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TRANSLATION

TO THE SHAREHOLDERS OF

KOMERCIJALNA BANKA A.D. BEOGRAD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Komercijalna banka a.d. Beograd (hereinafter: the Group) as at 31 December 2008 and the related consolidated statement of income, consolidated cash flows and consolidated changes in shareholders equity 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 consolidated financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006), Banks Law ("Official Gazette of the RS", no. 107/2005) and other relevant by-laws issued by National Bank of Serbia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We have conducted our audit in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006) and International Standards on Auditing as issued by the International Federation of Accountants as well as in accordance with the Decision on External Audit of Banks. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2008, and the results of its operations and cash flows for the year then ended, in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006) and Banks Law ("Official Gazette of the RS", no. 107/2005) and relevant National Bank of Serbia's by-laws.

Belgrade, 16 April 2009

KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

This is a Translation of the Original Report on the Financial Statements issued in Serbian Language. We are responsible for the translation of the Report on the Financial Statements and not for any other documents.

Belgrade, 16 April 2009

KPMG d.o.o. Beograd




Nina Bulatović
Certified Auditor

**CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2008**

In thousands of RSD	Note	2008	2007
Interest income	3.1., 4.a	11,921,767	8,579,150
Interest expenses	3.1., 4.b	4,852,503	2,712,711
Gains on interest		7,069,264	5,866,439
Fee and commission income	3.2., 5.a	3,331,992	2,901,274
Fee and commission expenses	3.2., 5.b	345,152	257,136
Gains on fees and commissions		2,986,840	2,644,138
Net gains on sale of securities at fair value trough income statement	3.3., 6.	3,057	77,087
Net gains on sales of equity investments	3.3., 7.	56,661	162
Net foreign exchange gains	3.4., 8.	-	457,662
Net foreign exchange losses	3.4., 8.	(3,723,514)	-
Dividends and other income from equity investments	3.3., 9.	3,208	968
Other operating income	10	237,458	329,743
Net income on indirect write-off of placements and provisions	3.8., 3.14., 11.	-	806,046
Net expenses on indirect write-off of placements and provisionsf assets and liabilitie	3.8., 3.14., 11.	(1,691,211)	-
Payroll expenses, remuneration and other personal expenses	13	(3,690,030)	(3,247,102)
Depreciation expenses	14	(464,754)	(379,958)
Operating and other expenses	15	(3,890,938)	(3,335,089)
Gains on valuation of assets and liabilities	3.3., 3.7., 16.	17,901,665	5,683,700
Losses on valuation of assets and liabilities	3.3., 3.7., 17.	(11,887,067)	(5,693,150)
Operating profit		2,910,639	3,210,646
Profit before tax		2,910,639	3,210,646
Income tax	3.12.1., 18.	(23,491)	(27,681)
Gains on increase in deferred tax assets and decrease in deferred tax liabilities	3.12.1., 20.	1,397	36,268
Losses on decrease in deferred tax assets and increase in deferred tax liabilities	3.12.1., 19.	(30,851)	(3,633)
PROFIT		2,857,694	3,215,600
Net profit attributable to minority interest		1	7
Net profit for the year attributable to majority interest		2,857,693	3,215,593
Basic earnings per share (in dinars rounded)	41	3,172	3,469
Decreased earnings per share (in dinars rounded)	41	3,172	3,469

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

In thousands of RSD	Note	2008	2007
ASSETS			
Cash and cash equivalents	3.10, 21., 49.	30,555,435	6,913,488
Callable deposits and loans	22	22,947,585	41,869,561
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	12., 23., 50.	721,079	478,316
Granted loans and deposits	3.7, 3.8, 3.13, 3.16, 12., 24., 50.	116,575,057	98,547,446
Securities (excluding own shares)	3.9.1-2, 12., 25.	368,411	435,433
Equity investments	3.9.3, 12, 26.	279,624	586,050
Other placements	12., 27.	2,668,696	556,757
Intangible assets	3.5.1., 28.	335,654	117,673
Property and equipment and investment property	3.5.1., 3.5.2., 29	7,628,162	7,417,057
Non-current assets held for sale and discontinued operations	30	79,387	-
Deferred tax assets	3.12.1., 31.	187,564	114,780
Other assets	12., 32.	1,481,703	914,087
TOTAL ASSETS		183,828,357	157,950,648
LIABILITIES AND EQUITY			
Transaction deposits	33	30,900,970	29,482,567
Other deposits	34	113,686,837	102,282,222
Borrowings	35	1,504,988	40,560
Interest, fees and commissions payable and change in fair value of derivatives	3.1., 3.2., 36.	200,974	79,600
Provisions	3.8., 3.14., 37.	1,101,391	1,173,747
Tax liabilities	38	73,320	76,369
Liabilities related to profit	39	10,755	24,328
Deferred tax liabilities		26	-
Other liabilities	40	10,104,447	5,313,130
Total liabilities		157,583,708	138,472,523
Equity	41	17,062,579	13,178,526
Reserves from profit	42	5,058,390	2,223,033
Revaluation reserves	43	648,379	832,042
Profit	44	3,049,695	3,218,887
Cumulative gains on foreign operations translation		425,606	25,637
Total equity		26,244,649	19,478,125
TOTAL LIABILITIES AND EQUITY		183,828,357	157,950,648
Minority interest		45	41
OFF BALANCE SHEET ITEMS			
Funds managed on behalf of third parties	3.11., 45.	5,861,056	6,523,329
Contingent liabilities	46.a	25,694,120	23,076,577
Other off-balance sheet items	47	29,122,519	35,718,688
Total off-balance sheet items		60,677,695	65,318,594

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008**

In thousands of RSD	2008	2007
Cash inflows from operating activities		
Interest receipts	11,562,402	8,746,635
Fee and commission receipts	3,369,833	3,162,130
Receipts from other operating income	142,763	464,328
Receipts from dividends and equity investments	3,208	83,949
Cash inflows from operating activities	15,078,206	12,457,042
Cash outflows from operating activities		
Interest payments	(4,269,794)	(2,480,955)
Fees and commission payments	(344,591)	(251,278)
Payments of gross salaries and fringe benefits and other personal expenses	(3,689,657)	(3,243,394)
Payments of taxes, contributions and other expenses charged to income	(718,337)	(618,006)
Cash payments for other operating expenses	(3,171,408)	(2,892,236)
Cash outflows from operating activities	(12,193,787)	(9,485,869)
Net cash inflows from operating activities before increases/(decreases) in advances and deposits	2,884,419	2,971,173
Decrease in loans and placements to banks and customers	6,033,085	-
Decrease of securities at fair value through income statement, investments for trade and short-term securities held for to maturity	8,601	109,219
Increase in deposits from banks and customers	12,735,769	47,104,388
Decrease in loans and increase in deposits	18,777,455	47,213,607
Increase in loans and investments to banks and customers	-	(53,258,037)
Increase in loans and decrease in deposits	-	(53,258,037)
Net cash inflows/(outflows) from operating activities before income tax	21,661,874	(3,073,257)
Income tax paid	(232,959)	(39,176)
Dividends paid	(264,456)	(181,889)
Net cash inflows/outflows from operating activities	21,164,459	(3,294,322)
Cash flows from investing activities		
Inflows from long-term investments in securities	10,500	22,144
Inflows from sale of equity investments	56,661	-
Inflows from sale of intangible and fixed assets	15,848	175,944
Purchases of equity investments	(1,510)	(94,997)
Purchases of fixed and intangible assets	(810,998)	(813,896)
Net cash outflow from investing activities	(729,499)	(710,805)
Cash flows from financing activities		
Proceeds from increase in capital	3,884,048	480,936
Net cash inflow from loans taken	2,818,658	-
Net cash inflows from sale of treasury shares	-	43,810
Net outflow from loans taken	-	(419,356)
Net cash inflow from financing activities	6,702,706	105,390
Total net cash inflow	40,641,376	60,393,483
Total net cash outflow	(13,503,710)	(64,293,220)
Net cash increase/(decrease)	27,137,666	(3,899,737)
Cash and cash equivalents at beginning of the year	6,913,488	10,281,656
Foreign exchange gains	47,925,361	16,165,063
Foreign exchange losses	(51,421,080)	(15,633,494)
Cash and cash equivalents at end of the year	30,555,435	6,913,488

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

In thousands of RSD	Share capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Profit	Own shares	Cumulative gains on foreign operations translation	Total
Balance as at 1 January 2007	8,856,671	3,961,520	1,208,871	769,267	1,303,797	164,410	39,505	15,975,221
Total increase in the year 2007	-	480,935	1,014,162	263,767	3,338,484	-	55,680	5,153,028
Total decrease in the year 2007	(120,600)	-	-	(200,992)	(1,423,394)	(164,410)	(69,548)	(1,650,124)
BALANCE AS AT 31 DECEMBER 2007	8,736,071	4,442,455	2,223,033	832,042	3,218,887	-	25,637	19,478,125
Balance as at 1 January 2008	8,736,071	4,442,455	2,223,033	832,042	3,218,887	-	25,637	19,478,125
Total increase in the year 2008	346,794	3,537,259	2,836,505	99,112	2,968,057	-	399,969	10,187,696
Total decrease in the year 2008	-	-	(1,148)	(282,775)	(3,137,249)	-	-	(3,421,172)
BALANCE AS AT 31 DECEMBER 2008	9,082,865	7,979,714	5,058,390	648,379	3,049,695	-	425,606	26,244,649



KOMERCIJALNA BANKA AD BEOGRAD

NOTES
TO THE
CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR 2008

Belgrade, April 2009

1. BANK'S ESTABLISHMENT AND BUSINESS ACTIVITIES

Komercijalna banka AD, Beograd (hereinafter: the Parent Bank) was originally established on 1 December 1970, and subsequently reorganised and transformed into a shareholding company on 6 May 1992.

The Bank's shareholders, with the most significant participation in the ordinary share capital, are presented as follows:

Republic of Serbia	42.60%
EBRD, LONDON	25%
ARTIO INT. EQUITY FUND, New York	4.82%
Jugobanka AD Beograd under bankruptcy	3.69%
INVEJ DOO, Beograd	3.57%
Kompanija Dunav, Beograd	3.55%
Evropa osiguranje AD Beograd under liquidation	2.98%

The Parent Bank has three subsidiaries with the following equity participations:

- 100% - Komercijalna banka AD Budva, Montenegro
- 100% - Kombank invest AD, Serbia
- 99.99 % - Komercijalna banka AD Banja Luka, Bosna and Herzegovina.

The minority interest in Komercijalna banka AD Banja Luka of 0.01% is held by the Export Credit Agency from Belgrade.

Consolidated financial statements represent financial reports of Komercijalna banka AD Beograd as the parent bank, of Komercijalna banka AD Budva, Komercijalna banka AD Banja Luka, and Kombank Invest AD Serbia (hereinafter: the Group).

Komercijalna banka AD Budva was founded in November 2002 as an affiliate of Komercijalna banka AD Beograd and was registered in the central register of the Commercial Court in Podgorica on 6 March 2003.

Komercijalna banka AD Banja Luka was founded in September 2006 and on 15 September 2006 was registered in the court register of the Fundamental Court in Banja Luka.

Kombank invest AD Serbia was founded in December 2007 and was registered on 5 February 2008.

The Group's activities include credit, deposit and guarantee operations, and domestic and foreign payment operations in compliance with the Law on Banks, and organizing and managing investments funds operations. The Group operates in compliance with the principles of liquidity, security and profitability.

As at 31 December 2008 the Group consists of the Belgrade headquarters at Svetog Save 14, the headquarters of Komercijalna banka AD Budva in Budva, the headquarters of Komercijalna banka AD Banja Luka in Banja Luka, the headquarters of Kombank Invest AD Belgrade, 40 branches and 283 sub-branches located throughout the Republic of Serbia, Montenegro and Bosnia and Herzegovina. The Parent Bank has representative offices registered in Frankfurt am Main, Germany and in Zagreb, Croatia.

As at 31 December 2008 the Group had 3,444 employees (31 December 2007: 3,249 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

In 2008 Group members kept their business records and prepared their stand alone financial statements in accordance with local statutory regulations, and other legislation based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as in compliance with regulations prescribed by respective central banks. Stand alone financial statements have been reviewed by an external auditor who issue an unqualified opinion, in accordance with local statutory regulations.

Stand alone financial statements of subsidiary banks were adjusted for financial statement presentation based on accounting regulations effective in the Republic of Serbia for the purpose of preparing the consolidated financial

Functional currencies, EUR for the financial statements of Komercijalna banka AD Budva and BAM for the financial statements of Komercijalna banka AD Banja Luka, are converted into the presentation currency, which is the functional currency of the Parent Bank – dinar (RSD), using officially released foreign currency exchange rates in the Republic of Serbia.

The balance sheet assets of Komercijalna banka AD Budva amount to 3.83% of the total balance sheet assets of the consolidated balance sheet. The balance sheet assets of Komercijalna banka AD Banja Luka amount to 5.33% of the total balance sheet assets of the consolidated balance sheet. And the balance sheet assets of Kombank Invest AD Serbia amount to 0.01% of the total balance sheet assets of the consolidated balance sheet. The operating expense of representative offices abroad are disclosed in the Group's financial statements.

The Group's financial statements are presented in Dinars (RSD), rounded to the nearest thousand. Dinars (RSD) are the official currency for reporting in the Republic of Serbia and the functional currency of the Parent Bank. The accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Organizations" (Official Gazette of the Republic of Serbia 74/2008, 3/2009 and 12/2009).

During consolidation all related party transactions were eliminated from the balance sheet in the amount of RSD 4,018,003 thousand. Income from related party transactions was eliminated from the income statement in the amount of RSD 198,414 thousand, and expenses were eliminated in the amount of RSD 78,921 thousand (Note 52).

The income statement and cash flow statement were reclassified using the average exchange rate in the Republic of Serbia for 2008 in the amount of RSD 81.0050 for one EURO and RSD 41.4199 for one BAM, while the remaining financial statements (balance sheet, statement of changes in equity and statistical annexes) were reclassified using closing exchange rates as at balance sheet date of RSD 88.6010 for one EURO and RSD 45.3010 for one BAM.

The consolidated financial statements relating to the period 1 January – 31 December 2008 were approved by the Bank's Board of Directors on 27 April 2009.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest income and expense

Interest income and expenses, including the penalty interest and other income and expenses arising on the interest-bearing assets and liabilities, are recognized in the income statement on an accruals basis. Interest is calculated in accordance with the terms defined in the agreements with lenders and borrowers.

Income from loan approval commission is recorded as deferred income, and is recognized under interest income of the period (EIR) in proportion to period of loan usage. Income from loan approval commission is presented as correction of actual returns on loan investments.

Interest income also includes income arising on risk hedging instruments, mostly by linking payments to the dinar exchange rate with respect to EUR, or retail price index. Income arising on risk hedging instruments is calculated at the end of each month during the repayment period, as well as at the date of payment.

3.2. Fee and commission income/expenses

Fee and commission income and expenses are recognized in the income statement on an accruals basis.

3.3. Income and expenses from securities

All realized or unrealized gains from changes in the market value of held for trading are charged to income or expenses in the income statement.

Securities held to maturity are stated at amortized cost. Gains and losses arising on changes in amortized value of securities held to maturity are credited to income or charged to expenses.

Securities available for sale are measured after initial recognition at fair value, based on current market prices. Changes in the market value of financial asset available for sale are charged to equity (revaluation reserves) till the moment of securities sale, when they are recognized as income or expenses.

Dividends received in respect of investments in shares of other legal entities are disclosed as income from dividends at the moment of their collection.

With regards to investments in securities of entities which are not quoted on the stock exchange, members of the Group make provisions for the estimated amount of risk.

3.4. Foreign exchange translation

Transactions in foreign currencies are translated into functional currencies at the foreign exchange mid rate set by the inter-banking foreign currency market ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at balance sheet date are translated into functional currencies at the foreign exchange mid rate set by the inter-banking foreign currency market ruling as at that date.

Net foreign exchange gains or losses arising on foreign currency transactions and on translation of balance sheet items denominated in foreign currency are reported in the income statements as foreign exchange gains or losses.

Contingent liabilities and commitments denominated in foreign currency as at balance sheet date are translated into functional currencies at the foreign exchange mid rate set by the inter-banking foreign currency market ruling as at that date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Property and equipment, investment property and intangible assets

3.5.1. Property and equipment and intangible assets

Property and equipment and intangible assets are initially recognized at purchase price or cost. For subsequent measurement the Group uses the revaluation method for property, and the purchase value method for equipment.

The fair value of property is evaluated by an independent and certified appraiser. The revaluation is performed regularly, so that the book value does not differ from fair value. Gains from revaluation of property are recognized within equity as revaluation reserves. Losses from revaluation of property are charged against revaluation reserves, arising from revaluation of property. If the reserves are inadequate, the difference is charged to expenses in the period when occurred.

Depreciation is calculated on the cost or the revalued amount of property, equipment and intangible assets on a straight line basis using prescribed annual rates determined by the Group, so that the cost or the revalued amount of assets, after deducting of residual value, are fully depreciated during its useful life.

Intangible assets	20%-33.34%
Buildings	2.50%
Investment property	2.50%
Computers	25%
Furniture and other equipment	6.7%-25%
Investments in other entity's fixed assets	8.64%-75.18%

Property, equipment and intangible assets are depreciated from the month when put into use. In accordance with internal regulations of the Group, the residual value of properties is deemed to be equal to 30% of its initial value. Residual values are not depreciated.

Depreciation rates and estimated remaining useful life are verified or reviewed annually for depreciation that adequately reflects the actual usage of these assets in the business operations of the Group's members.

3.5.2. Investment property

Investment property is property held to earn rentals or for capital appreciation or both. For subsequent measurement of investment property, the Group uses the fair value model. Investment property is depreciated at annual rate of 2.5%.

3.6. Inventories

3.6.1. Inventories are stated at the lower of cost and net realisable value.

Inventories include assets acquired by way of collecting receivables.

3.6.2. Non-current assets held for sale represent non-current assets whose book value will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets held for sale are stated at the lower of its book value and fair value less selling costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Loans

Loans are stated at the amount of principal outstanding, less allowances for impairment, which are based on an evaluation of specifically-identified exposures and also cover losses that are inherent in the Group's loan portfolio. Management applies methodology based on fully application of IAS 39, in its evaluation of the risks and resulting estimations of the allowances (Note 3.8).

For the purpose of determining amortized cost or fair value of loans and advances originated by the Group, based on IAS/FIRS, the net present values of future cash flows are discounted at the contractual interest rate, decreased for repaid principle.

Loans, which are disbursed in Dinars and index-linked to the foreign exchange rates of EUR or other foreign currencies or to changes in the retail price index, are revalued in accordance with the provisions stated under the individual loan agreements. A difference between the nominal value and the revalued value of the outstanding principle is disclosed under loans and advances. The effects of such revaluation are included under gains and losses on the valuation of financial assets.

3.8. Allowances for Impairment and Provisions for Contingent Liabilities

In 2008 the Group adopted the Manual on Assessment and Recognition of Loans, Receivables and Provisions which specifies the criteria for assessment and recognition of corporate and retail loans, receivables and reservations, in accordance with Internal methodology of the Bank. The first absolute application of assessment and provision based on internal methodology of the Bank took place in year 2007.

3.9. Securities

3.9.1. Securities held for trading

Securities held for trading are comprised of shares and "old foreign currency savings bonds", and are disclosed at market value.

3.9.2. Securities held to maturity

Securities held to maturity are initially stated at cost and at balance sheet date securities held to maturity are stated at amortized cost, or present value of future cash flows, using the contractual interest rate, since current market interest rate is not available.

3.9.3. Securities available for sale

Securities available for sale are comprised of equity investments of other banks, associates and other entities.

Equity investments that relate to the listed securities of other legal entities are stated at market value, as of the balance sheet date. Equity investments for which an active market and reliable market values do not exist are stated at cost less allowances for impairment.

Equity investments of associated legal entities are stated at cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Cash and cash equivalents

For purposes of the Statement of Cash Flows, "Cash and cash equivalents" include cash and balances on the current accounts held with the central bank and other banks, as well as cheques in the course of collection.

3.11. Funds managed on behalf of third parties

Assets for business operations conducted on behalf of third parties that are managed by the Group are not included in the Group's balance sheet, but under off-balance sheet items.

3.12. Taxes and contributions

3.12.1. Corporate income tax

The Parent Bank is unable to perform tax consolidation based on regulations effective in the Republic of Serbia.

Current income tax represents the amount calculated in accordance with the defined tax rate. The taxable base includes the profit stated in the statutory statement of income in accordance with IAS/FIRS, adjusted for permanent differences between defined and effective tax rate.

The annual corporate income tax of the Group's members is payable at the prescribed rate on the tax base reported in the annual income tax return. (Note 18)

The tax rates for 2008 are:

Serbia	10%
Montenegro	9%
Bosnia and Herzegovina	10%

3.12.2. Taxes and contributions not dependant on results

Taxes and contributions that are not dependant on results comprise property tax, value added tax, taxes and contributions for salaries charged to the employer, as well as other taxes and contributions in accordance with tax legislation and general regulations. These taxes and contributions are reported under other operating expenses.

3.13. Fair value

In the Republic of Serbia, the Republic of Montenegro and the Republic of Bosnia and Herzegovina there is no market experience, stability and liquidity for the sale/purchase of loans and other financial assets and liabilities and the official market information are not available at every moment. For the purpose of fair value determination, future cash flows are discounted at present value using discount rate equal to the contracted interest rate, which discounts present value to nominal value. Provision is made in the amount of the estimated risks that the book value will not be realized.

3.14. Employee benefits

The Group does not have its own defined benefit plans or share-based remuneration options as at 31 December 2008.

The Group made provisions in compliance with IAS 19 in proportion to long-term liabilities for retirement benefits. Provision for retirement benefits is calculated by independent certified actuary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Appliance of new sublegal acts of Law on accounting and auditing

In the year 2008, National Bank of Serbia adopted new Regulation on chart of accounts and account's content in chart of accounts for Banks and Regulation on form and content of items in forms of financial statements for Banks.

The Group applied mentioned acts and conducted appropriate reclassifications for previous year financial statement items.

3.16. Segment information

The Group performs most of its operations in the Republic of Serbia.

The balance sheet assets of the Parent Bank amount to 90.83% of the consolidated balance sheet assets.

Segment information is presented in note 51.

Analysis of the Group's placements in respect of the industry concentration is presented in Note 24.

4. INTEREST INCOME AND EXPENSES

The Group estimated that it is not expediently to reclassify interests for previous year on the basis of new chart of accounts considering that in 2007 chart of accounts based on sector qualification of the client was applied.

a) Interest income

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
<i>Interest in dinars</i>		
- Loans	8,627,019	
- Deposits	429,129	
- Securities	10,129	
- Other placements	<u>602,695</u>	
Total in dinars	<u>9,668,972</u>	
<i>Interest in foreign</i>		
- Loans in foreign currency	1,637,280	
- Deposits in foreign currency	377,820	
- Other placements in foreign currency	<u>237,696</u>	
Total in foreign currency	<u>2,252,795</u>	
TOTAL	<u><u>11,921,767</u></u>	<u><u>8,579,150</u></u>

Suspended interest income for 2008 amounts to RSD 29,597 thousands.

Interest income which is not calculated and recognized in the income statements for 2008 amounts to RSD 39,529 thousand and relates to interest on loans and advances to clients under litigation, where interest is no longer calculated.

4. INTEREST INCOME AND EXPENSES (Continued)

b) Interest expenses

In thousands of RSD	31 December	
	2008	2007
<i>Interest in dinars</i>		
- Loans	48,583	
- Deposits	1,653,710	
- Securities	0	
- Other placements	337	
Total in dinars	1,702,630	
<i>Interest in foreign currency</i>		
- Loans in foreign	82,057	
- Deposits in foreign currency	3,050,233	
- Other placements in foreign currency	17,582	
Total in foreign currency	3,149,873	
TOTAL	4,852,503	2,712,711

5. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and commission income

In thousands of RSD	31 December	
	2008	2007
Fee in dinars	2,941,700	2,590,408
Fee in foreign currency	390,292	310,866
TOTAL	3,331,992	2,901,274

b) Fee and commission expenses

In thousands of RSD	31 December	
	2008	2007
Fee and commission in dinars	193,087	203,275
Fee and commission in foreign currency	152,065	53,861
TOTAL	345,152	257,136

6. NET GAINS ON SALE OF SECURITIES AT FAIR VALUE THROUGH INCOME STATEMENT

In thousands of RSD	31 December	
	2008	2007
Gains on sale of securities at fair value	3,094	77,091
Losses on sale of securities at fair value	37	4
Net gains on sale of securities at fair value through income statement	3,057	77,087

7. NET GAINS ON SALE OF EQUITY INVESTMENTS

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Gains on sale of equity investments	56,661	162
Losses on sale of equity investments	-	-
Net gains on sale of equity investments	<u>56,661</u>	<u>162</u>

Based on membership and volume of business cooperation between the Group and companies VISA Inc and Master Card Inc USA, the Bank became owner of 45,640 shares, of which it sold 25,726 shares through IPO in the amount of RSD 56,661 thousands.

8. NET FOREIGN EXCHANGE GAINS/LOSSES

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Foreign exchange gains	47,312,882	15,952,763
Foreign exchange losses	51,036,396	15,495,101
	<u>(3,723,514)</u>	<u>457,662</u>

Foreign exchange gains and losses include gains/losses from transactions made in foreign currency during the year and gains/losses from translation of balance sheet items denominated in foreign currency into domestic currency at official exchange rate ruling at the end of the each month.

In accordance with the National Bank of Serbia regulations, calculation of exchange rate differences is made and stated on gross principle (exchange rate gains and losses) during the business year.

9. DIVIDENDS AND OTHER INCOME FROM EQUITY INVESTMENTS

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Dividends and other income from equity investments	<u>3,208</u>	<u>968</u>

10. OTHER OPERATING INCOME

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Other operating income	137,684	151,838
Income from collected written-off receivables	64,286	50,271
Income from disposal of fixed and intangible assets	8,362	112,856
Income from decrease of liabilities	7,936	13,430
Surpluses	262	1,348
Other	18,929	0
	<u>237,458</u>	<u>329,743</u>

11. NET INCOME/EXPENSES ON INDIRECT WRITE-OFF OF PLACEMENTS AND PROVISIONS

a)	In thousands of RSD	31 December	
		2008	2007
	Impairment provisions for balance sheet items	6,928,787	7,917,112
	Provisions for off-balance sheet items	230,140	119,881
	Provisions for litigations	6,826	85,623
	Provision for retirement benefits	40,520	308,159
		<u>7,206,273</u>	<u>8,430,775</u>
b)	In thousands of RSD	31 December	
		2008	2007
	Income from release of impairment of balance sheet	5,154,818	8,960,081
	Income from release of provision for off-balance sheet	321,088	265,956
	Income from release of unused provisions	16,733	10,783
	Income from collected suspended interest	22,423	0
		<u>5,515,062</u>	<u>9,236,821</u>
	Net income in 2007 (b-a)		<u>806,046</u>
	Net expenses in 2008 (a-b)	<u>(1,691,211)</u>	

Item net income/expenses on indirect write-off of placements and provisions for 2008 also includes income from collected suspended interest in the amount of RSD 36,181 thousands.

12. MOVEMENTS IN THE BALANCE OF ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

In thousands of RSD	Cash and cash equivalents	Interest and fee receivables and other placements	Granted loans and deposits	Securities	Equity investments	Other placements	Other assets	Off-balance items	Total
Balance as at 1 January 2008	-	820,251	7,593,216	979	391,919	2,264,070	38,434	559,869	11,668,738
Charged during the year	1,074	829,701	5,512,388	260	383,340	167,786	34,238	230,140	7,158,927
Release during the year	(1,074)	(524,458)	(4,127,736)	(1,186)	(393,530)	(90,771)	(16,063)	(321,088)	(5,475,906)
Exchange rate differences	-	23,962	286,681	-	-	187,312	1,654	2,034	501,643
Direct write-offs	-	(7,318)	(32,618)	-	-	(12,304)	(3,375)	-	(55,615)
Other	-	(134,706)	(103)	-	1	3	(91)	-	(134,896)
Balance as at 31 December 2008	-	1,007,432	9,231,828	53	381,730	2,516,096	54,797	470,955	13,662,891

There were no materially significant collections of impaired receivables till the end of January 2008, which may have significant effect on cancellation of provisions in accordance with IAS 10.

13. PAYROLL EXPENSES, REMUNERATION AND OTHER PERSONAL EXPENSES

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Payroll expenses	2,083,931	1,862,665
Remuneration expenses	416,919	364,509
Taxes and contributions on salaries and fringe benefits	364,359	327,964
Contribution expenses and remuneration	585,776	514,139
Remuneration expenses for temporary and occasional operations	183,750	128,281
Other personal expenses	55,296	49,544
	<u><u>3,690,030</u></u>	<u><u>3,247,102</u></u>

Total gross salaries and other remuneration of Management and members of the Executive Board and the Board of Directors in 2008 of Group members are provided in the table below:

In thousands of RSD	<u>Management</u>	<u>Board of Directors/Executive Board</u>
- Parent Bank	44,587	24,311
- Budva	13,227	4,499
- Banja Luka	14,014	2,250
- Kombank invest	6,339	0
	<u>78,167</u>	<u>31,060</u>

14. DEPRECIATION EXPENSES

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Depreciation expense	<u><u>464,754</u></u>	<u><u>379,958</u></u>

15. OPERATING AND OTHER EXPENSES

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Costs of material	425,366	387,168
Costs of production services	1,572,607	1,310,342
Non-material costs (without taxes and contributions)	1,088,422	934,322
Tax expenses	71,832	43,097
Contribution expenses	649,488	576,134
Other expenses	50,950	40,039
Write-offs of irrecoverable debts	1,788	2,235
Losses on sale of fixed and intangible assets	0	102
Impairment and write-offs of fixed and intangible assets	5,835	910
Shortfall and damages	1,908	136
Other expenses	22,742	40,604
	<u><u>3,890,938</u></u>	<u><u>3,335,089</u></u>

15. OPERATING AND OTHER EXPENSES (Continued)

Liabilities for operating lease of business premises used by the members of the Group are recognized monthly as rent expenses.

Commitments (excluding VAT) for operating leases of 232 business premises with the total area of 35,577.62 sqm as at 31 December 2008 amount to:

In thousands of RSD

- in 2009	329,032
- from 2010 to 2013	1,302,574
- from 2014	308,555
	<u>1,940,162</u>

16. GAINS ON VALUATION OF ASSETS AND LIABILITIES

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Gains on valuation of loans and advances	15,251,937	4,949,465
Gains on valuation of securities	22,804	25,851
Gains on valuation of liabilities	2,626,924	708,384
TOTAL	<u>17,901,665</u>	<u>5,683,700</u>

17. LOSSES ON VALUATION OF ASSETS AND LIABILITIES

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Losses on valuation of loans and advances	6,739,528	4,812,939
Losses on valuation of securities	213,801	336,027
Losses on valuation of liabilities	4,933,738	544,184
TOTAL	<u>11,887,067</u>	<u>5,693,150</u>
Net gains/losses on valuation of assets and liabilities	<u>6,014,598</u>	<u>(9,450)</u>

Gains/losses on valuation of loans and advances comprise effects of contractual foreign currency clause hedges.

Gains/losses on valuation of securities comprise the effects of marking up/down the value of securities held for trading to fair market value.

Gains/losses on valuation of liabilities comprise effects of contractual foreign currency clause hedges on received deposits from clients.

The bank calculates valuation effects at the end of the month during the financial year and as at transaction date.

18. INCOME TAX

Each Group member determines its income taxes based on local tax regulations. Taxes are not subject to consolidation and are presented separately in the Notes.

18.1. *Komercijalna banka AD Beograd*

A. COMPONENTS OF INCOME TAX

In thousands of RSD	31 December	
	2008	2007
Current income tax	-	-
Deferred tax expenses for the year	5,109	2,738
Tax revenues (payments in advance)	(196,931)	(68,154)
Deferred tax income for the year		(34,501)
Total tax (income) / expenses	(191,822)	(99,917)

B. NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF THE ACCOUNTING RESULTS MULTIPLIED BY THE APPLICABLE TAX RATE

In thousands of RSD	31 December	
	2008	2007
Profit/Loss before tax	2,815,222	2,916,093
Income tax at the statutory tax rate of 10%	281,522	291,609
Tax effects of non-deductible expenses	5,563	96,975
Tax effects of differences in the depreciation charges	892	(2,163)
Tax effects of taxable income not included in the financial statements (related parties)	57	4,770
Tax effects of non-taxable income (dividends received from residents)	(299)	(97)
Tax credits for investments in property and equipment	-	-
Tax deductions	(257,370)	(422,857)
DEFERRED TAX EFFECTS IN THE INCOME STATEMENT	30,365	(31,763)

C. EFFECTIVE INCOME TAX RATE

	-	-
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Profit tax payment in advance in 2008 in the amount of RSD 196,931 thousand was made in accordance with the Income Tax Law in monthly instalments. The Bank will use them in 2009 as advance payments.

Receivables for prepaid income tax as at 31 December 2008 amount to RSD 180,520 thousands.

18. INCOME TAX (continued)

18.2. *Komercijalna banka AD Budva*

A. COMPONENTS OF INCOME TAX

In thousands of RSD	31 december	
	2008	2007
Current income tax	18,082	10,166
Deferred tax expenses for the year	-	-
Tax revenues (payments in advance)	(11,367)	(8,270)
Deferred tax income for the year	(1,480)	(485)
Total tax (income) / expenses	5,235	1,410

B. NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF THE ACCOUNTING RESULTS MULTIPLIED BY THE APPLICABLE TAX RATE

	31 december	
	2008	2007
Profit/Loss before tax	159,769	94,528
Income tax at the statutory tax rate of 9%	14,379	8,508
Tax effects of non-deductible expenses	1,745	2,237
Tax effects of differences in the depreciation charges	261	195
Tax effects of taxable income not included in the financial statements (related parties)	(1,902)	70
Tax effects of non-taxable income (dividends received from residents)	-	-
Tax credits for investments in property and equipment	(521)	(748)
FX differences	4,120	80
Tax deductions	-	-
DEFERRED TAX EFFECTS IN THE INCOME STATEMENT	18,082	10,341
C. EFFECTIVE INCOME TAX RATE	11.32%	10.84%

Income tax paid charges for year 2008 amount RSD 11,367 thousands, on the basis of mandatory payments anticipated by Income tax law.

18.3. *Komercijalna banka AD Banja Luka*

A. COMPONENTS OF INCOME TAX

In thousands of RSD	31 december	
	2008	2007
Current income tax	5,409	17,515
Deferred tax expenses for the year	-	-
Tax revenues (payments in advance)	(19,585)	-
Deferred tax income for the year	-	-
Total tax (income) / expenses	(14,176)	17,515

18. INCOME TAX (continued)

18.3. Komercijalna banka AD Banja Luka (continued)

B. NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF THE ACCOUNTING RESULTS MULTIPLIED BY THE APPLICABLE TAX RATE

	31 december	
	<u>2008</u>	<u>2007</u>
Profit/Loss before tax	54,089	96,215
Income tax at the statutory tax rate of 10%	<u>5,409</u>	<u>9,621</u>
Tax effects of non-deductible expenses	-	7,918
Tax effects of differences in the depreciation charges	-	-
Tax effects of taxable income not included in the financial statements (related parties)	-	-
Tax effects of non-taxable income (dividends received from residents)	-	-
Tax credits for investments in property and equipment	-	-
FX differences	-	-
Tax deductions	-	-
DEFERRED TAX EFFECTS IN THE INCOME STATEMENT	<u>5,409</u>	<u>17,539</u>
C. EFFECTIVE INCOME TAX RATE	<u>10.00</u>	<u>18.20</u>

18.4. *KOMBANK INVEST AD Beograd*

KOMBANK INVEST AD Beograd in 2008 did not have income tax liability, considering negative financial result in income statement.

19. LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX

	31 december	
In thousands of RSD	<u>2008</u>	<u>2007</u>
Decrease in deferred tax assets and increase in deferred tax liabilities	<u>30,851</u>	<u>3,633</u>
	<u><u>30,851</u></u>	<u><u>3,633</u></u>

As at 31 December 2008 computation of deferred tax difference at a rate of 10% on the temporary difference in the value of fixed assets required reporting of additional amount of RSD 5,095 thousand.

Decrease in deferred tax assets based on long-term provisions for employees benefits at a rate of 10% amounts to RSD 501 thousands.

Decrease in deferred tax assets for direct payoff of current taxes by using a part of tax credit from previous years investments amounts to RSD 25,255 thousands.

20. GAINS ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES

In thousands of RSD	31 december	
	<u>2008</u>	<u>2007</u>
Increase in deferred tax assets and decrease in deferred tax liabilities	<u>1,397</u>	<u>36,268</u>
	<u><u>1,397</u></u>	<u><u>36,268</u></u>

21. CASH AND CASH EQUIVALENTS

In thousands of RSD	31 december	
	<u>2008</u>	<u>2007</u>
<i>In dinars</i>		
Current account	24,504,643	992,988
Cash on hand	1,515,681	1,391,334
Total	<u>26,020,324</u>	<u>2,384,322</u>
<i>In foreign currency</i>		
Foreign currency accounts	3,294,876	2,687,639
Cash on hand in foreign currency	1,165,062	1,788,173
Cash equivalents in foreign currency - cheques in the course	30,255	32,025
Other cash and cash equivalents	44,819	21,230
Total	<u>4,535,012</u>	<u>4,529,067</u>
Gold and other precious metals	<u>99</u>	<u>99</u>
TOTAL	<u>30,555,435</u>	<u>6,913,488</u>

Komercijalna banka AD Beograd

The obligatory reserves represent a deposit required by the National Bank of Serbia ("NBS"), which is calculated and deposited with the NBS in accordance with the Decision on Obligatory Reserves of Banks with the NBS and is held on the Bank's giro account. Obligatory reserve in dinars may be used for liquidity purpose.

In accordance with NBS requirements, the Bank is obliged to maintain a monthly average of funds on its giro account above the amount of obligatory reserve for that month. The Bank must maintain a minimum average monthly balance on its giro account in the amount of the calculated mandatory dinar reserve, and an average daily balance in the amount of 100% of the calculated mandatory dinar reserve.

In period from 18 December 2008 to 17 January 2009 the Bank did not achieve the minimum average monthly balance for reserve in dinars. As a consequence, the Bank had to pay penalty interest to the National Bank of Serbia in the amount of RSD 4,073 thousands.

The Bank did not exceed prescribed limits in respect of obligatory reserve during 2008. The NBS pays interest on average obligatory reserves in dinars at an interest rate of 2.5% p.a.

22. CALLABLE DEPOSITS AND LOANS

In thousands of RSD	31 december	
	2008	2007
<i>In dinars</i>		
Liquid assets surpluses	-	4,400,000
Repo transactions	-	9,800,000
total group 01	-	14,200,000
<i>in foreign currency</i>		
Obligatory reserve at NBS	19,512,049	27,292,662
Callable deposits and obligatory reserves at Central Bank's of Montenegro and Bosnia and Herzegovina.	3,435,536	376,899
total group 06	22,947,585	27,669,561
TOTAL	22,947,585	41,869,561

Komercijalna banka AD Beograd

The obligatory reserve in foreign currency represents a minimum deposit required by the NBS, which is calculated and deposited with the NBS in accordance with the Decision on Obligatory Reserves of Banks with the NBS and is calculated on the average daily amount of foreign currency deposits and certain other foreign currency liabilities in the preceding month. The Bank is obliged to keep 40% of obligatory reserve in foreign currency on its current account in dinars.

In period from 18 September to 17 October 2008 the Bank did not achieve the minimum average monthly balance for obligatory reserve in foreign currency. As a consequence, the Bank had to pay penalty interest to the National Bank of Serbia in the amount of RSD 4,098 thousands (EUR 45,943.63).

The obligatory reserve in foreign currency is non-interest bearing.

Komercijalna banka AD Budva

The obligatory reserve at Central Bank of Montenegro represents reserve of funds calculated in accordance with the Decision on obligatory reserve at Central Bank of Montenegro. 50% of reserve can be used for maintaining daily liquidity at rate of 11% per annum if the funds are not returned the same day.

For calculation of obligatory reserve differential rates are applied, for a vista deposits and time deposits up to 180 days at rate of 18% and for time deposits over 180 days at rate of 2%.

In accordance with the Law on measures for protection of banking system which was adopted by Parliament of Montenegro (Office Gazette of Montenegro no. 64/08 from 27 October 2008), the Bank that have liquidity problems during financial crisis can use up to 50% of obligatory reserve funds deposited at Central Bank of Montenegro for period longer than one day, and no longer than seven working days within one month, at interest rate of 5% per annum.

The Bank did not use its obligatory reserve during year 2008. Annual interest rate of Central Bank of Montenegro on 50% of accomplished average daily balance of obligatory reserve funds was 1%.

Komercijalna banka AD Banja Luka

In accordance with the Central Bank of Bosnia and Herzegovina's Decision on Reserve Requirement, the Bank is required to calculate and maintain an 18% obligatory reserve for deposits and borrowed funds. This reserve can be used for liquidity. Central Bank of Bosnia and Herzegovina pays fee on total amount of funds at Central Bank at rate of 1%.

23. INTEREST, FEES AND COMMISSION RECEIVABLES, CHANGE IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES

In thousands of RSD	31 December	
	2008	2007
<i>Interest, fees and commission receivables in dinars</i>		
- interest	1,152,907	920,761
- fees	101,850	78,953
Receivables from sales in dinars	0	832
Other receivables on sales in dinars - rent	135,287	34,578
Less: Allowance for impairment in dinars	(775,138)	(652,907)
total group 02	614,906	382,217
<i>Interest, fees and commission receivables in foreign currency</i>		
- interest	332,146	260,186
- fees	6,321	3,257
Less: Allowance for impairment in foreign currency	(232,294)	(167,344)
total group 08	106,173	96,099
TOTAL	721,079	478,316

24. GRANTED LOANS AND DEPOSITS

In thousands of RSD	31 December	
	2008	2007
<i>Loans granted in dinars</i>		
- transaction deposits	4,370,402	2,987,371
Customer loans	3,877,617	14,435,977
Loans for operating assets	21,012,799	9,690,895
Export loans	1,580,433	2,095,417
Investment loans	15,914,808	10,129,663
Housing loans	15,589,844	7,362,515
Other loans	38,735,112	18,617,576
Less: Allowance for impairment for loans in dinars	(6,425,451)	(5,511,413)
total group 10	94,655,564	59,808,001
<i>Loans granted in foreign currency</i>		
Payments for goods and services import	4,885,183	3,374,713
Property loans	2,388,374	1,248,453
Overnight loans	217,508	0
Other loans in foreign currency	16,987,932	14,331,523
Less: Allowance for impairment for loans in foreign currency	(2,639,979)	(1,939,672)
total group 20	21,839,018	17,015,017
<i>Granted other and defined purpose deposits in foreign currency</i>		
Other deposits in foreign currency	246,873	21,779,582
Defined purpose loans in foreign currency in compliance with regulations	-	3,169
Other defined purpose deposits in foreign currency	-	83,808
Less: Allowance for impairment deposits in foreign currency	(166,398)	(142,131)
total group 21	80,475	21,724,428
	116,575,057	98,547,446

24. GRANTED LOANS AND DEPOSITS (continued)

Short-term loans in dinars and foreign currency are granted for period ranging from 3 months to one year at nominal interest rates ranging from 0.90% to 2.45% per month.

Long-term loans in dinars and foreign currency are granted for maximum period of thirty years at nominal interest rates ranging from 4% to 25% per annum.

Economic sector risk concentrations of loans and advances to customers is significant for following branches:

In thousands of RSD	31 December	
	2008	2007
Agriculture, hunting, forestry, water-works and fishing	3,650,159	2,770,870
Metals and processing industry	21,934,246	16,174,029
Oil and Gas	385,253	154,402
Constructions	6,829,288	4,162,330
Trading, maintaining of vehicles and households equipment	25,999,671	16,931,388
Hotels, restaurants and telecommunications	3,557,731	2,476,718
Financial services	1,641,084	22,094,875
Property – renting and other business transactions	5,681,727	3,092,509
Governmental institutions	2,007,432	777,628
Education, healthcare and social sector	665,627	118,171
Retail and entrepreneur	39,063,902	26,869,496
Other	5,158,937	2,925,030
TOTAL	116,575,057	98,547,446

Risks and Uncertainties

The Group's management recorded allowances and provisions for all known and estimated risks as of the date of the financial statements. The Group's loan portfolio contains a number of customers that are involved in the privatization and/or restructuring processes, which are expected to render either partial or complete recoveries of the Group's receivables. The receivables from such customers were classified as of the most recent available information on their financial situation, and the expected course of their respective restructuring processes. In the event that such debt recovery efforts prove to be unsuccessful, the respective receivables are primarily collateralized by real estate, industrial land, buildings and equipment. In the case that the debt recovery actions undertaken by the Group's management are unsuccessful, additional amounts of allowances for impairment and provisions for contingent liabilities would be required in the forthcoming reporting periods.

25. SECURITIES (EXCLUDING OWN SHARES)

In thousands of RSD	31 December	
	2008	2007
<i>In dinars</i>		
Securities at fair value through income statement	18,394	114,235
Securities held to maturity	133,548	130,500
Less: Allowance for impairment on securities in dinars	(53)	(979)
total group	151,889	243,756
<i>in foreign currency</i>		
Securities at fair value through income statement in foreign currency	216,522	191,677
total group	216,522	191,677
TOTAL	368,411	435,433

26. EQUITY INVESTMENTS

In thousands of RSD	31 December	
	2008	2007
Equity investments in dinars		
Equity investments in banks and financial organizations	138,816	268,023
Equity investments in companies and other legal entities	449,925	709,946
Equity investments in foreign entities	72,613	-
Less: Allowance for impairment	(381,730)	(391,919)
total group	279,624	586,050

Allowance for impairment in the amount of RSD 381,730 thousand relates to 100% impairment of equity investments for which market value can not be determined.

27. OTHER PLACEMENTS

In thousands of RSD	31 December	
	2008	2007
<i>Other placements in dinars</i>		
Bought placements - factoring	10,516	-
Investments on accepts, guarantees and paid guaranties	780,171	698,466
Other placements	1,270,253	194,567
Less: Allowance for impairment on other placements in dinars	(812,891)	(740,330)
total group	1,248,049	152,703
<i>Other placements in foreign currency</i>		
Investments on accepts, guarantees and paid guaranties	149,614	83,532
Unsecured letters of credit and other pledges	455,625	244,682
Other placements in foreign currency	2,518,613	1,599,580
Less: Allowance for impairment for other placements in foreign currency	(1,703,205)	(1,523,740)
total group	1,420,647	404,054
TOTAL	2,668,696	556,757

28. INTANGIBLE ASSETS

Intangible assets

In thousands of RSD	31 December	
	2008	2007
Licences and software	166,644	133,866
Intangible assets in preparation	227,347	10,040
Less: Allowance for impairment	(58,337)	(26,233)
	<u>335,654</u>	<u>117,673</u>

Changes in intangible assets

Cost	In thousands of RSD				
	Licences and software	Advances	Investments in property not owned by the Group	Other intangible assets in progress	TOTAL
Balance as at 1 January 2008	133,866	68,533	89,450	10,040	301,889
Correction of opening balance - transfer to other receivables and fixed assets	-	(68,533)	(89,450)	-	(157,983)
Modified opening balance	<u>133,866</u>	-	-	<u>10,040</u>	<u>143,906</u>
Purchase	12,904	-	-	230,902	243,806
Revaluation	-	-	-	-	-
Transfers from/to	13,595	-	-	(13,595)	-
Disposals	6,279	-	-	-	6,279
Other	-	-	-	-	-
Balance as at 31 December 2008	<u>166,644</u>	-	-	<u>227,347</u>	<u>393,991</u>
Accumulated depreciation					
Balance as at 31 December 2007	26,233	-	11,628	-	37,861
Correction of opening balance - transfer to other receivables and fixed assets	-	-	(11,628)	-	(11,628)
Modified opening balance	<u>26,233</u>	-	-	-	<u>26,233</u>
Depreciation in 2008	29,398	-	-	-	29,398
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
Other	-	-	-	-	-
FX differences	2,706	-	-	-	2,706
Balance as at 31 December 2008	<u>58,337</u>	-	-	-	<u>58,337</u>
Net book value as at 31					
December 2008	<u>108,307</u>	-	-	<u>227,347</u>	<u>335,654</u>
31 December 2007	<u>107,633</u>	-	-	<u>10,040</u>	<u>117,673</u>

29. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

Changes in properties, equipment and investment properties

	In thousands of RSD				
	Real Estate	Equipment	Investments in progress	Investment properties	TOTAL
Cost					
Balance as at 31 December 2007	4,119,140	2,118,281	59,078	2,608,852	8,905,351
Correction of opening balance - investments in property not owned by the Group	86,936				86,936
Modified opening balance	4,206,076	2,118,281	59,078	2,608,852	8,992,287
Purchases	1,051	44,565	682,149		727,765
Revaluation					0
Transfers from/to	192,880	417,041	(632,866)		(22,945)
Disposals	(2,527)	(146,322)			(148,849)
Other	167,552			(258,674)	(91,122)
FX differences	19,506	25,540	2		45,048
Balance as at 31 December 2008	4,584,538	2,459,105	108,363	2,350,178	9,502,184
Accumulated depreciation					
Balance as at 31 December 2007	340,059	1,115,085		108,823	1,563,967
Correction of opening balance - investments in property not owned by the Group	11,263				11,263
Modified opening balance	351,322	1,115,085		108,823	1,575,230
Depreciation in 2008	108,347	293,406		33,603	435,356
Revaluation					0
Disposals	(404)	(138,781)			(139,185)
Other	(10,264)			(1,470)	(11,734)
FX differences	2,110	12,245			14,355
Balance as at 31 December 2008	451,111	1,281,955	0	140,956	1,874,022
Net book value as at 31					
December 2008	4,133,427	1,177,150	108,363	2,209,222	7,628,162
31 December 2007	3,854,754	1,003,196	59,078	2,500,029	7,417,057

As at 31 December 2008 the Group is using equipment acquired under finance lease agreements having a net book value of RSD 65,920 thousands, while finance lease liabilities amounted to RSD 54,873 thousand as at 31 December 2008.

The Group has not pledged as collateral any of its property as at 31 December 2008.

As a result of incomplete land register books, the Group's property stated in the amount of RSD 732,371 thousand as at 31 December 2008 has not been duly recorded in the land register. The Group's management is undertaking actions to obtain the appropriate property registration documents.

As at 1 January 2005 the Group booked revaluation (valuation by an independent and certified appraiser) of property. Revaluation model will be used for measurement of property in the future.

29. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY (continued)

Based on opinion of expert team, the Group decided that there is no need for independent property valuation for the year 2008.

Management of the Group believes that present value of property and equipment as at 31 December 2008 is stated at its market value.

Based on yearly stock count, the Group disposed fixed assets in amount of RSD 5,297 thousands.

30. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In thousands of RSD	31 December	
	2008	2007
Discounted operations	79,387	-
	<u>79,387</u>	<u>-</u>

Ten properties are in process of sale because it is estimated they will not be necessary for future operations of the Group.

31. DEFERRED TAX ASSETS

Deferred tax assets include tax credit carryforwards associated with capital expenditures and taxable temporary differences associated with provision for retirement benefits and provision for litigation.

In thousands of RSD	31 December	
	2008	2007
Deferred tax assets	261,056	183,026
Deferred tax liabilities	73,492	68,246
Net deferred tax assets/liabilities	<u>187,564</u>	<u>114,780</u>

32. OTHER ASSETS

In thousands of RSD	31 December	
	2008	2007
<i>Other receivables in dinars</i>		
Receivables for advance payments for current assets	13,014	4,962
Receivables for advance payments for long-term investments	6,859	71,563
Receivables from employees	1,516	3,611
Receivables for prepaid taxes and remuneration	1,045	554
Receivables for prepaid income tax	193,064	53,549
Other receivables from operations	356,124	215,123
Temporary accounts	(26,983)	(11,764)
Receivables from interbank transactions	283,731	190,827
Provision for other receivables	(19,792)	(11,113)
total group	808,578	517,312
<i>Other receivables in foreign currency</i>		
Receivables for advance payments for long-term investments	11	-
Receivables from employees	728	885
Other receivables from operations	134,196	103,893
Temporary accounts	1,762	(31,795)
Receivables from interbank transactions	44,489	44,020
Provision for other receivables	(35,005)	(27,321)
total group	146,181	89,682
<i>Accruals in dinars</i>		
Accrued interest	99,458	72,869
Other accrued income	346	567
Other accrued expenses	84,446	99,090
Other accruals	247	149
total group	184,497	172,675
<i>Accruals in foreign currency</i>		
Accrued interest	70,761	53,523
Other accrued income	-	1,664
Other accrued expenses in foreign currency	17,455	5,572
Other accruals	1,660	7,886
total group 29	89,876	68,645
<i>Inventory</i>		
Material	26,262	38,789
Equipment and inventory	3,604	639
Assets acquired by a way of collecting receivables	227,115	26,482
Inventory in use	138,534	109,098
Provision for inventory	(142,944)	(109,235)
total group 30	252,571	65,773
TOTAL	1,481,703	914,087

Komercijalna banka AD Beograd

Material assets received as collection of receivables in the amount of RSD 23,802 thousand relate to:

- Business premises in Novi Pazar, Kej skopskih žrtava 44 in the amount of RSD 9.156 thousand (82.95 sqm)
- Gnjilica, 7th class acre, in the amount of RSD 211 thousands (2.638 sqm)
- Agricultural household valued at RSD 14,043 thousands
- Equipment (Novi Pazar), valued at RSD 392 thousands

32. OTHER ASSETS (continued)

For mentioned properties the Bank holds ownership that is not registered in the land registry. The Bank's management is undertaking actions to sell the mentioned property.

In accordance with NBS regulations for material assets received as collection of receivables the Bank is under obligation to dispose of them or to deploy them for its own use within twelve months of the date of acquisition. In the event that the prescribed deadline is exceeded the Bank must make a provision of 100%.

Komercijalna banka AD Budva

In accordance with regulations of Central Bank of Montenegro for material assets received as a correction of receivables the Bank is under obligation to dispose of them or to deploy them for its own use within twenty four months of the date of acquisition. In the event that the prescribed deadline is exceeded the Bank has to ask for approval of the Central Bank of Montenegro to prolonged it. Provision for those assets is 1%.

Assets held for sale in amount of RSD 203,313 thousands comprise of properties received from receivables, by realization of fiduciary on properties.

33. TRANSACTION DEPOSITS

In thousands of RSD	31 December	
	2008	2007
- in dinars	17,357,692	18,120,125
- in foreign currency	13,543,278	11,362,442
	<u>30,900,970</u>	<u>29,482,567</u>

Transaction deposits in dinars primarily relate to transaction deposits of companies and other legal entities. According to Decision on interest rates adopted in 2008, these deposits are interest-bearing. Depending on average monthly turnover on transaction accounts interest rate fluctuates from 0.5 to 2% p.a.

Foreign currency transaction deposits of companies and non-residents are non-interest bearing, except in case of specific business arrangements. Other members of the group have rates at 0.25%.

Retail dinar call deposits are deposited at interest rates to 2.5% per annum. Retail foreign currency call deposits are deposited at interest rates ranging from 1.0% to 1.2% per annum.

34. OTHER DEPOSITS

In thousands of RSD	31 December	
	2008	2007
<i>Deposits in RSD</i>		
Savings deposits	1,262,846	1,340,690
Deposits as guaranties for loans	138,057	163,799
Deposits with defined purpose	741,197	468,778
Other deposits	29,068,719	28,941,614
total group	<u>31,210,819</u>	<u>30,914,881</u>
<i>Deposits in foreign currency</i>		
Savings deposits	67,144,554	60,084,939
Deposits as guaranties for loans	1,158,717	3,626,735
Deposits with defined purpose	800,050	1,685,749
Other deposits	13,372,697	5,969,918
total group	<u>82,476,018</u>	<u>71,367,341</u>
TOTAL	<u>113,686,837</u>	<u>102,282,222</u>

34. OTHER DEPOSITS (continued)

Short-term dinar deposits of companies are deposited at interest rates ranging from 8.5% to 10.90% per annum, depending on the date of maturity.

Short-term foreign currency deposits of companies are deposited at interest rates ranging from 1% to 4.70% per month.

Short-term retail deposits in dinars are deposited at interest rates ranging from 7% to 10.00% per annum, and in foreign currency from 1.8% to 6.25% per annum.

Long-term retail deposits in dinars are deposited at interest rates ranging from 12.00% to 16.00% per annum, and in foreign currency from 3% to 7.35% per annum.

Long-term dinar deposits of companies are deposited at interest rates ranging from 10.30 to 10.90% per annum, and in foreign currency from 1.25% to 3.35% per annum.

35. BORROWINGS

In thousands of RSD	31 December	
	2008	2007
<i>Loans received in RSD</i>		
Overnight loans	1,437,243	11,014
Loans received	4,367	5,459
Other financial liabilities	-	540
	<u>1,441,610</u>	<u>17,013</u>
<i>Loans received in foreign currency</i>		
Other financial liabilities in foreign currency	63,378	23,547
	<u>63,378</u>	<u>23,547</u>
TOTAL	<u><u>1,504,988</u></u>	<u><u>40,560</u></u>

36. INTEREST, FEES AND COMMISSIONS PAYABLE AND CHANGE IN FAIR VALUE OF DERIVATIVES

In thousands of RSD	31 December	
	2008	2007
<i>Interest and fees in dinars</i>		
Interest liabilities	184,867	61,047
Fee and commission liabilities	6,861	6,300
	<u>191,728</u>	<u>67,347</u>
<i>Interest and fees in foreign currency</i>		
Interest liabilities	9,246	12,253
	<u>9,246</u>	<u>12,253</u>
TOTAL	<u><u>200,974</u></u>	<u><u>79,600</u></u>

37. PROVISIONS

In thousands of RSD	31 December	
	2008	2007
Provision for litigation	285,348	277,610
Provision for retirement benefits	345,088	336,154
Provision for contingent liabilities	470,955	559,983
TOTAL	1,101,391	1,173,747

Changes in provisions

In thousands of RSD	31 December	
	2008	2007
Provision for litigation		
Opening balance	277,610	401,072
Cancellation of provisions		(209,085)
Provisions	7,738	85,623
Closing balance	<u>285,348</u>	<u>277,610</u>
Provision for retirement benefits		
Opening balance	336,154	51,134
Cancellation of provision/provisions during the year	8,934	285,020
Closing balance	<u>345,088</u>	<u>336,154</u>
Provision for contingent liabilities		
Opening balance	559,983	705,944
Cancellation of provisions	(89,028)	(145,961)
Closing balance	<u>470,955</u>	<u>559,983</u>

38. TAX LIABILITIES

In thousands of RSD	31 December	
	2008	2007
VAT liabilities	7,455	4,800
Liabilities for other taxes and contributions	65,865	71,569
	<u>73,320</u>	<u>76,369</u>

39. LIABILITIES RELATED TO PROFIT

In thousands of RSD	31 December	
	2008	2007
Liabilities related to profit	4,040	4,918
Liabilities related to profit tax	6,715	19,410
	<u>10,755</u>	<u>24,328</u>

40. OTHER LIABILITIES

In thousands of RSD	31 December	
	2008	2007
<i>Other liabilities in RSD</i>		
Trade payables	157,453	147,838
Received advances	3,182	250
Financial lease liabilities	54,873	71,496
Liabilities for received assets, operations for and on behalf third parties	-	156,510
Other liabilities from operations	22,151	18,098
Liabilities from interbank transactions	172,702	90,580
Temporary accounts	(16,336)	(68,828)
	394,025	415,944
Liabilities from temporary and occasional operations	304	0
Other liabilities to employees	4,159	3,591
	4,463	3,591
Accrued interest liabilities	40,863	8,546
Accrued interest income	22,360	23,495
Accrued income stated at depreciation value using effective interest rate	601,914	504,528
Other accrued income	342,542	185,460
Other accruals	353,861	173,988
	1,361,540	896,017
<i>Other liabilities in foreign currency</i>		
Liabilities to customers in foreign currency	21,627	27,665
Liabilities to advances received	128,642	48,529
Liabilities on behalf of third parties - credit lines	3,005,119	2,871,799
Other liabilities in foreign currency	810	5,776
Liabilities in calculation	3,863,319	161,089
Temporary accounts	122,961	4,174
	7,142,478	3,119,032
Accrued interest liabilities	1,005,965	692,206
Accrued interest liabilities for other interest	45,061	20,474
Accrued interest liabilities in foreign currency	7,279	23,623
Accrued income for receivables disposed as amortized value	33,320	37,147
Other accrued income	41,733	32,192
Other accruals	68,583	72,904
	1,201,941	878,546
TOTAL	10,104,447	5,313,130

Liabilities for Long term loans from parent Bank mostly relate to following credit lines:

- Loan granted to Republic of Serbia from EIB for financing SME projects and small and medium infrastructural projects of local municipalities in amount of 1.214.508 thousand dinars.
- Loan from the Government of Republic of Italy, granted to Republic of Serbia for financing SME project in the amount of RSD 1,593,718 thousands.
- Loan from European Agency for Reconstruction, granted to Republic of Serbia in the amount of RSD 44,750 thousands.

40. Other Liabilities (continued)

- Loan to EFSE (European Fund for Southeastern Europe) in the amount of RSD 35,288 thousands, based on credit line granted in approximate amount of EUR 4 million.
- Loan from Italian German banks for financing imported goods in total amount of RSD 110,716 thousands.

Liabilities to Long term loans from Komercijalna banka AD Budva mostly relates to following credit lines:

- liabilities to Montenegro Government for Long term loans obtained from Development fund of Montenegro which bank invest for the period no longer then 3 years to single customer in amount of EUR 176.506,90 and
- liabilities to Montenegro Government for Long term loan obtained from Directorate for the development small and medium enterprises in the amount of EUR 115.000,00 which bank invest to customers for the period no longer then 7 years.

41. EQUITY

In thousands of RSD	31 December	
	2008	2007
Share capital	9,082,865	8,736,071
Share premium	7,979,714	4,442,455
	<u>17,062,579</u>	<u>13,178,526</u>

Komercijalna banka Ad Beograd

The Bank's share capital is formed from initial shareholders' contributions and subsequent issues of new shares, as well as through revaluation up to 31 December 2002. Shareholders hold the rights to manage the Bank, as well as the right to share in its profits.

New XX share issue of ordinary shares was realized on 14 March 2008:

- The Bank realized 34,679 shares with nominal value of RSD 10 thousand per share. Basis for issue of shares is capital increase with right of prior purchase.

Trough this issue the Bank realized share premium in the amount of RSD 3,537,258 thousands.

As at 31 December 2008 share capital consists of 908,282 shares, with nominal value per share of RSD 10 thousands and with following breakdown:

- 870,931 ordinary shares and
- 37,351 priority shares

During 2008 preferential dividends for earlier period were paid out in the amount of RSD 57,726 thousand.

Basic earnings per share amounts to RSD 3,172 thousands or 31,7% of the nominal value of an ordinary share.

The Bank did not issue any other equity instruments, so that diluted earnings per share are equal to basic earnings per share.

Kombank invest

Based on Decision on foundation and share capital increase of the Company, in 2008 two share issues were conducted:

- 14.000 shares in nominal value RSD 10,000 per share.

Share capital of the Parent Bank in related entities is consolidated in total.

41. EQUITY (continued)

Liabilities of the Bank that can be converted into capital

Liabilities of the Bank for which management assesses that they can be subject to future share issues and conversion into capital, in accordance with the Law Regulating the Relation Between FRY and Companies and Banks on the Territory of FRY, who are initial borrowers or guarantors toward the Paris and London clubs of creditors, as at 31 December 2008 amount to RSD 5,583 thousand, or USD 36,800.44 and EUR 36,891.72 and are reported under long-term borrowings from foreign banks.

Capital adequacy ratio

The parent bank must maintain a capital adequacy ratio of 12% as prescribed by the National Bank of Serbia, in accordance with the Basel Convention, as required for all banks. As at 31 December 2008 the Bank's capital adequacy ratio, based on financial statements prepared by the Bank's management and methodology set out in National Bank of Serbia's decisions for 2008, amounts to 13.60%.

As at 31 December 2008 the capital of **Komercijalna banka AD Budva** is reconciled according to regulated minimum in Montenegro. Defined minimal amount of capital is EUR 5,000 thousand.

According to Basel Convention and in accordance with Agency for banking of Republic of Srpska, **Komercijalna banka AD Banja Luka** is obligated to maintain minimum of capital adequacy ratio of 12%. As at December 31, 2008 capital adequacy ratio is 15.20% which is above prescribed minimum.

Capital adequacy ratio of the Group according to methodology of NBS as at December 31, 2008 is 14.70 %.

42. RESERVES FROM PROFIT

In thousands of RSD	31 December	
	2008	2007
Reserves from profit	7,980	6,574
Other reserves	362,751	359,941
Special reserve from profit for estimated losses	4,640,722	1,856,518
Reserves for common banking risks	46,937	0
	<u>5,058,390</u>	<u>2,223,033</u>

In thousands of RSD	31 December	
	2008	2007
Movements in reserves from profit		
Opening balance	2,223,033	1,208,948
Additions		
– from distribution of profit for 2008	2,735,934	783,000
- IFRS 39 and IFRS 37 effects in banks as related parties	71,343	231,066
F/X gain/loss	28,080	19
Closing balance	<u>5,058,390</u>	<u>2,223,033</u>

43. REVALUATION RESERVES

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Revaluation reserves on change in value of fixed assets	574,462	585,539
Revaluation reserves on change in value of securities	73,917	246,503
	<u>648,379</u>	<u>832,042</u>
In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Movements in revaluation reserves		
Opening balance	832,042	769,267
Increase/decrease during the year	(183,663)	62,775
Closing balance	<u>648,379</u>	<u>832,042</u>

Revaluation reserve relate to gains from additions in property value based on independent appraiser and gains on securities available for sale.

44. PROFIT

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Retained earnings		
Consolidated retained earnings	192,001	3,287
Current year retained earnings	2,857,694	3,215,600
	<u>3,049,695</u>	<u>3,218,887</u>
Net profit for the year		
- Net profit from business activities	2,910,639	3,210,646
- Profit/loss from tax effects	(52,945)	4,954
	<u>2,857,694</u>	<u>3,215,600</u>

According to NBS regulations, gain from selling revalued fixed assets in 2008 are recognized in retained earnings from previous years in all of its amount of RSD 201 thousand.

45. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

In thousands of RSD	31 December	
	<u>2008.</u>	<u>2007.</u>
Funds managed on behalf of third parties	<u>5,861,056</u>	<u>6,523,329</u>

Funds managed on behalf of third parties primarily relate to funds from commission loans of the Republic of Serbia, the City of Belgrade and funds received from foreign donors for micro loans.

46. CONTINGENT LIABILITIES

a) Guarantees and other sureties, sureties for liabilities, assets given as collateral, irrevocable and other contingent liabilities

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
<i>In RSD</i>		
Guarantees and other sureties	5,911,407	5,755,770
Irrevocable contingent liabilities for unused loans and deposits	4,619,237	2,581,187
Other irrevocable contingent liabilities	9,024,376	9,327,772
Total	<u>19,555,020</u>	<u>17,664,729</u>
<i>In foreign currency</i>		
Guarantees and other sureties in foreign currency	5,641,994	4,176,915
Irrevocable contingent liabilities for unused loans and deposits in foreign currency	445,659	477,748
Other irrevocable contingent liabilities in foreign currency	51,447	757,185
Total in foreign currency	<u>6,139,100</u>	<u>5,411,848</u>
TOTAL	<u>25,694,120</u>	<u>23,076,577</u>

For mentioned guarantees and contingent liabilities the Bank made provision against potential losses in accordance with IAS 37 in the amount of:

In thousands of RSD	
- Parent bank	467,783
- Budva	53
- Banja Luka	1,317

There were no liabilities arising from foreign currency term transactions as at 31 December 2008 and 31 December 2007.

b) Litigations and claims

Komercijalna banka AD Beograd

As at 31 December 2008 contingent liabilities for litigations and claims against the Bank amount to RSD 1,465,184 thousands. (number of cases 41 – value of individual cases above RSD 100 thousand). Management of the Bank does not expect materially significant losses in the near future arising from these litigations. The Bank made provisions for litigations and claims in the amount of RSD 277,610 thousand.

Apart from this, the Bank is involved in litigations and claims against third parties with the most significant amount being RSD 8,291,781 thousands (number of cases 88 – value of individual cases above RSD 100 thousand). Management of the Bank expects positive outcomes for the majority of cases.

Komercijalna banka AD Budva

As at 31 December 2008 contingent liabilities relating to court cases against the Bank amount to RSD 48,297 thousand (number of cases - 9). Bank management does not expect materially significant losses in the near future arising from these court cases. The Bank has provisions for court cases in the amount of RSD 7,466 thousand.

Besides this, the Bank is involved in court cases against third parties with the most significant amount being RSD 50,378 (number of cases - 15). The Bank management expects positive outcomes for the majority of cases.

46. CONTINGENT LIABILITIES (continued)

b) Litigations and claims (continued)

Komercijalna banka AD Banja Luka

As at 31 December 2008 Komercijalna banka AD Banja Luka is involved in 21 court cases against third parties for collection of receivable in amount of RSD 73,116 thousand.

47. OTHER OFF-BALANCE SHEET ITEMS

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Receivables for suspended interest		
- in dinars	888,321	735,579
- in foreign currency	28,519	16,894
Other off-balance sheet items	28,205,679	34,966,215
	<u><u>29,122,519</u></u>	<u><u>35,718,688</u></u>

New Regulation on chart of accounts and account's content in chart of accounts for Bank (Official Gazette RS 98/07 and 57/08) defines that receivables for suspended interest should be record under off-balance sheet item.

Data for previous year are increased for amount of suspended interest which was not recorded in balance sheet in compliance with valid regulatory framework.

48. COMPLIANCE WITH STATUTORY REGULATIONS

The Group was under obligation to comply it business operations with the requirements of Law on Banks. As at 31 December, 2008 all indicators were compliant with the NBS requirements.

49. INTEREST-BARRING AND NON-INTEREST BARRING ASSETS

In thousands of RSD

	Interest-barring	Non-interest barring	Total
As at 31 December 2008			
ASSETS			
Cash and cash equivalents	25,017,161	5,538,274	30,555,435
Callable deposits and loans	3,133,484	19,814,101	22,947,585
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	0	721,079	721,079
Granted loans and deposits	116,575,057	0	116,575,057
Securities (excluding own shares)	133,494	234,917	368,411
Equity investments	0	279,624	279,624
Other placements	2,206,217	462,479	2,668,696
Intangible assets	-	335,654	335,654
Property and equipment and investment property	-	7,628,162	7,628,162
Non-current assets held for sale and discontinued operations	-	79,387	79,387
Deferred tax assets	-	187,564	187,564
Other assets	-	1,481,703	1,481,703
Loss over capital	-	-	-
Assets	147,065,413	36,762,944	183,828,357
LIABILITIES			
Transaction deposits	29,654,603	1,246,367	30,900,970
Other deposits	113,686,837	0	113,686,837
Borrowings	1,453,438	51,550	1,504,988
Liabilities arising from securities	-	-	-
Interest, fees and commissions payable and change in fair value of derivatives	-	200,974	200,974
Provisions	-	1,101,391	1,101,391
Tax liabilities	-	73,320	73,320
Liabilities related to profit	-	10,755	10,755
Fixed assets held for sale	-	-	-
Deferred tax liabilities	-	26	26
Other liabilities	3,005,119	7,099,328	10,104,447
Total capital	-	26,244,649	26,244,649
Share and other capital	-	17,062,579	17,062,579
Reserves from profit	-	5,058,390	5,058,390
Revaluation reserves	-	1,073,985	1,073,985
Not realized losses on securities available for sale	-	-	-
Profit	-	3,049,695	3,049,695
II. Total liabilities	147,799,997	36,028,360	183,828,357
Net exposure to interest rate risk as at 31 December 2008	(734,584)	734,584	-

50. FOREIGN CURRENCY BALANCE

The following table presents the net foreign currency position of the Group's assets and liabilities:

In thousands of RSD

	EUR	USD	Other currencies	Total FX balance	RSD balance	Total
As at 31 December 2008						
ASSETS						
Cash and cash equivalents	3,839,717	309,148	327,495	4,476,360	26,079,075	30,555,435
Callable deposits and loans	17,120,003	2,996,149	2,831,433	22,947,585	-	22,947,585
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	76,641	145	29,387	106,173	614,906	721,079
Granted loans and deposits	20,185,633	237,111	1,496,748	21,919,492	94,655,565	116,575,057
Securities (excluding own shares)	216,523	-	-	216,523	151,888	368,411
Equity investments	51	-	-	51	279,573	279,624
Other placements	992,839	427,807	-	1,420,646	1,248,050	2,668,696
Intangible assets	5,030	-	34,558	39,588	296,066	335,654
Property and equipment and investment property	218,961	-	117,860	336,821	7,291,341	7,628,162
Non-current assets held for sale and discontinued operations	-	-	-	-	79,387	79,387
Deferred tax assets	1,480	-	-	1,480	186,084	187,564
Other assets	428,674	1,477	28,693	458,844	1,022,859	1,481,703
Loss over capital	-	-	-	-	-	-
Total Assets	43,085,552	3,971,837	4,866,174	51,923,563	131,904,794	183,828,357
LIABILITIES						
Transaction deposits	11,837,598	647,185	914,828	13,399,611	17,501,359	30,900,970
Other deposits	74,783,369	3,220,608	3,052,945	81,056,922	32,629,915	113,686,837
Borrowings	60,215	1,624	1,182	63,021	1,441,967	1,504,988
Liabilities on securities	-	-	-	-	-	-
Interest, fees and commissions payable and change in fair value of derivatives	7,726	1,071	349	9,146	191,828	200,974
Provision	37,738	-	13,119	50,857	1,050,534	1,101,391
Tax liabilities	3,951	-	946	4,897	68,423	73,320
Liabilities related to profit	6,715	-	-	6,715	4,040	10,755
Fixed assets held for sale	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	26	26
Other liabilities	8,130,137	79,659	118,012	8,327,808	1,776,639	10,104,447
Capital	478,997	-	107,590	586,587	25,658,062	26,244,649
Total liabilities	95,346,446	3,950,147	4,208,971	103,505,564	80,322,793	183,828,357
Net currency gap as at 31 December 2008	(52,260,894)	21,690	657,203	(51,582,001)	51,582,001	-
Net currency gap as at 31 December 2007	(15,446,250)	105,406	(1,170,115)	(16,510,959)	16,510,959	-

RSD loans and advances and liabilities with a foreign currency clause are reported in "RSD balance" column.

Within the Bank's foreign currency capital and liabilities, foreign currency items account for 56.31%.

51. SEGMENT REPORT

A. BALANCE SHEET
As at 31 December 2008

	In thousands of RSD				
	Beograd	Budva	Banja Luka	Kombank invest	Total
ASSETS					
Cash and cash equivalents	29,725,717	590,135	239,583	-	30,555,435
Callable deposits and loans	19,512,049	604,103	2,831,433	-	22,947,585
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	658,615	32,749	29,387	328	721,079
Granted loans and deposits	104,708,795	5,335,597	6,518,665	12,000	116,575,057
Securities (excluding own shares)	368,411	-	-	-	368,411
Equity investments	279,573	51	-	-	279,624
Other placements	2,648,404	20,292	-	-	2,668,696
Intangible assets	291,966	5,029	34,558	4,101	335,654
Property and equipment and investment property	7,291,341	218,961	117,860	-	7,628,162
Non-current asset held for sale and discontinued operations	79,387	-	-	-	79,387
Deferred tax assets	186,084	1,480	-	-	187,564
Other assets	1,226,484	225,800	29,401	18	1,481,703
Loss over capital	-	-	-	-	-
Equity investments in related parties (capital method)	-	-	-	-	-
Total assets	166,976,826	7,034,197	9,800,887	16,447	183,828,357
LIABILITIES AND EQUITY					
Transaction deposits	25,405,999	1,142,993	4,351,978	-	30,900,970
Other deposits	107,365,134	2,018,011	4,303,692	-	113,686,837
Borrowings	1,452,325	51,550	1,112	1	1,504,988
Liabilities on securities	-	-	-	-	-
Interest, fees and commissions payable and change in fair value of derivatives	194,323	6,329	322	-	200,974
Provision	1,050,030	37,737	13,120	504	1,101,391
Tax liabilities	68,386	3,951	946	37	73,320
Liabilities related to profit	4,040	6,715	-	-	10,755
Fixed assets held for sale	-	-	-	-	-
Deferred tax liabilities	-	-	-	26	26
Other liabilities	9,754,530	236,116	113,256	545	10,104,447
Total Liabilities	145,294,767	3,503,402	8,784,426	1,113	157,583,708
EQUITY					
Equity	17,062,534	-	45	-	17,062,579
Reserves from profit	4,685,440	281,440	91,510	-	5,058,390
Revaluation reserves	648,379	-	-	-	648,379
Unrealized losses on securities available for sale	-	-	-	-	-
Profit	2,855,207	197,556	16,036	-	3,049,695
Loss up to the level of capital	-	-	-	19,104	-
Cumulative gains on foreign operations translation	425,606	-	-	-	425,606
TOTAL EQUITY	25,677,166	478,996	107,591	(19,104)	26,244,649
TOTAL LIABILITIES	170,971,933	3,982,398	8,892,017	(17,991)	183,828,357
OFF BALANCE SHEET ITEMS					
Funds managed on behalf of third parties	5,861,056	-	-	-	5,861,056
Contingent liabilities	24,407,915	355,415	930,790	-	25,694,120
Other off-balance sheet items	29,096,286	26,233	-	-	29,122,519

51. SEGMENT REPORT (continued)

B. INCOME STATEMENT
As at 31 December 2008

	In thousands of RSD				
	Beograd	Budva	Banja Luka	Kombank invest	Total
Interest income	10,882,308	523,762	514,686	1,011	11,921,767
Interest expense	4,624,382	49,194	178,912	15	4,852,503
Profit from interest	6,257,926	474,568	335,774	996	7,069,264
Fee and commission income	3,065,448	152,745	111,509	2,290	3,331,992
Fee and commission expense	299,353	26,773	17,896	1,130	345,152
Profit from fees and commissions	2,766,095	125,972	93,613	1,160	2,986,840
Net gain on sale of securities at fair value through income statement	3,057				3,057
Net gains on sales of equity investments	56,661				56,661
Net foreign exchange gains		12,293			
Net foreign exchange losses	3,723,992		11,815		3,723,514
Dividend and equity investment income	3,208				3,208
Other operating income	191,281	45,664	513		237,458
Expense of write-offs of investments and provisions	1,525,237	80,623	84,847	504	1,691,211
Payroll expenses, fees and other personal expenses	3,401,414	143,317	126,690	18,609	3,690,030
Depreciation expenses	405,505	23,744	34,786	719	464,754
Other operating expenses	3,585,731	144,367	158,759	2,081	3,890,938
Gains on valuation of assets and liabilities	17,901,425			240	17,901,665
Losses on valuation of assets and liabilities	11,887,067				11,887,067
Operating profit	2,650,707	266,446	13,003	19,517	2,910,639
Operating loss	-	-	-	-	-
Income tax	-	18,082	5,409	-	23,491
Gains on increase in deferred tax assets and decrease in deferred tax liabilities	-	1,397	-	-	1,397
Losses on decrease in deferred tax assets and increase in deferred tax liabilities	30,365	460	-	26	30,851
PROFIT	2,620,342	249,301	7,594	19,543	2,857,694
LOSS	-	-	-	-	-

52. CONSOLIDATED POSITIONS OF RELATED PARTIES

Balance sheet

In thousands of RSD

Aggregate unconsolidated balance sheet	Balance sheet consolidation amount	Consolidated balance sheet
187,846,360	4,018,003	183,828,357
cash / liabilities	31,341	
loans and advances / liabilities	1,644,674	
stakes / equity	2,341,988	

Income statement

In thousands of RSD

Aggregate unconsolidated profit in Income statement	Income statement consolidation amount		Consolidated profit
	Income	Expenses	
3,030,132	198,414	78,921	2,910,639
interest	75,965	75,965	
fees and commissions	1,618	1,618	
foreign exchange differences	119,493	-	
gains / losses from valuation of	1,337	1,337	

53. POST BALANCE SHEET EVENTS

Unreconciled account balances

Based on the analysis of the regular annual inventory conducted on December 31, 2008, the Group has unreconciled account balances in the amount of RSD 147.799 thousand. Unreconciled account balances for 244 Clients in most cases relate to clients against whom court proceedings have been initiated.

Unpaid preferred dividends

Unpaid preferred dividends for payment in 2009 amount to:
- from 2008 RSD 44,821 thousand (12% of the nominal value of preferential shares).

54. EXCHANGE RATES

The official exchange rates from the interbank market for the major currencies used in the translation of the balance sheet items denominated in foreign currencies, were as at 31 December 2008 and as at 31 December 2007 as follows:

	Exchange rate of NBS as at December 31		Average exchange rate of NBS	
	2008	2007	2008	2007
USD	62.9000	53.7267		
EUR	88.6010	79.2362	81.0050	79.9775
CHF	59.4040	47.8422		
BAM	45.3010	405128	41.4199	40.5128

5 5 . RISK MANAGEMENT

1. INTRODUCTORY COMMENTS ABOUT RISK MANAGEMENT

Risk is an inseparable part of banking and is managed through a process of continual identification, measurement, monitoring and setting of risk limits and through other types of control. The process of risk management is of considerable significance for continued profitable operation of the Komercijalna banka AD Beograd Group (hereinafter: the Group).

The Group manages risks with a view to realizing the following objectives: minimising the negative effects on financial result and equity within acceptable risk levels, maintaining the required level of capital adequacy, developing the Group's activities in accordance with business opportunities and market development with a view to gaining competitive advantage.

The practice in the Group, as is the case of all large, developed banking groups, is to separate the risk management function from daily business activities linked with client relations.

Objectives and principles of risk management

The risk management system is set out in the following regulations on the Group level:

- Risk Management Objectives and Principles,
- Risk Management Policies and Procedures,
- Special Instructions for Managing Individual Risks,
- Methodology for Managing Individual Risks.

Risk Management Objectives and Principles of the Group set out:

- Specific definitions of risks that the Group uses,
- Long-term objectives related to an acceptable risk profile and exposure,
- Approaches to individual types of risks,
- Types of risk limits that the Group will use,
- Principles for organising risk management,
- Principles of processes for internal measurement of capital adequacy.

Beside objectives the Group also specified the basic principles of risk management for meeting its long-term objectives:

- Organizing of operation of a separate organizational unit for risk management at Group level.
- Establishing explicit and clear rules for managing individual types of risks, with an associated set of policies and procedures for managing individual types of risks, with appropriate activity objectives at Group level.
- Making business decisions based on quantitative and qualitative analyses that use applicable risk parameters.
- Collection of complete, timely and trustworthy data associated with risk management and provision of adequate resources for data storage and processing.
- Development of a quantitative modeling mechanism that allows for simulation and/or analysis of performance change measurement in business and market environments for the profile of the Group's risk exposure and further influence on the Group's liquidity, profitability and net value.

Policies and procedures for managing individual risks define in greater detail the process of managing risks, identification, measurement, minimising and risk monitoring, and are applied on Group member level.

Competences

The *Managing Board* is authorized and responsible for establishing a uniform risk management system in the Parent Bank and the Group, and for monitoring such system, adopting policies and procedures for risk management, as well as monitoring whether the Parent Bank and the Group acts in accordance with adopted policies and procedures.

The *Executive Board* is authorized and responsible for the process of identification, assessment (estimation), monitoring and control of risks to which the Parent Bank and the Group are exposed, as well as for implementation of risk management policies and procedures.

The *Audit Committee* is authorized and responsible for continued monitoring of application of risk management policies and procedures and for implementing the system of internal controls at the Parent Bank and the Group level.

The *Asset Liability Committee* is authorised and responsible for monitoring the risk exposure resulting from the structure of its receivables, liabilities and off-balance sheet items, as well as for proposing measures for managing interest and liquidity risks.

The *Credit Committee* is responsible for loan approvals and maintaining optimal exposure to credit risk.

The *Risk Management Committee* is authorised and responsible for professional implementation of models and methodologies for identifying, measuring, monitoring and controlling risks, as well as for implementing and monitoring risk management procedures.

The *Asset Management Division* is responsible for managing assets and liabilities, their overall financial structure, and is primarily responsible for interest and liquidity risks, while the Financial Institutions Division is responsible for currency risk.

The *Internal Audit Division* is authorized and responsible for continual monitoring of implementation of risk management policies and procedures, and tests the adequacy of procedures and the Group's compliance with them. Internal Audit reports its findings and recommendations to the Audit Committee and the Managing Board.

Risk measurement and reporting

The Group measures risk exposure using methods that reflect expected losses that can arise under normal circumstances, and unexpected losses that represent an estimate of the ultimately realized loss based on statistical models. These models use probabilities that are based on historical experience. The Group also simulates scenarios that could arise in the event that extreme events do actually occur for which the probability of occurrence is not very high.

Risk monitoring and control is based on limits, while they in turn depend on business strategy and the business environment, as well as on the level of risk that the Group is ready to accept.

The Parent Bank and the Group members regularly submit reports on risk management to the Managing Board, Executive Board, Audit Committee, Asset Liability Committee and Credit Committee. Reports include all relevant information for risk assessment and decision making.

On a monthly basis, the Group members report to the Risk Management Committee of the Parent Bank and other competent organizational parts, and organizational part in charged for risk management in the Parent Bank reports to the Managing Board, Executive Board and Audit Committee about risk management on consolidated basis.

Types of risk

The Group is exposed to the following risks in particular: credit risk, liquidity risk, market risk and operating risk. Market risk comprises currency risk, interest rate risk and other market risks.

The process of independent control of risks does not include business risks such as changes in the environment, technology and industry, which are controlled by the strategic planning process.

2 CREDIT RISK

Credit risk is defined as the risk that liabilities will not be settled in respect of occurred debts, where the debtor will not pay principal, interest and processing charges. Given that loaning of funds to clients is the Group's core commercial activity, quality and timely analysis and credit risk management increase operating reliability.

Credit risk comprises:

- Default risk – the risk of loss that can arise if a debtor fails to settle liabilities;
- Downgrade risk – the risk of loss that can arise if risk level of a debtor is downgraded (downgraded credit rating) under assets items that are recorded in the banking book;
- Risk of change in value of assets – the risk of loss that can arise on assets items that are recorded in the banking book in the event of a drop in their market value with respect to the price at which assets were acquired;
- Exposure risks – risks that can arise from the Group's exposure toward a single individual, a group of related parties or to entities that are associated with the Group.

The Group takes measures to guard against credit risk by identifying, measuring, minimising and monitoring credit risk, both at the level of individual placements and at overall portfolio level.

The actual process of credit risk management consists of:

- assessment of credit rating and financial position of the client;
- assessment of placements collaterals;
- linking interest rates to the risk group to which the client belongs;
- application of criteria that are defined by the internal rating system;
- setting of limits for approval of placements for particular clients;
- setting of limits for approval of placements;
- monitoring of collection of interest and principle during the repayment period;
- client monitoring;
- placement risk management;
- portfolio management;
- internal and external reporting;
- conducting of the process of internal assessment of capital adequacy.

In its effort to manage credit risk the Group seeks to do business with clients that have good credit rating and to acquire appropriate collaterals as security for repayment. Each member of the Group regularly monitors its debtors, placements and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

The Group defines limits of exposure per individual types of risk with the objective of limiting and minimising risks to acceptable levels for the Group's risk profile. The Group's exposure limits to individual borrowers are based on the assessment of a borrower's credit rating. The Group's exposure limits at portfolio level are directed at limiting exposure concentrations in the portfolio. In case of internal limit breach, the Group members submit explanations with measure suggestions and activity plans, and the Parent Bank reports to the Executive Board of the Parent Bank. The Group members are obliged to report to the Parent Bank if any extraordinary situation occurs due to deterioration of local markets, political and economic instability, etc.

Credit risk measurement is based on two parallel approaches:

- regulatory approach (in accordance with the local legislation of the Group member country),
- internal approach (clearly defined on the Group level in order to aggregate the risks to which the Group is exposed).

The approach which is based on internally developed methods assumes that the Group manages portfolio structure in a way that objectively assesses the need for placement impairment in accordance with International Accounting Standards, International Financial Reporting Standards and internal methodology, and definition of acceptable risk level which is deemed acceptable to the Group.

The Group has developed an internal rating system which is regularly reviewed and developed.

Overall credit risk exposure

Overall credit risk exposure is expressed as a gross amount, before minimising effects of collaterals and impairments.

Overview of overall credit risk exposure		RSD 000	
		2008	2007
I.	Placements	132,070,657	105,346,106
1.	Legal entities	88,258,193	58,058,023
2.	Entrepreneurs	1,820,215	1,211,260
3.	Banks	3,198,976	18,432,832
4.	Retail	38,793,273	27,643,991
II.	Securities	794,849	1,222,659
1.	Securities not included in the trading book	133,547	244,735
2.	Equity investments	661,302	977,924
III.	Off-balance sheet items	26,768,766	24,518,439
1.	Guarantees	10,260,066	8,563,798
2.	Other	16,508,700	15,954,641
Total gross book value		159,634,272	131,087,204

Downgrade risk

The quality of the Group's assets is measured by the level of exposure to individual risk categories according to internal rating system criteria. A low level of risk implies doing business with clients with a high credit rating (risk categories 1 and 2), increased level of risk implies doing business with clients with operating difficulties that could have a negative impact on the settlement of liabilities (risk category 3), and a high level of risk characterizes clients with negative operating results and poor credit rating (risk categories 4 and 5).

The Group guards against downgrade risk through continual monitoring of clients' business operations and identifying changes that could arise through: deterioration of a borrower's position, delays in repayment and changes in the business environment, as well as securing of appropriate collaterals.

Overall credit risk exposure per risk categories and client types, based on Internal Rating System criteria RSD 000

		Legal entities		Entrepreneurs		Banks		Retail		Total	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
I.	Placements	88,258,193	58,058,023	1,820,215	1,211,260	3,198,976	18,432,832	38,793,273	27,643,991	132,070,657	105,346,106
1.	Category 1	12,070,023	10,270,361	217,869	633,515	817,353	17,299,007	34,753,975	25,102,919	47,859,220	53,305,802
2.	Category 2	43,892,187	27,758,035	953,674	388,023	1,033,390	32,194	1,456,980	919,072	47,336,231	29,097,324
3.	Category 3	18,484,056	10,734,498	248,767	15,883	20	19	594,129	186,390	19,326,972	10,936,790
4.	Category 4	2,444,575	838,381	217,733	2,725	4	-	784,864	203,251	3,447,176	1,044,357
5.	Category 5	11,367,352	8,456,748	182,172	171,114	1,348,209	1,101,612	1,203,325	1,232,359	14,101,058	10,961,833
II.	Securities	656,032	946,979	-	-	138,817	275,680	-	-	794,849	1,222,659
1.	Category 1	121,317	303,513	-	-	46,607	185,448	-	-	167,924	488,961
2.	Category 2	-	26,198	-	-	80,364	78,386	-	-	80,364	104,584
3.	Category 3	137,464	252,080	-	-	-	-	-	-	137,464	252,080
4.	Category 4	72,159	-	-	-	-	-	-	-	72,159	-
5.	Category 5	325,092	365,188	-	-	11,846	11,846	-	-	336,938	377,034
III.	Off-balance sheet items	18,275,903	14,312,865	255,833	66,990	31,919	23,020	8,205,111	10,115,564	26,768,766	24,518,439
1.	Category 1	4,992,739	3,587,006	86,095	60,540	5,541	-	7,935,735	10,046,844	13,020,110	13,694,390
2.	Category 2	9,116,443	7,687,700	85,309	4,650	24,263	5,192	112,353	23,145	9,338,368	7,720,687
3.	Category 3	2,612,782	2,426,538	23,318	-	-	-	57,555	4,759	2,693,655	2,431,297
4.	Category 4	1,125,351	94,769	60,870	1,800	2,115	-	48,657	4,357	1,236,993	100,926
5.	Category 5	428,588	516,852	241	-	-	17,828	50,811	36,459	479,640	571,139
IV.	Total gross book value	107,190,128	73,317,867	2,076,048	1,278,250	3,369,712	18,731,532	46,998,384	37,759,555	159,634,272	131,087,204

Risk of change in value of assets

Impairment of placements is intended to ensure reasonable, cautious and timely registering of losses, in order to protect the Group's capital in the period when the loss occurs and is definitely confirmed (realised), due to inability to collect contracted amounts or through outflow of assets to settle contingent liabilities.

Impairment of placements and provisions are made when there is justification and objective proof of impairment as the result of events that occurred after initial recognition of a loan, and that have a negative effect on future cash flows associated with a loan.

Key elements in assessing impairment of placements are as follows:

- are repayments of principal or interest overdue,
- does the loan beneficiary have cash flow difficulties,
- has credit rating deteriorated or has a change occurred in initial terms of contract, etc.

Assessment of impairment of receivables

The Group assesses impairment of placements on an individual and on a group basis.

Individual assessment

The Group assesses impairment of each individually significant placement and considers sustainability of a loan beneficiary's business plan, his ability to improve performance in the event of financial difficulties, income forecasts, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows.

Group assessment

Impairment is assessed on a group basis for placements that are not individually significant and for individually significant placements and advances, when there is no objective evidence of individual impairment. Impairment losses are assessed by considering the following information: historical losses in the portfolio, current economic conditions, compensation of impairment.

Impairment of placements is based on assessment of expected future cash flows from doing business with a client, as well as from collateral realisation, if it is assessed that loans can be realistically settled from such assets.

Impairment of loans decreases the value of loans and is recognised as an expense in the income statement.

Overview of assessment of individual and group impairment of receivables

RSD 000

		Legal entities		Entrepreneurs		Banks		Retail		Securities		Total	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
I.	Individual impairment												
1	Category 1	1,811	123,848	-	-	36	323,079	-	-	-	-	1,847	446,927
2	Category 2	40,855,199	19,905,778	-	-	46	78,517	-	-	78,386	104,583	40,933,631	20,088,878
3	Category 3	16,814,383	9,824,333	-	-	-	14	-	-	135,217	130,500	16,949,600	9,954,847
4	Category 4	2,297,817	774,548	-	-	-	-	-	-	37,634	-	2,335,451	774,548
5	Category 5	10,914,927	6,807,021	-	-	1,347,939	833,053	-	-	336,938	377,036	12,599,804	8,017,110
6	Gross placement (1 to 5)	70,884,137	37,435,528	-	-	1,348,021	1,234,663	-	-	588,175	612,119	72,820,333	39,282,310
7	Impairment	9,536,862	7,184,296	-	-	1,347,956	1,234,612	-	-	381,782	392,897	11,266,600	8,811,805
8	Book value (6-7)	61,347,275	30,251,232	-	-	65	51	-	-	206,393	219,222	61,553,733	30,470,505
II.	Group impairment												
1	Categories 1 and 2: Low risk	2,896,366	4,664,657	43,063	371,895	-	-	9,221,631	1,908,183	-	-	12,161,060	6,944,735
2	Category 3: Increased risk	541,449	746,440	13,709	12,050	-	-	108,448	186,391	-	-	663,606	944,881
3	Categories 4 and 5: High risk	579,355	1,278,747	215,038	173,222	-	-	185,972	911,752	-	-	980,365	2,363,721
4	Gross placement (1 +2+3)	4,017,170	6,689,844	271,810	557,167	-	-	9,516,051	3,006,326	-	-	13,805,031	10,253,337
7	Impairment	441,613	1,291,253	198,212	172,491	-	-	1,278,680	833,162	-	-	1,918,505	2,296,906
8	Book value (4-7)	3,575,557	5,398,591	73,598	384,676	-	-	8,237,371	2,173,164	-	-	11,886,526	7,956,431
III.	Due, unimpaired placements												
1	Categories 1 and 2: Low risk	147,343	117,194	33,539	9,343	1,780	1,258	90,080	98,452	-	-	272,742	226,247
2	Category 3: Increased risk	2,650	50	6,918	(2)	20	6	196	-	-	-	9,784	54
3	Categories 4 and 5: High risk	7,685	52	3,094	(41)	274	280,405	320	-	-	-	11,373	280,416
6	Gross placement (1+2+3)	157,678	117,296	43,551	9,300	2,074	281,669	90,596	98,452	-	-	293,899	506,717
7	Due unimpaired placements comprise:												
8	0 to 30 days	131,848	72,720	40,679	5,202	1,659	1,264	84,500	77,710	-	-	258,686	156,896
9	31 to 60 days	22,975	44,475	2,743	4,141	42	-	4,981	20,743	-	-	30,741	69,359
10	61 to 90 days	1,011	50	-	(2)	22	-	149	-	-	-	1,182	48
11	91 to 180 days	964	52	4	(41)	23	-	310	-	-	-	1,301	11
12	over 180 days	880	-	124	-	330	280,405	656	-	-	-	1,990	280,405
13	Book value (8 to 12)	157,678	117,297	43,550	9,300	2,076	281,669	90,596	98,453	-	-	293,900	506,719
IV.	Not due, unimpaired placements												
1	Categories 1 and 2: Low risk	12,061,537	13,228,723	1,094,941	640,300	1,848,881	16,916,500	29,049,428	24,015,355	123,296	488,960	44,178,083	55,289,838
2	Category 3: Increased risk	1,125,574	163,715	228,140	3,835	-	-	85,312	-	2,246	121,580	1,441,272	289,130
3	Categories 4 and 5: High risk	12,097	422,917	181,773	658	-	-	51,886	523,858	81,132	-	326,888	947,433
4	Book value (1+2+3)	13,199,208	13,815,355	1,504,854	644,793	1,848,881	16,916,500	29,186,626	24,539,213	206,674	610,540	45,946,243	56,526,401
VI.	Total gross book value	88,258,193	58,058,023	1,820,215	1,211,260	3,198,976	18,432,832	38,793,273	27,643,991	794,849	1,222,659	132,865,506	106,568,765
VI.	Total net book value	78,279,717	49,582,474	1,622,002	1,038,768	1,851,020	17,198,220	37,514,594	26,810,829	413,068	829,763	119,680,401	95,460,054

* Due receivables comprise all due receivables and interest and processing charges receivables.

Assessment of provisions for off-balance sheet items

Assessment of provisions for off-balance sheet items (contingent liabilities) is performed when it is estimated that the expectation is fairly certain that an outflow of assets will occur for settling contingent liabilities.

Provisions for losses on off-balance sheet items

RSD 000

		Legal entities		Entrepreneurs		Banks		Retail		Total	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
I.	Provisions for off-balance sheet items										
1	Category 1	1,579	-	-	-	-	-	-	-	1,579	-
2	Category 2	22,794	-	-	-	-	-	-	-	22,794	-
3	Category 3	1,901,152	1,940,485	6,218	-	-	-	-	-	1,907,370	1,940,485
4	Category 4	983,235	84,469	5,013	1,800	2,115	-	-	-	990,363	86,269
5	Category 5	353,007	502,962	-	-	-	17,828	-	-	353,007	520,790
6	Gross placement (1 to 5)	3,261,767	2,527,916	11,231	1,800	2,115	17,828	-	-	3,275,113	2,547,544
7	Impairment	467,247	541,610	407	545	182	17,828	-	-	467,836	559,983
8	Book value (6-7)	2,794,520	1,986,306	10,824	1,255	1,933	-	-	-	2,807,277	1,987,561
II.	Unimpaired off-balance sheet items										
1.	Category 1	4,991,159	3,587,006	86,095	60,540	5,541	-	7,935,736	10,046,844	13,018,531	13,694,390
2.	Category 2	9,093,650	7,687,700	85,309	4,650	24,263	5,192	112,352	23,145	9,315,574	7,720,687
3.	Category 3	711,630	486,053	17,100	-	-	-	57,555	4,759	786,285	490,812
4.	Category 4	142,117	10,300	55,857	-	-	-	48,656	4,357	246,630	14,657
5.	Category 5	75,580	13,890	241	-	-	-	50,812	36,459	126,633	50,349
6.	Book value (1 do 5)	15,014,136	11,784,949	244,602	65,190	29,804	5,192	8,205,111	10,115,564	23,493,653	21,970,895
III.	Total gross book value	18,275,903	14,312,865	255,833	66,990	31,919	23,020	8,205,111	10,115,564	26,768,766	24,518,439
III.	Total net book value	17,808,656	13,771,255	255,426	66,445	31,737	5,192	8,205,111	10,115,564	26,300,930	23,958,456

In assessing provisions for contingent losses on off-balance sheet items, assets resulting from collateral realisation are recognised if it is completely certain that cash outflows for contingent liabilities will be settled from collaterals.

Default risk

Total receivables from borrowers that are overdue for longer than 90 days are considered risk placements, including placements to clients with whom changes have been noted that could significantly impact ability of settling the borrowers' liabilities.

The Group undertakes the following measures for settling receivables:

- Out of court settlement.
- Confiscation of goods and real-estate property in order to collect the Group's receivables.
- Sale of receivable.
- Concluding a contract with an interested third party.
- Reprogramming or restructuring.
- Initiation of court proceedings.

In the event that measures undertaken for settling placements, including forced collection and initiation of court proceedings, do not give the desired results, and when it is not possible to collect a receivable in full, recommendation is made for write-off of the remaining part of the receivable.

Overview of risk placements

RSD 000

		Legal entities		Entrepreneurs		Banks		Retail		Total	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1.	Category 4	2,305,917	1,984,052	20,197	11,489	0	0	799,755	614,988	3,125,869	2,610,529
2.	Category 5	11,543,232	1,635,230	176,401	3,422	1,240,263	46,862	1,208,571	280,499	14,168,467	1,966,013
3.	Other	370,353	362,508	2,750	2,116	0	0	2,848	2,126	375,951	366,750
	Total	14,219,502	3,981,790	199,348	17,027	1,240,263	46,862	2,011,174	897,613	17,670,287	4,943,292

Risk placements comprise the Group's total (balance sheet and off-balance sheet) receivables from clients, reduced for impairments of balance sheet assets and provisions for off-balance sheet items.

Overview of risk placements

RSD 000

		2008		2007	
		Gross	Net	Gross	Net
1.	Legal entities	14,219,502	3,981,790	10,387,347	1,776,021
2.	Entrepreneurs	199,348	17,027	173,758	3,546
3.	Retail	2,011,174	897,613	1,070,797	331,699
4.	Banks	1,240,263	46,862	1,234,732	17,825
	Total	17,670,287	4,943,292	12,866,634	2,129,091

Collateral

For the purpose of guarding against credit risk exposure, besides regular monitoring of a client's business, the Group acquires collaterals which it uses to secure receivables and to minimize credit risk. Depending on the assessment of ability to settle contractual liabilities, the level of coverage of a placement is defined such that in case of client default, activated collateral can be used realistically to settle a receivable. The quantity and type of collateral depends on the assessed credit risk.

As a standard type of loan security the Group receives from clients contractual authorizations for account withdrawals and bills of exchange, while additional collateral is contracted, depending on credit risk assessment:

- for corporate loans – pledges over movable and immovable property (mortgages), deposits, bank and corporate guarantees, securities, etc.
- for retail loans – residential building mortgages, deposits, insurance from the National Mortgage Insurance Corporation.

Each member of the Group monitors the market value of collaterals and, when needed, it can require additional collateral based on terms of contract.

The Group's policy is that receivables can be settled from collaterals and proceeds can be used to reduce or repay a debt. The Group does not use confiscated property for business purposes, except under special circumstances.

Overview of value of collaterals RSD 000

		2008
I.	Individually impaired placements	361,633,142
1.	Mortgages	258,204,453
2.	Deposits	923,478
3.	Pledge on securities	19,366,014
4.	Pledge on movable property	24,091,281
5.	Other	59,047,916
II.	Group impairment	10,872,157
1.	Mortgages	6,701,430
2.	Deposits	230,933
3.	Pledge on securities	352,486
4.	Pledge on movable property	1,523,077
5.	Other	2,064,231
III.	Due, unimpaired placements	27,676,891
1.	Mortgages	20,197,566
2.	Deposits	1,599,790
3.	Pledge on securities	532,245
4.	Pledge on movable property	1,860,662
5.	Other	3,486,628
IV.	Not due, unimpaired placements	17,644,161
1.	Mortgages	15,286,134
2.	Deposits	900,005
3.	Pledge on securities	52,369
4.	Pledge on movable property	626,479
5.	Other	779,174
V.	Total	417,826,351

Overview of value of collaterals RSD 000

Type of collateral	2008	2007
Mortgages	300,389,583	224,419,080
Deposits	3,654,206	2,782,258
Pledge on movable property	20,303,114	1,258,740
Securities	28,101,499	21,562,834
Other	65,377,949	0
Total	417,826,351	250,022,912

Industrial sectors

The Group considers and measures exposure to industrial sectors or geographic areas with unfavourable trends, given that there is the possibility of exposure to risk concentrations.

Structure per industrial sectors RSD 000

Num	Industrial activity sector and branch	Risk categories according to Internal rating system					Total 2008
		Category 1	Category 2	Category 3	Category 4	Category 5	
		1	2	3	4	5	6=1+2+3+4+5
1.	Banking	1,038,647	2,053,944	9,251	1,049	1,365,556	4,468,447
2.	Corporate sector, public and other companies	15,002,005	48,153,455	20,404,911	3,632,412	11,985,893	99,178,676
2.1.	Agriculture, hunting, forestry, waterworks and fishery	1,064,775	2,188,237	906,943	63,843	782,889	5,006,687
2.2.	Processing industry	4,742,231	15,012,507	4,793,990	1,207,419	7,559,297	33,315,444
2.3.	Production and supply of electric power, gas and water	399,225	1,387,764	25,467	61,917	13,017	1,887,390
2.4.	Constructions	1,699,965	5,235,946	1,752,383	574,022	1,345,798	10,608,114
2.5.	Retail and whole sales	4,659,918	19,709,693	7,948,236	656,102	1,457,772	34,431,721
2.6.	Hotels and restaurants, traffic, storage and communications	887,682	2,088,838	1,325,157	71,957	583,026	4,956,660
2.7.	Education, health and social activities	247,755	423,489	23,880	1,162	28,813	725,099
2.8.	Real estate activities	1,300,454	2,106,981	3,628,855	995,990	215,281	8,247,561
3.	Entrepreneurship sector	303,964	1,038,983	272,085	278,603	182,413	2,076,048
4.	Public sector	751,701	42,089	60,778	8,390	30,030	892,988
5.	Retail sector	42,689,710	1,569,333	651,684	833,521	1,254,136	46,998,384
6.	Foreign entities sector (excluding banks)	1,195,986	3,432,664	0	2,115	58,190	4,688,955
7.	Other clients sector	65,241	464,495	759,382	238	41,418	1,330,774
	Total	61,047,254	56,754,963	22,158,091	4,756,328	14,917,636	159,634,272

3 LIQUIDITY RISK

Liquidity risk represents the risk of occurrence of negative effects on the Group's financial result and capital as a result of the Group's inability to settle its matured liabilities. With a view to minimising liquidity risk the Group diversifies its sources of assets, manages cash flows, and monitors future cash flows and liquidity on a daily level. An important component of managing liquidity is assessment of market approach and analysis of different financing options.

The matching and controlled mismatching of the maturity and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of varying types. An unmatched position potentially increases profitability, but also the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, the interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The Group members monitor liquidity in a daily basis, submitting reports which comprise data on assets in domestic and foreign currency, amount of obligation reserve, movements in deposit potential, expected cash flows and other relevant information for liquidity management.

The Group's liquidity level is measured through monitoring of movements in deposits and loans maturity using GAP and Ratio analysis, as well as making cash flow scenarios.

The Group's liquidity level is monitored via liquidity ratio, which represents the ratio between the sum of liquid receivables of the first and second order (cash, cash on accounts held with other banks, deposits with the central bank, receivables in the process of collection, irrevocable lines of credit granted to the members of the Group, financial instruments quoted on the stock exchange and other receivables of the Group that are due in under one month) and the sum of call deposit liabilities without a contractual date of maturity and liabilities with a contractual date of maturity that fall due within one month of the date of calculation of the liquidity ratio, such that it:

- amounts to at least 1.0 – when calculated as the average of all working days,
- amounts to at least 0.8 – when calculated for the working day,
- cannot be below 0.9 for longer than three consecutive days.

The Parent Bank defined a Liquidity Management Plan for Crisis Situations with a view to ensuring business continuity in the event of occurrence of serious disruptions in operation. The Group members also defined plans for crisis situations and liquidity management strategies. Depending on the sequence of undesirable events the Group members can be faced with a less serious or more serious liquidity crisis, when applying activities and measures specified in these plans.

The liquidity ratio of the Group was as follows:

	31.12.2008	31.12.2007
As at last day of the month	2.12	4.03

Maturity structure of assets and liabilities on consolidated basis as at 31 December 2008:

	RSD 000					
POSITION	up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	TOTAL
ASSETS						
Cash and cash equivalents	30,555,435	-	-	-	-	30,555,435
On call deposits and loans	22,947,585	-	-	-	-	22,947,585
Interest, fees and sales receivables	721,079	-	-	-	-	721,079
Loans and deposits	10,058,167	9,587,193	34,391,665	40,479,578	22,058,454	116,575,057
Securities (excluding own issued)	18,394	-	148,615	60,496	140,906	368,411
Equity investments	-	-	-	-	279,624	279,624
Other placements	1,538,497	331,576	124,256	636,186	38,181	2,668,696
Intangible assets	-	-	-	296,995	38,659	335,654
Fixed assets and investment properties	-	-	-	1,793,221	5,834,941	7,628,162
Non-current assets held for sale	-	-	79,387	-	-	79,387
Deferred tax assets	186,084	-	1,480	-	-	187,564
Other assets	1,226,243	74,329	24,067	156,849	215	1,481,703
Total assets	67,251,484	9,993,098	34,769,470	43,423,325	28,390,980	183,828,357
EQUITY AND LIABILITIES						
Transaction deposits	30,900,970	-	-	-	-	30,900,970
Other deposits	30,818,896	42,541,430	33,518,136	5,998,660	809,715	113,686,837
Loans	1,500,621	-	1	4,366	-	1,504,988
Liabilities from securities	-	-	-	-	-	-
Liabilities for interest and fees	200,974	-	-	-	-	200,974
Provisions	22,014	-	-	1,079,377	-	1,101,391
Tax liabilities	73,320	-	-	-	-	73,320
Liabilities from profit	10,755	-	-	-	-	10,755
Liabilities – assets that are discontinued	-	-	-	-	-	-
Deferred tax liabilities	-	-	26	-	-	26
Other liabilities	5,401,969	374,452	3,957,795	43,225	327,006	10,104,447
Total equity	-	-	-	-	26,244,649	26,244,649
Total equity and liabilities	68,929,519	42,915,882	37,475,958	7,125,628	27,381,370	183,828,357
Discrepancy as at 31.12.2008	(1,678,035)	(32,922,784)	(2,706,488)	36,297,697	1,009,610	-

The overview on maturity structure of assets and liabilities on consolidated basis presents balance sheet positions that are divided by specified maturities from balance sheet date to contractual date of maturity. The Group Management is of the opinion that diversity of deposits by number and type of depositors, as well as previous experience of the Group offer a sound basis for the opinion that deposits represent a long-term and stable source of financing, and in this respect significant outflow of assets that could jeopardize the Group's liquidity is not expected.

4 MARKET RISK

Market risk represents the possibility of occurrence of negative effects on the Group's financial result and equity due to changes in market variables and comprises interest rate risk, currency risk and other market risks. Other market risks comprise risks of fluctuation in the price of securities, counterparty risk and the risk of delivery on commitments related to items in the trading book.

Interest rate risk

Interest rate risk represents the possibility of occurrence of negative effects on the Group's financial result and equity due to interest rate fluctuations.

The objectives of the Group's policies related to interest rate risk management are to maximise return at specified risk levels, to minimise negative effects on financial capital, to maintain the economic value of capital and to develop the Group's activities in accordance with business opportunities and market development, all with the objective of realising a competitive advantage.

One of the key points is the Group's focus on the interest margin, given that all fluctuations in the margin of internal return represents a potential indicator of interest rate risk, where the Group manages this margin through credit and deposit pricing.

The Group measures interest rate risk exposure by using GAP analysis, ratio analysis and interest rate fluctuations scenarios. Measurement of interest rate risk using GAP analysis is based on analysis of matching between interest sensitive assets and liabilities per periods when interest rate is set (for items with market sensitive interest rates) and between maturities (for items with variable and fixed interest rates).

The Group members manage interest rate risk in its operations by using the following methods:

- Daily monitoring of interest rate fluctuations on domestic and foreign markets;
- Matching of maturities of placements and sources of funding.

Interest rate risk management ensures that the Group will have uniformity in changes in interest rates on assets and liabilities.

The interest rate risk GAP as at 31 December 2008 was as follows:

RSD 000

POSITION	Positions exposed to interest risk					Positions unexposed to interest risk	TOTAL Balance Sheet
	up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	over 5 years		
ASSETS							
Cash and cash equivalents	23,662,749	-	-	-	-	6,892,686	30,555,435
On call deposits and loans	3,133,484	-	-	-	-	19,814,101	22,947,585
Interest, fees and sales receivables	1,406	-	-	-	-	719,673	721,079
Loans and deposits	36,067,802	10,479,047	33,241,793	20,876,148	15,910,267	-	116,575,057
Securities (excluding own issued)	-	-	133,493	-	-	234,918	368,411
Equity investments	-	-	-	-	-	279,624	279,624
Other placements	932,848	330,142	112,929	783,289	47,009	462,479	2,668,696
Intangible assets	-	-	-	-	-	335,654	335,654
Fixed assets and investment properties	-	-	-	-	-	7,628,162	7,628,162
Non-current assets held for sale	-	-	-	-	-	79,387	79,387
Deferred tax assets	-	-	-	-	-	187,564	187,564
Other assets	225,800	-	-	-	-	1,255,903	1,481,703
Total assets	64,024,089	10,809,189	33,488,215	21,659,437	15,957,276	37,890,151	183,828,357
EQUITY AND LIABILITIES							
Transaction deposits	12,287,077	3,190,420	14,335,996	-	-	1,087,477	30,900,970
Other deposits	24,684,255	33,535,644	48,188,911	6,421,172	807,690	49,165	113,686,837
Loans	45,401	1,349,082	40,018	18,937	-	51,550	1,504,988
Liabilities from securities	-	-	-	-	-	-	-
Liabilities for interest and fees	-	-	-	-	-	200,974	200,974
Provisions and tax liabilities	-	-	-	-	-	1,101,391	1,101,391
Tax liabilities	-	-	-	-	-	73,320	73,320
Liabilities from profit	-	-	-	-	-	10,755	10,755
Liabilities – assets that are discontinued	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	26	26
Other liabilities	-	48,960	2,980,876	14,156	4,229	7,056,226	10,104,447
Total equity	-	-	-	-	-	26,244,649	26,244,649
Total equity and liabilities	37,016,733	38,124,106	65,545,801	6,454,265	811,919	35,875,533	183,828,357
Discrepancy as at 31.12.2008.	27,007,356	(27,314,917)	(32,057,586)	15,205,172	15,145,357	2,014,618	-

Currency risk

Currency risk represents the possibility of occurrence of negative effects on the Group's financial result and equity due to fluctuations in exchange rates between currencies, fluctuations in the domestic currency with respect to foreign currencies or changes in the value of gold and other precious metals. All items in the banking book and the trading book that are denominated in a foreign currency are exposed to currency risk.

The basic objectives of managing the Group's currency risk is to maximise return at specified risk levels, to minimise negative effects on financial capital, to maintain the required level of capital adequacy and to develop the Group's activities in accordance with business opportunities and market development, all with the objective of realising a competitive advantage.

The Group measures currency risk exposure by regularly monitoring the currency risk indicator, as well as by preparing scenarios for impacts of exchange rate fluctuations on financial result and equity.

The currency risk indicator is expressed in percentages as the ratio between the Group's total foreign currency balance and the Group's equity. The Group's total foreign currency balance represents the higher of the absolute value of the long open foreign currency position or of the short open foreign currency position, including the absolute value of the net open foreign currency position in gold. The Group is required to maintain its assets and liabilities such that its total net foreign currency balance (including the absolute value of the foreign currency in gold) at the end of each working day must not exceed 20% of the Group's equity.

Also, the Group prepares scenarios to analyse the effects of exchange rate fluctuations on financial result and equity.

The currency risk indicator on consolidated basis as at 31 December 2008 amounted to 19.69% (prescribed value 20%).

The table below presents the Group's currency exposure as at 31 December 2008:

Position	EUR		USD		CHF		Other currencies		Total	Gold and other precious metals
	Total	RSD with currency clause	Total	RSD with currency clause	Total	RSD with currency clause	Total	RSD with currency clause		
1. Net spot position	(38,819)	51,558,550	13,708	(4,918)	3,767,178	5,285,985	560,889	-		99
1.1 Foreign currency assets	97,961,803	54,588,179	3,979,687	7,662	5,395,658	5,318,398	4,547,188	-		99
1.2 Foreign currency liabilities	98,000,622	3,029,629	3,965,979	12,580	1,628,480	32,413	3,986,299	-		-
1.3 Irrevocable guaranties, uncovered guaranties and similar off-balance sheet items	-	-	-	-	-	-	-	-		-
2. Net forward position	-	-	-	-	-	-	-	-		-
2.1 Long position	-	-	-	-	-	-	-	-		-
2.2 Short position	-	-	-	-	-	-	-	-		-
3. Options	-	-	-	-	-	-	-	-		-
3.1 Long position	-	-	-	-	-	-	-	-		-
3.2 Short position	-	-	-	-	-	-	-	-		-
4. Long open position	-	-	13,708	-	3,767,178	-	768,102	-	4,548,988	99
5. Short open position	38,819	-	-	-	-	-	207,213	-	246,032	-
6. Net open foreign currency position									4,549,087	
7. Equity										23,100,474
8. Currency risk indicator	0.17%		0.06%		16.31%		3.33%			19.69%
9. External limit for currency risk indicator										20.00%

Exchange rates

Exchange rates applied in converting balance sheet items into dinars (RSD) as at 31 December 2008 and 2007 for particular currencies were as follows:

	2008	2007
EUR	88.6010	79.2362
USD	62.9000	53.7267
CHF	59.4040	47.8422

5 OPERATING RISK

Operating risk represents the possibility of occurrence of negative effects on the Group's financial result and equity due to employee errors, inadequate procedures and processes in the Group, inadequate management of information and other systems in the Group, as well as occurrence of unforeseen external events.

Operating risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the work place, client receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors, process management.

The Group monitors operating risk events according to the following business lines: corporate financing, trade and sales, retail business, corporate banking, payments and calculations, agency services, asset management services and retail brokering services.

The Group monitors operating risk events daily and manages operating risks through the process of identification, measurement, minimising, monitoring and reporting of operating risk. The Group appoints employees who are in charge of operating risk with the objective of monitoring operating risk in its every organisational part, where such employees are responsible for accuracy and timeliness of information about all operating risk events that occur in their organisational unit, as well as for keeping records about all occurred events in the operating risk database. The organisational part of the Group which is responsible for risk management monitors and reports operating risks.

Measurement and assessment of operating risk at the Group is done through quantitative and/or qualitative assessment of identified operating risk. The Group measures operating risk exposure through event records and self-assessment.

Event records consist of gathering and analysis of operating risk information relating to the Group's operations that resulted in losses, as well as events that could have resulted in loss. Losses are recorded at gross and net amounts, namely in the total amount of loss realised by the Group, while the net amount signifies the gross loss amount reduced for direct compensation or insurance claim settlement.

Self-assessment consists of assessment of risk exposure by organizational units in accordance with the map of identified operating risks, by measuring potential time gap and frequency between events that could result in loss.

Basic measures of protection against operating risk consist of applying and respecting the "four eye principle", consistent application of internal procedures, control and special monitoring by internal audit.

6 EXPOSURE RISK

Exposure risk represents exposure of the Group and the Group members to:

- a single party
- a group of related parties
- to a party that is associated with the Group.

During 2008 the Group respected prescribed limits:

- The Group's exposure to a single party or group of related parties did not exceed 25% of the Group's equity.
- The Group's exposure to a party that is associated with the Group did not exceed 5% of the Group's equity,
- Total exposure to the Group's related parties did not exceed 20% of the Group's equity.
- The sum of significant exposures as at 31 December 2008 amounts to 70.57% of the Group's equity (max 400% of the Group's equity).

7 COUNTRY RISK

Country risk represents the possibility of occurrence of negative effects on the Group's financial result and equity due to inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin.

Political-economic risk relates to the likelihood of occurrence of losses due to the inability to collect the Group's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country.

Transfer risk relates to the probability of occurrence of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin.

Measurement of country risk is made per individual placements and at the Group's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Group's borrower's country of origin as defined by internationally recognized agencies, while measurement of portfolio exposure to country risk is done by grouping receivables by level of development of the borrower's country of origin.

The Group sets exposure limits of the Group by countries or regions with the objective of controlling country risk.

Person Responsible for Preparing
Financial statements

Legal Representative of the Group
