

**KPMG d.o.o. Beograd**

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Račun 265-1100310000190-61
Raiffeisen banka a.d. Beograd
PIB 100058593

TRANSLATION

TO THE SHAREHOLDERS OF
KOMERCIJALNA BANKA A.D. BEOGRAD

Report on the Financial Statements

We have audited the accompanying balance sheet of Komercijalna banka a.d. Beograd (hereinafter: the Bank) as at 31 December 2008 and the related statement of income, cash flows and 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 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 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 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 financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank 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. MO

Belgrade, 13 March 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.*

Belgrade, 13 March 2009



KPMG d.o.o. Beograd

Nina Bulatović
Nina Bulatović
Certified Auditor

INCOME STATEMENT
for period from 1 January to 31 December 2008

(In thousands of RSD)

Group of accounts, account	ITEM	AOP			Note	Current year	Previous year
1	2	3			4	5	6
70	INCOME AND EXPENSES FROM OPERATIONS						
	Interest income	2	0	1	3.1. and 4.a	10,939,841	7,935,337
60	Interest expenses	2	0	2	3.1. and 4.b	4,639,628	2,561,615
	Gains on interest (201-202)	2	0	3		6,300,213	5,373,722
	Losses on interest (202-201)	2	0	4		-	-
71	Fee and commission income	2	0	5	3.2. and 5.a	3,067,067	2,625,946
61	Fee and commission expenses	2	0	6	3.2. and 5.b	299,353	220,605
	Gains on fees and commissions (205-206)	2	0	7		2,767,714	2,405,341
	Losses on fees and commissions (206-205)	2	0	8		-	-
720-620	Net gains on sale of securities at fair value through income statement	2	0	9	3.3. and 6.	3,057	77,087
620-720	Net losses on sale of securities at fair value through income statement	2	1	0		-	-
721-621	Net gains on securities available for sale	2	1	1		-	-
621-721	Net losses on securities available for sale	2	1	2		-	-
722-622	Net gains from sale of securities held to maturity	2	1	3		-	-
622-722	Net losses on sale of securities held to maturity	2	1	4		-	-
723-623	Net gains on sales of equity investments	2	1	5	3.3. and 7.	56,661	162
623-723	Net losses on sales of equity investments	2	1	6		-	-
724-624	Net gains on sales of other placements	2	1	7		-	-
624-724	Net losses on sales of other placements	2	1	8		-	-
78-68	Net foreign exchange gains	2	1	9	3.4. and 8.	-	477,372
68-78	Net foreign exchange losses	2	2	0	3.4. and 8.	3,604,499	-
766	Dividends and other income from equity investments	2	2	1	3.3. and 9.	3,208	83,949
74,76 excluding 766 i 769	Other operating income	2	2	2	10.	191,280	351,351
75 - 65	Net income on indirect write-off of placements and provisions	2	2	3	3.8., 3.14. and 11.	-	805,269
65 - 75	Net expenses on indirect write-off of placements and provisions	2	2	4	3.8., 3.14. and 11.	1,525,237	-
63	Payroll expenses, remuneration and other personal expenses	2	2	5	13.	3,401,414	3,019,702
642	Depreciation expenses	2	2	6	14.	405,505	334,022
64 (excluding 642), 66 (excluding 669)	Operating and other expenses	2	2	7	15.	3,585,731	3,294,986
77	Gains on valuation of assets and liabilities	2	2	8	3.3.; 3.7. and 16.	17,902,653	5,683,700
67	Losses on valuation of assets and liabilities	2	2	9	3.3.; 3.7. and 17.	11,887,178	5,693,150
	OPERATING PROFIT (203-204+207-208+209-210+211-212+213-214+215-216+217-218+219-220+221+222+223-224-225-226-227+228-229)	2	3	0		2,815,222	2,916,093
	OPERATING LOSS (204-203+208-207+210-209+212-211+214-213+216-215+218-217+220-219-221-222+224-223+225+226+227-228+229)	2	3	1		-	-

FINANCIAL STATEMENTS
For the year ended 31 December 2008

KOMERCIJALNA BANKA AD BEOGRAD

769-669	NET PROFIT FROM DISCONTINUED OPERATIONS	2	3	2		-	-
669-769	NET LOSSES FROM DISCONTINUED OPERATIONS	2	3	3		-	-
	RESULT - PROFIT BEFORE TAX (230-231+232-233)	2	3	4		2,815,222	2,916,093
	RESULT - LOSS BEFORE TAX (231-230+233-232)	2	3	5		-	-
850	Income tax	2	3	6	3.12.1. and 18.	-	-
861	Gains on increase in deferred tax assets and decrease in deferred tax liabilities	2	3	7	3.12.1. and 19.	-	34,501
860	Losses on decrease in deferred tax assets and increase in deferred tax liabilities	2	3	8	3.12.1. and 20.	30,365	2,738
	PROFIT (234-235-236+237-238)	2	3	9		2,784,857	2,947,856
	LOSS(235-234+236-237+238)	2	4	0		-	-
	Earnings per share (in dinars, rounded)	2	4	1		-	-
	Basic earnings per share (in dinars rounded)	2	4	2	41.	3,172	3,469
	Decreased (diluted) earnings per share (in dinars rounded)	2	4	3	41.	3,172	3,469

Belgrade, 26 February 2009

Person responsible for generation
of financial statements

Legal representative
on behalf of the Bank

BALANCE SHEET
AS AT 31 December 2008

(In thousands of RSD)

Group of accounts, account	ITEM	AOP			Note	Current year	Previous year
1	2	3			4	5	6
00,05,07	ASSETS Cash and cash equivalents	0	0	1	3.10, 21. and 49.	29,744,775	5,257,086
01,06	Callable deposits and loans	0	0	2	22.	19,512,049	39,813,826
02,08	Interest, fees and commission receivables, change in fair value of derivatives and other receivables	0	0	3	12., 23. and 50.	658,714	430,061
10,11,20,21	Granted loans and deposits	0	0	4	3.7, 3.8, 3.13, 3.16, 12., 24. and 50.	106,231,447	89,743,089
12 (excluding 128), 22	Securities (excluding own shares)	0	0	5	3.9.1-2, 12. and 25.	368,411	435,433
13,23	Equity investments	0	0	6	3.9.3, 12 and 26.	2,621,561	2,787,993
16,26	Other placements	0	0	7	12. and 27.	2,648,404	556,757
33	Intangible assets	0	0	8	3.5.1. and 28.	291,966	78,685
34,35	Property and equipment and investment property	0	0	9	3.5.1., 3.5.2. and 29	7,291,341	7,108,927
36	Non-current assets held for sale and discontinued operations	0	1	0	30.	79,387	-
37	Deferred tax assets	0	1	1	3.12.1. and 31.	186,084	114,295
03,09,19, 29,30,38	Other assets	0	1	2	12. and 32.	1,227,230	877,051
842	Loss over capital	0	1	3		-	-
	TOTAL ASSETS (from 001 to 013)	0	1	4		170,861,369	147,203,203

Group of accounts, account	ITEM	AOP			Note	Current year	Previous year
1	2	3			4	5	6
400,500	LIABILITIES Transaction deposits	1	0	1	33.	25,418,282	23,874,547
401,402,403,404,405, 501,502,503,504,505	Other deposits	1	0	2	34.	107,485,134	97,767,634
406,407,408,409, 506,507,508,509	Borrowings	1	0	3	35.	1,452,325	37,395
41,51	Liabilities arising from securities	1	0	4		-	-
42,52	Interest, fees and commissions payable and change in fair value of derivatives	1	0	5	3.1., 3.2. and 36.	195,499	68,508
od 450 do 454	Provisions	1	0	6	3.8., 3.14. and 37.	1,050,030	1,146,965
456,457	Tax liabilities	1	0	7	38.	68,386	72,314
434,455	Liabilities related to profit	1	0	8	39.	4,040	4,918
46	Fixed assets held for sale	1	0	9		-	-
47	Deferred tax liabilities	1	1	0		-	-
43 (excluding 434) 44,48,49,53,58,59	Other liabilities	1	1	1	40.	9,754,530	5,062,162
	TOTAL LIABILITIES (from 101 to 111)	1	1	2		145,428,226	128,034,443
80, minus 128	CAPITAL Equity	1	1	3	41.	17,062,534	13,178,485
81	Reserves from profit	1	1	4	42.	4,685,440	1,985,440
82 (excluding 823)	Revaluation reserves	1	1	5	43.	648,379	832,042
823	Unrealized losses on securities available for sale	1	1	6		-	-
83	Profit	1	1	7	44.	3,036,790	3,172,793
84 (excluding 842)	Loss up to capital level	1	1	8		-	-
	TOTAL CAPITAL (from 113 to 115+117- 116-118)	1	1	9		25,433,143	19,168,760
	TOTAL LIABILITIES (112+119)	1	2	0		170,861,369	147,203,203
	OFF-BALANCE SHEET ITEMS (from 122 to 126)	1	2	1		59,365,257	64,021,741
90 namely 95	Funds managed on behalf of third parties	1	2	2	3.11. and 45.	5,861,056	6,517,782
91 (excluding 911 i 916) namely 96 (excluding 961 i 966)	Contingent liabilities	1	2	3	46.a	24,407,915	22,150,771
911,916,932,namely 961,966,982	Guaranties, sureties and collaterals received	1	2	4		-	-
92 namely 97	Derivatives	1	2	5		-	-
93 (excluding 932),namely 98 (excluding 982)	Other off-balance sheet items	1	2	6	47.	29,096,286	35,353,188

Belgrade,

26 February 2009

Person responsible for generation of financial statements

Legal representative on behalf of the Bank

CASH FLOW STATEMENT

for period from 1 January to 31 December 2008

- In thousands of RSD

ITEM	AOP			Current year	Previous year
1	2			3	4
A. CASH FLOW FROM OPERATIVE ACTIVITIES					
I. Cash receipts from operative activities (from 302 to 305)					
	3	0	1	13,917,597	11,216,693
1. Interest receipts	3	0	2	10,706,414	8,173,398
2. Fee and commission receipts	3	0	3	3,106,258	2,785,192
3. Receipts from other operating income	3	0	4	101,717	174,154
4. Receipts from dividends and equity investments	3	0	5	3,208	83,949
II. Cash outflows from operative activities (from 307 to 311)					
	3	0	6	11,433,503	8,859,446
5. Interest payments	3	0	7	4,167,666	2,359,708
6. Fees and commission payments	3	0	8	298,792	214,647
7. Payments of gross salaries and fringe benefits and other personal expenses	3	0	9	3,401,058	3,019,629
8. Payments of taxes, contributions and other expenses charged to income	3	1	0	689,804	595,217
9. Cash payments for other operating expenses	3	1	1	2,876,183	2,670,245
III. Net cash inflows from operating activities before increases/(decreases) in advances and deposits (301 less 306)					
	3	1	2	2,484,094	2,357,247
IV. Net cash outflows from operating activities before increases/(decreases) in advances and deposits (306 less 301)					
	3	1	3	-	-
V. Decrease in loans and increase in deposits (from 315 to 317)					
	3	1	4	21,554,205	41,589,204
10. Decrease in loans and placements to banks and customers	3	1	5	8,668,354	-
11. Decrease of securities at fair value through income statement, investments for trade and short-term securities held for to maturity	3	1	6	8,601	109,219
12. Increase in deposits from banks and customers	3	1	7	12,877,250	41,479,985
VI. Increase in loans and decrease in deposits (from 319 to 321)					
	3	1	8	-	46,239,342
13. Increase in loans and investments to banks and customers	3	1	9	-	46,239,342
14. Increase of securities at fair value through income statement, investments for trade and short-term securities held for to maturity	3	2	0	-	-
15. Decrease in deposits to banks and customers	3	2	1	-	-
VII. Net cash inflows from operating activities before income tax (312 less 313 plus 314 less 318)					
	3	2	2	24,038,299	-
VIII. Net cash outflows from operating activities before income tax (313 plus 318 less 312 less 314)					
	3	2	3	-	2,292,891
16. Income tax paid	3	2	4	204,213	26,803
17. Paid dividends	3	2	5	257,726	97,330
IX. Net cash inflow from operating activities (322 less 323 less 324 less 325)					
	3	2	6	23,576,360	-
X. Net cash outflow from operating activities (323 less 322 plus 324 plus 325)					
	3	2	7	-	2,417,024

- in thousands of RSD

ITEM	AOP	Current year	Previous year
1	2	3	4
B. CASH FLOW FROM INVESTING ACTIVITIES			
I. Cash receipts from investing activities (from 329 to 333)	3 2 8	82,023	195,343
1. Inflows from long-term investments in securities	3 2 9	10,500	22,144
2. Inflows from sale of equity investments	3 3 0	56,661	-
3. Inflows from sale of intangible and fixed assets	3 3 1	14,862	173,199
4. Inflows from sale of investment properties	3 3 2	-	-
5. Other inflows from investing activities	3 3 3	-	-
II. Cash outflows from investing activities (335 to 339)	3 3 4	875,380	1,559,910
6. Outflows from long-term investments in securities	3 3 5	-	-
7. Purchases of equity investments	3 3 6	121,510	924,027
8. Purchases of fixed and intangible assets	3 3 7	753,870	635,883
9. Purchases of investment properties	3 3 8	-	-
10. Other outflows from investing activities	3 3 9	-	-
III. Net cash inflow from investing activities (328 less 334)	3 4 0	-	-
IV. Net cash outflow from investing activities (334 less 328)	3 4 1	793,357	1,364,567
C. CASH FLOW FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (from 343 to 348)	3 4 2	5,309,185	534,585
1. Proceeds from increase in capital	3 4 3	3,884,048	480,936
2. Net cash inflows from subordinated liabilities	3 4 4	-	-
3. Net cash inflow from loans taken	3 4 5	1,425,137	9,839
4. Net cash inflows from securities	3 4 6	-	-
5. Net cash inflows from sale of treasury shares	3 4 7	-	43,810
6. Other inflows from financing activities	3 4 8	-	-
II. Cash outflows from financing activities (from 350 to 354)	3 4 9	-	-
7. Outflows from repurchase of treasury shares	3 5 0	-	-
8. Net outflows from subordinated liabilities	3 5 1	-	-
9. Net outflow from loans taken	3 5 2	-	-
10. Net outflow from securities	3 5 3	-	-
11. Other outflows from financing activities	3 5 4	-	-
III. Net cash inflow from financing activities (342 less 349)	3 5 5	5,309,185	534,585
IV. Net cash outflow from financing activities (349 less 342)	3 5 6	-	-
D. TOTAL NET CASH INFLOW (301 plus 314 plus 328 plus 342)	3 5 7	40,863,010	53,535,825
E. TOTAL NET CASH OUTFLOW (306 plus 318 plus 324 plus 325 plus 334 plus 349)	3 5 8	12,770,822	56,782,831
F. NET CASH INCREASE (357 less 358)	3 5 9	28,092,188	-
G. NET CASH DECREASE (358 less 357)	3 6 0	-	3,247,006
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Note: 21) (361, vol. 3 = 001 vol. 6)	3 6 1	5,257,086	8,026,720
Z. FOREIGN EXCHANGE GAINS	3 6 2	47,691,996	16,017,081
I. FOREIGN EXCHANGE LOSSES	3 6 3	51,296,495	15,539,709
I. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note : 21) (359 less 360 plus 361 plus 362 less 363) (364, vol. 3 = 001 kol. 5 i 364 vol. 4 = 001 kol. 6) (364 vol. 4 = 361, vol. 3)	3 6 4	29,744,775	5,257,086

Belgrade, 26 February 2009

Person responsible for generation of financial statements

Legal representative on behalf of the Bank

M.P.

STATEMENT OF CHANGES IN EQUITY
from 1 January to 31 December 2008

(in thousands of RSD)

No.	DESCRIPTION	AOP	Share capital (acc. 800)	AOP	Other capital (acc. 801)	AOP	Unpaid subscribed share capital (acc. 803)	AOP	Premium on issue of shares (acc. 802)	AOP	Reserves from profit and other reserves (group of accounts 81)	AOP	Revaluation reserves (group of accounts 82, except for acc.823)	AOP	Profit (group of accounts 83)	AOP	Losses up to the level of capital (acc. 840, 841)	AOP	Own shares (acc. 128)		Unrealized losses on securities available for sale (acc.823)	12	Total (col. 2+3+5+6+7+8-9-10-11)	AOP	Losses in excess of capital (acc. 842)
	1		2		3		4		5		6		7		8		9		10		11		12		13
1.	Balance as at 1 January of the prior year 2007	401	8,856,630	414	-	427	-	440	3,961,520	453	1,202,440	466	769,267	479	1,294,088	492	-	505	164,410	518	-	531	15,919,535	544	-
2.	Adjustment for material errors and changes in accounting policies in the prior year – increase	402	-	415	-	428	-	441	-	454	-	467	-	480	-	493	-	506	-	519	-	532	-	545	-
3.	Adjustment for material errors and changes in accounting policies in the prior year – decrease	403	-	416	-	429	-	442	-	455	-	468	-	481	-	494	-	507	-	520	-	533	-	546	-
4.	Adjusted opening balance as at 1 January of the prior year 2007 (no. 1+2-3)	404	8,856,630	417	-	430	-	443	3,961,520	456	1,202,440	469	769,267	482	1,294,088	495	-	508	164,410	521	-	534	15,919,535	547	-
5.	Total increase in the prior year	405	-	418	-	431	-	444	480,935	457	783,000	470	263,767	483	2,979,323	496	-	509	-	522	-	535	4,507,025	548	-
6.	Total decrease in the prior year	406	120,600	419	-	432	-	445	-	458	-	471	200,992	484	1,100,618	497	-	510	164,410	523	-	536	1,257,800	549	-
7.	Balance as at 31 December of the prior year 2007 (no. 4+5-6)	407	8,736,030	420	-	433	-	446	4,442,455	459	1,985,440	472	832,042	485	3,172,793	498	-	511	-	524	-	537	19,168,760	550	-
8.	Adjustment for material errors and changes in accounting policies in the current year – increase	408	-	421	-	434	-	447	-	460	-	473	-	486	-	499	-	512	-	525	-	538	-	551	-
9.	Adjustment for material errors and changes in accounting policies in the current year – decrease	409	-	422	-	435	-	448	-	461	-	474	-	487	-	500	-	513	-	526	-	539	-	552	-
10.	Adjusted opening balance as at 1 January of the current year 2008 (no. 7+8-9)	410	8,736,030	423	-	436	-	449	4,442,455	462	1,985,440	475	832,042	488	3,172,793	501	-	514	-	527	-	540	19,168,760	553	-
11.	Total increase in the current year	411	346,790	424	-	437	-	450	3,537,259	463	2,700,000	476	99,112	489	2,820,845	502	-	515	-	528	-	541	9,504,006	554	-
12.	Total decrease in the current year	412	-	425	-	438	-	451	-	464	-	477	282,775	490	2,956,848	503	-	516	-	529	-	542	3,239,623	555	-
13.	Balance as at 31 December of the current year 2008 (no. 10+11-12)	413	9,082,820	426	-	439	-	452	7,979,714	465	4,685,440	478	648,379	491	3,036,790	504	-	517	-	530	-	543	25,433,143	556	-

Belgrade,
26 February 2009

Person responsible for preparing the financial statement

Legal representative of the bank

L.S.

1 THE BANK'S ESTABLISHMENT AND BUSINESS ACTIVITIES

Komercijalna banka A.D., Beograd (hereinafter: the Bank) was originally established on 1 December 1970, and was subsequently reorganized 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:

Republika Srbija	42,60%
EBRD, LONDON	25,00%
ARTIO INT. EQUITY FUND, New York	4,82%
Jugobanka AD Beograd under liquidation	3,69%
INVEJ DOO, Beograd	3,57%
Kompanija Dunav, Beograd	3,55%
Evropa osiguranje AD Beograd under liquidation	2,98%

The Bank has control over three subsidiaries, with following equity participations:

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

Financial statements and Notes to Financial Statements represent data of the Bank as individual parent legal entity.

The Bank is registered in the Republic of Serbia to provide a wide range of banking services associated with loans and deposit activities, payment transactions in country and abroad, all in accordance with the Republic of Serbia Law on Banks. Operations of the Bank are based on principles of liquidity, security of investments and profitability.

As at 31 December 2008 the Bank comprised main branch office in Belgrade, Svetog Save street 14, 25 branches and 268 sub-branches located on the territory of the Republic of Serbia. The Bank has representative offices registered in Frankfurt am Main, Germany and Zagreb, Croatia.

As at 31 December 2008 the Bank had 3,209 employees (31 December 2007: 3,053 employees). The Bank's tax identification number is 100001931.

2 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

In the year 2008 the Bank kept its business records and prepared its financial statements in accordance with the Laws and other legislation in effect in the Republic of Serbia, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as in compliance with National Bank of Serbia's regulations.

The Financial statements are presented in Dinars (RSD), rounded to the nearest thousand. Dinar (RSD) is the official reporting currency in the Republic of Serbia and also functional currency of the 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".

The Financial statements include banking activities. Costs of operating activities of sub-branches and representation offices abroad are presented in the Bank's financial statements.

The Bank is applying accounting policies acts in accordance with IAS/IFRS in effect:

- Rulebook on accounting and accounting policies of the Bank
- Guideline on classification of fixed assets and depreciation
- Guideline on manner and deadlines for stock count and reconciliation of book and actual state
- Rules for estimation and recognition of loans, receivables and provisions

Financial statements that refer to the period from 1 January to 31 December 2008 are approved by the Executive Board of the Bank on 27 February 2009.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest income and expense

Interest income and expenses, including penalty interest and other income and expenses arising on the interest-bearing assets and liabilities, are recognized in the income statement on 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, other foreign currency 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 accruals basis.

3.3. Income and expenses from securities

All realized or unrealized gains and losses arising on changes in market value of securities 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 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 recognized 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, the Bank makes provisions for the estimated amount of risk.

3.4. Foreign exchange translation

Transactions in foreign currencies are translated 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 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 recognized in the income statement as foreign exchange gains or losses.

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

3.5. Property and equipment, investment property and intangible assets

3.5.1. Property, equipment and intangible assets

As at 31 December 2008, property, equipment and intangible assets are stated at revalorization cost reduced for provision. Revalorization of property, equipment and intangible assets is made by 31 December 2002 using the official published revalorization rates based on fluctuation of consumer price index. Properties, equipment and intangible assets which are acquired after 1 January 2003 are stated at cost. In accordance with IAS/IFRS, in initial balance sheet as at 31 December 2003, revalorized present value is recognized as probable acquisition cost on that day.

All purchases of property and equipment made during the year 2008 are stated at cost value. Cost includes all expenses which should be recognised in accordance with IAS 16: "Property, plant and equipment".

Depreciation is calculated on cost or revalorized value of property, equipment and intangible assets on a straight line basis using prescribed annual rates determined by the Bank, in order to fully write off assets during their 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 foreign 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 Bank, the residual value of properties is deemed to be equal to 30% of its initial value. Residual values are not depreciated.

Depreciation rates and aimed residual useful life are verified or revised every year, in order to calculate depreciation which reflects real expenditure of these assets during the Bank's operations.

As of 1 January 2005 the Bank accepted revaluation method for fixed assets owned by the Bank.

In year 2005, based on estimated market value of property owned by the Bank adopted by the Bank's Executive Board, calculation of revalorization is made and the value of property is increased.

3.5.2. Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. They are stated and valued in the same way as property for the Bank's operating activities.

As at 31 December 2008 the Bank has stated investment properties in the amount of RSD 2,209,223 thousands, composed of properties hired for rent.

3.5.2. Investment properties

As at 31 December 2008 net result based on investment properties amounts to RSD 56,475 thousands:

in thousands RSD

Name of the property	Area (m ²)	Total Costs	Rental Income	Net result
Beograd, Makedonska 29	12,660.90	55,136	110,189	55,053
Beograd, Toše Jovanovića 7	24.05	62	57	(5)
Kruševac, Balkanska 8	55.72	143	167	24
Požarevac, Moše Pijade 2	76.84	375	1,778	1,403

3.6. Inventories

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

Inventories include assets acquired by a way of collecting receivables.

3.6.2. Non-current assets held for sale represent non-current assets whose carrying amount 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 carrying amount and fair value less costs to sell.

3.7. Loans

Loans are stated at the amount of principal outstanding, less allowance for impairment, which are based on an evaluation of specifically-identified exposures and also cover losses that are inherent in the Bank's loan portfolio. The Bank's management applies internally adopted 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, fair value of loans in accordance with IAS/IFRS, 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 the changes in the retail price index, are revalored in accordance with the provisions stated under the individual loan agreements. A difference between the nominal value and the revalored value of the outstanding principle is recognized under receivables for loans. The effects of such revaluation are recorded as gains and losses on the valuation of financial assets.

3.8. Allowances for Impairment and Provisions for Contingent Liabilities

In 2008 the Bank 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 foreign currency savings bonds. Securities held for trading are stated at fair value.

3.9.2. Securities held to maturity

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. Equity investments

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

Equity investments, except those of associated legal entities, 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.

3.10. 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 NBS 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 Bank with no commission, are not included in the Bank's balance sheet, but in the off-balance sheet positions.

3.12. Taxes and contributions

3.12.1. Corporate income tax

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/IFRS, adjusted for permanent differences between defined and effective tax rate.

The annual corporate income tax is payable at the rate of 10% on the tax base reported in the annual income tax return. Tax effects which refer to temporary differences between tax basis for certain assets and liabilities and amounts of those assets and liabilities stated in balance sheet which is in accordance with IAS/IFRS, are shown as deferred income tax or deferred tax liability. Reconciliation of calculated income tax and tax liability calculated in tax return is shown in Note 18.

3.12.1. Corporate income tax (continued)

The Corporate Income Tax Law, effective in the Republic of Serbia, prohibits tax losses of the current period from being used to recover the tax paid within a specific carry back period. However, the current year losses may be used to decrease taxable profits for future periods, but not longer than 10 years.

In accordance with the Income Tax Law effective in the Republic of Serbia, the calculated income tax can be reduced up to 50% for investments in fixed assets up to 20% of that investment. Tax credits for investments in fixed assets may be used up to 10 years.

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 Serbian tax legislation and general regulations. These taxes and contributions are recorded under other operating expenses.

3.13. Fair value

In the Republic of Serbia 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 carrying value will not be realised.

3.14. Employee benefits

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

The Bank 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.

3.15. Appliace 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 Bank applied mentioned acts and conducted appropriate reclassifications for previous year financial statement items.

3.16. Segment information

Due to fact that the Bank performs most of its operations in the Republic of Serbia, segment information is not disclosed. Assets, liabilities, results of operations, changes in equity and cash flows of subsidiaries which operate outside of the Republic of Serbia are not materially significant for the Bank's stand-alone financial statements.

Assets, liabilities, results of operations, changes in equity and cash flows of subsidiaries are included in the Bank's consolidated financial statements.

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

4 INTEREST INCOME AND EXPENSES

The Bank 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	
	2008	2007
<i>Interest in dinars</i>		
- Loans	8,627,019	
- Deposits	429,129	
- Securities	10,129	
- Other placements	602,695	
Total in dinars	<u>9,668,972</u>	<u>-</u>
<i>Interest in foreign currency</i>		
- Loans in foreign currency	699,869	
- Deposits in foreign curraency	333,303	
- Other placeents in foreign currency	237,697	
Total in foreign currency	<u>1,270,869</u>	<u>-</u>
TOTAL	<u>10,939,841</u>	<u>7,935,337</u>

Suspended interest income for 2008 amounts to RSD 11,898 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.

b) Interest expenses

In thousands of RSD	31 December	
	2008	2007
<i>Interest in dinars</i>		
- Loans	48,583	
- Deposits	1,653,710	
- Securities	-	
- Other placements	337	
Total in dinars	<u>1,702,630</u>	<u>-</u>
<i>Interest in foreign currency</i>		
- Loans in foreign currency	81,172	
- Deposits in foreign curraency	2,838,244	
- Other placeents in foreign currency	17,582	
Total in foreign currency	<u>2,936,998</u>	<u>-</u>
TOTAL	<u>4,639,628</u>	<u>2,561,615</u>

5. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and commission income

In thousands of RSD	31 December	
	2008	2007
Fee in dinars	2,939,410	2,590,408
Fee in foreign currency	127,657	35,538
TOTAL	3,067,067	2,625,946

b) Fee and commission expenses

In thousands of RSD	31 December	
	2008	2007
Fee and commission in dinars	191,957	203,275
Fee and commission in foreign currency	107,396	17,330
TOTAL	299,353	220,605

6. NET GAINS ON SALE OF SECURITIES

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 in 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	
	2008	2007
Gains on sale of equity investments	56,661	162
Losses on sale of equity investments	0	0
Net gains on sale of equity investments	56,661	162

Based on membership and volume of business cooperation between the Bank 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. FOREIGN EXCHANGE LOSSES/GAINS

In thousands of RSD	31 December	
	2008	2007
Foreign exchange gains	47,691,996	16,017,081
Foreign exchange losses	51,296,495	15,539,709
	(3,604,499)	477,372

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	
	2008	2007
Dividends and other income from equity investments	<u>3,208</u>	<u>83,949</u>

10. OTHER OPERATING INCOME

In thousands of RSD	31 December	
	2008	2007
Other operating income	137,684	186,558
Income from collected written-off receivables	23,875	170
Income from disposal of fixed and intangible assets	8,362	112,856
Income from decrease of liabilities	2,804	8,882
Surpluses	247	1,348
Other	<u>18,308</u>	<u>41,537</u>
	<u>191,280</u>	<u>351,351</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	6,460,202	7,773,600
Provisions for off-balance sheet items	199,716	101,685
Provisions for litigations	-	85,623
Provision for retirement benefits	-	259,389
	<u>6,659,918</u>	<u>8,220,297</u>

b) In thousands of RSD	31 December	
	2008.	2007.
Income from release of impairment of balance sheet items	4,815,607	8,787,088
Income from release of provision for off-balance sheet items	291,899	238,478
Income from release of unused provisions	4,752	-
Income from collected suspended interest	<u>22,423</u>	-
	<u>5,134,681</u>	<u>9,025,566</u>
Net income in 2007 (b-a)		<u>805,269</u>
Net expenses in 2008 (a-b)	<u>(1,525,237)</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 22,423 thousands.

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

In thousands of RSD

	Cash and cash equivalents	Interest and fees receivables and other placements	Loans and deposits	Securities	Equity investments	Other placements	Other assets	Off-balance items	Total
Balance as at 1 January 2008	-	818,388	7,493,106	978	391,919	2,264,071	38,296	559,966	11,566,724
Charged during the year	1,074	819,742	5,069,780	261	383,340	167,011	18,994	199,716	6,659,918
Release during the year	(1,074)	(520,602)	(3,804,005)	(1,186)	(393,530)	(90,489)	(4,721)	(291,899)	(5,107,506)
Exchange rate differences	-	23,169	263,708	-	-	187,264	1,284	-	475,425
Direct write-offs	-	(3,921)	(32,618)	-	-	(12,304)	(3,375)	-	(52,218)
Other	-	(134,706)	(103)	-	-	3	(91)	-	(134,897)
Balance as at 31 December 2008	-	1,002,070	8,989,868	53	381,729	2,515,556	50,387	467,783	13,407,446

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.

In accordance with the National Bank of Serbia requirements, apart from allowance for impairment of financial assets and provision for contingent liabilities, the bank is obliged to form additional reserves for estimated losses from retained earnings in the total amount of RSD 5,178,708 thousand. The Bank formed additional reserves for estimated losses from previous distributions of retained earnings in the amount of RSD 3,678,008 thousand. Additionally required provision for estimated losses in the amount of RSD 1,500,700 thousand will be set aside as appropriation of the Bank's profit for 2008.

13. PAYROLL EXPENSES, REMUNERATION AND OTHER PERSONAL EXPENSES

In thousands of RSD	31 December	
	2008	2007
Payroll expenses	1,856,087	1,686,440
Remuneration expenses	415,346	362,360
Taxes and contributions on salaries and fringe benefits	357,451	321,617
Contribution expenses and remuneration	550,794	484,751
Remuneration expenses for temporary and occasional operations	178,005	125,683
Other personal expenses	43,731	38,851
	<u>3,401,414</u>	<u>3,019,702</u>

Total gross salaries and other remuneration of the Executive Board in 2008 amounts to RSD 44,587 thousand. Total remuneration of the Board of Directors in 2008 amounts to RSD 24,311 thousand.

14. DEPRECIATION EXPENSES

In thousands of RSD	31 December	
	2008	2007
Depreciation expense	<u>405,505</u>	<u>334,022</u>

15. OPERATING AND OTHER EXPENSES

In thousands of RSD	31 December	
	2008	2007
Costs of material	390,499	362,693
Costs of production services	1,443,106	1,196,216
Non-material costs (without taxes and contributions)	981,272	1,062,081
Tax expenses	69,765	37,874
Contribution expenses	623,570	556,666
Other expenses	48,052	35,564
Write-offs of irrecoverable debts	1,712	2,167
Losses on sale of fixed and intangible assets	-	102
Impairment and write-offs of fixed and intangible assets	5,487	910
Shortfall and demages	1,762	120
Other expenses	20,506	40,593
	<u>3,585,731</u>	<u>3,294,986</u>

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

As at 31 December, commitments (excluding VAT) for operating leases of 199 business premises with the total area of 34,647.59 sqm amount to:

- in 2009	RSD 180,204 thousands	
- from 2010 to 2013	575,498	"
- from 2014	<u>334,976</u>	"
	1,090,678	"

16. GAINS ON VALUATION OF ASSETS AND LIABILITIES

In thousands of RSD	31 December	
	2008	2,007
Gains on valuation of loans and advances	15,252,924	4,949,465
Gains on valuation of securities	22,804	25,851
Gains on valuation of liabilities	2,626,925	708,384
TOTAL	17,902,653	5,683,700

17. LOSSES ON VALUATION OF ASSETS AND LIABILITIES

In thousands of RSD	31 December	
	2008	2007
Losses on valuation of loans and advances	6,739,638	4,812,939
Losses on valuation of securities	213,801	336,027
Losses on valuation of liabilities	4,933,739	544,184
TOTAL	11,887,178	5,693,150
Net gains/losses on valuation of assets and liabilities	6,015,475	(9,450)

Gains/losses arising from change in value of loan investments include contractual FX clause hedging effects.

Gains/Losses from change in value of securities contain effects of adjusting securities to their market value.

Gains/losses arising from change in value of liabilities include contractual FX clause hedging effects.

Calculation of change in value of assets and liabilities is conducted at the end of each month of the financial year as well as on the day of transaction.

18 INCOME TAX

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	<u>(191,822)</u>	<u>(99,917)</u>

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%	<u>281,522</u>	<u>291,609</u>
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	<u>(257,370)</u>	<u>(422,857)</u>
DEFERRED TAX EFFECTS IN THE INCOME STATEMENT	30,365	(31,763)

C. EFFECTIVE INCOME TAX RATE

	<u>-</u>	<u>-</u>
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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.

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

In thousands of RSD	31 December	
	2008	2007
Increase in deferred tax assets and decrease in deferred tax liabilities	-	34,501
	-	34,501

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

In thousands of RSD	31 December	
	2008	2007
Decrease in deferred tax assets and increase in deferred tax liabilities	30,365	2,738
	30,365	2,738

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 4,635 thousand.

Decrease in deferred tax assets based on long-term provisions for employees benefits at a rate of 10% amounts to RSD 475 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.

21. CASH AND CASH EQUIVALENTS

In thousands of RSD	31 December	
	2008	2007
<i>In dinars</i>		
Current account	24,504,643	992,988
Cash on hand	1,514,340	1,390,972
Total	26,018,983	2,383,960
<i>In foreign currency</i>		
Foreign currency accounts	2,881,208	1,935,025
Cash on hand in foreign currency	770,050	902,310
Cash equivalents in foreign currency - cheques in the course of collection	30,255	32,025
Other cash and cash equivalents	44,180	3,667
Total	3,725,693	2,873,027
Gold and other precious metals	99	99
TOTAL	29,744,775	5,257,086

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
	<u>0</u>	<u>14,200,000</u>
<i>In foreign currency</i>		
Obligatory reserve at NBS	19,512,049	25,613,826
	<u>19,512,049</u>	<u>25,613,826</u>
TOTAL	<u><u>19,512,049</u></u>	<u><u>39,813,826</u></u>

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.

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	1,152,939	920,761
- fees	101,589	78,953
Receivables from sales in dinars	-	832
Other receivables on sales in dinars - rent	135,287	34,577
Less: Allowance for impairment in dinars	<u>(775,138)</u>	<u>(652,907)</u>
	<u>614,677</u>	<u>382,216</u>
<i>Interest, fees and commission receivables in foreign currency</i>		
- interest	267,106	213,316
- fees	3,863	9
Less: Allowance for impairment in foreign currency	<u>(226,932)</u>	<u>(165,480)</u>
	<u>44,037</u>	<u>47,845</u>
TOTAL	<u><u>658,714</u></u>	<u><u>430,061</u></u>

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	38,739,548	18,617,576
Less: Allowance for impairment for loans in dinars	<u>(6,425,451)</u>	<u>(5,511,413)</u>
	<u>94,660,000</u>	<u>59,808,001</u>
<i>Loans granted in foreign currency</i>		
- payments for goods and services import	4,885,183	3,374,713
Overnight loans	217,508	-
Other loans in foreign currency	8,786,300	6,388,629
Less: Allowance for impairment for loans in foreign currency	<u>(2,398,019)</u>	<u>(1,839,563)</u>
	<u>11,490,972</u>	<u>7,923,779</u>
<i>Granted other and defined purpose deposits in foreign currency</i>		
Other deposits in foreign currency	246,873	22,066,463
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	<u>(166,398)</u>	<u>(142,131)</u>
	<u>80,475</u>	<u>22,011,309</u>
	<u>106,231,447</u>	<u>89,743,089</u>

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	3,553,554	2,308,089
Metals and processing industry	21,113,966	15,379,605
Oil and Gas	291,430	113,674
Constructions	5,222,407	3,321,677
Trading, maintaining of vehicles and households equipment	22,716,869	14,120,583
Hotels, restaurants and telecommunucations	3,382,884	2,293,109
Financial services	2,974,565	22,310,892
Property – renting and other business transactions	5,551,151	2,917,295
Governmental institutions	1,869,944	425,868
Education, healthcare and social sector	439,560	67,421
Retail and enterpreneur	34,976,276	23,687,833
Other	4,138,841	2,797,043
	<u>106,231,447</u>	<u>89,743,089</u>

Risks and Uncertainties

The Bank's management recorded allowances and provisions for all known and estimated risks as of the date of the financial statements. The Bank'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 Bank'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 Bank'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 trough income statement	18,394	114,235
Securities held to maturity	133,548	130,500
Less: Allowance for impairment on securities	(53)	(979)
	<u>151,889</u>	<u>243,756</u>
<i>in foreign currency</i>		
Securities at fair value trough income statement in foreign currency	216,522	191,677
	<u>216,522</u>	<u>191,677</u>
TOTAL	<u>368,411</u>	<u>435,433</u>

26. EQUITY INVESTMENTS

In thousands of RSD	31 December	
	2008	2007
Equity investments in dinars		
Equity investments in associated companies in country	140,000	20,000
Equity investments in associated Banks abroad	2,201,988	2,201,988
Equity investments in banks and financial organizations	138,816	267,978
Equity investments in companies and other legal entities	449,924	689,946
Equity investments in foreign entities	72,562	-
Less: Allowance for impairment	(381,729)	(391,919)
	<u>2,621,561</u>	<u>2,787,993</u>

Allowance for impairment in the amount of RSD 381,729 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)
	<u>1,248,049</u>	<u>152,703</u>
<i>Other placements in foreign currency</i>		
Investments on accepts, guarantees and paid guaranties	149,075	83,532
Unsecured letters of credit and other pledges	435,333	244,682
Other placements in foreign currency	2,518,613	1,599,580
Less: Allowance for impairment for other placements in foreign	(1,702,666)	(1,523,740)
	<u>1,400,355</u>	<u>404,054</u>
TOTAL	<u>2,648,404</u>	<u>556,757</u>

As at 31 December 2008 the Bank stated allowance for impairment of placement at Jugobanka AD Beograd under liquidation in full amount.

28. INTANGIBLE ASSETS

Intangible assets

In thousands of RSD	31 December	
	2008	2007
Licences and software	94,337	80,742
Intangible assets in preparation	227,348	10,040
Less: Allowance for impairment	(29,719)	(12,097)
	<u>293,974</u>	<u>78,685</u>

Changes in intangible assets

Cost	Licences and software		Advances	Investments in property not owned by the Bank	Other intangible assets in progress	In thousands of RSD	
Balance as at 1 January 2008	80,742		68,533	65,659		10,040	
Correction of opening balance - transfer to other receivables and fixed assets	-		(68,533)	(65,659)		-	
Modified opening balance	<u>80,742</u>		<u>0</u>	<u>0</u>		<u>10,040</u>	
Purchase	-		-	-		230,904	
Revaluation	-		-	-		-	
Transfers from/to	13,595		-	-		(13,595)	
Disposals	-		-	-		-	
Other	-		-	-		-	
Balance as at 31 December 2008	<u>94,337</u>		<u>0</u>	<u>0</u>		<u>227,349</u>	
Accumulated depreciation							
Balance as at 31 December 2007	12,097		0	7,399		0	
Correction of opening balance - transfer to other receivables and fixed assets	0		0	(7,399)		0	
Modified opening balance	<u>12,097</u>		<u>0</u>	<u>0</u>		<u>0</u>	
Depreciation in 2008	17,622		-	-		-	
Revaluation	-		-	-		-	
Disposals	-		-	-		-	
Other	-		-	-		-	
Balance as at 31 December 2008	<u>29,719</u>		<u>0</u>	<u>0</u>		<u>0</u>	
Net book value as at 31 December 2008	<u>64,618</u>		<u>-</u>	<u>-</u>		<u>227,349</u>	
31 December 2007	<u>68,645</u>		<u>0</u>	<u>0</u>		<u>10,040</u>	

29. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

Changes in properties, equipment and investment properties

			In thousands of RSD	
	<u>Real Estate</u>	<u>Equipment</u>	<u>Investments in progress</u>	<u>Investment properties</u>
Cost				
Balance as at 31 December 2007	3,975,379	1,902,187	59,058	2,608,852
Correction of opening balance - investments in property not owned by the Bank	65,659			0
Modified opening balance	<u>4,041,038</u>	<u>1,902,187</u>	<u>59,058</u>	<u>2,608,852</u>
Purchases	-	-	658,043	-
Revaluation	-	-	0	-
Transfers from/to	192,880	417,041	(609,921)	-
Disposals	(1,367)	(144,500)	-	-
Other	167,552	-	-	(258,674)
Balance as at 31 December 2008	<u>4,400,103</u>	<u>2,174,728</u>	<u>107,180</u>	<u>0</u> <u>2,350,178</u> 0
Accumulated depreciation				
Balance as at 31 December 2007	332,260	1,053,726	0	108,823
Correction of opening balance - investments in property not owned by the Bank	7,399		0	0
Modified opening balance	<u>339,659</u>	<u>1,053,726</u>	<u>0</u>	<u>108,823</u>
Depreciation in 2008	100,551	253,730	-	33,603
Revaluation	-	-	-	-
Disposals	(152)	(137,358)	-	-
Other	(10,264)	-	-	(1,470)
Balance as at 31 December 2008	<u>429,794</u>	<u>1,170,098</u>	<u>0</u> <u>0</u>	<u>0</u> <u>140,956</u>
Net book value as at 31 December 2008	<u>3,970,309</u>	<u>1,004,630</u>	<u>107,180</u>	<u>2,209,222</u>
31 December 2007	<u>3,701,379</u>	<u>848,461</u>	<u>59,058</u>	<u>2,500,029</u>

As at 31 December 2008 the Bank 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 Bank has not pledged as collateral any of its property as at 31 December 2008.

As a result of incomplete land register books, the Bank's property stated in the amount of RSD 732,731 thousand as at 31 December 2008 has not been duly recorded in the land register. The Bank's management is undertaking actions to obtain the appropriate property registration documents.

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

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

Management of the Bank 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 Bank disposed fixed assets in amount of RSD 5,146 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 Bank.

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	257,682	181,259
Deferred tax liabilities	(71,598)	(66,964)
Net deferred tax assets/liabilities	<u>186,084</u>	<u>114,295</u>

In accordance with IAS 12 „Income tax“, section 71, deferred tax assets and liabilities are presented in net amount.

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	-	68,534
Receivables from employees	1,516	3,599
Receivables for prepaid taxes and reuration	70	542
Receivables for prepaid income tax	180,520	53,549
Other receivables from operations	356,122	215,123
Temporary accounts	(26,983)	(11,764)
Receivables from interbank transactions	283,731	190,689
Provision for other receivables	(19,792)	(10,975)
	<u>788,198</u>	<u>514,259</u>
<i>Other receivables in foreign currency</i>		
Receivables from employees	637	749
Other receivables from operations	121,648	97,752
Temporary accounts	1,762	(31,808)
Receivables from interbank transactions	44,489	44,020
Provision for other receivables	(30,595)	(27,321)
	<u>137,941</u>	<u>83,392</u>
<i>Accruals in dinars</i>		
Accrued interest	99,458	72,869
Other accrued income	346	567
Other accrued expenses	84,428	99,090
Other accruals	247	149
	<u>184,479</u>	<u>172,675</u>
<i>Accruals in foreign currency</i>		
Accrued interest	65,411	48,289
Other accrued income	-	1,664
Other accruals	963	7,725
	<u>66,374</u>	<u>57,678</u>
<i>Inventory</i>		
Material	22,832	35,746
Equipment and i inventory	3,604	596
Assets acquired by a way of collecting receivables	23,802	12,705
Inventory in use	134,826	107,089
Provision for inventory	(134,826)	(107,089)
	<u>50,238</u>	<u>49,047</u>
TOTAL	<u><u>1,227,230</u></u>	<u><u>877,051</u></u>

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

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%.

33. TRANSACTION DEPOSITS

In thousands of RSD	31 December	
	2008	2007
- in dinars	17,357,692	18,120,125
- in foreign currency	8,060,590	5,754,422
	<u>25,418,282</u>	<u>23,874,547</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.

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	1,262,845	1,340,690
Deposits as guaranties for loans	138,057	163,799
Deposits with defined purpose	741,197	468,778
Other deposits	29,188,719	28,941,614
	<u>31,330,818</u>	<u>30,914,881</u>
<i>Deposits in foreign currency</i>		
Savings deposits	64,720,389	59,212,466
Deposits as guaranties for loans	1,056,789	3,448,163
Deposits with defined purpose	675,444	1,501,687
Other deposits	9,701,694	2,690,437
	<u>76,154,316</u>	<u>66,852,753</u>
TOTAL	<u>107,485,134</u>	<u>97,767,634</u>

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.

Foreign currency short-term deposits of companies are deposited at interest rates ranging from 1% to 3.30% 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>Borrowings in dinars</i>		
Overnight loans	1,437,243	11,014
Borrowings	4,367	5,459
Other financial liabilities in dinars	-	540
	<u>1,441,610</u>	<u>17,013</u>
<i>Borrowings in foreign currency</i>		
Other financial liabilities in foreign currency	10,715	20,382
	<u>10,715</u>	<u>20,382</u>
TOTAL	<u><u>1,452,325</u></u>	<u><u>37,395</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	186,143	61,047
Fee and commission liabilities	6,861	6,300
	<u>193,004</u>	<u>67,347</u>
<i>Interest and fees in foreign currency</i>		
Interest liabilities	2,495	1,161
	<u>2,495</u>	<u>1,161</u>
TOTAL	<u><u>195,499</u></u>	<u><u>68,508</u></u>

37. PROVISIONS

In thousands of RSD	31 December	
	2008	2007
Provision for litigation	277,610	277,610
Provision for retirement benefits	304,637	309,389
Provision for contingent liabilities	467,783	559,966
TOTAL	<u><u>1,050,030</u></u>	<u><u>1,146,965</u></u>

Changes in provisions

In thousands of RSD	31 December	
	2008	2007
<i>Provision for litigation</i>		
Opening balance	277,610	401,072
Cancellation of provisions	-	(209,085)
Provisions	-	85,623
Closing balance	<u><u>277,610</u></u>	<u><u>277,610</u></u>
<i>Provision for retirement benefits</i>		
Opening balance	309,389	50,000
Cancellation of provision/provisions during the year	(4,752)	259,389
Closing balance	<u><u>304,637</u></u>	<u><u>309,389</u></u>
<i>Provision for contingent liabilities</i>		
Opening balance	559,966	696,758
Cancellation of provisions	(92,183)	(136,792)
Closing balance	<u><u>467,783</u></u>	<u><u>559,966</u></u>

38. TAX LIABILITIES

In thousands of RSD	31 December	
	2008	2007
VAT liabilities	7,101	4,729
Liabilities for other taxes and contributions	61,285	67,585
	<u>68,386</u>	<u>72,314</u>

39. LIABILITIES RELATED TO PROFIT

In thousands of RSD	31 December	
	2008	2007
Liabilities related to profit	<u>4,040</u>	<u>4,918</u>

40. OTHER LIABILITIES

In thousands of RSD	31 December	
	2008	2007
<i>Other liabilities in dinars</i>		
Trade payables	157,185	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
	<u>393,757</u>	<u>415,944</u>
Liabilities from temporary and occasional operations	304	-
Other liabilities to employees	4,142	3,591
	<u>4,446</u>	<u>3,591</u>
Accrued interest liabilities	40,863	8,546
Deferred interest income	22,360	23,495
Deferred income stated at depreciation value using effective interets rate	601,914	504,528
Other deferred income	342,542	185,460
Other accruals	353,600	173,988
	<u>1,361,279</u>	<u>896,017</u>
<i>Other liabilities in foreign currency</i>		
Received advances	4,232	6,344
Liabilities on behalf of third parties - credit lines	3,005,119	2,854,670
Liabilities from interbank transactions	3,862,342	161,089
Temporary account	104,350	939
	<u>6,976,043</u>	<u>3,023,042</u>
Accrued interest liabilities	948,989	660,360
Other accrued liabilities	45,061	20,474
Other deferred income	-	103
Other accruals	24,955	42,631
	<u>1,019,005</u>	<u>723,568</u>
TOTAL	<u><u>9,754,530</u></u>	<u><u>5,062,162</u></u>

Liabilities on behalf of third parties relate to following credit lines:

- Loan from European Investment Bank, granted to Republic of Serbia for financing SME projects, as well as for financing infrastructural projects of small and medium municipalities, in the amount of RSD 1,214,508 thousands
- 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
- 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

41. EQUITY

In thousands of RSD	31 December	
	<u>2008</u>	<u>2007</u>
Share capital	9,082,820	8,736,030
Share premium	<u>7,979,714</u>	<u>4,442,455</u>
	<u><u>17,062,534</u></u>	<u><u>13,178,485</u></u>

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.

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 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%,

42. RESERVE FROM PROFIT

In thousands of RSD	31 December	
	2008	2007
Other reserves	360,868	360,868
Special reserve from profit for estimated losses	4,324,572	1,624,572
	<u>4,685,440</u>	<u>1,985,440</u>

In thousands of RSD	31 December	
	2008	2007
Movements in reserves from profit		
Opening balance	1,985,440	1,193,290
Other capital	-	9,150
- distribution of retained earnings for 2007	2,700,000	783,000
Closing balance	<u>4,685,440</u>	<u>1,985,440</u>

43. REVALUATION RESERVES

In thousands of RSD	31 December	
	2008	2007
Revaluation reserves on change in value of properties	574,462	585,539
Revaluation reserves on change oin value of securities	73,917	246,503
	<u>648,379</u>	<u>832,042</u>

In thousands of RSD	31 December	
	2008	2007
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 reserves relate to gains arising on increase in value of property based on the appraisal made by an independent appraiser and gains on securities available for sale.

44. PROFIT

In thousands of RSD	31 December	
	2008	2007
Retained earnings		
Retained earnings from previous years	251,933	224,937
Current year retained earnings	<u>2,784,857</u>	<u>2,947,856</u>
	<u>3,036,790</u>	<u>3,172,793</u>
Net profit for the year		
- Net profit from business activities	2,815,222	2,916,093
- Profit/loss from tax effects	<u>(30,365)</u>	<u>31,763</u>
	<u>2,784,857</u>	<u>2,947,856</u>
Movements in retained earnings from previous years		
Opening balance	224,937	455,102
Opening balance adjustment (change in accounting policy in accordance with IAS 21)	-	(75,018)
Opening balance after adjustment	<u>224,937</u>	<u>380,084</u>
Increase for the year		
-transfer from current year profit	2,947,856	914,004
- gains on disposal of fixed assets	201	20,568
- gains on realized revaluation reserves	10,875	10,900
- tax balance corrections for 2007	24,912	-
Decrease through the year:		
- dividends for preferential shares	(56,848)	(52,964)
- employee shares in profits	(200,000)	(45,000)
- transfer to reserve	(2,700,000)	(783,000)
- usage of tax credits from previous year - tax relief	-	(219,655)
Closing balance	<u>251,933</u>	<u>224,937</u>

In accordance with NBS regulations gains on the disposal of revalued fixed assets in 2008 were recognized as retained earnings of previous years in the total amount of RSD 201 thousand.

Total provisions for assets and off-balance sheet items in accordance with NBS requirements – retained earnings (notes 12. and 46.) amount to RSD 5,865,086 thousand. From previous distributions of profit the Bank isolated the amount of RSD 4,324,572 thousand. The Bank has obligation to cover the remaining amount of RSD 1,540,514 thousands, through distribution of profits for 2008.

45. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

In thousands of RSD	31 December	
	2008	2007
Funds managed on behalf of third parties	<u>5,861,056</u>	<u>6,517,782</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	
	2008	2007
<i>In dinars</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	4,777,051	3,291,890
Irrevocable contingent liabilities for unused loans and deposits in foreign currency	75,844	477,748
Other irrevocable contingent liabilities in foreign currency	-	716,404
Total in foreign currency	<u>4,852,895</u>	<u>4,486,042</u>
TOTAL	<u>24,407,915</u>	<u>22,150,771</u>

For mentioned guarantees and contingent liabilities the Bank made provision against potential losses in accordance with IAS 37 in the amount of RSD 467,783 thousands. This provision is recorded under liabilities and equity in the balance sheet.

According to National Bank of Serbia's regulations, relating to guarantees and contingent liabilities, the Bank is obliged to isolate from profits amount of RSD 686,378 thousands. From previous distributions of profit the Bank isolated the amount of RSD 646,564 thousands. The Bank has obligation to cover the remaining amount of RSD 39,814 thousands, through distribution of profits for 2008.

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

b) Litigations and claims

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.

47. OTHER OFF-BALANCE SHEET ITEMS

In thousands of RSD	31 December	
	2008	2007
Receivables for suspended interest		
- in dinars	888,321	735,579
- in foreign currency	3,701	3,004
Other off-balance sheet items	28,204,264	34,614,605
	<u>29,096,286</u>	<u>35,353,188</u>

New Regulation on chart of accounts and account's content in chart of accounts for Bank (Sl.glasnik RS 98/07 i 57/08) defines that receivables for suspended interest should be recorded 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 Bank was under obligation to comply its business operations with the requirements of Law on Banks, which means to adjust the scope and structure of its risk assets to the scope prescribed by the National Bank of Serbia. As at 31 December 2008 and as at 31 December 2007 all indicators were compliant with the NBS requirements.

49. INTEREST-BARRING AND NON-INTEREST BARRING ASSETS

As at 31 December 2008	In thousands of RSD		
	Interest-barring	Non-interest barring	Total
ASSETS			
Cash and cash equivalents	23,648,555	6,096,220	29,744,775
Callable deposits and loans	-	19,512,049	19,512,049
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	-	658,714	658,714
Granted loans and deposits	106,231,447	0	106,231,447
Securities (excluding own shares)	133,494	234,917	368,411
Equity investments	0	2,621,561	2,621,561
Other placements	2,185,925	462,479	2,648,404
Intangible assets	-	291,966	291,966
Property and equipment and investment property	-	7,291,341	7,291,341
Non-current assets held for sale and discontinued operations	-	79,387	79,387
Deferred tax assets	-	186,084	186,084
Other assets	-	1,227,230	1,227,230
Loss over capital	-	0	0
Assets	132,199,421	38,661,948	170,861,369
LIABILITIES			
Transaction deposits	25,418,282	-	25,418,282
Other deposits	107,485,134	-	107,485,134
Borrowings	1,452,325	-	1,452,325
Liabilities arising from securities	-	-	-
Interest, fees and commissions payable and change in fair value of derivatives	-	195,499	195,499
Provisions	-	1,050,030	1,050,030
Tax liabilities	-	68,386	68,386
Liabilities related to profit	-	4,040	4,040
Fixed assets held for sale	-	-	-
Deferred tax liabilities	-	-	-
Other liabilities	3,005,119	6,749,411	9,754,530
Total capital	-	25,433,143	25,433,143
Share and other capital	-	17,062,534	17,062,534
Reserves from profit	-	4,685,440	4,685,440
Revaluation reserves	-	648,379	648,379
Not realized losses on securities available for sale	-	-	-
Profit	-	3,036,790	3,036,790
II. Total liabilities	137,360,860	33,500,509	170,861,369
Net exposure to interest rate risk as at 31 December 2008	(5,161,439)	5,161,439	0

50. FOREIGN CURRENCY BALANCE

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

In thousands of RSD

	EUR	USD	Other currencies	Total FX balance	RSD balance
As at 31 December 2008					
ASSETS					
Cash and cash equivalents	3,386,990	114,001	224,702	3,725,693	26,019,082
Callable deposits and loans	16,515,900	2,996,149	-	19,512,049	-
commission receivables, change in fair value of derivatives and other receivables	43,892	145	-	44,037	614,677
Granted loans and deposits shares)	11,334,335	237,112	-	11,571,447	94,660,000
Equity investments	216,522	-	-	216,522	151,889
Other placements	972,548	427,807	-	1,400,355	1,248,049
Intangible assets	-	-	-	-	291,966
Property and equipment and investment property	-	-	-	-	7,291,341
Non-current assets held for sale and discontinued operations	-	-	-	-	79,387
Deferred tax assets	-	-	-	-	186,084
Other assets	202,822	1,477	89	204,388	1,022,842
Loss over capital	0	0	0	0	0
Total Assets	32,673,009	3,776,691	224,791	36,674,491	134,186,878
LIABILITIES					
Transaction deposits	7,260,566	578,214	221,809	8,060,589	17,357,693
Other deposits	71,232,409	3,105,542	1,816,366	76,154,317	31,330,817
Liabilities on securities commissions payable and change in fair value of derivatives	8,664	1,624	427	10,715	1,441,610
Provision	-	-	-	-	-
Tax liabilities	1,396	1,071	28	2,495	193,004
Liabilities related to profit	-	-	-	-	1,050,030
Fixed assets held for sale	-	-	-	-	68,386
Deferred tax liabilities	-	-	-	-	4,040
Other liabilities	7,894,023	79,658	21,365	7,995,046	1,759,484
Capital	-	-	-	0	25,433,143
Total liabilities	86,397,058	3,766,109	2,059,995	92,223,162	78,638,207
Net currency gap as at 31 December 2008	(53,724,049)	10,582	(1,835,204)	(55,548,671)	55,548,671
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 53.98%.

51. RECEIVABLES FROM RELATED PARTIES

Related parties	Loans and borrowings	Interest and commission	Impairment	Net exposure	Off-balance sheet exposure	Balance as at 31 December 2008
banka AD Budva	1,526,547	1,666	-	1,528,213	-	1,528,213
2. Kom.bank AD	3,862	0	-	3,862	-	3,862
3. Kombank INVEST	16,440	99	-	16,539	1,498	18,037
TOTAL	1,546,849	1,765	0	1,548,614	1,498	1,550,112

52. SUBSEQUENT EVENTS

Unreconciled account balances

Based on the analysis of regular annual balance reconciliation conducted on 31 December 2008, the Bank has unreconciliated account balances in the amount of RSD 147,799 thousand. Unreconciled account balances primarily relate to clients against whom court proceedings have been initiated.

Unpaid preferred dividends

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

53. EXCHANGE RATES

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

Foreign currency	Official exchange rate	
	2008	2007
USD	62.9000	53.7267
EUR	88.6010	79.2362
CHF	59.4040	47.8422

54. RISK MANAGEMENT

54.1. 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 Bank.

The Bank 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 Bank's activities in accordance with business opportunities and market development with a view to gaining competitive advantage.

The practice in Komercijalna banka AD Beograd (hereinafter: the Bank), as is the case in all large, developed banks, is to separate the risk management function from daily business activities linked with client relations.

54.1.1. Objectives and principles of risk management

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

- 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 set out:

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

Beside objectives the Bank 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 Bank 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 Bank 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 modelling mechanism that allows for simulation and/or analysis of performance change measurement in business and market environments for the profile of the Bank's risk exposure and further influence on the Bank'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.

54.1.2. Competencies

The *Managing Board* is authorized and responsible for establishing a uniform risk management system and for monitoring such system, adopting policies and procedures for risk management, as well as monitoring whether the Bank's Executive Board 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 Bank is 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.

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

The *Credit Committee* is responsible for maintaining the Bank's optimal exposure to credit risk, and also performs other activities set out in the Bank's internal regulations.

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 the Bank's assets and liabilities, their overall financial structure, and is primarily responsible for the Bank's 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 at Bank level, and tests the adequacy of procedures and the Bank's compliance with them. Internal Audit reports its findings and recommendations to the Audit Committee and the Managing Board.

54.1.3. Risk measurement and reporting

The Bank 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 Bank 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 that are set by the Bank. They in turn depend on business strategy and the business environment, as well as on the level of risk that the Bank is ready to accept.

Risk management reports are regularly submitted to: the Bank's Managing Board, the Executive Board, the Audit Committee, the Asset and Liability Committee and the Credit Committee, and they contain all the information required for risk assessment and reaching of conclusions about the Bank's risks.

54.1.4. Types of risk

The Bank 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 via the Bank's strategic planning process.

55. 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 Bank'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 toward the Bank;
- 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 Bank's exposure toward a single individual, a group of related parties or to entities that are associated with the Bank.

The Bank 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 and setting up of a special provision for estimated losses, including an allowance for impairments;
- setting of limits for approval of placements for particular clients;
- setting of limits for approval of placements for organisational units of the Bank, different types of investments of the Bank, as well as for industrial sectors;
- monitoring of collection of interest and principle during the repayment period;
- client monitoring;
- placement risk management;
- Bank portfolio management;
- internal and external reporting;
- conducting of the process of internal assessment of capital adequacy.

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

The Bank defined the system of decision-making for competencies for making decisions about credit risk exposure:

- First level of decision-making – Credit Committee at branch level
- Second level of decision-making – Credit Committee at branch level, with approval from risk management organizational unit
- Third level of decision-making – Credit Committee at HQ
- Fourth level of decision-making – Executive Board (with or without approval of Managing Board, depending on level of exposure).

The Bank defines limits of exposure per individual types of risk with the objective of limiting and minimising risks to acceptable levels for the Bank's risk profile. The Bank's exposure limits to individual borrowers are based on the assessment of a borrower's credit rating. The Bank's exposure limits at portfolio level are directed at limiting exposure concentrations in the portfolio.

Credit risk measurement is based on two parallel approaches:

- regulatory approach
- internal approach.

The approach which is based on internally developed methods assumes that the Bank 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 Bank.

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

55.1. Overall credit risk exposure

The greatest credit risk for the Bank arises from realized credit arrangements, although the Bank is also exposed to the risk of off-balance sheet items that is associated with contingent and undertaken liabilities. 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	121,440,429	96,424,653
1.	Legal entities	82,177,664	53,317,805
2.	Banks	4,538,757	18,663,354
3.	Retail	34,724,008	24,443,494
II.	Securities	3,136,837	3,424,647
1.	Securities not included in the trading book	133,547	244,735
2.	Equity investments	3,003,290	3,179,912
III.	Off-balance sheet items	25,457,825	23,228,520
1.	Guarantees	9,415,407	7,696,110
2.	Other	16,042,418	15,532,410
	Total gross book value	150,035,091	123,077,820

55.2. Downgrade risk

The quality of the Bank'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 Bank 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		Banks		Retail		Total	
		2008	2007	2008	2007	2008	2007	2008	2007
I.	Placements	82,177,664	53,317,805	4,538,757	18,663,354	34,724,008	24,443,494	121,440,429	96,424,653
1.	Category 1	10,233,251	6,689,550	640,181	17,529,529	31,260,567	22,262,373	42,134,000	46,481,451
2.	Category 2	40,694,797	26,484,684	2,550,342	32,194	1,086,075	674,532	44,331,215	27,191,409
3.	Category 3	17,362,053	10,688,941	20	19	517,983	149,291	17,880,057	10,838,251
4.	Category 4	2,537,419	841,106	4	-	678,889	135,879	3,216,312	976,985
5.	Category 5	11,350,143	8,613,524	1,348,209	1,101,612	1,180,493	1,221,421	13,878,844	10,936,557
II.	Securities	796,033	946,979	2,340,804	2,477,668	-	-	3,136,837	3,424,647
1.	Category 1	261,318	303,513	46,606	2,387,435	-	-	307,924	2,690,948
2.	Category 2	0	26,198	2,282,352	78,386	-	-	2,282,352	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	377,035
III.	Off-balance sheet items	17,229,892	13,133,054	31,919	23,020	8,196,014	10,072,446	25,457,825	23,228,520
1.	Category 1	4,026,533	2,514,983	5,540	0	7,926,639	10,003,726	11,958,711	12,518,709
2.	Category 2	8,996,262	7,604,423	24,263	5,192	112,353	23,145	9,132,878	7,632,760
3.	Category 3	2,618,380	2,424,417	-	-	57,555	4,759	2,675,934	2,429,176
4.	Category 4	1,184,708	86,269	2,115	-	48,657	4,357	1,235,481	90,626
5.	Category 5	404,010	502,962	-	17,828	50,811	36,459	454,821	557,249
IV.	Total gross book value	100,203,589	67,397,839	6,911,480	21,164,042	42,920,022	34,515,940	150,035,091	123,077,820

55.3 Risk of change in value of assets

Impairment of placements is intended to ensure reasonable, cautious and timely registering of losses arising from loan impairments, as well as to intervene in respect of contingent liabilities with a view to protecting the Bank 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.

55.4. Assessment of impairment of receivables

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

Individual assessment

The Bank 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		Banks		Retail		Securities		Total	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
I. Individual impairment											
1	Category 1	1,813	123,848	36	323,079	-	-	-	-	1,848	446,927
2	Category 2	37,044,381	18,252,609	46	78,517	-	-	78,386	104,584	37,122,814	18,435,710
3	Category 3	15,474,523	9,767,512	-	14	-	-	133,547	130,500	15,608,070	9,898,026
4	Category 4	2,176,037	774,548	-	-	-	-	37,634	-	2,213,671	774,548
5	Category 5	10,718,587	6,792,682	1,347,939	833,053	-	-	336,938	377,035	12,403,464	8,002,770
6	Gross placement (1to 5)	65,415,341	35,711,199	1,348,020	1,234,662	-	-	586,506	612,119	67,349,867	37,557,980
7	Impairment	9,402,135	7,158,298	1,347,956	1,234,612	-	-	380,112	392,897	11,130,204	8,785,807
8	Book value (6-7)	56,013,206	28,552,901	64	50	-	-	206,393	219,222	56,219,663	28,772,173
II. Group impairment											
1	Category 1	296,086	26,082	-	-	7,361,468	-	-	-	7,657,554	26,082
2	Category 2	2,301,192	5,002,265	-	-	8,844	674,532	-	-	2,310,036	5,676,797
3	Category 3	524,249	753,831	-	-	32,303	149,291	1,670	-	558,221	903,122
4	Category 4	163,458	63,676	-	-	23,101	135,879	-	-	186,558	199,555
5	Category 5	624,832	1,388,292	-	-	34,065	697,563	-	-	658,897	2,085,855
6	Gross placement (1to 5)	3,909,816	7,234,147	-	-	7,459,781	1,657,264	1,670	-	11,371,267	8,891,411
7	Impairment	630,484	1,461,989	-	-	1,175,426	758,941	1,670	-	1,807,580	2,220,930
8	Book value (6-7)	3,279,333	5,772,158	-	-	6,284,354	898,323	-	-	9,563,687	6,670,480
III. Matured, unimpaired placements											
1	Category 1	97,480	65,228	2	1,316	81,499	64,543	-	-	178,981	131,087
2	Category 2	31,532	16,584	1,778	(58)	472	-	-	-	33,782	16,526
3	Category 3	9,568	48	20	6	196	-	-	-	9,785	54
4	Category 4	10,043	28	4	-	137	-	-	-	10,184	28
5	Category 5	736	(17)	270	280,405	183	-	-	-	1,189	280,388
6	Gross placement (1to 5)	149,359	81,871	2,075	281,669	82,487	64,543	-	-	233,921	428,083
7	Matured unimpaired placements comprise:										
8	0 to 30 days	138,506	65,228	1,659	1,264	80,921	64,543	-	-	221,086	131,035
9	31 to 60 days	7,870	16,584	42	-	451	-	-	-	8,362	16,584
10	61 to 90 days	1,012	59	22	-	149	-	-	-	1,182	59
11	91 to 180 days	968	-	23	-	310	-	-	-	1,301	-
12	over 180 days	1,004	-	330	280,405	656	-	-	-	1,989	280,405
13	Book value (8 to 12)	149,359	81,871	2,075	281,669	82,487	64,543	-	-	233,921	428,083
IV. Unmatured unimpaired placements											
1	Category 1	9,837,873	6,777,905	640,144	16,901,621	26,868,292	22,197,830	261,318	2,690,948	37,607,626	48,568,304
2	Category 2	1,317,692	3,134,840	2,548,518	32,121	176,250	-	2,203,965	-	6,246,425	3,166,960
3	Category 3	1,353,714	167,550	-	-	85,312	-	2,246	121,580	1,441,272	289,130
4	Category 4	187,881	2,854	-	-	28,500	-	34,526	-	250,907	2,854
5	Category 5	5,989	420,720	-	-	23,386	523,858	46,606	-	75,981	944,578
5	Book value (1+2+3)	12,703,148	10,503,869	3,188,662	16,933,742	27,181,740	22,721,688	2,548,662	2,812,528	45,622,211	52,971,827
VI. Total gross book value		82,177,664	53,531,086	4,538,757	18,450,073	34,724,008	24,443,494	3,136,837	3,424,647	124,577,266	99,849,300
VI. Total net book value		72,145,045	44,910,799	3,190,801	17,215,461	33,548,581	23,684,553	2,755,055	3,031,750	111,639,482	88,842,563

* Matured receivables comprise all matured receivables and interest and processing charges receivables.

55.5. 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

		Corporate clients		Banks		Retail clients		Total	
		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	1,907,370	1,930,185	-	-	-	-	1,907,370	1,930,185
4	Category 4	986,735	86,269	2,115	-	-	-	988,850	86,269
5	Category 5	353,007	502,962	-	17,828	-	-	353,007	520,790
6	Gross placement (1 to 5)	3,271,484	2,519,415	2,115	17,828	-	-	3,273,600	2,537,243
7	Provisions	467,601	542,138	182	17,828	-	-	467,783	559,966
8	Book value (6 to 7)	2,803,883	1,977,277	1,934	-	-	-	2,805,817	1,977,277
II.	Unimpaired off-balance sheet items								
1.	Category 1	4,024,954	2,514,983	5,540	-	8,191,598	10,003,726	12,222,092	12,518,709
2.	Category 2	8,973,468	7,604,423	24,263	5,192	1,473	23,145	8,999,205	7,632,760
3.	Category 3	711,009	494,233	-	-	2,112	4,759	713,121	498,992
4.	Category 4	197,973	-	-	-	413	4,357	198,387	4,357
5.	Category 5	51,003	-	-	-	417	36,459	51,421	36,459
6.	Book value (1 to 5)	13,958,408	10,613,639	29,803	5,192	8,196,014	10,072,446	22,184,225	20,691,277
III.	Total gross book value	17,229,892	13,133,054	31,919	23,020	8,196,014	10,072,446	25,457,825	23,228,520
III.	Total net book value	16,762,291	12,590,916	31,737	5,192	8,196,014	10,072,446	24,990,042	22,668,554

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.

55.6. 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 toward the Bank.

The Bank undertakes the following measures for settling receivables:

- Out of court settlement.
- Confiscation of goods and real-estate property in order to collect the Bank's receivables.
- Sale of receivable.
- Concluding a contracted 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 Bank's receivable.

Overview of risk placements

RSD 000

		Legal entities		Banks		Retail		Total	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net
1..	Category 4	2,199,712	1,881,315	-	-	693,780	531,629	2,893,492	2,412,944
2.	Category 5	11,526,915	1,492,162	1,240,263	46,862	1,185,739	280,499	13,952,917	1,819,523
3.	Other	373,101	364,622	-	-	2,848	2,126	375,949	366,748
	Total	14,099,729	3,738,099	1,240,263	46,862	1,882,366	814,254	17,222,358	4,599,215

Risk placements comprise the Bank'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	14,099,729	3,738,099	10,546,766	1,771,622
2.	Banks	1,240,263	46,862	1,234,732	17,825
3.	Retail	1,882,366	814,254	982,732	286,403
	Total	17,222,358	4,599,215	12,764,230	2,075,850

55.7. Collateral

For the purpose of guarding against credit risk exposure, beside regular monitoring of a client's business, the Bank also 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 Bank 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.

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

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

Overview of value of collaterals RSD 000

		2008
I.	Individually impaired placements	340,937,130
2	Mortgages	242,361,228
3	Deposits	492,213
4	Pledge on securities	19,366,014
5	Pledge on movable property	22,537,313
7	Other	56,180,361
II.	Group impairment	6,260,589
2	Mortgages	4,003,880
3	Deposits	215,987
4	Pledge on securities	352,486
5	Pledge on movable property	1,523,077
8	Other	165,159
III.	Matured, unimpaired placements	27,676,891
2	Mortgages	20,197,566
3	Deposits	1,599,790
4	Pledge on securities	532,245
5	Pledge on movable property	1,860,662
8	Other	3,486,628
IV.	Unmatured, unimpaired placements	15,687,018
2	Mortgages	13,982,434
3	Deposits	900,005
4	Pledge on securities	52,369
5	Pledge on movable property	626,479
8	Other	125,730
V.	Total	390,561,627

Overview of value of collaterals RSD 000

Type of collateral	2008	2007
Mortgages	280,545,108	207,703,030
Deposits	3,207,995	2,210,420
Pledge on movable property	26,547,532	250,686
Securities	20,303,115	17,845,052
Other	59,957,879	-
Total	390,561,627	228,009,188

55.8 Industrial sectors

The Bank 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. <i>6=1+2+3+4+5</i>
		Category 1 <i>1</i>	Category 2 <i>2</i>	Category 3 <i>3</i>	Category 4 <i>4</i>	Category 5 <i>5</i>	
1.	Banking	972,888	5,770,877	9,249	1,052	1,413,934	8,167,998
2.	Corporate sector, public and other companies	12,297,804	44,063,482	19,016,423	3,506,895	11,786,513	90,671,116
2.1.	Agriculture, hunting, forestry, waterworks and fishery	968,148	2,188,237	906,943	63,843	782,889	4,910,060
2.2.	Processing industry	4,374,976	14,559,497	4,793,990	1,207,419	7,559,297	32,495,179
2.3.	Production and supply of electric power, gas and water	1,680,769	4,128,652	1,070,226	579,073	1,343,728	8,802,448
2.4.	Constructions	1,560,060	4,051,780	1,333,224	574,022	1,343,728	8,862,815
2.5.	Retail and whole sales	2,978,324	17,920,694	7,062,739	656,102	1,274,665	29,892,523
2.6.	Hotels and restaurants, traffic, storage i communications	887,682	2,050,527	1,313,861	55,015	583,026	4,890,110
2.7.	Education, health and social activities	21,703	423,489	23,880	1,162	28,813	499,047
2.8.	Real estate activities	1,275,454	1,782,168	3,556,322	941,505	214,095	7,769,545
3.	Entrepreneurship sector	262,860	1,025,876	272,085	277,717	182,412	2,020,950
4.	Public sector	686,649	42,089	60,778	8,389	30,030	827,935
5.	Retail sector	42,502,857	187,039	119,923	52,152	58,051	42,920,022
6.	Foreign entities sector (excluding banks)	929,072	3,432,663	-	2,115	58,190	4,422,041
7.	Other clients sector	17,551	213,029	759,382	238	14,828	1,005,027
	Total	57,669,681	54,735,056	20,237,840	3,848,557	13,543,958	150,035,091

56. LIQUIDITY RISK

Liquidity risk represents the risk of occurrence of negative effects on the Bank's financial result and capital as a result of the Bank's inability to settle its matured liabilities. With a view to minimising liquidity risk the Bank 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 Bank. 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 Bank and its exposure to changes in interest and exchange rates.

The Liquidity Committee is responsible for maintaining stable liquidity and solvency of the Bank, for monitoring daily liquidity, based on reports that contain information on: the Bank's dinar and foreign currency balances, amount of obligatory reserves, planned cash flows and other relevant information, and it sets a daily plan of activities for executing operational tasks in respect of liquidity management.

The Asset and Liability Committee is responsible for managing liquidity risk arising from the structure of balance sheet and off-balance sheet items, along with other competent committees whose decisions can impact the Bank's exposure to this risk.

The Bank measures liquidity risk exposure by regularly monitoring the statutorily prescribed liquidity ratio and movements in the scheduled maturities of deposits and placements, through GAP and ratio analysis, and also by drafting cash flow scenarios.

The Bank's liquidity level is monitored daily via the statutorily prescribed 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 National Bank of Serbia, receivables in the process of collection, irrevocable lines of credit granted to the Bank, financial instruments quoted on the stock exchange and other receivables of the Bank 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 Bank is required to notify the National Bank of Serbia the next working day in the event that the liquidity ratio is not in compliance with prescribed minimum values. The notification must indicate the amount of liquid assets lacking, reasons for the lack of liquidity, as well as planned activities for resolving the causes which resulted in the lack of liquidity.

The 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. Depending on the sequence of undesirable events the Bank can be faced with a less serious or more serious liquidity crisis, when applying activities and measures specified in this Plan.

The statutorily prescribed liquidity ratio during the year was as follows:

	2008	2007
As at 31 December	2.09	4.05
Average for period	2.93	3.94
Maximum for period	5.25	6.04
Minimum for period	1.17	2.92

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

	RSD 000					TOTAL
POSITION	up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Balance Sheet
ASSETS						
Cash and cash equivalents	29,744,775	–	–	–	–	29,744,775
On call deposits and loans	19,512,049	–	–	–	–	19,512,049
Interest, fees and sales receivables	658,714	–	–	–	–	658,714
Loans and deposits	8,967,468	8,537,408	31,045,203	37,449,204	20,232,164	106,231,447
Securities (excluding own issued)	18,394	–	148,615	60,496	140,906	368,411
Equity investments	–	–	–	–	2,621,561	2,621,561
Other placements	1,518,205	331,576	124,256	636,186	38,181	2,648,404
Intangible assets	–	–	–	291,966	–	291,966
Fixed assets and investment properties	–	–	–	1,793,221	5,498,120	7,291,341
Non-current assets held for sale	–	–	79,387	–	–	79,387
Deferred tax assets	–	–	186,084	–	–	186,084
Other assets	990,370	58,337	21,460	156,849	214	1,227,230
Total assets	61,409,975	8,927,321	31,605,005	40,387,922	28,531,146	170,861,369
EQUITY AND LIABILITIES						
Transaction deposits	25,418,282	–	–	–	–	25,418,282
Other deposits	28,367,223	40,838,393	32,029,278	5,502,374	747,867	107,485,135
Loans	1,447,958	–	–	4,367	–	1,452,325
Liabilities from securities	–	–	–	–	–	–
Liabilities for interest and fees	195,499	–	–	–	–	195,499
Provisions	–	–	–	1,050,030	–	1,050,030
Tax liabilities	68,386	–	–	–	–	68,386
Liabilities from profit	4,040	–	–	–	–	4,040
Liabilities – assets that are discontinued	–	–	–	–	–	–
Deferred tax liabilities	–	–	–	–	–	–
Other liabilities	5,164,959	342,706	3,881,226	40,474	325,165	9,754,530
Total equity	–	–	–	–	25,433,143	25,433,143
Total equity and liabilities	60,666,347	41,181,099	35,910,504	6,597,245	26,506,175	170,861,369
Discrepancy as at 31.12.2008	743,628	(32,253,778)	(4,305,499)	33,790,677	2,024,972	–
Discrepancy as at 31.12.2007	2,295,736	(16,911,580)	2,835,364	14,098,041	(2,317,561)	–

The overview on maturity structure of assets and liabilities presents balance sheet positions that are divided by specified maturities from balance sheet date to contractual date of maturity. Bank Management is of the opinion that diversity of deposits by number and type of depositors, as well as previous experience of the Bank 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 Bank's liquidity is not expected.

57. MARKET RISK

Market risk represents the possibility of occurrence of negative effects on the Bank'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.

57.1 Interest rate risk

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

The objectives of the Bank'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 Bank's activities in accordance with business opportunities and market development, all with the objective of realising a competitive advantage.

The Asset and Liability Committee is responsible for interest rate risk management related to the structure of balance sheet and off-balance sheet items, including other competent committees whose decisions could impact the Bank's exposure to this risk.

One of the key points is the Bank'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 Bank manages this margin through credit and deposit pricing.

The Bank 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 Bank has defined internal limits and ensures that interest rate exposure is kept within these limits.

The Bank manages 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 Bank 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	23,648,555	-	-	-	-	6,096,219	29,744,775
On call deposits and loans	-	-	-	-	-	19,512,049	19,512,049
Interest, fees and sales receivables	-	-	-	-	-	658,714	658,714
Loans and deposits	34,975,101	9,426,262	28,161,256	18,780,353	14,888,473	-	106,231,446
Securities (excluding own issued)	-	-	133,493	-	-	234,917	368,410
Equity investments	-	-	-	-	-	2,621,561	2,621,561
Other placements	912,556	330,142	112,929	783,289	47,009	462,479	2,648,404
Intangible assets	-	-	-	-	-	291,966	291,966
Fixed assets and investment properties	-	-	-	-	-	7,291,340	7,291,340
Non-current assets held for sale	-	-	-	-	-	79,387	79,387
Deferred tax assets	-	-	-	-	-	186,084	186,084
Other assets	-	-	-	-	-	1,227,230	1,227,230
Total assets	59,536,213	9,756,404	28,407,678	19,563,643	14,935,483	38,661,947	170,861,369
EQUITY AND LIABILITIES							
Transaction deposits	11,420,817	2,548,792	11,448,673	-	-	-	25,418,282
Other deposits	21,699,901	32,813,911	46,234,455	5,929,178	807,690	-	107,485,134
Loans	44,288	1,349,082	40,018	18,937	-	-	1,452,325
Liabilities from securities	-	-	-	-	-	-	-
Liabilities for interest and fees	-	-	-	-	-	195,499	195,499
Provisions and tax liabilities	-	-	-	-	-	1,050,030	1,050,030
Tax liabilities	-	-	-	-	-	68,385	68,386
Liabilities from profit	-	-	-	-	-	4,040	4,040
Liabilities – assets that are discontinued	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	-	44,749	2,960,370	-	-	6,749,412	9,754,531
Total equity	-	-	-	-	-	25,433,142	25,433,142
Total equity and liabilities	33,165,007	36,756,533	60,683,516	5,948,115	807,690	33,500,508	170,861,369
Discrepancy as at 31.12.2008.	26,371,206	(27,000,129)	(32,275,838)	13,615,528	14,127,793	5,161,439	-
Discrepancy as at 31.12.2007.	8,472,285	(17,338,146)	(1,777,324)	8,740,241	7,285,734	(5,382,791)	-

57.2. Currency risk

Currency risk represents the possibility of occurrence of negative effects on the Bank'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 Bank'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 Bank's activities in accordance with business opportunities and market development, all with the objective of realising a competitive advantage.

The Asset and Liability Committee is responsible for currency risk management related to the structure of balance sheet and off-balance sheet items, including other competent committees whose decisions could impact the Bank's exposure to this risk.

The Bank 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 Bank manages currency risk daily by monitoring the currency risk indicator. The currency risk indicator is expressed in percentages as the ratio between the Bank's total foreign currency balance and the Bank's equity. The Bank'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 Bank 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 Bank's equity on a daily level.

The Bank established internal limits of exposure to significant individual currencies and constantly monitors foreign currency balances in order to keep them within prescribed limits. Also, the Bank prepares scenarios to analyse the effects of exchange rate fluctuations on financial result and equity.

The currency risk indicator as at 31 December 2008 amounted to 18.99% and was below the maximum statutorily prescribed value (20%) during the entire year.

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

	RSD 000								
POSITION	EUR	RSD with EUR currency clause	USD	RSD with USD currency clause	CHF	RSD with CHF currency clause	Other currencies	RSD	TOTAL balance sheet
ASSETS									
Cash and cash equivalents	3,386,990		114,002		58,652		166,049	26,019,082	29,744,775
On call deposits and loans	16,515,899		2,996,150		-		-	-	19,512,049
Interest, fees and sales receivables	43,892		145					614,677	658,714
Loans and deposits	11,334,335	54,588,179	237,111	7,662		5,318,398		34,745,762	106,231,447
Securities (excluding own issued)	216,522							151,888	368,411
Equity investments								2,621,561	2,621,561
Other placements	972,548		427,807					1,248,049	2,648,404
Intangible assets								291,966	291,966
Fixed assets and investment properties								7,291,341	7,291,341
Non-current assets held for sale								79,387	79,387
Deferred tax assets								186,084	186,084
Other assets	202,822		1,477		(15)		104	1,022,842	1,227,230
Total assets	32,673,008	54,588,179	3,776,692	7,662	58,637	5,318,398	166,153	74,272,640	170,861,369
EQUITY AND LIABILITIES									
Transaction deposits	7,260,566		578,214		144,587		77,223	17,357,692	25,418,282
Other deposits	71,232,409	3,029,629	3,105,542	12,580	1,419,098	32,413	397,268	28,256,196	107,485,134
Loans	8,664		1,624		356		70	1,441,610	1,452,325
Liabilities from securities									
Liabilities for interest and fees	1,396		1,071		1		28	193,003	195,499
Provisions								1,050,030	1,050,030
Tax liabilities								68,386	68,386
Liabilities from profit								4,040	4,040
Liabilities – assets that are discontinued									
Deferred tax liabilities									
Other liabilities	7,894,023		79,659		16,608		4,756	1,759,484	9,754,530
Total equity								25,433,143	25,433,143
Total equity and liabilities	86,397,058	3,029,629	3,766,110	12,580	1,580,650	32,413	479,345	75,563,584	170,861,369
Net foreign currency position as at 31.12.2008.	(53,724,050)	51,558,550	10,582	(4,918)	(1,522,013)	5,285,985	(313,192)	(1,290,944)	-
Net foreign currency position as at 31.12.2007.	(15,446,250)	16,728,075	105,406	(54,545)	(1,216,537)	1,547,108	46,422	1,709,679	-

57.3 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:

As at 31 December	2008.	2007.
EUR	88.6010	79.2362
USD	62.9000	53.7267
CHF	59.4040	47.8422

58. OPERATING RISK

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

Operating risk management at the Bank is directed at achieving the following objectives: developing the Bank's activities in accordance with business opportunities and market development, as well as establishing competitive advantage of the Bank and minimising of negative effects on the Bank's financial result and equity.

The Bank monitors operating risk events daily and manages operating risks through the process of identification, measurement, minimising, monitoring and reporting of operating risk. The Bank 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 Bank which is responsible for risk management monitors and reports operating risks to the Bank's Executive Board.

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

Event records consist of gathering and analysis of operating risk information relating to the Bank'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 Bank, 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.

59. EXPOSURE RISK

Exposure risk consists of exposure to:

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

During 2008 the Bank respected statutorily prescribed limits:

- The Bank's exposure to a single party or group of related parties did not exceed 25% of the Bank's equity.
- The Bank's exposure to a party that is associated with the Bank did not exceed 5% of the Bank's equity, while total exposure to the Bank's related parties did not exceed 20% of the Bank's equity.
- The sum of significant exposures as at 31 December 2008 amounts to 88.69% of the Bank's equity (max 400% of the Bank's equity).

60. COUNTRY RISK

Country risk represents the possibility of occurrence of negative effects on the Bank'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 Bank's receivables because of a 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 Bank's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Bank'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 Bank sets exposure limits of the Bank by countries or regions with the objective of controlling country risk.

Belgrade, 27 February 2009

Person Responsible for Preparing
Financial Reports

Legal Representative of the
Bank