
Balance at December 31	4.805.928	4.878.351

Movements in property and equipment are represented in the table below:

<i>(in thousands of RSD)</i>	Buildings	Equipment and other fixed assets	Advance payments and fixed assets under construction	Leased Equipment	Total
COST					
Balance at January 1st 2006	3.770.600	1.819.815	74.707	-	5.665.122
Additions during the year	140.239	684.522	996.687	54.516	1.875.964
Transfers - activation	-	-	(879.277)	-	(879.277)
Disposal	(654.270)	(50.823)	(35.268)	-	(740.361)
Balance at December 31, 2006	3.256.569	2.453.514	156.849	54.516	5.921.448
ACCUMULATED DEPRICIATION					
Balance at January 1, 2006	113.770	673.001	-	-	786.771
Depreciation	42.912	333.290	-	4.556	380.758
Disposal	(12.184)	(39.824)	-	-	(52.008)
Balance at December 31, 2006	144.498	966.467	-	4.556	1.115.521
Net book value:					
- at December 31, 2006	3.112.072	1.487.047	156.849	49.960	4.805.928
- at December 31, 2005	3.656.831	1.146.814	74.707	-	4.878.352

22. OTHER ASSETS AND ACCRUALS

(in thousands of RSD)

	2006	2005
Other assets		
Receivables in respect of sale	6.154	17.098
Receivables from employees	6.158	6.480
Receivables for overpaid taxes	172	405
Advances paid	447	3.586
Other assets	603.667	1.679.083
Total other assets	616.598	1.706.652
Accruals		
Interest receivables in dinars	119.431	44.362
Interest receivables in foreign currencies	8.112	10.591
Receivables for other calculated income	55.404	68.010
Interest expenses in dinars	6.127	-
Other expenses in dinars	61.526	28.607
Total accrued income	250.600	151.570
Total other assets and accrued income	867.198	1.858.222
Impairment	(9.088)	(85.907)
Balance at December 31	858.110	1.772.315

23. AMOUNTS DUE TO BANKS

(in thousands of RSD)

	2006	2005
In dinars		
Demand deposits	107.404	161.673
Short-term deposits	1.594.445	172.813
Short-term loans	950.000	1.066.122
Long-term loans	372	-
Total in dinars	2.652.221	1.400.608
In foreign currency		
Demand deposits	69.722	233.030
Short-term deposits	1.400.661	364.967
Short-term loans	-	11.729
Long-term deposits	5.925	4.275
Total in foreign currency	1.476.308	614.001
Balance at December 31	4.128.529	2.014.609

24. AMOUNTS DUE TO CUSTOMERS

(in thousands of RSD)

	2006	2005
In dinars		
Demand deposits	22.592.342	17.167.494
Short-term deposits	10.887.658	6.875.675
Long-term deposits	568.041	124.458
Total in dinars	34.048.041	24.167.627
In foreign currency		
Demand deposits	22.063.196	19.944.890
Short-term deposits	25.893.422	18.656.215
Long-term deposits	7.922.639	3.876.205
Short-term loans	138.250	-
Long-term loans	10.823.503	889.331
Total in foreign currency	66.841.010	43.366.641
Balance at December 31	100.889.051	67.534.268

25. OTHER OPERATING LIABILITIES

<i>(in thousands of RSD)</i>	2006	2005
Liabilities to suppliers	455.045	181.371
Other liabilities	184.010	310.685
Advances received	114.834	49.051
Liabilities for gross salaries	92.180	56
Liabilities for taxes, contributions, and other duties	50.689	48.841
Balance at December 31	896.758	590.004

26. PROVISIONS

<i>(in thousands of RSD)</i>	2006	2005
Provisions		
- for potential losses in respect of off-balance sheet assets	935.676	505.884
- for retirement benefits	105.588	-
- for legal proceedings	16.282	-
- for restructuring costs	4.893	-
Balance at December 31	1.062.439	505.884

The Bank made provisions for retirement benefits, legal proceedings and restructuring costs for the first time.

27. OTHER LIABILITIES AND DEFERRED EXPENSES

<i>(in thousands of RSD)</i>	2006	2005
Other liabilities		
In dinars	44.698	-
In foreign currency	4.740.000	-
Total other liabilities	4.784.698	-
Deferrals		
Deferred liabilities for accrued interest and fees in dinars	874.615	343.972
Deferred liabilities for accrued interest and fees in foreign currency	355.244	146.060
Total deferrals	1.229.859	490.032
Balance at December 31	6.014.557	490.032

28. SHAREHOLDERS' EQUITY

The Bank is managed by shareholders proportionate to the capital invested into the Bank.

During the year 2006, on June 8, 2006 there was a change in shareholders i.e. a third shareholder in Banca Intesa AS Beograd equity was entered.

Intesa Holding International SA sold 3,626 of its shares or 7% to the International Finance Corporation in 2006 therein making it the third shareholder:

<i>(in thousands of RSD)</i>	<u>2006</u>	<u>2005</u>
Intesa Holding International SA	4.299.600	4.662.200
Hemslade LTD	517.900	517.900
International Finance Corporation	362.600	-
Balance at December 31	<u>5.180.100</u>	<u>5.180.100</u>

As of December 31, 2006 Bank reserves comprise statutory reserves in the amount of RSD 4,596,908 thousand, specific reserves for estimated losses in the amount of RSD 2,669,169 thousand, revaluation reserves in the amount of RSD 559,217 thousand and shortfalls in specific reserves in the amount of RSD 2,098,736 thousand.

During 2006, statutory reserves increased in the amount of RSD 1,847,492 thousand in respect of the allocation of the retained earnings in the year 2005.

Specific reserves for estimated losses in respect of credit risk contained in the Bank's loan portfolio are calculated in accordance with the regulations of the National Bank of Serbia.

The Bank allocates the missing portion of the specific reserves from the retained earnings in the amount equivalent to the calculated amount of the reserve, less the impairment for balance sheet assets and allocated provisions for losses in respect of off-balance sheet items.

On October 5, 2006, the Register for Business Entities made a Decision BD. 159633/2006 on registering Banca Intesa ad Beograd as closed joint-stock company. Therefore, it not obliged to calculate or disclose share profit in line with IAS 33.

29. OFF-BALANCE SHEET ITEMS

<i>(in thousands of RSD)</i>	2006	2005
Transactions for and on behalf of third parties	56.832	82.062
Guarantees, securities, mortgage property and irrevocable commitments	29.758.420	23.220.803
Other off-balance sheet items	30.352.385	10.044.154
Balance at December 31	60.167.637	33.347.019

Guarantees and other commitments and contingencies

<i>(in thousands of RSD)</i>	2006	2005
Payable guarantees in dinars	2.469.490	2.153.642
Payable guarantees in foreign currency	3.534.813	5.818.482
Performance guarantees in dinars	6.808.864	4.482.556
Performance guarantees in foreign currency	516.050	879.976
Uncovered letters of credit in foreign currency	1.708.551	1.138.241
Avals and acceptances	349.220	451.298
Assumed irrevocable liabilities for loans and placements	14.371.432	8.296.608
Balance at December 31	29.758.420	23.220.803

30. CREDIT RISK

Credit risk is the risk that a credit beneficiary will not be able to discharge their contractual obligations to the Bank, whether completely or partially.

The Bank manages and controls credit risk both at customer level and level of its individual counterparties as well as at the level of its entire loan portfolio. For the purpose optimal exposure to credit risk policy, the Bank appraises the credit worthiness of each client both at the moment of application for the approval of a certain loan as well as through a subsequent regular and continuous performance analysis. The loan approval is conducted within the scope of the Risk Management Sector which as an independent organisational unit of the Bank in relation to its credit board, analyses and marks the customers' credit worthiness. Principles prescribed by law, by the National Bank of Serbia, are implemented in these analyses as well as internal Bank procedures, all for the purpose of anticipating potential risks that can arise in terms of a client's inability to discharge its commitments when they fall due. In that sense an assessment of the required reserve level for potential losses both at the moment of approval of a certain loan as well as through a continuous, monthly portfolio analysis, is carried out. The analysis entails measuring the adequacy of reserves according to client types, their geographical layout, shareholders' equity and managerial relationships, by business segment and type of placements.

Making decisions on exposure to credit risk is according to Bank policy centralised and concentrated in the credit board body for retail and business. The credit boards' decision is made upon consideration of proposals given on the part of the Risk Management Sector. The terms for approval of each loan to businesses is determined individually depending on client type, loan's purpose, estimated credit worthiness and current market situation. Terms of security that accompany each loan are also determined according to a client credit worthiness analysis, type of credit risk exposure, term of the placement as well as the placement amount. As standard security instruments, from customers are taken a contractual authorisation and promissory notes, while as additional instruments, depending on assessments, real-estate mortgages, pledges on movable assets, partial or complete coverage of placement with deposit, guarantee issue from other banks or second business entity, adequate securities or codebtors of a corporate nature which thereby become solidary debtors. In case of mortgages on real-estate or collateral on moveable assets the Bank always provides a property appraisal by an authorised appraiser all in the aim of reducing the potential risk to as minimum as possible. Decisions concerning loans to retail and small customers (entrepreneurs) are largely based on an assessment of standardised, predefined terms, by using the scoring model with a supplementary credit analysis.

31. LIQUIDITY RISK

Bank liquidity, as its ability to meet liabilities when they fall due, depends primarily on balance sheet structure and timely arrangement of asset inflows and outflows. The Bank manages its liquidity risk at a centralized level

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

31. LIQUIDITY RISK (continued)

<i>(in thousands of RSD)</i>	up to 1 month	1-3 months	3-6 months	6-12 months	over 1 year	Total
December 31st 2006						
ASSETS						
Cash and cash equivalents	7,731,043					7,731,043
Deposits with the Central Bank and securities available for refinancing with Central Bank	49,456,826	1,365,542				50,822,368
Interest and fees receivables	441,090					441,090
Loans to and placements with banks	3,235,691		18,021	12,700	3,160	3,269,572
Loans and advances to customers	5,912,062	6,041,858	6,090,594	11,335,956	26,054,367	55,434,837
Securities and other placements held for trading	-	17,456	10,246		184,104	211,806
Investments into securities held to maturity	-		208,470			208,470
Investments into shares and other securities available for sale	-				160,700	160,700
Fixed assets held for sale and assets of operations that are being discontinued	9,659					9,659
Overpaid tax receivables			86,191			86,191
Goodwill						
Intangible assets	-				705,313	705,313
Investment property						
Fixed assets					4,805,927	4,805,927
Fixed assets and accruals	617,834	107,094	28,503	18,406	86,273	858,110
Deferred tax assets	-				475,283	475,283
TOTAL ASSETS	67,404,205	7,531,950	6,442,025	11,367,062	32,475,127	125,220,369
SHAREHOLDERS' EQUITY AND LIABILITIES						
LIABILITIES						
Amounts due to banks	3,830,041	142,800	139,991	9,400	6,297	4,128,529
Amounts due to clients	68,965,226	9,527,502	6,051,960	2,917,015	13,427,348	100,889,051
Interest and fees payable	2,313					2,313
Liabilities from issued securities	165					165
Liabilities from net income	-					-
Current income tax liabilities						
Other operating liabilities	896,758					896,758
Provision	4,893				1,057,546	1,062,439
Other liabilities and deferred expenses	271,203	527,140	103,453	110,961	5,001,800	6,014,557
	-					-
Deferred tax liabilities					31,739	31,739
TOTAL LIABILITIES	73,970,599	10,197,442	6,295,404	3,037,376	19,524,730	113,025,551
EQUITY						
Shareholders' and other equity					5,180,100	
Reserves					5,726,558	
Accrued profits					1,288,160	
TOTAL EQUITY	-	-	-	-	12,194,818	12,194,818
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	73,970,599	10,197,442	6,295,404	3,037,376	31,719,548	125,220,369
Liquidity gap	(6,566,394)	(2,665,492)	146,621	8,329,686	755,579	0

32. INTEREST RATE RISK

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

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

The table on the following page summarises the Bank's exposure to interest rate risk as of December 31, 2006:

32. INTEREST RATE RISK (continued)

<i>(in thousands of RSD)</i>	UP to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Non-interest bearing assets /liabilities	Total
December 31, 2006							
ASSETS							
Cash and cash equivalents	5,930,208					1,800,834	7,731,043
Deposits with the Central Bank and securities available for refinancing with the central Bank	24,622,293		2,500,000			23,700,075	50,822,368
Interest and fee receivable						441,090	441,090
Loans to and placements with banks	3,305,594					(36,022)	3,269,572
Loans and advances to customers	27,470,644	6,576,628	5,715,313	6,279,444	13,085,451	(3,692,643)	55,434,837
Securities and other placements held for trading	211,806	-	-	-	-	-	211,806
Investments into securities held to maturity						208,470	208,470
Investments into shares and other securities available for sale						160,700	160,700
Fixed assets held for sale and assets of operations that are being discontinued						9,659	9,659
Overpaid tax receivables						86,191	86,191
Goodwill							-
Intangible assets						705,313	705,313
Investment property							-
Fixed assets						4,805,927	4,805,927
Fixed assets and accruals	12,232					845,878	858,110
Deferred tax assets						475,283	475,283
TOTAL ASSETS	61,552,778	6,576,628	8,215,313	6,279,444	13,085,451	29,510,755	125,220,369
SHAREHOLDERS' EQUITY AND LIABILITIES							
LIABILITIES							
Amounts due to banks	3,830,041	142,800	139,991	9,400	6,297		4,128,529
Amounts due to customers	68,965,226	20,192,502	6,051,960	2,917,015	2,762,348		100,889,051
Interest and fee payable						2,313	2,313
Securities liabilities						165	165
Liabilities from profit						-	-
Liabilities for current income tax							-
Other operating liabilities						896,758	896,758
Provisions						1,062,439	1,062,439
Other liabilities and deferrals						6,014,557	6,014,557
Deferred tax liabilities						31,739	31,739
TOTAL LIABILITIES	72,795,267	20,335,302	6,191,951	2,926,415	2,768,645	8,007,971	113,025,551
EQUITY							
Shareholders' and other equity						5,180,100	
Reserves						5,726,558	
Accrued profits						1,288,160	
TOTAL EQUITY						12,194,818	12,194,818
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	72,795,267	20,335,302	6,191,951	2,926,415	2,768,645	20,202,789	125,220,369
Net exposure to interest rate risk	(11,242,489)	(13,758,674)	2,023,362	3,353,029	10,316,806	9,307,966	0

33. FOREIGN CURRENCY RISK

Currency risk is the risk that the value of financial assets and financial liabilities will fluctuate due to changes in foreign currency exchange rates. According to legal regulations, the Bank is obliged to maintain the relations between foreign currency accruals and deferrals so that the indicator of its foreign currency risk is not greater than 30% when compared to the Bank's equity – Daily Risk Indicator.

The Bank conducts a daily monitoring of the foreign currency risk and runs a policy of low exposure to foreign currency risk, daily reconciliation of open positions for all currencies, save EUR. Over the year, the Bank has been strict about the reconciliation of the daily risk indicator, keeping it mainly at a level significantly below that prescribed.

33. FOREIGN CURRENCY RISK (continued)

FOREIGN CURRENCY RISK (in thousands of RSD)	In foreign currency				In RSD	Total	
	EUR	USD	Other currencies	Total	Total	indexed in foreign currency	
December 31, 2006							
ASSETS							
Cash and cash equivalents	634,731	536,494	1,145,057	2,316,282	5,414,759		7,731,042
Deposits with the Central Bank and securities available for refinancing with Central Bank	21,470,921	2,562,873		24,033,794	26,788,574		50,822,368
Interest and fee receivables	33,703	2,748	76	36,526	404,564		441,090
Loans to and placements with banks	1,437,646			1,437,646	1,831,926		3,269,572
Loans and advances to customers	4,494,189	147,795	10,683	4,652,667	50,782,169	41,308,942	55,434,837
Securities held for trading	194,350			194,350	17,456		211,806
Investments into securities held to maturity	208,470			208,470			208,470
Equity shares and other securities available for sale		3,432		3,432	157,268		160,700
Fixed assets held for sale and assets of operations that are being discontinued					9,659		9,659
Overpaid tax receivables					86,191		86,191
Goodwill				-			-
Intangible assets				-	705,313		705,313
Investment property							
Fixed assets				-	4,805,926		4,815,585
other assets and accrued expenses	71,657	186	420	72,263	785,848		858,113
Deferred tax assets					475,283		475,283
TOTAL ASSETS	28,545,666	3,253,529	1,156,239	32,955,434	92,264,936	41,308,942	125,220,370
SHAREHOLDERS' EQUITY AND LIABILITIES							
LIABILITIES							
Amounts due to banks	1,468,992	6,630	686	1,476,308	2,652,221		4,128,529
Amounts due to clients	61,835,306	3,227,499	1,133,869	66,196,674	34,692,378	644,337	100,889,051
Interest and fees payable					2,313		2,313
Liabilities from issued securities					165		165
Liabilities from net income				0			0
Current income tax liabilities				0			0
Other operating liabilities	200,472	22	2,652	203,146	693,612		896,758
Provisions				0	1,062,439		1,062,439
Other liabilities and deferred expenses	5,081,064	10,896	3,283	5,095,243	919,315		6,014,557
Deferred tax liabilities				-	31,739		31,739
TOTAL LIABILITIES	68,585,833	3,245,047	1,140,491	72,971,370	40,054,181	644,337	113,025,552
SHAREHOLDERS' EQUITY							
Shareholders' and other equity					5,180,100		
Reserves					5,726,558		
Accumulated profit					1,288,160		
TOTAL SHAREHOLDERS' EQUITY					12,194,818		12,194,818
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	68,585,833	3,245,047	1,140,491	72,971,370	52,248,999	644,337	125,220,369
Net exposure to foreign currency risk	(40,040,167)	8,482	15,748	(40,015,937)	40,015,937	40,664,605	0

34. POST BALANCE SHEET EVENTS

On January 19, 2007, Hemslade Trading Ltd. sold a package of its shares in Intesa Holding International thereby withdrawing from equity of Banca Intesa ad Beograd.

On February 20, 2007, the recapitalisation of the Bank was carried out in the amount of RSD 7,956,000 thousand. The recapitalisation was carried out by the present shareholders in a way that the shareholders' percentage in shares remained the same. There were no other events after the balance sheet date that would require adjustments or disclosures in the financial statements.

35. FOREIGN EXCHANGE RATES

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

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

