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

INDEPENDENT AUDITOR'S REPORT

TO THE SUPERVISORY BOARD AND SHAREHOLDERS OF BANCA INTESA A.D. BEOGRAD

We have audited the accompanying balance sheet of Banca Intesa a.d. Beograd (hereinafter referred to as "the Bank") as of December 31, 2005 and the related statements of income, cash flows and changes in equity for the year than ended. The financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2005 and the results of its operations and cash flows for the year than ended in accordance with the Law on Accounting and Auditing, Law on banks and other financial institutions and respective decisions of the National Bank of Serbia, which regulate banks' operations and financial reporting.

Belgrade, March 28, 2006



Mirjana Kovačević
Authorised Auditor



INCOME STATEMENT

<i>In thousands of CSD</i>	Note	2005	2004
Interest income	4	4,671,754	3,533,544
Interest expenses	4	(1,430,054)	(850,278)
Net interest income		3,241,700	2,683,266
Fee and commission income	5	2,790,601	1,995,588
Fee and commission expenses	5	(310,379)	(200,942)
Net fee and commission income		2,480,222	1,794,646
Net interest fee and commission income		5,721,922	4,477,912
Net gains on the sale of securities		134,473	34,679
Net foreign exchange gains/(losses)	6	179,959	(218,934)
Dividends and other income from equity investments		16,096	51,853
Other operating income	7	2,279,428	4,575,980
Losses on impairment and provisions	8	(4,467,665)	(5,283,954)
Other operating expenses	9	(4,163,016)	(3,812,284)
Gains on the valuation of financial assets and liabilities, net	10	1,961,345	1,875,396
		(4,059,380)	(2,777,264)
PROFIT BEFORE TAXATION		1,662,542	1,700,648
Income tax	11	37,473	-
NET PROFIT		1,700,015	1,700,648

BALANCE SHEET

<i>In thousands of CSD</i>	Note	December 31, 2005	December 31, 2004
ASSETS			
Cash and cash equivalents	12	13,187,444	11,953,081
Deposits with the Central Bank and securities refinanceable with the Central Bank	13	14,364,961	3,452,919
Interest and fees receivable	14	260,544	189,375
Loans to and placements with banks	15	3,730,479	6,759,664
Loans and advances to customers	16	41,642,418	25,567,684
Securities held for trading	17	849,900	555,534
Securities held-to-maturity	18	552,361	483,064
Equity shares and other investment securities available-for-sale	19	44,998	34,854
Intangible assets	20	425,231	
Property and equipment	21	4,878,351	4,538,534
Other assets and accruals	22	1,851,111	1,080,540
Deferred tax assets	23	344,675	-
Total assets		82,132,473	54,615,249
SHAREHOLDERS' EQUITY AND LIABILITIES			
Amounts due to banks	24	2,014,609	996,730
Amounts due to customers	25	67,534,268	43,727,166
Interest and fee payable		1,149	1,920
Debt securities issued		1,142	624
Other operating liabilities	26	590,004	473,420
Provision for commitments	27	505,884	260,277
Other liabilities and accruals	28	490,032	166,944
Deferred tax liabilities	23	88,588	-
Total liabilities		71,225,676	45,627,081
Shareholders' equity			
Share capital	29	5,180,100	5,180,100
Reserves		3,879,206	2,107,420
Retained earnings		1,847,491	1,700,648
Total shareholders' equity		10,906,797	8,988,168
Total shareholders' equity and liabilities		82,132,473	54,615,249
Off-balance sheet items	30	33,347,019	16,361,696

Approved by the Bank's Assembly
Belgrade, March 28, 2006

Signed on behalf of
Banca Intesa a.d. Beograd

Draginja Đurić
General Manager

CASH FLOW STATEMENT

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities		
Interest receipts	4,252,234	3,274,948
Fee and commission receipts	2,937,316	2,066,449
Receipts from other operating income	2,299,699	1,705,486
Receipts from dividends and equity instruments	1,165	1,087
	<u>9,490,414</u>	<u>7,047,970</u>
Cash outflow from operating activities		
Interest payments	(848,775)	(566,818)
Fee and commission payments	(379,579)	(259,552)
Payment of gross salaries, benefits and other personal expenses	(1,928,888)	(1,370,898)
Taxes, contributions and other duties paid	(131,409)	(614,151)
Outflow for other operating expenses	(2,025,644)	(1,720,939)
	<u>(5,314,295)</u>	<u>(4,532,358)</u>
<i>Net cash inflow from operating activities before increase or decrease in placements and deposits</i>	4,176,119	2,515,612
Decrease in placements and increase in deposits		
Decrease in loans and placements to banks and other financial organisations	-	3,527,916
Increase in deposits from banks and other financial organisations	162,898	-
Increase in deposits from customers	19,864,210	7,536,872
	<u>20,027,108</u>	<u>11,064,788</u>
Increase in placements and decrease in deposits		
Increase in loans and placements to banks and other financial organisations	(7,006,484)	-
Increase in loans and advances to customers	(16,999,831)	(7,142,769)
Increase in securities and other trading investments, and short-term securities held-to-maturity	(35,668)	(45,604)
Decrease in deposits from banks and other financial organisations	-	(2,738,796)
	<u>(24,041,983)</u>	<u>(9,927,169)</u>
<i>Net cash from operating activities before income tax</i>	161,244	3,653,231
Income tax paid	(78,796)	(5,228)
<i>Net cash from operating activities</i>	82,448	3,648,003

CASH FLOW STATEMENT (Continued)

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities		
Proceeds from sale of equity securities	81	267,550
Proceeds from sale of property and equipment	38,111	15,171
	<u>38,192</u>	<u>282,721</u>
Cash outflows from investing activities		
Purchase of property and equipment	(1,106,524)	(1,484,570)
	<u>(1,106,524)</u>	<u>(1,484,570)</u>
Net cash used in investing activities	<u>(1,068,332)</u>	<u>(1,201,849)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities		
Receipts from long-term borrowings	895,056	-
Receipts from short-term borrowings	832,007	84,151
Receipts from securities	476	-
	<u>1,727,539</u>	<u>84,151</u>
Cash outflows from financing activities		
Reimbursements of long-term borrowings	(2,434)	(2,116)
Purchase of securities	-	(1,013)
	<u>(2,434)</u>	<u>(3,129)</u>
Net cash from financing activities	<u>1,725,105</u>	<u>81,022</u>
Total cash inflows	31,283,253	18,479,630
Total cash outflows	<u>(30,544,032)</u>	<u>(15,952,454)</u>
NET INCREASE IN CASH	739,221	2,527,176
CASH AT THE BEGINNING OF THE YEAR	11,953,081	8,941,755
Net exchange gains on cash and cash equivalents	495,142	484,150
CASH AT THE END OF THE YEAR (Note 12)	<u>13,187,444</u>	<u>11,953,081</u>

STATEMENT OF CHANGES IN EQUITY

In thousands of CSD

	Share capital	Revaluation reserves	Reserves for category "A"	Other reserves	Retained earnings	Total Equity
Balance as of						
1 January 2004	3,553,069	-	227,226	1,111,599	1,747,265	6,639,159
Allocation of retained earnings	1,627,158	-	-	-	(1,627,158)	-
Rounding-up of the value of shares	(127)	-	-	127	-	-
Transfer of provision for category "A" for:						
- balance sheet items	-	-	120,107	-	(120,107)	-
- off-balance sheet items	-	-	89,005	-	-	89,005
Positive effect of buildings appraisal	-	559,356	-	-	-	-
Profit for the year	-	-	-	-	1,700,648	1,700,648
Balance as of						
31 December 2004	5,180,100	559,356	436,338	1,111,726	1,700,648	8,988,168
Allocation of retained earnings	-	-	62,957	1,637,691	(1,700,648)	-
Deferred tax assets relating to prior years (Note 23)	-	-	-	-	280,965	280,965
Deferred tax liabilities relating to prior years (Note 23)	-	-	-	-	(62,351)	(62,351)
Provision for category "A" in 2005	-	-	71,138	-	(71,138)	-
Profit for the year	-	-	-	-	1,700,015	1,700,015
Balance as of						
31 December 2005	5,180,100	559,356	570,433	2,749,417	1,847,491	10,906,797

NOTES TO THE FINANCIAL STATEMENTS

1. FOUNDATION AND OPERATING POLICY OF THE BANK

In accordance with the Law on Banks and Other Financial Institutions, on September 19, 1991, the National Bank of Yugoslavia issued an operating licence to the entity, M.B. Delta banka d.d., Beograd. On October 16, 1991, the Bank was duly registered with the Commercial Court of Belgrade and subsequently commenced its operations. On July 10, 1995 the Bank's Assembly adopted the Founding Statute of Delta banka, a shareholding entity, thereby approving its Articles of Incorporation as set forth under the provisions of the Law on Banks and Other Financial Institutions. Based on its founding statutes, Delta banka a.d., Beograd was formed as a legal entity operating in accordance with the expressed rights and obligations granted to it pursuant to the applicable banking legislation and the Bank's founding acts.

The Bank is registered in the Republic of Serbia to provide a wide range of banking services related to payment transfers, credit and deposit activities in the country and abroad, and in accordance with the Republic of Serbia Law on Banks and Other Financial Institutions, is to operate based on principles of liquidity, security of placements and profitability.

The Bank's major activities are: payment transactions in the Country and abroad, credit and deposit activities and foreign exchange operations. Other activities include issuing of guarantees, letters of credit and other banking activities.

Pursuant to the Sale Purchase Agreement dated February 14, 2005 and the amendments of the Agreement dated March 18, 2005 signed between the Bank and its shareholders Hemslade Trading Limited, Cyprus, Delta M d.o.o. Beograd and Delta Maxi d.o.o. Beograd (Sellers) and Intesa Holding International S.A., Luxemburg (Buyer), the acquisition of 90% plus one share of the voting share capital of the Bank was agreed. On August 9, 2005 Intesa Holding-u International S.A., Luxemburg completed the acquisition of 90% plus one share of the voting share capital of the Bank by way of the Sellers' acceptance of the takeover bid, following the receipt of all required regulatory approvals and the satisfaction of all conditions in the relevant Share Purchase Agreement. Delta M d.o.o. Beograd and Delta Maxi d.o.o. Beograd sold all their shares and Hemslade Trading Limited, Cyprus sold the majority interest in the Bank; accordingly Intesa Holding International S.A., Luxemburg has become the major shareholder of the Bank. The change in the ownership structure was registered both with the Central Securities' Register on the date of transaction, i.e. August 9, 2005 and Corporate Registries' Agency on August 19, 2005.

Following the General Manager's decision dated November 7, 2005, the National Bank of Serbia approval and the decision of the Legal Entities Register no. BD 98737/2005 dated November 29, 2005 the Bank changed its name into Banca Intesa a.d. Beograd.

As of December 31, 2005 the shareholders of the Bank are Intesa Holding International A.S., Luxemburg owing 90% plus one voting shares and Hemslade Trading Limited, Cyprus owing 10% less one voting shares of the Bank, respectively.

The Bank operates through its Head Office located in Belgrade, 7b Milentija Popovića Street, as well as 36 branches, 143 sub-branches and 7 external teller locations throughout the Republic of Serbia. As of December 31, 2005, the Bank had 2,245 employees (December 31, 2004: 2,028 employees).

Based on the information from the registration form, the Bank's VAT registration number is 100001159.

NOTES TO THE FINANCIAL STATEMENTS

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND COMPARATIVE FIGURES

The Bank's financial statements as of and for the year ended December 31, 2005 have been prepared in accordance with the regulations of the Republic of Serbia based on the Accounting and Auditing Law (The Official Gazette of the FRY No. 71/2002), Law on Banks and other Financial Organisations and the decisions issued by the National Bank of Serbia that are based on the mentioned legislation.

The Accounting and Auditing Law, effective as of January 1, 2003, prescribes that banks and other legal entities should maintain, prepare and present their financial statements in accordance with the International Financial Reporting standards, which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC. The translation of the International Accounting Standards was published in the Official Gazette of the Republic of Serbia No. 133/2003 on December 31, 2003 and it included the following IASs: 1, 2, 7, 8, 10, 11, 12, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40 and 41. The translation of the changes and additions to the IASs, new IASs as well as replacement of some IASs with new ones carried out by the International Association of Accountants, have not been published until today, and consequently, they have not been applied when preparing the Banks financial statements for the year ended December 31, 2005.

The Bank's financial statements as of December 31, 2005 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 (The official Gazette of the RS No. 7/2004, 19/2004 and 16/2005).

For the preparation of the presented financial statements, the Bank applied accounting policies disclosed in the Note 3.

The Bank maintains its records and prepares the financial statements in dinars (CSD), which is the official reporting currency in the Republic of Serbia. The Bank's financial statements are stated in thousands of dinars.

Comparative Figures

The comparative figures for the year 2004 represent the audited financial statements of the Bank for the year ended December 31, 2004. In the Auditors' Report dated March 25, 2005 the predecessor auditor expressed an unqualified opinion on the Bank's financial statements as of and for the year ended December 31, 2004.

Certain reclassifications have been made to the 2004 balances to conform to the presentation format prescribed by the Rules on the Format and Contents of Positions in the Forms of Financial Statements for Banks and Other Financial Organisations.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. 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.

Interest is suspended for all loans and advances to corporate and retail customers that are more than 60 and 90 days overdue, respectively. In case of realistic prospect of recovery, interest is recognized in income statement.

3.2. Fee and commission income and expenses

Fee and commission income and expenses arising from providing i.e. using banking services, are recognised at the moment the service is provided, i.e. when earned or incurred.

Loan origination fees are deferred and amortised to interest earned on loans and advances over the life of the loan using the straight - line method, which approximates the effective yield (Note 28).

3.3. Foreign currency translation

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official average exchange rates of the National Bank of Serbia, prevailing at the balance sheet date (Note 36). Gains and losses resulting from foreign currency translations of balance sheet items denominated in foreign currencies are charged to income statement.

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

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

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Losses on impairment and provisions (indirect write-off of loans and specific provisions)

a) In accordance with the internal policy of the Bank, the allowance for indirect write off of loans and advances represent a provision against uncollected principal and accrued interest from corporate and retail customers, that are more than 60 and 90 days overdue, respectively. These provisions are charged to the income statement.

b) Specific provisions against potential losses on balance sheet and off-balance sheet assets are calculated in accordance with the National Bank of Serbia Decision on Criteria for Classification of On-Balance Sheet Assets and Off-Balance Sheet Items According to the Level of Collectibility and Level of Special Provision of Banks and Other Financial Organisations.

In accordance with the classification of receivables and in line with the afore-mentioned Decision, the estimated amount of the provision for potential losses was calculated by applying the following percentages: A – 2%, B – 5%, V – 25%, G – 50% and D – 100%.

The amount of the specific provision for loans and advances classified under categories B, V, G and D, is charged to expenses and are recorded as indirect write-off of balance sheet assets (provision for identified losses) and provision for losses of off-balance sheet assets.

c) The amount of the estimated provision for unidentified losses in respect of loans and off-balance sheet items classified under category A is provided from the undistributed profit and is recorded in the special account within the reserves, within reserves as an integral part of the capital. Pursuant to the notification received from the National Bank of Serbia with regards to recording of provisions charged to income, dated January 25, 2006, the Bank covered the required amount of the provision for unidentified losses as of December 31, 2005, from the retained earnings (*see* Statement of changes in equity).

d) The write off of uncollected receivables is performed pursuant to a court decision, or based on decisions made by the Shareholders' Assembly or the Bank's General Manager.

3.5. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash and cash equivalents, gyro account comprising obligatory reserves in dinars with the National Bank of Serbia and balances on the current accounts held other domestic and foreign banks.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. 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.

For the purpose of measuring loans at amortized cost as required by the International Financial Reporting Standards, the contracted interest rate has been used to discount estimated future cash flows or receipts through the expected life of the loan. This rate brings the present value of expected future cash flows down to the principal amount of loan outstanding at the balance sheet date.

The specific provision against potential losses is estimated and allocated in line with the methodology prescribed by the National Bank of Serbia, as disclosed in the Note 3.4. (b) and (c).

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.

Income arising from such revaluation is recorded in the income statement as gains on the valuation of financial assets and liabilities (Note 10).

3.7. Securities held for trading

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

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 fair value. Gains or losses on investments held for trading are recognised in the income statement.

Based on the Bank's decision dated December 27, 2005, shares of AIK banka a.d. Niš previously classified as investment securities available-for-sale has been reclassified into held-for-trading category, since its shares are continuously traded on the Belgrade Stock Exchange (which is not the case with the shares of other legal entities own by the Bank), and the Bank's intention is to sell them very soon due to constant increase in value of these shares.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. 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.

3.9. Equity shares and other investment 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".

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

Equity instruments that do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are inappropriate and unworkable, are therefore excluded from fair valuation and are measured at cost, less any provision for potential losses, estimated in line with the Decision of the National Bank of Serbia on Criteria for Classification of On-Balance Sheet Assets and Off-Balance Sheet Items According to the Level of Collectibility and Level of Special Provisions of Banks and Other Financial Organizations.

Investments in a subsidiary

As of December 31, 2005 the Bank owns 100% of the shares of the leasing company Intesa Leasing d.o.o., Beograd. Investment in the subsidiary is stated at cost (Note 19).

The accompanying financial statements as for and for the year ended December 31, 2005 represent the stand alone financial statements of the Bank. In accordance with the Law on Accounting and Auditing, the Bank also prepares the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.10. Property and equipment and intangible assets**

Property and equipment and intangible assets are stated at cost less accumulated depreciation/amortization. Buildings are carried at their appraised market value, as determined by the certified appraiser as of January 1, 2004 less accumulated depreciation. Buildings and equipment acquired during 2004 and 2005 are stated at cost less accumulated depreciation.

Intangible assets consist of licenses, software and leasehold improvements, i.e. restructuring costs for branches and other premises not owned by the Bank. These costs are capitalized over the period of the underlying lease 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 in 2005 are:

Building	1.3%
Computers	20.0%
Furniture and other equipment	7% - 25%
Licenses	10%
Software	20%
Other intangible assets	10% - 50%

Assets in course of construction are not depreciated. Depreciation on fixed assets and intangible investments is applied when the related assets are put into use.

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.

The annual depreciation rates that the Bank has applied for calculating the depreciation for the year 2005 for financial reporting purposes differ from the prescribed 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.

The carrying values of property, equipment and software are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the greater of net selling price and value in use.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Managed funds

The funds that the Bank manages on behalf of, and for the account of third parties, and charges fees for these services are disclosed within the off-balance sheet records (Note 30).

3.12. Employees' benefits

The Bank has neither pension funds nor share-based remuneration options, consequently there are no identified obligations as of December 31, 2005. The present value of liabilities to employees with respect to retirement benefits or other short-term employee benefits such as accumulated absences and anniversary awards is not material and therefore, no provision has been made for such purposes in the Bank's 2005 financial statements.

3.13. Income tax

Current income tax

Income tax represents the amount calculated and payable under tax regulations of the Republic of Serbia. During the year, the Bank pays monthly advances estimated based on the prior year Tax returns. Final tax on profit of 10% (2004: 12.33%), is determined by the Bank's Tax returns. Pursuant to the tax regulations, the tax basis includes the income from the income statement, adjusted for certain income and expenses, and reduced for investments in property and equipment and newly hired employees.

In accordance with the Law on corporate income tax of the Republic of Serbia, tax credits is recognized in the amount equal to 20% of the investment in property and equipment made, and can be used for setting off against future current tax liability in the amount that cannot exceed 50% of current tax liability. The tax credits in respect of investments in property and equipment can be used in the next ten years while the tax credit for salaries of new employees can be used only in current year.

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.

Deferred tax assets and liabilities have been calculated by applying the tax rate of 10%. Current and deferred taxes are recognised as income or expense and are included in the net profit for the period.

NOTES TO THE FINANCIAL STATEMENTS

4. INTEREST INCOME AND EXPENSES

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Interest income		
Local banks	131,924	138,332
Foreign banks	134,010	133,159
National Bank of Serbia	828,292	186,272
Corporate customers	2,285,905	2,175,223
Public sector	50,934	191,322
Other customers	133,584	105,545
Foreign citizens	23,024	9,621
Citizens	868,987	439,319
Securities	215,094	154,751
Total	<u>4,671,754</u>	<u>3,533,544</u>
Interest expenses		
Local banks	92,867	56,133
Foreign banks	34,142	166
National Bank of Serbia	474	741
Corporate customers	469,281	328,663
Public sector	338,938	218,563
Citizens	413,121	212,916
Other customers	80,908	30,587
Foreign citizens	323	2,509
Total	<u>1,430,054</u>	<u>850,278</u>
Net interest income	<u>3,241,700</u>	<u>2,683,266</u>

NOTES TO THE FINANCIAL STATEMENTS

5. FEE AND COMMISSION INCOME AND EXPENSES

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Fee and commission income		
Domestic payment transaction services	1,294,802	1,053,320
International payment transaction services	433,980	355,934
Retail transactions	361,098	212,361
Issued guarantees	307,281	245,015
Other fees and commissions	393,440	128,958
Total	<u>2,790,601</u>	<u>1,995,588</u>
Fee and commission expenses		
Domestic payment transaction services	104,659	87,330
International payment transaction services	51,777	21,861
Fee and commission of the National Bank of Serbia	129,785	89,355
Credit Bureau fee	15,577	-
Other fee and commission	8,581	2,396
Total	<u>310,379</u>	<u>200,942</u>
Net fee and commission income	<u>2,480,222</u>	<u>1,794,646</u>

6. NET FOREIGN EXCHANGE GAINS/ (LOSSES)

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Foreign exchange gains		
Translation of balance sheet items	11,749,025	9,311,293
Gains from foreign exchange transactions	1,081,499	694,800
Total	<u>12,830,524</u>	<u>10,006,093</u>
Foreign exchange losses		
Translation of balance sheet items	12,439,937	10,126,575
Losses from foreign exchange transactions	210,628	98,452
Total	<u>12,650,565</u>	<u>10,225,027</u>
Net foreign exchange gains/ (losses)	<u>179,959</u>	<u>(218,934)</u>

NOTES TO THE FINANCIAL STATEMENTS

7. OTHER OPERATING INCOME

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Reversal of specific provision against losses in respect of balance sheet items (Note 8b)	2,155,613	4,441,051
Recovery of receivables previously written off	12,441	-
Membership fees in respect of payment cards	63,349	19,893
Income from sale of investments in shares and Long-term securities	23,391	84,852
Rental income	4,343	690
Income from sale of fixed assets	3,048	220
Other income	17,243	29,274
Total	<u>2,279,428</u>	<u>4,575,980</u>

8. LOSSES ON IMPAIRMENT AND PROVISIONS

8a. Charged to income statement

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Indirect write-off of balance sheet items (Notes 3.4a and 8b)	2,280,727	4,528,021
Specific provision against losses in respect of on-balance sheet and off-balance sheet assets (Notes 3.4b, 3.4c and 8b)	2,186,938	755,933
Total	<u>4,467,665</u>	<u>5,283,954</u>

**8b. Movements on the account of allowance for indirect write-off and specific provisions for
balance and off-balance sheet items during 2005**

<i>In thousands of CSD</i>	Interest and fees	Placements with banks	Loans to customers	Securities available for sale	Other assets	Off-balance assets	Total
	<u>(Note 14)</u>	<u>(Note 15)</u>	<u>(Note 16)</u>	<u>(Note 19)</u>	<u>(Note 22)</u>	<u>(Note 27)</u>	
Balance at January 1, 2005	28,558	3,829	1,134,804	1,035	16,413	260,277	1,444,916
Indirect write-off charge (Note 8a)	79,898	-	2,192,870	-	7,959	-	2,280,727
Specific provision made during the year (Note 8a)	15,743	(3,829)	1,872,961	-	56,456	245,607	2,186,938
Reversal of indirect write off and specific provision (Note 7)	(73,401)	-	(2,078,475)	-	(3,737)	-	(2,155,613)
Foreign exchange (gains)/ losses	(46)	-	(9,541)	-	37	-	(9,550)
Balance at December 31, 2005	<u>50,752</u>	<u>-</u>	<u>3,112,619</u>	<u>1,035</u>	<u>77,128</u>	<u>505,884</u>	<u>3,747,418</u>

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER OPERATING EXPENSES

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Net salaries and benefits	1,163,641	806,832
Payroll taxes	231,290	162,845
Payroll social security contributions	256,951	193,123
Other personal expenses	5,741	3,188
Material and energy	222,493	190,203
General and administrative expenses	469,953	284,186
Production services	467,978	406,576
Depreciation charge of intangible investments (Note 20)	11,940	-
Depreciation charge of fixed assets (Note 21)	288,788	238,914
Representation and advertisements	280,766	235,916
Rental expenses	160,451	120,878
Maintenance costs	97,988	77,423
Sponsorships and donations' cost	82,650	66,777
Insurance premiums	71,965	25,372
Indirect taxes and contributions	314,625	808,049
Loss from sale of fixed assets	13,938	35,126
Loss from sale of investments in shares	-	41,210
Direct write-off of receivables	4,210	4,020
Shortages and damages and similar	1,786	101,751
Other expenses	15,862	9,895
Total	<u>4,163,016</u>	<u>3,812,284</u>

10. GAINS/ (LOSSES) ON THE VALUATION OF FINANCIAL ASSETS AND LIABILITIES

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Gains on the valuation of financial assets and liabilities		
Effects of revaluation of loans by consumer price index	882,956	365,470
Effects of revaluation of loans by foreign exchange clause	1,096,034	1,596,554
Changes in fair value of quoted shares held for trading (Note 17)	34,692	-
Total	<u>2,013,682</u>	<u>1,962,024</u>
Losses on the valuation of financial assets and liabilities		
Losses arising on changes in the value of liabilities	121	-
Effects of revaluation of deposits by consumer price index	21	-
Effects of revaluation of deposits by foreign exchange clause	52,195	6,366
Losses arising on changes in the value of property	-	80,262
Total	<u>52,337</u>	<u>86,628</u>
Gains on the valuation of financial assets and liabilities, net	<u>1,961,345</u>	<u>1,875,396</u>

NOTES TO THE FINANCIAL STATEMENTS

11. INCOME TAX

The components of the income tax are:

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Current tax	-	-
Deferred tax income	<u>37,473</u>	<u>-</u>
Total – income tax (Note 23)	<u>37,473</u>	<u>-</u>

The current income tax for the year ended December 31, 2005 has been calculated by applying the tax rate of 10% on the taxable income disclosed in the Tax returns. The Bank had no income tax liability for the year 2005, due to deduction for salaries of new employees hired during the year and used tax credits on investments in property and equipment.

In 2005, the Bank recognised the deferred tax assets on unused tax credits carryforwards with respect to investments in property and equipment made in the current year. The Bank has also recognized deferred tax liabilities on temporary differences between the tax basis of intangible assets and property and equipment and their carrying amounts reported in the financial statements as of December 31, 2005 due to different depreciation rates used for the calculation of amortization/depreciation charge for the tax purposes and the financial reporting purposes.

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Profit before taxation	1,662,542	1,700,648
Income tax calculated at the rate of 10% (2004: 12.33%)	166,254	209,690
Tax effects of expenses not recognised in the Tax return	185	8,679
Tax effects of expenses recognised in the Tax return	(9,620)	(6,393)
Deduction for newly hired employees	(106,301)	(189,450)
Used tax credits on investments in property and equipment	<u>(50,518)</u>	<u>(22,526)</u>
Income tax in the Tax returns	-	-
Deferred taxes' effects for the current period		
Unused tax credits on investment in property and equipment	63,710	-
Effects of different depreciation rates applied in the financial statements and for the tax purposes (Note 3.10)	<u>(26,237)</u>	<u>-</u>
Income tax reported in the income statement	<u>37,473</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

12. CASH AND CASH EQUIVALENTS

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
In dinars		
Giro account	165,414	234,484
Obligatory reserve in dinars on the giro account	3,857,197	3,671,209
Cash in hand	887,797	334,852
Cheques	-	663,669
	<u>4,910,408</u>	<u>4,904,214</u>
In foreign currency		
Foreign currency accounts with foreign banks	7,803,803	6,414,162
Cash in hand	419,874	595,413
Cheques	53,359	39,292
	<u>8,277,036</u>	<u>7,048,867</u>
Balance at December 31	<u>13,187,444</u>	<u>11,953,081</u>

Pursuant to the Decision of the National Bank of Serbia on Banks' Required Reserves Held with the National Bank of Serbia, the Bank is required to calculate and allocate the required reserves in dinars to its giro account with the National Bank of Serbia amounting to 18% of the average daily balance of dinars during one month. The interest rate earned on the average Bank's obligatory reserve in dinars for the year 2005 equalled to 2.975% per annum.

**13. DEPOSITS WITH THE CENTRAL BANK AND SECURITIES
REFINANCEABLE WITH THE CENTRAL BANK**

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
In dinars		
Deposited liquidity surpluses	810,000	-
	<u>810,000</u>	<u>-</u>
In foreign currency		
Obligatory reserve	13,554,961	3,452,919
	<u>13,554,961</u>	<u>3,452,919</u>
Balance at December 31	<u>14,364,961</u>	<u>3,452,919</u>

The obligatory reserves in foreign currency represents the minimal reserve in foreign currency allocated in line with the National Bank of Serbia's (NBS) Decision on Banks' Required Reserves Held with the NBS, which prescribes that banks are required to allocate the obligatory reserves to their account amounting to 38% of the average daily balance of foreign currency deposits during one month, as well as on the amount of average daily bookkeeping balance of deposits in dinars with foreign exchange clause. Pursuant to the Decision of the NBS from December 2005, the principal amount used for calculation of the obligatory reserve also includes the citizens' foreign exchange savings, which were previously held on a separate account with the NBS and recorded within Loans to and placements with banks (*see* Note 15).

NOTES TO THE FINANCIAL STATEMENTS

14. INTEREST AND FEES RECEIVABLE

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
In dinars		
- National Bank of Serbia	22,463	15,528
- other banks	8,323	10,417
- corporate customers	216,435	155,921
- citizens	26,837	7,512
- other customers	14,441	9,729
	<u>288,499</u>	<u>199,107</u>
In foreign currency		
- National Bank of Serbia	682	7,873
- corporate customers	21,063	6,976
- other customers	1,052	3,977
	<u>22,797</u>	<u>18,826</u>
<i>Less:</i>		
Allowance for indirect write-off	(24,795)	(18,344)
Specific provision	(25,957)	(10,214)
Total (Note 8b)	<u>(50,752)</u>	<u>(28,558)</u>
Balance at December 31	<u>260,544</u>	<u>189,375</u>

NOTES TO THE FINANCIAL STATEMENTS

15. LOANS TO AND PLACEMENTS WITH BANKS

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
In dinars		
Repo agreements for purchase of bonds from the National Bank of Serbia	3,201,253	-
Short-term loans to local banks	207,966	1,404,071
Other short-term placements with National Bank of Serbia	14,585	14,544
Suspense account	(46,065)	(9,848)
	<u>3,377,739</u>	<u>1,408,767</u>
In foreign currency		
Short-term placements with other banks	256,500	709,965
Citizens' foreign exchange savings deposited with the National Bank of Serbia	-	4,608,348
Deposit with Central Securities' Register	3,420	3,155
Other financial placements	92,820	33,258
	<u>352,740</u>	<u>5,354,726</u>
Loans and placements with banks, gross	3,730,479	6,763,493
<i>Less: Specific provision (Note 8b)</i>	-	(3,829)
Balance at December 31	<u>3,730,479</u>	<u>6,759,664</u>

Short-term loans in dinars are granted to domestic banks for the period of one month, at interest rates ranging from 8.5% to 14.5% per annum. Short-term placements in foreign currencies are granted to domestic banks for the period of one month at interest rates ranging from 4% to 7% per annum.

Pursuant to the Decision of the National Bank of Serbia (NBS) on Banks' Required Reserves, from December 2005, the citizens' foreign exchange savings that were deposited with the NBS in accordance with the Decision on the Measures of Maintaining Foreign Exchange Liquidity of the Banks to Assure Payment of Citizens' Foreign Exchange Savings Deposits, are included in the principal amount for calculation of obligatory foreign exchange reserves allocated on the account held with the NBS (*see* Note 13).

NOTES TO THE FINANCIAL STATEMENTS

16. LOANS AND ADVANCES TO CUSTOMERS

**a. Summary per type of loans and advances and per debtors
as of December 31, 2005 and 2004**

<i>In thousands of CSD</i>	Short-term loans and advances	Long-term loans and advances	<u>2005</u> Total	Short-term loans and advances	Long-term loans and advances	<u>2004</u> Total
In dinars						
Loans to:						
- corporate customers	10,869,388	11,847,095	22,716,483	11,319,985	2,685,168	14,005,153
- other customers	923,558	-	923,558	-	-	-
- citizens	1,114,819	9,942,771	11,057,590	1,133,213	3,292,915	4,426,128
Overdue receivables	1,385,267	-	1,385,267	1,202,671	-	1,202,671
Financial loans and advances to public companies	78,468	1,127,737	1,206,205	122,052	493,513	615,565
Corporate customers' bills of exchange	1,022,475	-	1,022,475	771,262	-	771,262
Other placements	-	673,203	673,203	780,915	146,271	927,186
Current maturities of long-term loans	6,797,338	(6,797,338)	-	2,589,232	(2,589,232)	-
	<u>22,191,313</u>	<u>16,793,468</u>	<u>38,984,781</u>	<u>17,919,330</u>	<u>4,028,635</u>	<u>21,947,965</u>
In foreign currency						
Time deposits with foreign banks	8,550	14,805	23,355	23,666	68,766	92,432
Loans to corporate customers	4,855,131	749,996	5,605,127	4,003,928	309,375	4,313,303
Overdue receivables	50,229	-	50,229	1,262	-	1,262
Nostro covered letters of credits	47,091	-	47,091	174,468	-	174,468
Other placements	37,429	7,025	44,454	109,527	63,531	173,058
Current maturities of long- term loans	272,953	(272,953)	-	222,117	(222,117)	-
	<u>5,271,383</u>	<u>498,873</u>	<u>5,770,256</u>	<u>4,534,968</u>	<u>219,555</u>	<u>4,754,523</u>
Loans and advances to customers, gross	27,462,696	17,292,341	44,755,037	22,454,298	4,248,190	26,702,488
<i>Less allowance for:</i>						
Indirect write-off	(430,911)	-	(430,911)	(329,756)	-	(329,756)
Specific provision	(1,120,298)	(1,561,410)	(2,681,708)	(645,809)	(159,239)	(805,048)
Total (Note 8b)	<u>(1,551,209)</u>	<u>(1,561,410)</u>	<u>(3,112,619)</u>	<u>(975,565)</u>	<u>(159,239)</u>	<u>(1,134,804)</u>
Loans and advances to customers, net	<u>25,911,487</u>	<u>15,730,931</u>	<u>41,642,418</u>	<u>21,478,733</u>	<u>4,088,951</u>	<u>25,567,684</u>

Short-term loans have been granted to corporate customers for financing business operations in manufacturing, transportation and telecommunication, metallurgy, pharmaceutical industry, agriculture and food processing, import and export, and for other purposes, at the interest rates ranging from 0.7% to 2% per month in dinars, i.e. from 0.5% to 1% monthly in foreign currency. Long-term loans to corporate customers bear interest at the rate ranging from 0.5% to 0.8% monthly. Interest rates on the receivables from corporate customers in respect of bills of exchange with maturities between 1 to 6 months, ranges from 1.6% to 2% per month.

NOTES TO THE FINANCIAL STATEMENTS

16. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Short-term retail loans, which mostly include consumers' and cash loans, have been granted at the rates ranging from 0.9% to 2% per month. The interest rate on permitted overdrafts on citizens' accounts is 1% month increased by the retail price index from the previous month, i.e. 5% month on non-permitted overdrafts on citizens' accounts. Long-term retail loans have been granted for purchase of consumer goods, motor vehicles, renovating, adaptation and purchase of residential space for a period from 2 up to 20 years, bearing interest at the rates ranging from 0.4% to 1% per month, depending on the purpose of the loans and the amount of deposit placed.

b. Maturity of loans and advances to customers

Maturity of loans and advances to customers in gross amounts, based on the remaining period on the balance sheet date to the contractual maturity date as of December 31, 2004 and 2005 is as follows:

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Overdue receivables	1,435,496	1,203,993
Up to 30 days	4,115,781	3,653,417
From 1 to 3 months	5,181,470	5,424,711
From 3 to 6 months	5,316,590	4,863,641
From 6 to 12 months	11,413,359	7,308,535
Over 1 year	17,292,341	4,248,190
	<u>44,755,037</u>	<u>26,702,488</u>

c. Industry concentration of loans and advances to customers

Concentration of total loans and advances to customers, stated in gross amount as of December 31, 2004 and 2005, is significant in the following industries:

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Manufacturing	10,551,578	6,713,200
Trade	7,192,626	5,183,413
Transportation and telecommunication	4,630,894	2,267,568
Civil engineering	2,771,168	797,895
Mining and energetic	2,064,843	780,976
Metallurgy	1,428,182	659,897
Pharmaceutical industry	869,870	419,817
Agriculture and food processing	812,828	3,708,597
Radio and television	301,709	626,266
Finance	23,355	92,432
Citizens	11,176,413	4,499,718
Other	2,931,571	952,709
	<u>44,755,037</u>	<u>26,702,488</u>

NOTES TO THE FINANCIAL STATEMENTS

17. SECURITIES HELD FOR TRADING

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Foreign currency bonds of the Republic of Serbia	1,022,350	707,991
Deviation from the nominal value of bonds	<u>(233,507)</u>	<u>(152,457)</u>
	788,843	555,534
Equity shares in dinars	<u>61,057</u>	<u>-</u>
Balance at December 31	<u>849,900</u>	<u>555,534</u>

As of December 31, 2005 equity shares in dinars in the amount of CSD 61,057 thousand completely relate to shares of AIK banka a.d. Niš which were classified as investment securities available for sale in 2004 (Notes 3.7 and 19). In 2005, the aforementioned shares have been reclassified to securities held for trading.

Nominal value of shares of AIK banka a.d. Niš amounted to CSD 26,365 thousand. The increase in the fair value of these shares in the amount of Dinar 34,692 thousand has been recognized in the income statement account for the period ended December 31, 2005 (Note 10). The increase in the fair value of shares has been accounted based on the statement of the Belgrade Stock Exchange on the value of the shares of AIK banka a.d. Niš at the year end.

18. SECURITIES HELD-TO-MATURITY

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Foreign currency bonds of the Republic of Serbia:		
- with maturities up to one year	344,023	494,959
- over one year – 2007	<u>230,070</u>	<u>-</u>
	574,093	494,959
Deviation from the nominal value of bonds	<u>(21,732)</u>	<u>(11,895)</u>
Balance at December 31	<u>552,361</u>	<u>483,064</u>

NOTES TO THE FINANCIAL STATEMENTS

**19. EQUITY SHARES AND OTHER INVESTMENT
SECURITIES AVAILABLE-FOR-SALE**

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Equity shares in dinars in:		
- subsidiaries	28,235	6,660
- other banks and financial organizations	6,310	28,024
- other companies and legal entities	62	62
Foreign currency equity shares	10,391	108
	<u>44,998</u>	<u>34,854</u>
Treasury bills in dinars	1,035	1,035
	<u>46,033</u>	<u>35,889</u>
<i>Less: Allowance for indirect write-off (Note 8b)</i>	<u>(1,035)</u>	<u>(1,035)</u>
Balance at December 31	<u>44,998</u>	<u>34,854</u>

Equity shares in subsidiaries amounting to CSD 28,235 thousand as of December 31, 2005 (December 31, 2004: CSD 6,660 thousand) completely relate to the Bank's equity investment in the leasing company Intesa Leasing d.o.o. Beograd, which is fully owned by the Bank. During 2005, the Bank paid in additional investment in the Intesa Leasing d.o.o. Beograd by CSD 21,575 thousand (EUR 250,000) in order to increase the equity of its subsidiary.

20. INTANGIBLE ASSETS

Movements in intangible assets during 2005 are represented in the table below:

<i>In thousands of CSD</i>	<u>Licenses</u>	<u>Leasehold improvements</u>	<u>Software</u>	<u>Total</u>
Cost				
Balance at January 1, 2005	-	-	-	-
Additions during the year	200,993	169,850	91,492	462,335
Balance at December 31, 2005	<u>200,993</u>	<u>169,850</u>	<u>91,492</u>	<u>462,335</u>
Accumulated amortization				
Balance at January 1, 2005	-	-	-	-
Amortization (Note 9)	1,668	9,413	859	11,940
Disposals	-	25,164	-	25,164
Balance at December 31, 2005	<u>1,668</u>	<u>34,577</u>	<u>859</u>	<u>37,104</u>
Net book value at:				
- December 31, 2005	<u>199,325</u>	<u>135,273</u>	<u>90,633</u>	<u>425,231</u>
- December 31, 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

21. PROPERTY AND EQUIPMENT

Movements in property and equipment during 2005 are shown in the following table:

In thousands of CSD

	Buildings	Equipment and other assets	Assets under construction	Total
Cost				
Balance at January 1, 2005	3,603,751	1,468,087	37,038	5,108,876
Additions during the year	-	-	706,066	706,066
Transfers	185,009	483,389	(668,398)	-
Disposals	(18,159)	(131,661)	-	(149,820)
Balance at December 31, 2005	<u>3,770,601</u>	<u>1,819,815</u>	<u>74,706</u>	<u>5,665,122</u>
Accumulated depreciation				
Balance at January 1, 2005	67,158	503,184	-	570,342
Depreciation charge (Note 9)	47,666	241,122	-	288,788
Disposals	(1,054)	(71,305)	-	(72,359)
Balance at December 31, 2005	<u>113,770</u>	<u>673,001</u>	<u>-</u>	<u>786,771</u>
Net book value at:				
- December 31, 2005	<u>3,656,831</u>	<u>1,146,814</u>	<u>74,706</u>	<u>4,878,351</u>
- December 31, 2004	<u>3,536,593</u>	<u>964,903</u>	<u>37,038</u>	<u>4,538,534</u>

Bank's buildings as of December 31, 2005 include buildings stated at a net book value of CSD 1,525,618 thousand (December 31, 2004: CSD 2,269,902 thousand) for which the Bank is presently not in possession of title deeds, but sale purchase contracts. The procedure to register the aforementioned buildings as the Bank's property is in course.

As of December 31, 2005 buildings with a net book value of CSD 248,724 thousand were pledged as collateral (December 31, 2004: CSD 813,141 thousand).

NOTES TO THE FINANCIAL STATEMENTS

22. OTHER ASSETS AND ACCRUALS

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Receivables in respect of payment cards:		
- in dinars	898,945	186,694
- in foreign currency	101,902	44,331
Receivables from Maestro cards users arising on deferred payments	432,248	191,374
Receivables from other banks arising on ATM payments	209,551	102,587
Amounts receivable for the purchase of foreign currencies	-	473,310
Receivables from overpaid taxes	79,201	2,781
Accrued income in respect of foreign currency bonds	68,010	27,171
Accrued interest:		
- in dinars	44,428	17,505
- in foreign currency	10,591	6,513
Other accrued expenses in dinars	21,063	1,522
Fixed assets trade receivables	17,098	19,724
Prepaid rental expenses	7,544	1,978
Receivables from employees:		
- in dinars	524	370
- in foreign currency	5,956	5,666
Advances paid in dinars	3,586	2,584
Other assets		
- in dinars	27,538	12,772
- in foreign currency	54	71
	<u>1,928,239</u>	<u>1,096,953</u>
<i>Less:</i>		
Allowance for indirect write-off	(13,638)	(9,313)
Specific provision	(63,490)	(7,100)
Total (Note 8b)	<u>(77,128)</u>	<u>(16,413)</u>
Balance at December 31	<u><u>1,851,111</u></u>	<u><u>1,080,540</u></u>

NOTES TO THE FINANCIAL STATEMENTS

23. DEFERRED TAX ASSETS/ (LIABILITIES)

a) Movements in deferred tax assets are shown in the table below:

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Balance at January 1	-	-
Tax credits carryforwards from prior years	280,965	-
Tax credits carryforwards from current year	<u>63,710</u>	<u>-</u>
Balance at December 31	<u>344,675</u>	<u>-</u>

In 2005, the Bank recognised the deferred tax assets on unused tax credits carryforwards with respect to investments in property and equipment made in previous years in the amount of CSD 280,965 thousand that, in accordance with the local tax legislation can be used for setting off against future current tax liability, but not more than ten years. The Bank recorded the effect of deferred tax assets in its 2005 financial statements as adjustment of the opening balance of retained earnings (*see* Statement of Changes in Equity).

b) Movements in deferred tax liabilities are shown in the table below:

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Balance at January 1	-	-
Tax effects of buildings appraisal performed in 2004	62,351	-
Effect of different depreciation rates applied in the Bank's financial statements and Tax returns in 2005 (Note 3.10)	<u>26,237</u>	<u>-</u>
Balance at December 31	<u>88,588</u>	<u>-</u>

The effect of deferred tax liabilities amounting to CSD 62,351 arising on the difference between the carrying amount of the appraised buildings and their tax basis resulting from the appraisal of the Bank's building performed in 2004, has been recognized in the Bank's 2005 financial statements and recorded as adjustment of the opening balance of retained earnings (*see* Statement of Changes in Equity).

c) Deferred tax income during the year arose in respect of the following temporary differences:

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Unused tax credits carryforwards with respect to		
Investments in property and equipment made in 2005	63,710	-
Effect of different depreciation rates applied in the Bank's financial statements and Tax returns for the tax purposes	<u>(26,237)</u>	<u>-</u>
Deferred tax income (Note 11)	<u>37,473</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

24. AMOUNTS DUE TO BANKS

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Demand deposits		
- in dinars	161,673	73,272
- in foreign currency	233,030	118,508
Short-term deposits:		
- in dinars	172,813	214,157
- in foreign currency	364,967	178,780
Short-term loans:		
- in dinars	1,066,122	410,041
- in foreign currency	11,729	-
Long-term deposits in foreign currency	<u>4,275</u>	<u>1,972</u>
Balance at December 31	<u>2,014,609</u>	<u>996,730</u>

Demand deposits of other banks in dinars and foreign currencies bear interest at rates ranging from 0.8% to 1.25% per annum, depending on the currency and the period that the funds have been deposited for.

Short-term loans in dinars represent loans granted by other domestic banks for liquidity purposes, for a repayment period from 7 to 30 days, bearing interest at rates ranging from 11% to 17.95% per annum.

NOTES TO THE FINANCIAL STATEMENTS

25. AMOUNTS DUE TO CUSTOMERS

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Demand deposits		
- in dinars	17,167,495	14,047,412
- in foreign currency	19,944,890	14,002,039
Short-term deposits:		
- in dinars	6,875,675	3,077,459
- in foreign currency	18,656,215	9,698,652
Long-term deposits:		
- in dinars	124,458	167,139
- in foreign currency	3,876,205	2,729,724
Long-term deposits from foreign banks in foreign currency	889,330	4,741
Balance at December 31	<u>67,534,268</u>	<u>43,727,166</u>

Demand deposits of legal entities are placed at annual interest rates ranging 0.8% to 1.25%. The interest rates on term deposits in dinars and foreign currencies ranges 0.95% to 12% per annum, depending on the currency and the period that the funds have been deposited for.

Citizens' a vista accounts in dinars bear interest at the rate of 2.38% per annum, while the interest on foreign currencies a vista deposits ranges from 1% to 1.50% per annum.

Citizens' short-term deposits in dinars and foreign currencies are deposited with interest ranging from 7% to 13.75% per annum, i.e. from 1.7% to 4.30% per annum, respectively, depending on the currency and the period that the funds have been deposited for.

Citizens' long-term deposits in dinars are deposited with interest rates ranging from 16% to 19% per annum. Long-term deposits in foreign currencies are deposited with interest rates ranging from 3.20% to 6% per annum.

A breakdown of deposits by customer type is provided in the following table:

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Corporate customers	26,636,430	22,760,473
Public sector	4,993,942	4,130,152
Citizens	25,890,822	14,009,949
Foreign citizens	6,708,429	227,731
Other customers	3,304,645	2,598,861
	<u>67,534,268</u>	<u>43,727,166</u>

NOTES TO THE FINANCIAL STATEMENTS

26. OTHER OPERATING LIABILITIES

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Liabilities for net salaries and contributions	55	-
Liabilities for taxes, contributions, and other duties	48,841	68,615
Liabilities in dinars in respect of credit cards	272,361	123,591
Trade payables	181,371	51,830
Advances and deposits received	49,051	161,106
Liabilities in dinars for sale of foreign currency to the NBS arising on receipts from Montenegro and Kosovo	20,216	20,464
Liabilities for sale of foreign currency to the NBS with respect to services rendered to humanitarian organizations	-	26,642
Other liabilities	18,109	21,172
Balance at December 31	<u>590,004</u>	<u>473,420</u>

27. PROVISIONS

a. Provision for guarantees and other financial commitments

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Provision against losses on off-balance sheet assets:		
- classified into category B	263,466	146,621
- classified into category V	124,517	92,994
- classified into category G	38,281	17,703
- classified into category D	79,620	2,959
Balance at December 31 (Note 8b)	<u>505,884</u>	<u>260,277</u>

As of December 31, 2005 the provision for unidentified losses on assets and off-balance sheet items classified into category "A", as calculated by the Bank amounts to CSD 570,433 thousand (December 31, 2004: CSD 499,295 thousand). The Bank covered the additional amount of provision for unidentified losses required totalling CSD 71,138 thousand by charging retained earnings (see Statement of Changes in Equity).

b. Litigations

At December 31, 2005, the amount of potential monetary damages arising from pending lawsuits filed against the Bank amounts to CSD 113,150 thousand (December, 31 2004: 108,169 thousand). The aforementioned amount does not include the potential penalty interest that may be assessed upon the final resolution of the filed litigation. The Bank's management does not anticipate any significant negative effects on the Bank's financial statements as a result of any pending litigation; consequently no respective provision has been made in the Bank's 2005 financial statement.

NOTES TO THE FINANCIAL STATEMENTS

28. OTHER LIABILITIES AND ACCRUALS

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Liabilities for accrued interest		
- in dinars	261,668	97,701
- in foreign currency	146,060	68,342
Deferred loan origination fee	82,304	-
Other deferrals	-	901
Balance at December 31	<u>490,032</u>	<u>166,944</u>

29. SHAREHOLDERS' EQUITY

a. The Bank's share capital

The Bank's total share capital as of December 31, 2005 and 2004 consists of 51,801 ordinary shares with voting right, with nominal value of CSD 100 thousand per share. All shares have been paid in full and registered with the Central Securities' Register.

As disclosed in Note 1 to the financial statements, the Bank's ownership structure changed in 2005. On August 9, 2005 Intesa Holding-u International S.A., Luxemburg completed the acquisition of 90% plus one share of the voting share capital of the Bank by way of the sellers' acceptance of the takeover bid, following the receipt of all required regulatory approvals and the satisfaction of all conditions in the relevant Share Purchase Agreement. The existing shareholders up to the transaction date Delta M d.o.o. Beograd and Delta Maxi d.o.o. Beograd, sold all their shares, while Hemslade Trade Limited, Cyprus remained the Bank's shareholder owing 10% minus one share of the voting share capital.

At December 31, 2005 and 2004, the Bank's Shareholders are the following:

<i>In thousands of CSD</i>	<u>2005</u>		<u>2004</u>	
	<u>Share capital</u>	<u>Share in %</u>	<u>Share capital</u>	<u>Share in %</u>
Intesa Holding International S.A., Luxemburg	4,662,200	90.00	-	-
Hemslade Trade Limited, Cyprus	517,900	10.00	4,473,300	86.36
Delta M d.o.o. Beograd	-	-	385,400	7.44
Delta Maxi d.o.o. Beograd	-	-	321,400	6.20
Total	<u>5,180,100</u>	<u>100.00</u>	<u>5,180,100</u>	<u>100.00</u>

NOTES TO THE FINANCIAL STATEMENTS

29. SHAREHOLDERS' EQUITY (Continued)**b. Capital adequacy and performance indicators**

The Bank is obliged to reconcile the scope and the structure of its operations with the performance indicators prescribed by the Articles 26 and 27 of the Law on Banks and Other Financial Organisations. As of December 31, 2005 the Bank was in compliance with all prescribed performance indicators.

The Bank's performance indicators as of December 31, 2005 were as follows:

No.	Performance indicator	Prescribed value	Realised value
1.	Monetary part of the share capital	minimum EUR 10,000,000	EUR 121,022,702
2.	Capital adequacy indicator	minimum 12%	18.65%
3.	Permanent investments' indicator	maximum 60%	46.92%
4.	Indicator of large and largest possible loans	maximum 400%	137.09%
5.	Liquidity indicator:		
	- in the first month of the reporting period	minimum 1.00	2.60
	- in the second month of the reporting period	minimum 1.00	2.34
	- in the third month of the reporting period	minimum 1.00	2.28
6.	Foreign currency risk indicator	maximum 30%	26.38%

As of December 31, 2005, the Bank has large loans granted to the following debtors that exceed the 10% of the Bank's equity: Telekom Srbija a.d. Beograd (23.47% of the Bank's equity), NIS a.d. Novi Sad (21.42%), Delta M d.o.o Beograd (19.57%), PZP Niš a.d. Niš (15.97%), Koncern Swisslion-Takovo d.o.o. Beograd (15.45%), JP Srbijagas Novi Sad (14.24%), Hemofarm Koncern a.d. Vršac (13.54%) and Putevi a.d. Užice (13.29% of the Bank's equity).

NOTES TO THE FINANCIAL STATEMENTS

30. OFF-BALANCE SHEET ITEMS

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Funds managed for and on behalf of third parties	82,062	281,577
Guarantees and other irrevocable commitments	23,220,803	12,066,191
Other off-balance sheet items	10,044,154	4,013,928
Balance at December 31	<u>33,347,019</u>	<u>16,361,696</u>

a. Guarantees and other irrevocable commitments and contingencies

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Payable guarantees:		
- in dinars	2,153,642	1,033,702
- in foreign currency	5,818,482	6,901,401
	<u>7,972,124</u>	<u>7,935,103</u>
Performance bonds:		
- in dinars	4,482,556	2,478,673
- in foreign currency	879,975	598,052
	<u>5,362,531</u>	<u>3,076,725</u>
Uncovered letters of credit in foreign currency	1,138,241	581,589
Acceptances	451,299	472,774
Other irrevocable commitments	8,296,608	-
	<u>23,220,803</u>	<u>12,066,191</u>

Provision against losses on off-balance sheet assets, i.e. guarantees and other irrevocable commitments amounts to CSD 505,884 thousand as of December 31, 2005 (December 31, 2004: 260,277 thousand) (Note 27).

b. Other off-balance sheet items

<i>In thousands of CSD</i>	<u>2005</u>	<u>2004</u>
Bonds and treasury bills purchased following RERO agreements	3,086,600	-
Loro guarantees and letter of credit	3,867,123	2,117,296
Covered letters of credit	1,168,135	540,825
Bills of exchange in depot	978,521	766,262
Foreign currency bonds and other off-balance sheet items	943,775	589,545
	<u>10,044,154</u>	<u>4,013,928</u>

NOTES TO THE FINANCIAL STATEMENTS

31. RISK MANAGEMENT POLICIES

a) Credit risk

The credit risk is associated to all facilities and loans granted by the Bank, being the risk that a party to a financial transaction will be unable to fulfil its obligations thus causing financial losses to the other party. The business policy of the Bank aims to ensure the maximum level of protection from risk exposure which might arise in its loan activities and transactions with customers.

The Bank simultaneously manages its credit risk on the level of its individual counterparties, as well as on the level of its entire loan portfolio. In the aim of lowering its exposure to credit risk, the Bank diligently assesses the creditworthiness of counterparty in accordance with the effective banking regulations, as well as with its own well-defined loan approval procedures. The Loan Approval Department prepares a financial analysis of the financial position of the borrower and his/her employment history, and notes the related potential risks in so far as a loan has already been approved. In its analysis, the Bank adheres both to the principles prescribed and regulated by National Bank of Serbia's decisions, and to its own internally-defined procedures, so as to foresee any potential exposure with respect to a customer's inability to settle his/her obligations within the contractually-defined maturity period. So as to accomplish this, the Bank performs a grading of the necessary level of loan loss provisioning at the moment in which a particular placement has been approved, and also performs an on-going analysis of the loan portfolio- doing so at least upon a quarterly basis. This analysis involves measuring the adequacy of provisions by: the type of customer, their geographic distribution, the counterparties' relationships with its related parties or associates in regard to property and managerial relationships, by business segment, and the type of placements.

The loan approval decisions and the associated credit risk exposure of the Bank are the responsibility of the Corporate Credit Committee based on clearly defined rules and procedures. Standardized retail loans within strictly defined policies and procedures are granted on the decentralized level, whereas for all other retail products to be granted beside the standard ones, the decision must be made by the Retail Credit Committee. The specific terms and condition of loans are determined for each customer individually, based on the type of the client, its financial position and analysis of its creditworthiness, purpose of the loans and current market situation. The specific conditions existing on each approved loan, although individually defined for each counterparty, are nevertheless stated within the overall framework defining the Bank's interest rate and fee policies.

The Bank manages its credit risk by setting the limits for individual customer or groups of customers, as well as geographical and industry segments, by diversifying the loans to a larger number of customers by contracting a foreign currency clause, in order to maintain the real value of the loan. In addition, the Bank aspires to secure its loans and placements with adequate collateral. The Bank dedicates particular attention to the quality of collateral that secures the Bank's placements which may include: contractually-agreed authorizations, bills of exchange, mortgages, pledges or consigned assets, bank guarantees, surety agreements (signed by co-guarantors), and the dinar and foreign currency deposits of legal entities or private individuals. In case that a mortgage and/or a pledge are taken as collateral, the Bank always engages certified appraisers for valuation of real estate in order to reduce the credit risk.

NOTES TO THE FINANCIAL STATEMENTS

31. RISK MANAGEMENT POLICIES (Continued)

b) Liquidity and solvency risk

The liquidity risk is associated either to the difficulty of an enterprise to raise necessary funds in order to meet commitments or to its inability to sell a financial asset quickly at close to its fair value, depends primarily on timely arrangement of sources inflows and outflows. The Bank manages its liquidity risk at the centralized level. The Bank has established Assets and Liabilities Management Committee whose sphere of activities includes, among other things, daily monitoring and management of the Bank's liquidity, identification of needs for funds and making decisions on use of funds, consideration of significant business arrangements in the future period and their impact on the Bank's assets and liquidity.

The Committee reviews the report on balances on the giro account and deposits. It especially monitors the movements of deposits of significant deponents, as well as their needs for funds on a specific day or the following day. The critical days for the Bank's liquidity, i.e. dates of significant outflows of funds are determined empirically. The committee makes a decision on the use of funds based on the identification of available funds and daily needs.

c) 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. In accordance with the regulations prescribed by the National Bank of Serbia, the Bank continuously maintains its foreign currency position within the legally prescribed maximum with regards to the equity, so as to ensure that foreign currency risk indicator never exceeds 30% of the Bank's capital.

The Bank manages its exposure to movements in exchange rates by monitoring fluctuations of foreign currencies on a daily basis and consequently modifying its assets and liabilities. The Bank's policy is to maintain low foreign currency risk exposure and to carry out daily reconciliation of open positions for all currencies except for EUR. During 2005, the Bank strictly adhered to the policy of foreign currency risk indicator compliance, whereas the actual foreign currency indicator was permanently below the prescribed level.

e) Other risks

Apart from the mentioned risks, the Bank pays special attention to the Bank's exposure to one entity or a group of associated entities, as well as to Bank's related parties. Likewise, the Bank also considers the risk of investing into fixed assets, as well as the segment of operating and other risks, such as mistakes made by employees, inadequate internal procedures, market risks, Bank's security and etc.

NOTES TO THE FINANCIAL STATEMENTS

32. LIQUIDITY RISK

Liquidity of the Bank, as its ability to meet liabilities when they fall due, depends primarily on timely arrangement of sources inflows and outflows. The Bank monitors liquidity on a daily basis. Despite net liquidity gap in the periods up to 3 months, the Bank has no liquidity problems, and during 2005 and up to the date of this report, it did not use the liquidity reserve.

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

The maturities of assets and liabilities as of December 31, 2005 were as follows:

In thousands of CSD

	<u>Up to 7 days</u>	<u>From 7 to 30 days</u>	<u>From 1 to 3 months</u>	<u>From 3 to 6 months</u>	<u>From 6 to 12 months</u>	<u>Over 1 year</u>	<u>2005 Total</u>
ASSETS							
Cash and cash equivalents	13,187,444	-	-	-	-	-	13,187,444
Deposits with the Central bank	14,364,961	-	-	-	-	-	14,364,961
Interest and fee receivable	260,544	-	-	-	-	-	260,544
Loans to and placements with banks	581,188	3,115,675	-	-	7,966	25,650	3,730,479
Loans and advances to customers	2,581,534	4,141,006	4,561,718	4,680,677	9,946,552	15,730,931	41,642,418
Securities held for trading	-	788,843	-	61,057	-	-	849,900
Securities held-to-maturity	-	-	-	337,460	-	214,901	552,361
Equity shares and other securities available for sale	-	-	-	-	-	44,998	44,998
Intangible assets and property and equipment	-	-	-	-	-	5,303,582	5,303,582
Other assets and accruals	1,737,283	2,175	43,643	149	-	67,861	1,851,111
Deferred tax assets	-	-	-	-	-	344,675	344,675
Total assets	<u>32,712,954</u>	<u>8,047,699</u>	<u>4,605,361</u>	<u>5,079,343</u>	<u>9,954,518</u>	<u>21,732,598</u>	<u>82,132,473</u>
LIABILITIES							
Amounts due to banks	1,375,674	618,147	6,200	-	10,313	4,275	2,014,609
Amounts due to customers	37,112,385	11,975,212	7,791,225	3,319,901	2,445,552	4,889,993	67,534,268
Interest and fee payables	1,149	-	-	-	-	-	1,149
Debt securities issued	708	-	-	-	-	434	1,142
Other operating liabilities	590,004	-	-	-	-	-	590,004
Provision for commitments	-	-	-	-	-	505,884	505,884
Other liabilities and accruals	46,730	73,585	183,012	41,428	49,941	95,336	490,032
Deferred tax liabilities	-	-	-	-	-	88,588	88,588
Shareholders' equity	-	-	-	-	-	10,906,797	10,906,797
Total liabilities	<u>39,126,650</u>	<u>12,666,944</u>	<u>7,980,437</u>	<u>3,361,329</u>	<u>2,505,806</u>	<u>16,491,307</u>	<u>82,132,473</u>
Net liquidity gap as of:							
- December 31, 2005	<u>(6,413,696)</u>	<u>(4,619,245)</u>	<u>(3,375,076)</u>	<u>1,718,014</u>	<u>7,448,712</u>	<u>5,241,291</u>	-
- December 31, 2004	<u>(2,346,897)</u>	<u>(2,418,845)</u>	<u>(3,298,894)</u>	<u>2,370,876</u>	<u>8,618,275</u>	<u>(2,924,515)</u>	-

NOTES TO THE FINANCIAL STATEMENTS

33. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate reprising of assets and liabilities, for which the Bank negotiates fixed interest rates. By contractually agreeing variable interest rates, the Bank significantly lessens its exposure to interest rate risk. In practice, the Bank's exposure to the interest rate risk is limited, due to monthly reconciliation of interest on most of the loans and deposits.

The table below summarises the Bank's exposure to interest rate risk as of December 31, 2005:

<i>In thousands of CSD</i>	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Non-interest bearing assets/ liabilities	<u>2005</u> Total
ASSETS						
Cash and cash equivalents	7,803,803	-	-	-	5,383,641	13,187,444
Deposits with the Central bank	810,000	-	-	-	13,554,961	14,364,961
Interest and fee receivables	-	-	-	-	260,544	260,544
Loans to and placements with banks	3,696,863	-	7,966	25,650	-	3,730,479
Loans and advances to customers	5,045,654	4,561,718	14,627,229	17,407,817	-	41,642,418
Securities held for trading	849,900	-	-	-	-	849,900
Securities held-to-maturity	-	-	337,460	214,901	-	552,361
Equity shares and other securities available-for-sale	-	-	-	-	44,998	44,998
Intangible assets and property and equipment	-	-	-	-	1,851,111	1,851,111
Deferred tax assets	-	-	-	-	344,675	344,675
Total assets	<u>18,206,220</u>	<u>4,561,718</u>	<u>14,972,655</u>	<u>17,648,368</u>	<u>26,743,512</u>	<u>82,132,473</u>
LIABILITIES						
Amounts due to banks	1,998,096	6,200	10,313	-	-	2,014,609
Amounts due to customers	51,475,543	7,791,225	5,765,453	2,502,047	-	67,534,268
Interest and fee payables	1,149	-	-	-	-	1,149
Debt securities issued	708	-	-	434	-	1,142
Other operating liabilities	-	-	-	-	590,004	590,004
Provision for commitments	-	-	-	-	505,884	505,884
Other liabilities and accruals	-	-	-	-	490,032	490,032
Deferred tax liabilities	-	-	-	-	88,588	88,588
Shareholders' equity	-	-	-	-	10,906,797	10,906,797
Total liabilities	<u>53,475,496</u>	<u>7,797,425</u>	<u>5,775,766</u>	<u>2,502,481</u>	<u>12,581,305</u>	<u>82,132,473</u>
Net interest risk exposure at:						
- December 31, 2005	<u>(35,269,276)</u>	<u>(3,235,707)</u>	<u>9,196,889</u>	<u>15,145,887</u>	<u>14,162,207</u>	-
- December 31, 2004	<u>(19,543,785)</u>	<u>(2,175,249)</u>	<u>8,391,212</u>	<u>12,079,880</u>	<u>1,247,942</u>	-

NOTES TO THE FINANCIAL STATEMENTS

34. 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. The Bank has set up limits on position by currency. Positions are monitored on a daily basis, and hedging strategies used to ensure positions are maintained within established limits. The Bank's foreign currency risk management policies are established in conformity with the regulatory requirements set by the National Bank of Serbia.

The Bank's foreign currency risk management policy is to establish and maintain foreign currency assets at least in the amount of the foreign currency liabilities. This ratio is also reconciled from the aspect of matured foreign currency receivables and liabilities.

Analysis of assets and liabilities per currency as of December 31, 2005 was as follows:

In thousands of CSD

	EUR	USD	Other currencies	Total foreign currency sub-balance	Sub-balance in dinars	<u>2005</u> Total
ASSETS						
Cash and cash equivalents	4,850,986	2,177,486	1,248,564	8,277,036	4,910,408	13,187,444
Deposits with the Central bank	11,682,191	1,872,770	-	13,554,961	810,000	14,364,961
Interest and fee receivables	19,579	1,959	696	22,234	238,310	260,544
Loans to and placements with banks	352,740	-	-	352,740	3,377,739	3,730,479
Loans and advances to customers	23,116,488	182,967	444	23,299,899	18,342,519	41,642,418
Securities held for trading	788,843	-	-	788,843	61,057	849,900
Securities held-to-maturity	552,361	-	-	552,361	-	552,361
Equity shares and other securities available-for-sale	312	10,079	-	10,391	34,607	44,998
Intangible assets and property and equipment	-	-	-	-	5,303,582	5,303,582
Other assets and accruals	183,682	1,155	733	185,570	1,665,541	1,851,111
Deferred tax assets	-	-	-	-	344,675	344,675
Total assets	<u>41,547,182</u>	<u>4,246,416</u>	<u>1,250,437</u>	<u>47,044,035</u>	<u>35,088,438</u>	<u>82,132,473</u>
LIABILITIES						
Amounts due to banks	533,676	74,308	6,017	614,001	1,400,608	2,014,609
Amounts due to customers	38,768,389	4,135,783	1,217,804	44,121,976	23,412,292	67,534,268
Interest and fee payables	2	-	-	2	1,147	1,149
Debt securities issued	-	-	708	708	434	1,142
Other operating liabilities	133,339	27	-	133,366	456,638	590,004
Provision for commitments	-	-	-	-	505,884	505,884
Other liabilities and accruals	132,544	11,103	2,413	146,060	343,972	490,032
Deferred tax liabilities	-	-	-	-	88,588	88,588
Shareholders' equity	-	-	-	-	10,906,797	10,906,797
Total liabilities	<u>39,567,950</u>	<u>4,221,221</u>	<u>1,226,942</u>	<u>45,016,113</u>	<u>37,116,360</u>	<u>82,132,473</u>
Net foreign currency position at:						
- December 31, 2005	<u>1,979,232</u>	<u>25,195</u>	<u>23,495</u>	<u>2,027,922</u>	<u>(2,027,922)</u>	<u>-</u>
- December 31, 2004	<u>480,942</u>	<u>93,013</u>	<u>341,656</u>	<u>915,611</u>	<u>(915,611)</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

35. POST BALANCE SHEET EVENTS

a) As of March 28, 2005 the Bank's Shareholder's Assembly enacted a Decision to distribute FY 2005 retained earnings, whereby the amount of CSD 1,847,491 representing retained earnings as of December 31, 2005 was to be distributed to Bank's reserves.

b) On its meeting held on March 28, 2005 the Bank's Shareholder's Assembly made a Decision to sell its equity shares in the subsidiary Intesa Leasing d.o.o. Beograd (see Note 19), whereby the Bank sold 49% of its equity investments in Intesa Leasing-u d.o.o. Beograd to a company CIB Leasing Ltd., Budapest. Following the sale purchase transaction, the structure of Intesa Leasing d.o.o. Beograd capital is as follows: the Bank owns 51%, while the new owner CIB Leasing Ltd., Budapest owns 49% of the capital.

36. EXCHANGE RATES

The official exchange rates for the major currencies used in the translation of the balance sheet items denominated in foreign currencies as of December 31, 2005 and 2004 were as follows:

	<i>In dinars</i>	
	<u>2005</u>	<u>2004</u>
EUR	85,5000	78,8850
USD	72,2189	57,9355
CHF	54,9380	51,0913