

NATIONAL BANK OF SERBIA

**Financial statements
prepared in accordance with
International Financial Reporting Standards
for the year ended 31 December 2006
with Independent Auditor's Report**

27 April 2007

FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2005
WITH INDEPENDENT AUDITOR'S REPORT

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TO THE GOVERNOR AND THE COUNCIL OF
THE NATIONAL BANK OF SERBIA

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Serbia (hereinafter: “the Bank”), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with International Financial Reporting Standards and International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 principles 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 opinion.



Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Belgrade, 27 April 2007

KPMG Hungary Kft. Budapest

John Varsanyi
Partner



KPMG d.o.o. Beograd

Nina Bulatović
Senior Partner

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

In millions of RSD	Note	2006	2005
Interest income	4	20,255	11,301
Interest expense	5	(20,207)	(8,506)
Net interest income		48	2,795
Fee and commission income	6	3,791	4,086
Fee and commission expense		(1,376)	(1,666)
Net fee and commission income		2,415	2,420
Net trading income/(expenses)	7	(27,067)	14,391
Dividend income		73	69
Other income		1,695	3,719
Total operating income/(expenses)		(22,836)	23,394
Net release of impairment losses and provisions	8	2,041	355
Other operating expenses	9	(9,297)	(8,919)
Net (Loss)/Profit		(30,092)	14,830

The notes on pages 8 to 35 form an integral part of these Financial statements.
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BALANCE SHEET AS AT 31 DECEMBER 2006

In millions of RSD	Note	2006	2005
Assets			
Cash and current accounts	10	10,318	16,424
Deposits with foreign banks		287,670	206,803
Gold and other precious metals	11	15,101	16,023
Financial assets at fair value through profit and loss	12	362,696	186,172
Held-to-maturity investments	13	38,605	-
Securities available for sale	14	15,480	14,701
Loans	15	143	875
IMF membership quota and SDR holdings	16	42,729	50,468
Property, plant, equipment and intangible assets	17	15,774	15,526
Other assets	18	1,600	2,041
Total assets		790,116	509,033

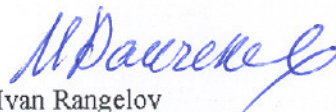
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BALANCE SHEET AS AT 31 DECEMBER 2006 (Continued)

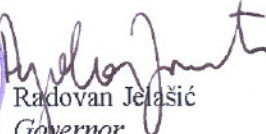
In millions of RSD	Note	2006	2005
Liabilities and Equity			
Liabilities			
Liabilities to other banks and financial institutions	19	473,714	227,189
Liabilities to the Government and other depositors	20	159,654	65,418
Liabilities to the International Monetary Fund	21	62,247	117,187
Securities issued	22	10,066	176
Dinars in circulation	23	68,461	53,650
Other liabilities	24	5,885	8,017
Total liabilities		780,027	471,637
Equity			
Authorised capital	26	14,751	8,608
Revaluation reserves		7,684	12,645
Distributable reserves		10,000	-
Retained earnings/(Accumulated loss)		(22,346)	16,143
Total equity		10,089	37,396
Total liabilities and equity		790,116	509,033

Belgrade, 27 April 2007

NATIONAL BANK OF SERBIA


Ivan Rangelov
Director of Finance and Accounting




Radovan Jelašić
Governor
F.6p.7343
5.6.2007.

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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

In millions of RSD	Authorised capital	Revaluation Reserves	Distribu- table reserves	Retained earnings/ (Accumulated loss)	Total
For the year ended 31 December 2005					
Balance, beginning of the year	3,319	13,932	-	5,289	22,540
Profit distribution	5,289	-	-	(5,289)	-
Revaluation of property, plant, equipment and intangible assets	-	26	-	-	26
Disposals and transfer of property to Republic of Serbia	-	(1,313)	-	1,313	-
Profit for the year	-	-	-	14,830	14,830
Balance, end of the year	8,608	12,645	-	16,143	37,396
For the year ended 31 December 2006					
Balance, beginning of the year	8,608	12,645	-	16,143	37,396
Profit distribution	6,143	-	10,000	(16,143)	-
Revaluation of property	-	2,785	-	-	2,785
Disposals and transfer of property, plant and equipment to Republic of Serbia	-	(7,746)	-	7,746	-
Loss for the year	-	-	-	(30,092)	(30,092)
Balance, end of the year	14,751	7,684	10,000	(22,346)	10,089

The notes on pages 8 to 35 form an integral part of these Financial statements.
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

In millions of RSD	2006	2005 <i>Restated*</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	20,246	11,466
Fee and commission receipts	3,819	3,922
Inflow from other operating activities	2,184	3,842
Cash generated from operating activities	26,249	19,230
Interest payments	(19,818)	(7,413)
Fee and commission payments	(1,379)	(1,677)
Outflow from other operating activities	(13,062)	(8,918)
Cash used in operating activities	(34,259)	(18,008)
Increase in deposits and inflow from surplus of expenses	181,213	109,096
Increase in securities and others investments held for trading and short-term securities held to maturity	(85,559)	(59,366)
Increase in loans and investments	(71,113)	(62,141)
Increase in investments and increase in received deposits	24,541	(12,411)
NET CASH GENERATED/(USED) IN OPERATING ACTIVITIES	16,531	(11,189)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets and property	(398)	(663)
Net cash used in investing activities	(398)	(663)
NET INCREASE/(DECREASE)IN CASH	16,133	(11,852)
Cash at the beginning of period	18,608	12,899
Positive effect of exchange rate changes	114,669	60,581
Negative effect of exchange rate changes	(138,562)	(43,020)
Cash at the end of period	10,848	18,608

* See Note 2(c)

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1 The Bank's Establishment and Operating Policy

The origins of the National Bank of Serbia (hereinafter: "the Bank") date back to 1884, when the "Privilegovana banka Kraljevine Srbije" [The Chartered Bank of the Kingdom of Serbia] was founded. In 1920, the National Bank of the Kingdom of the Serbs, Croats and Slovenes was constituted, and in 1929, the Bank's name was changed to the National Bank of the Kingdom of Yugoslavia. From 1946, the Bank continued its activities as the National Bank of Yugoslavia (hereinafter: "NBY"), representing the central monetary institution of the Socialist Federal Republic of Yugoslavia (SFRY) up until the dissolution of the federal state in 1991.

The Bank continued its operations in Belgrade, as the central bank of the Federal Republic of Yugoslavia, representing two of the successor republics of the former SFRY, Serbia and Montenegro, which in April of 1992 comprised the Federal Republic of Yugoslavia (FRY), when its Constitution was officially decreed by both republics.

On 25 June 1993, the Parliament of the FRY enacted the Law on the National Bank of Yugoslavia wherein the NBY is defined as an independent and integrated issuing institution of the FRY monetary system. All intangible and tangible assets that the Bank used in its operations represented the ownership of the FRY, and the Federal Government of FRY guaranteed all of the Bank's obligations.

Pursuant to the Law on the Implementation of the Constitutional Charter of the State Union of Serbia and Montenegro, effective as of 4 February 2003, the Bank continued to operate as the central bank of the Republic of Serbia, as confirmed by the Law on the National Bank of Serbia, effective as of 19 July 2003.

The National Bank of Serbia is the central bank of the Republic of Serbia. The Bank's principal functions are defined under the terms of the Law on the National Bank of Serbia (Official Gazette of the Republic of Serbia, No. 72/2003 and 55/2004).

The primary objective of the Bank is to achieve and maintain price stability. In addition to this, the Bank's objective is to maintain financial stability and, without prejudice to its primary objective to support the pursuance of economic policy of the Government of the Republic of Serbia.

As disclosed in Note 29 to the financial statements, the Republic of Serbia and the Republic of Montenegro have reached agreement on distribution of assets and liabilities of Federal Republic of Yugoslavia and regulation of membership in International financial organizations in July 2006. By the end of 2006, the assets and liabilities have been distributed and membership in international financial organizations resolved in accordance with the agreement, except for membership in Bank for International Settlement, Basel.

The basic functions of the Bank are to:

- Determine and implement monetary policy.
- Autonomously pursue the Dinar exchange rate policy and to determine the Dinar exchange rate regime with the consent of the Government.
- Hold and manage foreign currency reserves.
- Issue banknotes and coins.
- Regulate, control and promote unhindered functioning of internal and external payment operations.

- Issue and revoke operating licenses, carry out supervision of banks and other financial institutions and enact regulations in this field.
- Issue and revoke licenses, i.e. authorization for carrying out the insurance operations, performs control i.e. supervision over such operations and also carry out other duties in line with legal regulation governing the field of insurance.
- Issue and revoke licenses, i.e. authorization for providing financial leasing, perform control i.e. supervision over such operations and also carry out other duties in line with legal regulation governing the field of financial leasing.
- Issue and revoke licenses, i.e. authorization for providing voluntary pension insurance, perform control i.e. supervision over such operations and also carry out other duties in line with legal regulation governing the field of voluntary pension insurance.

The governing bodies of the Bank include: the Monetary Board, the Governor and the Council.

- The Monetary Board is composed of the Governor and Vice Governors and sets the monetary policy of the Republic of Serbia.
- The Governor represents and acts on behalf of the Bank, heads the operation of the Bank, and is responsible for implementation of decisions of the Monetary Board and the Council, organization and operation of the Bank and preparation of regulations and decisions within the scope of authority of the Bank which are not within the scope of authority of the Monetary Board and the Council. The Republic of Serbia Parliament appoints the Governor for a term of five years, with the right to re-election. The Bank has three Vice-Governors appointed by the Bank's Council for a term of five years, with the right to re-election, based upon the Governor's recommendation.
- The Council, following the recommendation of the Governor, adopts the Bank's financial plans and the annual reports. The Council has a president and four members appointed by the Republic of Serbia Parliament for a term of five years, with the right to re-election.

The Bank is a legal entity domiciled in Belgrade, Kralja Petra 12. The Bank is comprised of a Branch Office situated in Belgrade, and Branch Offices located in the cities of Novi Sad, Niš, Kragujevac and Užice, and one specialised organisational unit, the Banknotes and Coins Factory located in Belgrade (hereinafter: "ZIN").

As at 31 December 2006, the Bank had 2,741 employees (31 December 2005: 2,687 employees).

2 Statement of Compliance

(a) Statement on compliance with IFRS

These financial statements have, in all material respects, been prepared in accordance with standards and interpretations approved by the International Accounting Standards Board, which are referred to as International Financial Reporting Standards (IFRS). In accordance with the Law on Accounting and Auditing of the Republic of Serbia ("Official Gazette of the Republic of Serbia" 46/2006); all legal entities are required to prepare financial statements in accordance with IFRS.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2007 or later periods but which the Bank has not adopted earlier, as follows:

IFRS 7 - Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). The Standard will require increased disclosure in respect of the Bank's financial instruments and it supersedes IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions. Management will apply IFRS 7 from annual periods beginning 1 January 2007.

Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). The Standard will require increased disclosure in respect of the Bank's capital. Amendments arise from the issue of IFRS 7. Management will apply this amendment from annual periods beginning 1 January 2007.

In addition, the Management believes that the following standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2007 or later periods are not relevant to the Bank:

- IFRIC 8 *Scope of IFRS 2*,
- IFRIC 9 *Reassessment of Embedded Derivatives*,
- IFRIC 10 *Interim Financial Reporting and Impairment*.

(b) *Basis of preparation of financial statements*

The financial statements have been compiled from the books of account of the Bank for the year 2006.

The official currency of the Republic of Serbia is the Serbian Dinar (RSD). Amounts in these financial statements are stated in millions of Dinars, unless otherwise stated.

The presentation of financial statements in accordance with IFRS requires Bank management to make best estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements as well as their reported amounts of revenues and expenses arising during the reporting period. These estimates and assumptions are based on the information available as of the date of the accompanying financial statements and thus, future actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Cash flow statement

Cash presented in the Cash Flow Statement for the year ended 31 December 2006 comprise Cash and Current accounts (see Note 10) and SDR holdings (see Note 16). This differs to prior year's presentation of the Cash Flow Statement which comprised Gold and other precious metals (Note 11) as part of the Cash. Comparative amounts in the Cash Flow Statement have been restated to conform to the current year's presentation.

(d) Going concern

The financial statements are prepared in accordance with the going concern concept, which assumes that the Bank will continue its operations for an indefinite period in the foreseeable future.

3 Summary of Significant Accounting Policies

Significant accounting policies that have been applied with consistency during the preparation of the Bank's financial statements for 2006 and during the preparation of the Bank's financial statements for 2005 are as follows:

(a) Income and Expense Recognition

Interest income and interest expense, other operating income and expenses are accounted for on an accrual basis.

Fee and commission income and expense arising on financial services is recognised when the corresponding services are rendered.

(b) Foreign Exchange ("FX") Translation

Transactions denominated in foreign currencies are translated into Dinars at official exchange rates prevailing at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into Dinars at official exchange rates prevailing at the balance sheet date. Assets and liabilities denominated in Special Drawing Rights are translated into Dinars at official exchange rates published by IMF at the balance sheet date.

Foreign exchange gains or losses arising upon the translation of transactions, and the asset and liability components denominated in foreign currencies are credited or charged, as appropriate, to the income statement.

(c) Financial Instruments

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and financial assets available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two subcategories: 'financial assets held for trading', and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

The Bank does not use derivative financial instruments, except for spot FX deals.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as non-current assets. Loans and receivables are classified as 'loans' in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are investments in debt securities where the Bank has the positive intent and ability to hold these securities to maturity. They are stated at amortized cost less impairment losses (Note 3(j)).

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(v) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Settlement/recognition date and fair value

Regular purchases and sales of investments are recognized on settlement date – the date on which the Bank pays for purchase or receives proceeds from sale of the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest income, are presented in the income statement, in the period in which they arise. Dividends on available-for-sale equity instruments are recognized in the income statement when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. Impairment testing is described in Note 3(j).

Derecognition

A financial asset is derecognised when the Bank loses control over the contractual right over the asset. This occurs when the rights are realised, expired or are surrendered. A financial liability is derecognised when it is extinguished.

Measurement

The accounting policies applied in the measurement of specific financial instruments are presented in greater detail below.

(d) Cash and cash equivalents

Cash and cash equivalents include cash and current accounts.

(e) Deposits with Foreign Banks

Deposits with foreign banks represent short-term deposits placed with banks with high credit ratings. They are stated at their nominal amounts. The interest accrued on these deposits up-to the balance sheet date is reported as other assets.

(f) Gold and Other Precious Metals

Gold and other precious metals are measured at their fair value as of the balance sheet date. Fair value is determined based on the average price listed at the London gold exchange. Changes in fair value are included under net foreign exchange gains/(losses) within income from trading.

(g) *Financial Instruments at Fair Value through Profit and Loss*

Financial instruments at fair value through profit and loss of the Bank consist of financial assets held for trading. These are mainly comprised of the government bonds of OECD member countries. These instruments are measured at their fair value as of the balance sheet date, being their published market price. Changes in fair value, as well as any gains and/or losses on the sale of these securities are included under net trading income.

Over the period of holding of trading securities, the Bank accrues interest and records income from collection of coupons. These are included under interest income.

(h) *Equity Investments*

Equity investments, as reported within other assets, are classified as financial instruments available-for-sale.

Equity investments in international financial institutions are stated at their nominal value, denominated in foreign currencies. The effects of changes in foreign exchange rates are included in foreign exchange gains/(losses).

Equity investments in domestic entities are stated at fair value, if it has been determined or at cost less any allowance for impairment if fair value has not been determined.

(i) *Financial liabilities at amortized cost*

Financial liabilities at amortized cost consist of treasury and savings notes issued by the Bank with fixed maturity. Also liabilities for securities repurchase transactions are carried at amortized cost. Any difference between cost and redemption value is being recognized in the income statement over the period of the borrowings on an effective interest basis.

(j) *Allowances for Impairment Losses on Financial Assets*

Financial assets carried at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amounts of such assets are determined and their carrying values are reduced to the recoverable amounts using allowance accounts.

(k) *Inventories*

Inventories are recognised at the lower of current cost and net realisable value at the balance sheet date.

(l) Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are initially stated at cost. Allowed alternative treatment of property, plant and equipment and intangible assets was applied for subsequent measurement. The valuation of the property was performed on 31 December 2004 based on market information provided by an independent appraiser. The amounts of the revaluation of property, plant and equipment, and intangible assets are recorded under the revaluation reserves under equity. Cost and accumulated depreciation of property, plant and equipment, and intangible assets are increased proportionately for the net effect of revaluation. In accordance with IAS 16, "Property, Plant and Equipment" and IAS 38 "Intangible Assets" the revaluation of property, plant, equipment and intangible assets is allowed in so far as it is carried out on their appraised fair value.

The Bank uses the same policy for valuation of its investment properties at fair value. Rental income from investment property is recognised in the income statement on an accrual basis, under other operating income.

The carrying amounts of the tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are first charged directly against any corresponding revaluation reserve, and subsequently, any remaining balances are charged to the income statement.

Depreciation and amortisation are provided for on a straight-line basis to the cost or revalued cost of property, plant, equipment and intangible assets, in order to write them off over their useful lives. Depreciation and amortisation are provided for using the following annual rates:

Description	%
Buildings	2
Equipment	
Motor vehicles	20
Furniture and office equipment	14.2
Computers	25
Intangible assets	25

The depreciation of property, plant and equipment, and intangible assets commences when the applicable asset is placed into use.

Repair and maintenance costs for property, plant and equipment designed to maintain future usable value are recognised as an expense as incurred.

Gains or losses on disposal of property, plant and equipment are credited to other income. Losses on disposal of property, plant and equipment are charged to other expenses. Revaluation reserve related to disposed property, plant and equipment is transferred to retained earnings on disposal.

(m) Income Taxes

The Bank is exempt from paying income taxes.

4 Interest Income

In millions of RSD	2006	2005
Deposits with foreign banks	8,603	3,625
Deposits with domestic banks	84	95
Trading securities	9,678	5,672
Securities available for sale	1,419	1,643
Securities held-to-maturity	324	-
Loans	51	184
Other	96	82
Total for the year	20,255	11,301

5 Interest Expense

In millions of RSD	2006	2005
Deposits from banks	1,672	1,978
Deposits from the Government and other depositors	3,495	1,317
Securities repurchase transactions	10,937	1,751
Securities issued	349	26
Loans from other banks	1,056	938
Liabilities to the International Monetary Fund	2,698	2,496
Total for the year	20,207	8,506

6 Fee and Commission Income

In millions of RSD	2006	2005
Domestic payments	2,058	2,331
Foreign exchange dealing	1,557	1,583
Other	176	172
Total for the year	3,791	4,086

7 Net Trading Income

In millions of RSD	2006	2005
Net losses on trading securities	(3,175)	(3,163)
Net foreign exchange gains/(losses)	(23,892)	17,554
Total for the year	(27,067)	14,391

Net foreign exchange gains/(losses) relate to effects from revaluation of net currency position of the Bank.

8 Net Impairment Losses and Provisions

a) Increase/(Decrease) during the year

In millions of RSD	2006	2005
Securities available for sale	(1,558)	(413)
Loans and deposits	(644)	12
Other assets	161	46
Total for the year	(2,041)	(355)

b) Changes in the Allowances for Impairment

In millions of RSD	Securities available for sale (Note 14)	Securities held to maturity	Loans and deposits	Accrued interest and other assets (Note 18)	Total
Balance, beginning of year	3,997	746	8,947	5,319	19,009
Charged during the year	-	-	1	167	168
Released during the year	(1,558)	-	(645)	(6)	(2,209)
Total	(1,558)	-	(644)	161	(2,041)
Foreign exchange differences and other decreases	-	-	(726)	(323)	(1,049)
Write-off of impaired receivables	-	(3)	(2,167)	(2,074)	(4,243)
Posted receivables and other changes	-	-	495	830	1,325
Balance, end of the year	2,439	743	5,905	3,913	13,001

9 Other Operating Expenses

In millions of RSD	2006	2005
Personnel costs	3,311	3,062
Severance pay	2	1,187
Depreciation and amortisation	700	810
Transfer of real-estate property to the Republic of Serbia	3,283	1,393
General, administrative and other operating	2,001	2,467
Total for the year	9,297	8,919

10 Cash and Current Accounts

In millions of RSD	2006	2005
Cash on hand in foreign currency	6,169	8,870
Current accounts		
With domestic banks	1,733	6,313
With foreign banks	2,412	1,239
Other	4	2
Balance as at 31 December	10,318	16,424

The balance on the current accounts with domestic banks represents Dinars in the Bank's current account.

11 Gold and Other Precious Metals

In millions of RSD	2006	2005
In standard form		
Gold	13,267	15,502
Silver	276	227
Platinum	142	148
Other	1	1
Total standard form	13,686	15,878
In other forms	1,415	145
Balance as at 31 December	15,101	16,023

12 Financial Assets at Fair Value through Profit and Loss

Financial assets at fair value through profit and loss relate to trading securities in the amount of RSD 362,696 million (31 December 2005: RSD 186,172 million). Trading securities relate to bonds issued by governments and central banks of OECD countries and of international financial institutions with one to five years of maturity. The bonds are nominated in EUR, USD and GBP. Interest rates vary in range of 2.6% - 6.5% p.a. for bonds nominated in EUR, 2.5% - 5.8% p.a. for bonds nominated in USD, 4.0% - 5.8% p.a. for bonds nominated in GBP.

13 Held-to-maturity investments

Held-to-maturity investments in the amount of RSD 38,605 million relate to treasury notes issued by the governments of Germany and United States of America which are intended to be held to fixed maturity. Maturity of these notes varies from one to six months. The notes are nominated in EUR and USD. Interest rates vary in range of 3.4% - 3.6% p.a. for bonds nominated in EUR, 4.8% - 5.0% p.a. for bonds nominated in USD.

14 Securities Available for Sale

In millions of RSD	2006	2005
Bonds of Republic of Serbia in Dinars		
Nominal value	16,651	17,386
Interest	708	739
Allowance for impairment	(2,439)	(3,997)
Total	14,920	14,128
Equity investments	560	573
Balance as at 31 December	15,480	14,701

Securities available for sale in the amount of RSD 14,920 million (31 December 2005: RSD 14,128 million) relate to long-term interest-bearing Serbian Government Dinar bonds at an interest rate of 8.5% p.a. with terms of maturity up to 2010.

Equity investments include:

In millions of RSD	2006	2005
Bank for International Settlements, Basel	329	377
Other equity investments	231	196
Balance as at 31 December	560	573

15 Loans

In millions of RSD	2006	2005
Banks	2,389	5,555
Government and governmental institutions	1,458	1,662
Total	3,847	7,217
Allowances for impairment		
Banks	(2,246)	(5,382)
Government and governmental institutions	(1,459)	(960)
Total	(3,704)	(6,342)
Balance as at 31 December	143	875

16 International Monetary Fund

In millions of RSD	2006	2005
Membership quota in the International Monetary Fund	42,199	48,276
SDR holdings	530	2,184
Commitment fee for undrawn funds	-	8
Balance as at 31 December	42,729	50,468

The quota of the Republic of Serbia in the International Monetary Fund ("the IMF") is secured by promissory notes issued by the Government of the Republic of Serbia, and recorded as a placement nominated in SDRs.

As at 31 December 2006 and 2005, the membership quota amounted to SDR 467.7 million.

17 Property, plant, equipment and Intangible Assets

In millions of RSD	Land and Buildings	Equipment and Other Assets	Construction in Progress	Intangible Assets	Investment Property	Total
Cost						
Balance as at 1 January 2005	21,998	4,038	4,792	185	576	31,589
Increases						
Additions	5	39	789	11	-	844
Transfers	11	296	(393)	2	20	(64)
Revaluation	15	-	-	-	-	15
Other	105	19	1	1	4	130
Decreases						
Transfer to the Ministry of Finance	(2,782)	(147)	-	-	(1)	(2,930)
Disposals and other	(71)	(454)	(28)	(19)	(9)	(581)
Balance as at 31 December 2005	19,281	3,791	5,161	180	590	29,003
Balance as at 1 January 2006	19,281	3,791	5,161	180	590	29,003
Increases						
Additions	1	130	589	32	-	752
Transfers	5,279	38	(5,305)	5	(17)	-
Revaluation	2,785	-	-	-	-	2,785
Other	705	2	56	-	12	775
Decreases						
Transfer to the Ministry of Finance	(6,032)	-	-	-	-	(6,032)
Disposals and other	(7)	(267)	(69)	(5)	(4)	(352)
Balance as at 31 December 2006	22,012	3,694	432	212	581	26,931

In millions of RSD	Land and Buildings	Equipment and Other Assets	Construction in Progress	Intangible Assets	Investment Property	Total
Accumulated depreciation and amortisation						
Balance as at 1 January 2005	11,457	3,065	-	81	-	14,603
Increases						
Charge for the year	437	334	-	39	-	810
Revaluation	1	-	-	-	-	1
Other	41	10	-	1	-	52
Decreases						
Transfer to the Ministry of Finance	(1,406)	(131)	-	-	-	(1,537)
Disposals and other	(10)	(438)	-	(4)	-	(452)
Balance as at 31 December 2005	10,520	2,840	-	117	-	13,477
Balance as at 1 January 2006	10,520	2,840	-	117	-	13,477
Increases						
Charge for the year	398	259	-	43	-	700
Revaluation	-	-	-	-	-	-
Other	-	-	-	-	-	-
Decreases						
Transfer to the Ministry of Finance	(2,750)	-	-	-	-	(2,750)
Disposals and other	(1)	(267)	-	(2)	-	(270)
Balance as at 31 December 2006	8,167	2,832	-	158	-	11,157
Net Book Value 31 December 2006	13,845	862	432	54	581	15,774
Net Book Value 31 December 2005	8,761	951	5,161	63	590	15,526

18 Other Assets

In millions of RSD	2006	2005
Accrued interests	1,011	964
Inventories	310	301
Collector coins	143	195
Housing loans to employees	312	286
Advances paid	684	189
Other assets	3,053	5,425
Total	5,513	7,360
Allowances for impairment		
Accrued interest	(485)	(488)
Advances paid	(675)	(100)
Other assets	(2,753)	(4,731)
Total	(3,913)	(5,319)
Balance as at 31 December	1,600	2,041

19 Liabilities to Banks and Other Financial Institutions

In millions of RSD	2006	2005
Deposits from banks and other financial institutions		
Current accounts	55,873	34,788
Obligatory reserves	253,170	147,062
Term deposits	219	449
Securities repurchase transactions	141,866	16,829
Borrowings	10,496	14,444
Total	461,624	213,572
Other	1,538	6,130
Dinars in vaults of banks and of government's treasury	10,552	7,487
Balance as at 31 December	473,714	227,189

Current accounts

The obligatory reserve in Dinars is maintained on current accounts of commercial banks who are now obliged to maintain monthly average balances of current account at levels higher than their obligatory reserves in Dinars.

Obligatory reserves of banks and other financial institutions

In millions of RSD	2006	2005
Obligatory reserves in foreign currency	253,170	147,062
Balance as at 31 December	253,170	147,062

Obligatory reserves in foreign currency relates to the obligation of commercial banks to maintain non interest bearing deposits with the Bank determined in accordance with the rules prescribed by the Law on Banks of the Republic of Serbia and the relevant bylaws.

Securities repurchase transactions

Liabilities from securities repurchase transactions relate to the Bank's liability toward domestic banks for borrowings through contracts on the repurchase of treasury notes issued by the Bank (see Note 22). These liabilities are short-term, with fixed maturity date, and the bank pays interest on them at a rate of 14.0-20.9% p.a.

Borrowings

In millions of RSD	2006	2005
Bank of China	4,498	7,222
Export-Import Bank of China	5,998	7,222
Balance as at 31 December	10,496	14,444

The borrowing from the Bank of China, in the original amount of USD 100 million, was originally extended in 1997, and was rolled-over annually until December 2004. The Bank started repaying the loan in 2006. Management is in the process of negotiating rescheduling of the borrowing. The interest on the borrowing is regularly calculated and semi-annually paid at the annual rate of six month LIBOR + 1%, and has been regularly paid.

The borrowing from the Export-Import Bank of China, in the amount of USD 100 million, was extended in December 1999 with a grace period until July 2002 and under semi-annual repayment terms, until January 2005. Although interest on this borrowing has been accrued, neither the interest, nor the instalments due have been paid since January 2001. Repayment of this borrowing was due in full during 2005. The accrued interest on the borrowing, as included in these financial statements is based on the due dates specified under the borrowing agreement. Terms and conditions of the loan are currently being negotiated with the foreign creditor regarding its rescheduling and potential write-offs.

20 Deposits from the Government and Other Depositors

In millions of RSD	2006	2005
Demand deposits	61,288	53,802
Term deposits	98,366	11,616
Balance as at 31 December	159,654	65,418

Deposits from other depositors represent deposits held by different government institutions such as Agency for Privatization, Restitution Fund, Agency for Air Flight Control, Agency for Deposits Insurance and others.

21 Liabilities to the International Monetary Fund

In millions of RSD	2006	2005
Promissory notes and other liabilities with respect to the membership in the IMF	42,199	48,276
Stand-by Arrangement	-	1,935
Extended Arrangement	14,662	60,642
SDR allocation	5,113	5,849
Accrued interest	273	485
Balance as at 31 December	62,247	117,187

On 11 June 2001, the IMF approved a one-year Stand-by Arrangement in the total amount of SDR 200 million. The Bank repaid the Stand-by Arrangement debt during 2006 (outstanding balance as at 31 December 2005 - SDR 18.75 million).

On 13 May 2002, the IMF approved a three-year Extended Arrangement in the amount of SDR 650 million. The arrangement was intended to financially support the country's economic programme in the period from 2002 to 2005. With fulfilment of obligations defined under Article VIII of the Articles of Agreement of the International Monetary Fund, the Dinar became convertible for external transactions. Outstanding debt as at 31 December 2006 amounts to SDR 162.5 million (31 December 2005: SDR 587.5 million). By the end of March 2007, the Bank repaid all outstanding debt in respect of the Extended Arrangement.

The IMF charges interest on these facilities, quarterly, at the rates based on the IMF's Articles of Agreement and the General Terms of Financial Assistance.

22 Securities issued by the Bank

In millions of RSD	2006	2005
Treasury notes issued to domestic banks	7,061	-
Savings notes issued to public	2,192	176
Other	813	-
Balance as at 31 December	10,066	176

Treasury notes issued to domestic banks are short term securities nominated in Dinars with a fixed maturity. Interest rate varies in range of 12.9% - 15.2% p.a.. As of 2006, the Bank uses treasury notes to make repurchase transactions with domestic banks. Treasury notes, subject to repurchase contracts, are stated under liabilities for securities repurchase transactions (see Note 19).

Savings notes issued to public are also short term securities with nominated in Dinars with fixed maturity but sold to the public. Interest rate varies in range of 16.0% - 24.0% p.a..

23 Dinars in Circulation

Banknotes and coins in circulation in amount of RSD 68,461 million (31 December 2005: RSD 53,650 million) represent an obligation of the Bank to the holders of banknotes and coins. This amount does not include ready cash in the vaults of commercial banks and of the Government's treasury (Note 19).

24 Other Liabilities

In millions of RSD	2006	2005
Accrued interest	4,353	3,581
Payroll and social security costs	143	14
Liabilities to suppliers and advances received	185	120
Other	1,204	4,302
Balance as at 31 December	5,885	8,017

Accrued interest as of 31 December 2006 includes accrued interest and penalty interest on the borrowing from the Export-Import Bank of China (Note 19) in the amount of RSD 3,091 million (31 December 2005: RSD 2,714 million).

25 Fair Value Information

The following table is a comparison of the carrying amounts (after impairment adjustments) and fair values of all Bank's financial assets and liabilities of the Bank as at 31 December 2006:

In millions of RSD	Carrying amount	Fair value
Financial assets		
Cash and current accounts	10,318	10,318
Gold and other precious metals	15,101	15,101
Trading securities	362,696	362,696
Held to maturity investments	38,605	38,604
Available for sale securities	14,920	14,920
Loans	143	143
Deposits with foreign banks	287,670	287,670
Financial liabilities		
Deposits of banks and other financial institutions	309,262	309,262
Borrowings from banks	10,496	10,496
Securities repurchase transactions	141,866	141,866
Securities issued	10,066	10,066
Liabilities to IMF	62,247	62,247
Deposits of Government and other depositors	159,654	159,654

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

(a) Trading securities

Held-for-trading assets relate to OECD government bonds measured at fair value based on the published price quotations.

(b) Securities available-for-sale

Available-for-sale securities were measured at best estimate of fair value (market rate) using the effective interest rate method.

(c) Held-to-maturity assets and loans and receivables

These items were measured at amortised cost using the effective interest rate method with additional consideration for imputed interest loss.

(d) Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The value of long term relationships with depositors is not taken into account in estimating fair values.

(e) Borrowings

Determination of the fair value of borrowings related to Export-Import Bank of China was not practical since the Bank is currently in negotiations over repayment of this loan (see Note 19).

26 Equity

The sole owner of the Bank is the Republic of Serbia

The Bank's equity is comprised of its authorised capital and reserves. In accordance with the Law on the National Bank of Serbia, the authorised capital shall amount to at least RSD 10 billion and is to be formed from its retained earnings. In 2006, the Bank has increased authorised capital in the amount of RSD 6,142 million. The Bank's authorised capital as at 31 December 2006 amounts to RSD 14,750 million, which is above the aforementioned limit prescribed by the law.

In 2006, the Bank transferred RSD 10,000 million from retained earnings to distributable reserves which are to be used to absorb future losses. In accordance with the Law on the National Bank of Serbia, if the reserves are not sufficient to absorb the losses, then they are to be covered from the Republic of Serbia budget, or by securities issued by the Republic of Serbia for that specific purpose. Repayment of such securities will be made from the Bank's profits available in future periods.

27 Memorandum Accounts of the Balances relating to the Former SFRY

The off-balance sheet records of assets and liabilities of the former SFRY include the following items:

- Balances on frozen accounts with foreign banks and liabilities to banks and other depositors relating to the frozen accounts.

The amount of frozen assets which relates to Republic of Serbia solely is USD 54,6 million or RSD 3,275 million as at 31 December 2006.

28 Risk Management Policies

Liquidity Risk

Liquidity risk includes both the risk of not being able to fund assets at appropriate maturities and interest rates, and the risk of not being able to liquidate an asset at a reasonable price and within an appropriate time frame.

The Bank is the lender of last resort to commercial banks in the Republic of Serbia. However, the day-to-day operations of the Bank are aimed at ensuring that adequate liquidity exists to meet all domestic obligations and commitments as they become due. The Bank has access to diverse funding sources. Funds are raised through deposits, issue of securities and borrowings. Diversification of funding sources enhances funding flexibility, limits dependence on any source of funds and generally lowers the cost of funds. The Bank maintains a balance between the continuity of its funding and the flexibility of funding sources through the use of funding sources with a range of maturities. The Bank assesses liquidity risk by identifying and monitoring changes in funding sources required to meet the goals strategically set by the Bank's management. In addition, the Bank holds a portfolio of liquid assets, such as current accounts and deposits with foreign banks, and OECD government bonds, as a part of its liquidity risk exposure management strategy.

The following table summarises an analysis of the Bank's financial assets and liabilities based on the remaining periods to repayment:

In millions of RSD	Up to one month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Assets							
Cash and current accounts	10,318	-	-	-	-	-	10,318
Deposits with foreign banks	237,481	50,189	-	-	-	-	287,670
Gold and other precious metals	13,686	1,386	-	-	-	29	15,101
Financial assets at fair value through profit and loss	362,696	-	-	-	-	-	362,696
Held-to-maturity investments	6,337	16,929	15,339	-	-	-	38,605
Securities available for sale	708	-	5,651	8,561	-	560	15,480
Loans	-	-	-	143	-	-	143
IMF membership quota and SDR holdings	530	-	-	-	-	42,199	42,729
Property and equipment	-	-	-	-	-	15,774	15,774
Other assets	563	-	1,037	-	-	-	1,600
Total assets	632,319	68,504	22,027	8,704	-	58,562	790,116
Liabilities							
Liabilities to other banks and financial institutions	452,476	-	10,496	190	-	10,624	473,786
Liabilities to the Government and other depositors	61,284	98,370	-	-	-	-	159,654
Liabilities to the IMF	-	14,935	-	-	47,312	-	62,247
Securities issued	-	-	10,066	-	-	-	10,066
Dinars in circulation	-	-	-	-	-	68,389	68,389
Other liabilities	4,532	-	1,353	-	-	-	5,885
Total liabilities	518,292	113,305	21,915	190	47,312	79,013	780,027
Equity	-	-	-	-	-	10,089	10,089
Total liabilities and equity	518,292	113,305	21,915	190	47,312	89,102	790,116
Net liquidity gap	114,027	(44,801)	112	8,514	(47,312)	(30,540)	-

Interest Rate Risk

Interest rate risk includes the risk of interest rate fluctuations that might cause the interest-bearing assets and interest-bearing liabilities to mature or reprise at different times, or at varying amounts. The Bank manages interest rate exposure by being in a position to:

- set interest rates, to monitor them, and subsequently, to adjust them in order to fulfil the overall goals of the adopted monetary policy (obligatory reserves in Dinars and foreign currency of the commercial banks and reserves with respect to public foreign currency savings);
- maintain the Government's deposits and those of governmental institutions;
- maintain funds on current accounts and short-term deposits with foreign banks maturing up to 30 days and maturing from 30 up to 90 days, and invest in the highly liquid securities of the governments of OECD member countries.

The Bank is exposed to interest rate risk related to issued securities, foreign currency borrowings and liabilities toward the International Monetary Fund.

The following table provides a summary of the average, annual interest rates on the most significant interest-bearing financial instruments stated in the balance sheet as of 31 December 2006, as per the major currencies:

	RSD (%)	EUR (%)	USD (%)	SDR (%)
Financial assets				
Current accounts with foreign banks	-	0.0 – 3.5	0.0 - 4.8	-
Deposits with foreign banks	-	2.0 - 3.7	1.8 - 5.8	-
Financial assets at fair value through profit and loss	-	2.6 - 6.5	2.5 – 5.8	-
Held-to-maturity investments	-	3.4 – 3.6	4.8 – 5.0	-
Securities available for sale	8.5	-	-	-
Financial liabilities				
Obligatory reserves of banks in Dinars	2.5 – 3.0	-	-	-
Time deposits	-	3.1-3.2	5.1	-
Borrowings	-	-	6.4 -7.9	-
Liabilities for repurchase transactions	14.0 - 20.9	-	-	-
Securities issued	16.0 – 24.0	-	-	-
Liabilities to International Monetary Fund	-	-	-	3.9

Currency Risk

The Bank is exposed to foreign currency risk in its transactions in foreign currencies, The Bank exposures give rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank. The Bank manages the foreign currency exposure by pursuing the policy of structuring its asset/currency mix in such a manner that would be in line with expected future known foreign currency obligations. The following table provides an analysis of the Bank's foreign currency exposure as at 31 December 2006:

In millions of RSD	EUR	USD	SDR	Other Currencies	Total Foreign Currencies	Dinars	Total Balance Sheet
Assets							
Cash and current accounts	4,787	1,380	-	2,414	8,581	1,737	10,318
Deposits with foreign banks	260,398	25,223	-	2,049	287,670	-	287,670
Gold and other precious metals	-	-	-	15,101	15,101	-	15,101
Financial assets at fair value through profit and loss	259,079	88,814	-	14,803	362,696	-	362,696
Held-to-maturity investments	28,220	10,385	-	-	38,605	-	38,605
Securities available for sale	-	-	329	-	330	15,150	15,480
Loans	-	-	-	-	-	143	143
IMF membership quota and SDR holdings	-	-	42,729	-	42,729	-	42,729
Property and equipment	-	-	-	-	-	15,774	15,774
Other assets	466	33	-	31	530	1,070	1,600
Total assets	552,950	125,835	43,059	34,398	756,242	33,874	790,116
Liabilities							
Liabilities to other banks and financial institutions	245,793	19,033	-	9	264,835	208,951	473,786
Liabilities to the Government and other depositors	128,540	1,218	-	1,028	130,786	28,868	159,654
Liabilities to the IMF	-	-	62,247	-	62,247	-	62,247
Securities issued	809	-	-	-	809	9,257	10,066
Dinars in circulation	-	-	-	-	-	68,389	68,389
Other liabilities	483	3,134	20	115	3,752	2,133	5,885
Total liabilities	375,625	23,385	62,267	1,152	462,429	317,598	780,027
Equity	-	-	-	-	-	10,089	10,089
Total liabilities and equity	375,625	23,385	62,267	1,152	462,429	327,687	790,116
Net balance sheet position	177,325	102,450	(19,208)	33,246	293,813	(293,813)	-

Credit Risk

The primary exposure to credit risk arises from deposits and investments in foreign securities, as well as from held-to maturity securities, and loans extended to domestic banks, the Government, governmental institutions, and public enterprises. The amount of credit exposure in this respect is represented by the carrying amounts of the financial assets stated in the balance sheet. Management believes that the allowances stated in the balance sheet are adequate to absorb the losses that may arise from the exposures.

The concentration of credit exposures arising on financial instruments occurs in instances in which counterparties have similar economic characteristics that could render their ability to meet contractual obligations, to be similarly affected by changes in economic or other circumstances.

The significant geographical concentrations of foreign assets of the Bank as of 31 December 2006 are as follows:

	European Union	United States of America	Switzerland	Other	Total
Current accounts with foreign banks	2,328	20	24	41	2,412
Deposits with foreign banks	232,681	2,261	48,629	4,099	287,670
Financial assets at fair value through profit and loss	283,061	79,635	-	-	362,696
Held-to-maturity investments	28,220	10,385	-	-	38,605

29 Agreement on balances division between Serbia and Montenegro

The Republic of Serbia and the Republic of Montenegro reached Agreement on the distribution of assets and liabilities of the Federal Republic of Yugoslavia and membership in international financial organizations in July 2006. By the end of 2006, assets and liabilities were distributed and membership in international financial organizations resolved in accordance with the agreement, except for membership in the Bank for International Settlement, Basel which is in process of resolution.

The percentage rate for the distribution of non – allocated financial assets and liabilities was determined on the basis of the respective shares of the Republic of Serbia and the Republic of Montenegro in the GDP of the former FRY in the period from 1994 until 1998 in the proportion of 94.1% for Serbia and 5.9% for Montenegro.

During 2006, the Bank transferred gold in the amount of USD 23.2 million (in quantity of 36.5 thousand of fine ounces), USD 2 million (net of assets and liabilities), EUR 0.5 million and other insignificant amounts in other currencies, all in accordance with aforementioned Agreement. This distribution has not affected the Bank's income statement significantly as the related provision made in prior years was sufficient to cover these outflows.

In respect of the membership in international financial organizations, the Republic of Serbia shall continue the membership in the International Monetary Fund with the membership quota amounting to SDR 467.7 million (see Note 16). Financial liabilities towards International Monetary Fund, regarding membership and outstanding debt under financial arrangements shall continue to be serviced by the Republic of Serbia (see Note 21).

According to the Agreement, shares with the accrued dividends of the former National Bank of Yugoslavia in the Bank for International Settlements shall be distributed applying the aforementioned percentage key. However, by the date of this report, Bank for International Settlement, Basel had not yet admitted Republic of Montenegro in membership thus the shares and accrued dividends relating to Montenegro have still not been distributed (see Note 14). As at 31 December 2006, the Bank has formed provision in respect of the portion of shares and accrued dividends relating to Montenegro in the amount of RSD 215 million. The membership of Republic of Serbia and Republic of Montenegro in Bank for International Settlements in Basel is expected to be resolved in near future.

30 Litigation

As at 31 December 2006, there are a number of legal proceedings in which the Bank is defendant. The Bank's management believes that these lawsuits will not result in any significant outflow of resources of the Bank in future and that no provision is required in this respect.

31 Exchange Rates

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

In RSD	31 December 2006	31 December 2005
USD	59.9757	72.2189
EUR	79.0000	85.5000
SDR	90.2274	103.2203

32 Related Parties

a) Identity of related parties

The Bank identified no related parties as at 31 December 2006. Therefore the Bank had no transactions with related parties.

b) Transactions with key management personal

The Bank considers its Council President and members, Governor, Vice-governors, General Secretary, Managers of independent and basic organizational units and Department Managers as key management.

The management of the Bank receives their compensation for work in the Bank and the management of the Bank controls no equity stake of the Bank.

In addition to their salaries the Bank also provides benefits to its management under defined contributions pension plan prescribed by the local regulatory requirements. The Bank does not provide its management with post employment benefits or with equity compensation benefits.

The key management compensations relate to short term benefits in the amount of RSD 300 million (2005: 205 million). These are included in Salaries, wages, contributions and other personnel expenses in Other operating expenses (Note 9).