ERSTE BANK A.D., NOVI SAD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 December 2008

ERNST & YOUNG
Quality In Everything We Do

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This is English translation of the Report originally issued in Serbian language (for management purposes only)

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ERSTE BANK A.D. NOVI SAD

We have audited the accompanying financial statements of Erste Bank A.D., Novi Sad, which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Erste Bank A.D., Novi Sad as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

PREDUZEĆE ZA REVIZIJU · ERNST & YOUNG · BEOGRAD, d.o.o.

Belgrade, March 2, 2009

Mirjana Perendija Kovačević
Authorised Auditor

PIB: 101824091 • Matični broj: 17155270 • Upisan i unet osnovni kapital: 15.075.01 EUR
Registarski broj 47839 kod Agencije za privredne registre
Poslovni račun 255-0009930101000-91 kod Privredne Banke Beograd AD

INCOME STATEMENT for the year ended 31 December 2008

	Note	2008 *RSD thousand*	2007 *RSD thousand*
Interest income	3	4.399.452	2.302.007
Interest expense	3	(1.575.592)	(1.069.884)
Net interest income		**2.823.860**	**1.232.123**
Fee and commission income	4	1.642.885	1.146.222
Fee and commission expense	4	(684.289)	(450.550)
Net fee and commission income		**958.596**	**695.672**
Net gain from sale of securities	5	54.973	385.215
Net foreign exchange (losses) / gains	6	(2.339.176)	53.664
Gains from dividends and shares		3.423	1.463
Other operating income	7	30.849	500.594
Losses on impairment and provisions	8	(739.368)	(259.922)
Costs of salaries, fringe benefits and other personal expenses	9	(1.246.166)	(983.860)
Depreciation costs	9	(116.745)	(110.896)
Operating expenses	9	(1.568.651)	(1.259.150)
Income from assets and liabilities valuation adjustments	10	5.557.687	2.169.495
Expenses from assets and liabilities valuation adjustments	11	(3.086.360)	(2.253.520)
Profit before tax		**332.922**	**170.878**
Profit from created deferred tax assets and reduction of deferred tax liabilities	12	1.474	3.226
PROFIT AFTER TAX		**334.396**	**174.104**

Notes on the following pages form part of these Financial statements.

Belgrade, 2 March 2009

Approved by Erste Bank A.D. Novi Sad management

ERSTE BANK a.d. NOVI SAD

Vlasta Putnik
Head of Accounting Department

Suzan Tanriyar
Member of the Executive Board

Slavko Carić
Chief Executive Officer

BALANCE SHEET as at 31 December 2008

	Note	2008 RSD thousand	2007 RSD thousand
ASSETS			
Cash and cash equivalents	13	5.701.939	1.859.047
Revocable deposits and loans	14	9.358.778	12.312.917
Interest, commissions and fees receivable	15	193.581	482.461
Loans, advances and deposits	16	30.049.493	20.836.077
Securities (excluding own shares)	17	2.401.576	1.201.844
Stakes	17	46	2.985
Other investments	18	301.276	120.052
Intangible assets	19	57.286	35.296
Tangible assets and investment property	19	934.679	858.184
Other assets	20	188.472	150.545
Total assets		**49.187.126**	**37.859.408**
LIABILITIES			
Transaction deposits	21	7.085.712	5.487.405
Other deposits	21	24.275.693	20.047.685
Borrowings	22	4.798.918	241.911
Interest, commissions and fees payable	23	5.589	665
Provisions	24	757.835	366.439
Tax liabilities		6.374	7.519
Deferred tax liabilities	12	11.585	13.211
Other liabilities	25	1.707.709	1.479.438
Total liabilities		**38.649.415**	**27.644.273**
Equity			
Equity	26	10.174.804	12.279.261
Revaluation reserves	26	15.639	23.421
Profit / (Losses up to the level of capital)		347.268	(2.087.547)
Total capital	26	**10.537.711**	**10.215.135**
Total liabilities		**49.187.126**	**37.859.408**
Off - balance sheet items	27	**37.529.202**	**9.799.234**

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Belgrade, 2 March 2009

Approved by Erste Bank A.D. Novi Sad management

Vlasta Putnik Head of Accounting Department	Suzan Tanriyar Member of the Executive Board	Slavko Carić Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2008

	2008 *RSD thousand*	2007 *RSD thousand*
Share capital		
Balance at the beginning of year	10.040.000	7.117.380
Issue of shares	-	2.922.620
Balance at the end of year	**10.040.000**	**10.040.000**
Share premium		
Balance at the beginning of year	2.228.932	2.502.095
Issue of shares	-	2.228.932
Loss coverage	(2.104.457)	(2.502.095)
Balance at the end of year	**124.475**	**2.228.932**
Purchased own shares		
Balance at the beginning of year	-	(91)
Change	-	91
Balance at the end of year	-	-
Other equity		
Balance at the beginning of year	10.329	10.329
Change	-	-
Balance at the end of year	**10.329**	**10.329**
Revaluation reserves		
Balance at the beginning of year	23.421	6.554
Changes in far value of securities available for sale, net	(7.935)	18.758
Deferred tax liabilities effects	153	(1.876)
Other	-	(15)
Balance at the end of year	**15.639**	**23.421**
Statutory reserves		
Balance at the beginning of year	-	10.704
Loss coverage	-	(10.704)
Balance at the end of year	-	-
Reserves for potential losses		
Balance at the beginning of year	471.412	183.701
Decrease of reserves for potential losses	(471.412)	287.711
Balance at the end of year	-	**471.412**
Shortfall of reserves for potential losses		
Balance at the beginning of year	(471.412)	(183.701)
Decrease of reserves for potential losses	471.412	(287.711)
Balance at the end of year	-	**(471.412)**

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2008 (continued)

	2008 *RSD thousand*	2007 *RSD thousand*
Retained earnings / (Accumulated losses)		
Balance at the beginning of year	(2.087.547)	(4.791.360)
Loss coverage	2.104.457	2.512.799
Effects of actuarial (losses) / gains on long-term employee benefits	(4.038)	16.910
Current year profit	334.396	174.104
Balance at the end of year	347.268	(2.087.547)
Total equity	**10.537.710**	**10.215.135**

Notes on the following pages form part of these Financial statements.

Belgrade, 2 March 2009

Approved by Erste Bank A.D. Novi Sad management

ERSTE BANK a.d. NOVI SAD 1

Vlasta Putnik
Head of Accounting Department

Suzan Tanriyar
Member of the Executive Board

Slavko Carić
Chief Executive Officer

STATEMENT OF CASH FLOWS for the year ended 31 December 2008

	2008 *RSD thousand*	2007 *RSD thousand*
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflows from operating activities	**5.987.480**	**4.065.095**
Interest	4.269.893	2.292.903
Fees	1.649.623	1.128.232
Other operating income	64.541	642.497
Dividend and other share income	3.423	1.463
Outflows of cash from operating activities	**(4.762.629)**	**(3.929.605)**
Interest	(1.554.497)	(1.055.525)
Fees	(684.533)	(450.174)
Salaries and other personal income	(1.245.085)	(981.470)
Taxes and contributions paid	(252.257)	(214.784)
Other operating expenses	(1.026.257)	(1.227.652)
Net cash inflow from operating activities before increase or decrease in placements and deposits	**1.224.851**	**135.490**
Decrease in placements and increase in taken deposits	**5.826.314**	**11.413.889**
Decrease in deposits with banks and other clients	5.826.314	11.413.889
Increase in placements and decrease in taken deposits	**(5.286.307)**	**(16.839.786)**
Increase in loans and placements to banks and other clients	(4.124.706)	(15.850.915)
Increase in securities at fair value through income statement, tradable investment and short-term securities held to maturity	(1.161.601)	(988.871)
Net cash inflow / (outflow) from operating activities before tax	**1.764.858**	**(5.290.407)**
Income tax paid	(375)	(2.302)
Net cash inflow / (outflow) from operating activities	**1.764.483**	**(5.292.709)**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**22.615**	**856.764**
Inflow from long-term investment securities	-	111.652
Inflow from sales of stakes	4.049	83.005
Inflow from sales of intangible and tangible fixed assets	18.566	662.107
Cash outflow from investing activities	**(261.334)**	**(184.365)**
Outflow from long-term investment securities	(34.207)	-
Outflow from purchase of intangible and tangible fixed assets	(227.127)	(184.365)
Net cash (outflow) / inflow from investing activities	**(238.719)**	**672.399**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**4.698.096**	**5.165.689**
Inflow from capital increase	-	5.163.138
Inflow from subordinated liabilities, net	101.140	2.551
Inflow from borrowings received, net	4.596.956	-
Cash outflows from financing activities	**(41.792)**	**(3.566)**
Outflow from purchase of own shares	-	(91)
Inflow from borrowings received, net	-	(3.475)
Other outflows from financing activities	(41.792)	-
Net cash inflow from financing activities	**4.656.304**	**5.162.123**

STATEMENT OF CASH FLOWS for the year ended 31 December 2008 (continued)

	2008 *RSD thousand*	2007 *RSD thousand*
Total net inflow of cash	16.534.505	21.501.437
Total net outflow of cash	(10.352.437)	(20.959.624)
Net increase in cash	6.182.068	541.813
Cash at the beginning of year	1.859.047	1.263.591
Exchange rate gains	11.492.744	5.636.776
Exchange rate losses	(13.831.920)	(5.583.133)
Cash at the end of year	5.701.939	1.859.047

Notes on the following pages form part of these Financial statements.

Belgrade, 2 March 2009

Approved by Erste Bank A.D. Novi Sad management

Vlasta Putnik Head of Accounting Department	Suzan Tanriyar Member of the Executive Board	Slavko Carić Chief Executive Officer

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. GENERAL INFORMATION

Erste Bank a.d., Novi Sad (hereinafter referred to as "the Bank") was founded on 25 December 1989, under the name of Novosadska banka a.d., Novi Sad. At the beginning of August 2005, after the successful finalization of the privatization process, it became a member of Erste Bank Group.

By the decision of the Agency for Commercial Registers no. BD 101499/2005 as at 21 December 2005, the change of the name of the Bank to Erste Bank a.d., Novi Sad was registered.

The Bank is registered in the Republic of Serbia for the following activities: payment transaction services, loan and deposit activities in the country, payment cards transactions, transaction with securities of broker-dealer operations and payment transaction services abroad in accordance with the Law on Banks and operates on the principles of stable and secure business.

The Bank's headquarters is in Novi Sad, 5 Bulevar Oslobodjenja. The Bank's identification number is 08063818 and Tax identification number is 101626723.

At 31 December 2008 the Bank had 1.009 employees (2007: 958 employees).

There are 5 business centers, 50 branches, 11 sub-branches and 2 mortgage-loans centers within the Bank.

2. ACCOUNTING POLICIES

2.1 Basis for preparation and presentation of the financial statements

Financial statements have been prepared in accordance with the accounting regulations of the Republic of Serbia based on the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia No. 46/06), Law on Banks (Official Gazette of the Republic of Serbia No. 107/05) and other regulations of the National Bank of Serbia.

According to the Law on Accounting and Auditing financial statements are required to be prepared in accordance with legislation and professional regulations contained in Framework for the Preparation and Presentation of Financial Statements („the Framework"), International Accounting Standards („IAS"), International Financial Reporting Standard („IFRS") and Interpretations which are part of these standards.

Framework and IAS which are in use from 31 December, 2002 and which were base for preparation of prior and current Law on accounting and auditing from 2006, are set and issued by Ministry of finance of Republic of Serbia according to the decision number 011-00-738-2003-01.

Revisions of IAS and issue of IFRS and Interpretations provided by International Accounting Standard Board („IASB") and International Financial Reporting Interpretations Committee („IFRIC") are published in Official Gazette of the Republic of Serbia No. 16 (date of issue 12 February, 2008) according to the Decision of Ministry of Republic of Serbia.

The Bank's financial statements are presented in the format prescribed by the Rulebook on the Format and Contents of Positions in the Forms of Financial Statements for Banks and other Financial Organizations (Official Gazette of the Republic of Serbia No. 8/07, 74/08 and 3/09).

However, taking into account the differences between IFRS and certain requirements of accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia, the Bank's management does not express an unreserved statement of compliance of the financial statements with requirements of all standards and interpretations issued by International Accounting Standards Board, which make International Financial Reporting Standards.

2. ACCOUNTING POLICIES (continued)

2.1 Basis for preparation and presentation of the financial statements (continued)

The Financial statements have been prepared on the historical cost basis except for securities held for trading and securities available for sale which are measured at fair value.

2.2. Standards and Interpretations issued but not yet applied

The following standards, revised standards and interpretations were issued by IASB and IFRIC, but their usage in 2008 in Serbia was not obligatory because at the day of issue of the financial statements they were not translated and officially adopted in Republic of Serbia:

- IAS 1 – Presentation of Financial Statements (An entity shall apply this Standard for annual periods beginning on or after 1 January 2009),
- IAS 23 - Borrowing Costs (An entity shall apply this Standard for annual periods beginning on or after 1 January 2009),
- IFRS 8 – Operating Segments (An entity shall apply this Standard for annual periods beginning on or after 1 January 2009),
- IFRS 3 – Business Combinations and IAS 27 - Consolideted and Separate Financial Statements (An entity shall apply this Standard for annual periods beginning on or after 1 January 2009),
- Amendment to IFRS 2 – Share based Payments – Conditions of acquisition and cancellation (An entity shall apply this Standard for annual periods beginning on or after 1 January 2009),
- Amendment to IAS 32 Financial Instruments – Presentation and IAS 1 – Presentation of Financial Statements (An entity shall apply this Standard for annual periods beginning on or after 1 January 2009),
- Amendment to IAS 39 – Financial Instruments - Recognition and Measurement (An entity shall apply this Standard for annual periods beginning on or after 1 July 2009),
- Amendment to IFRS 1 – First Time Adoption of IFRS and IAS 27 - Consolideted and Separate Financial Statements (An entity shall apply this Standard for annual periods beginning on or after 1 January 2009),
- Improved International Accounting Standards during year 2008 (An entity shall apply this Standard for annual periods beginning on or after 1 January 2009),
- IFRIC 15 – Agreements for the Construction of Real Estate (An entity shall apply this Standard for annual periods beginning on or after 1 January 2009),
- Improved IFRS 1 – First time adoption of IFRS (An entity shall apply this Standard for annual periods beginning on or after 1 July 2009),
- IFRIC 17 – Distributions of Non-Cash Assets to Owners (An entity shall apply this Standard for annual periods beginning on or after 1 July 2009),

Following Interpretations were not officially adopted by Ministry of Republic of Serbia at the date of issue of the financial statements.

- IFRIC 13 Customer Loyalty Programs (An entity shall apply this Standard for annual periods beginning on or after 1 July 2008),
- IFRIC 14 – ISA 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (An entity shall apply this Standard for annual periods beginning on or after 1 January 2008),
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (An entity shall apply this Standard for annual periods beginning on or after 1 October 2008),

2. ACCOUNTING POLICIES (continued)

2.3 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques using information taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Impairment losses on loans

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as hystorical data on loan losses and differente other factors.

Impairment of equity investments

The Bank treats available-for-sale equity investments as impaired when there is documented (market information) or prolonged decline in the fair value below its cost.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Long-term benefits to employees

The cost and liabilities of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, expected flucutation of employees and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies

The most important accounting policies used in preparation of the financial statements are as follows:

(1) Foreign currency translation

The financial statements are presented in RSD, which is Bank's functional and presentational currency. The Bank's financial statements are expressed in thousands of RSD, except when otherwise indicated.

Foreign currency transactions are translated into dinars at the official exchange rate of the National Bank of Serbia, prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies, at the balance sheet date, are retranslated into dinars at official middle exchange rate of the National Bank of Serbia prevailing at the balance sheet date.

Exchange rate differences originating from foreign currency retranslation, as well as from retranslation of monetary assets and liabilities denominated in foreign currency, are recognised as "Income and expenses from foreign exchange differences" in the income statement. Gains and losses originating from retranslation of financial assets and liabilities with currency clause are recognized in Income and expenses from revaluation of assets and liabilities.

Contingencies and commitments denominated in foreign currency are translated into dinars at the official middle exchange rate of the National Bank of Serbia prevailing at the balance sheet date.

(2) Financial instruments

(I) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(II) Derivates

At 31 December 2008 the Bank had no derivates.

(III) Securities and other placements held for trading

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the balance sheet at fair value. Changes in fair value are recognised in income statement. Interest and dividend income or expense are recorded in 'Interest income' or 'Dividend income' according to the terms of the contract, or when the right to the dividend payments has been established.

(IV) Financial liabilities held for trading

The Bank did not have any financial liabilities held for trading.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(V) Financial assets or financial liabilities designated at fair value through profit or loss

The management did not classify financial instruments, on initial recognition, into the category of the financial assets or liabilities recorded at fair value through profit or loss.

(VI) „Day 1" profit

When the transaction price in a non-active market is different to the fair value from other observable current market transaction in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value („Day 1" profit) in the income statement.

(VII) Held to maturity financial investments

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at the outstanding amount of placements taking into account all discounts and premiums in acquisition, less allowance for impairment. Interest income is calculated by taking into account any discount or premiums on acquisition that are part of the effective interest rate, and is recorded in "Interest income". Fees which are part of the effective income from these instruments are accrued and recorded as deferrals in the income statement during the useful life of the instrument.

(VIII) Loans and advances to banks and customers

Loans and advances to banks and customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading or designated as financial investments available for sale.

After initial measurement, loans and advances to banks and customers are subsequently measured at outstanding amount of placements taking into account all discounts and premiums in acquisition, less allowance for impairment. Income and accrued interest balance on these instruments are recorded in interest income, i.e. interest and fee receivables. Fees which are part of the effective income from these instruments are deffered and recorded uder deffered income and recognised in the income statement during the useful life of the instrument.

(IX) Available for sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments and debt instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Investments in shares, which are not quoted in an active market and whose fair value cannot be determined with certainty, are measured at cost. Unrealised gains and losses are recognised directly in equity by debiting or crediting of 'Revaluation reserve'. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Income or Expenses from securities disposal'. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as 'Dividend income and Equity investments' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement and removed from the revaluation reserve.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(X) Debt issued and other borrowed funds

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

(XI) Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(XII) Determination of fair value

The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market price, without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable price exists and other relevant valuation models.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(XIII) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and advances to banks and customers

Loans and advances to banks and customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant , of collectively for financial assets that are not individually significant. If the Bank determines that no objecitve evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss recognized in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling that collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(XIII) Impairment of financial assets (continued)

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Investments in securities held to maturity

For held to maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly recognized is reduced and the effects are recognized in the income statement.

Investments in shares and other securities available-for-sale

For investments in shares and other securities available-for-sale, at the balance sheet date, the Bank assesses if there is significant evidence of impairment of one or more investments.

In case of investments in shares of other legal entities, classified as available for sale, for objective confirmations Bank considers significant or prolonged decrease of fair value of the investments below their cost. When there is evidence of impairment, cumulative loss, assessed as difference between cost and fair value, decreased for any impairment of investment that have been recognized in the income statement, it is removed from equity and recognized in the income statement. Impairments of investments are not reversed through the income statement, subsequent increases of fair value, after recognition of impairment are credited to equity. Impairments of investments, which are not quoted in an active market and whose fair value cannot be determined with certainty, are measured as difference between book value and current value of expected future cash flows, are recognized in the income statement and they are not reversed before derecognition.

In case of debt securities that are classified as available for sale, impairments are assessed based on the same criteria as financial assets carried at amortized cost. If there is increase in fair value through next year, and if that increase might objectively refer to event that happened after impairment loss have been recognized in the income statement, the impairment loss is reversed in favour of the income statement.

(XIV) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been negotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(XV) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention of settle on a net basis, or to realise the asset and settle the liability simultaneously.

(XVI) Hedging accounting

Bank does not use hedge accounting.

(3) Leasing

The determination of whether an arrangement is, or contains a lease based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the assets.

Bank as a lessee

Financial leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in "Property and equipment" with the corresponding liability to the leaser included in "Other liabilities". Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in "Interest and similar expense".

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

Operating lease payments are not recognized in the balance sheet. Any rentals payable are accounted for on a straight-line basis over the lease term and included in other operating expenses.

(4) Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured raliably. The following specific recognition criteria must also be met before revenue is recognized.

(I) Interest and similar interest and expense

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded using the effective interest rate. The calculation of the effective interest rate takes into account all contractual terms of the financial instrument, except fees and incremental costs that are related to the loan approval, but no future credit losses.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(II) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as defferals and transferred to the income stetement as intrest income during due period of financial instruments.

Fee income from providing transaction services

Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(III) Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

(5) Cash and cash equivalents

Cash and cash equivalents as presented in the cash flow statement comprises cash on hand, current accounts with central banks and amounts due from banks on demand.

(6) Property and equipment

Property and equipment are stated at cost, excluding daily maintenance expenses, less accumulated depreciation and accumulated allowance for impairment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual value over their useful lives. The estimated useful lives are as follows:

Buildings	from 40 to 50 years
Computer hardware	4 years
Other equipment	from 5 to 10 years

Changes in expected useful life of assets are considered as changes in accounting estimations.

Any item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "Other operating income" or "Other operating expenses" in the income statement in the year the asset is derecognized.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(7) Intangible assets

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement under other operating expenses.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Licenses for software	10 years
Other intangible assets	4 years

(8) Impairment of non-financial assets

The Bank assesses at each reporting date if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the assets' recoverable amount. Where the carrying amount of an asset (or group of asset, cash-generating units) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

(9) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of payment guarantees and performance bonds, letters of credit, acceptances and other warranties. Financial guarantees are initially recognized in the balance sheet at fair value, under provisions, upon receipt of fee with respect to financial guarantee approval. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of the guarantee.

Any increase in the liability relating the financial guarantees is taken to the income statement in "Expenses from indirect placements, write-offs and provisions". The premium received is recognized in the income statement in "Net fees and commission income" on a straight-line basis over the life of the guarantee.

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(10) Employees benefits

Defined contribution plan

The Bank calculates and pays contributions for pension and health insurance and contributions for unemployment insurance at the rates prescribed by the law on the basis of the gross salaries. The contributions expenses are recognized in the income statement in the same period as appropriate salary expenses. The Bank has no any further liabilities for contributions in this respect.

Long-term employee benefits

In accordance with the Law on Employment there is a mandatory retirement indemnity equal to 3 average monthly salaries realized in the Republic of Serbia in the month prior to the month of retirement or equal to 3 average salaries in the Bank earned in the month prior to retirement or to payment – depending on what is more favorable for an employee.

In addition, in accordance with the collective agreement, a qualifying employee is entitled to a jubilee awards for ten, twenty and thirty years of service held in the Bank. Jubilee awards are paid in the amount of one, two or three average salaries realised in the Bank in the three months prior to the date of payment, depending on how long the continuing work for the employer lasted.

Expenses and liabilities for the plans are not funded. Liabilities for fees and related expenses are recognized in the amount of present value of estimated future cash flows using actuarial method of projected unit cost. Actuarial gains and losses for the upon retirement benefits are recognized in the equity, and in respect of jubilee awards in the income statement. Past service costs are recognized in the income statement when incur.

(11) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(12) Income tax

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates used to compute the amount are those that are enacted as of the balance sheet date.

Deferred tax

Deferred tax is provided for using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; as well as in respect of taxable temporary differences associated with investments in subsidiaries and associates and joint investments where

2. ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(12) Income tax (continued)

the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforwards of unused tax credits and unused tax losses can be utilized except, where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and in respect of deductible temporary differences associated with investments in subsidiaries and associates and joint investments, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognized directly in equity is also recognized in equity.

(13) Comparative data

Reclassification of comparative data was done, when it was necessary, for the purpose of reconciliation with the current year presentation.

3. INTEREST INCOME AND EXPENSES

	2008 RSD thousand	2007 RSD thousand
Interest income		
Banking sector	1.747.862	881.683
Public companies	9.175	140
Other companies	1.537.648	754.108
Entrepreneurs	121.521	68.535
Public sector	13.060	7.568
Retail	946.598	589.641
Foreign entities	1.753	332
Agricultural activities	21.835	-
	4.399.452	**2.302.007**
Interest expense		
Banking sector	483.774	508.742
Public companies	24.614	5.050
Other companies	154.096	183.190
Enterpreneur	518	307
Public sector	208.177	73.218
Retail	454.375	222.779
Foreign entities	249.935	76.598
Other customers	103	-
	1.575.592	**1.069.884**
Net interest income	**2.823.860**	**1.232.123**

For impaired financial assets revenue recognition of accrued interest is suspended and interest income is recognized when collected.

Interest income and expenses by types of financial instruments:

	2008 RSD thousand	2007 RSD thousand
Interest income		
Loans	2.869.999	1.473.059
Reverse repurchase agreements	1.454.641	721.816
Treasury bills of the National Bank of Serbia	62.550	99.770
Deposits	4.012	7.129
Other placements	8.250	233
	4.399.452	**2.302.007**
Interest expense		
Loans	65.029	60.479
Deposits	1.509.903	1.009.208
Other liabilities	660	197
	1.575.592	**1.069.884**
Net interest income	**2.823.860**	**1.232.123**

4. FEE AND COMMISSION INCOME AND EXPENSES

	2008 RSD thousand	2007 RSD thousand
Fee and commission interest		
Domestic payment transaction services	272.519	225.544
International payment transaction services	42.876	26.382
Foreign exchange transactions	747.905	469.669
Credit transactions	156.658	69.247
Payment cards transactions	127.499	89.838
Guarantee	113.078	34.217
Other fees and commissions	182.350	231.325
	1.642.885	**1.146.222**
Fee and commission expense		
Domestic payment transaction services	26.451	22.362
International payment transaction services	6.352	10.786
Foreign exchange transactions	496.228	268.110
Credit transactions	96.130	88.245
Payment cards transactions	19.895	14.611
Other fees and commissions	39.233	46.436
	684.289	**450.550**
Net fee and commission income	**958.596**	**695.672**

5. NET GAINS ON SALES OF SECURITIES

	2008 RSD thousand	2007 RSD thousand
Securities and other placements held for trading	-	10.045
Investments in shares and securities available-for-sale	54.973	375.170
Net gains / losses on sales of securities	**54.973**	**385.215**

During 2008, the Bank sold investment in shares of NLB Continental banka a.d. Novi Sad, part of Visa Inc, Pobeda Holding a.d. Petrovaradin, Recreatours d.o.o. Beograd and Prospera Securities a.d. Beograd whose total carrying value at the disposal dates was RSD 13.823 thousand. By selling the above mentioned investments, the Bank realized income on sale of securities in the amount RSD 54.973 thousand.

6. NET FOREIGN EXCHANGE LOSSES / GAINS

	2008 RSD thousand	2007 RSD thousand
Foreign exchange gains	11.492.744	5.636.776
Foreign exchange losses	(13.831.920)	(5.583.112)
Foreign exchange (losses)/ gains	**(2.339.176)**	**53.664**

7. OTHER OPERATING INCOME

	2008 RSD thousand	2007 RSD thousand
Income from sales of fixed and intangible assets	8.175	439.149
Other operating income	14.468	48.448
Other income from operating activities	8.206	12.997
Total other operating income	**30.849**	**500.594**

8. LOSSES ON IMPAIRMENT AND PROVISIONS

	2008 RSD thousand	2007 RSD thousand
Releases of allowances for impairment losses of on-balance sheet items:		
- interest, fees, change in fair value of derivatives and other receivables (Note 15)	338.825	82.544
- loans, advances and deposits (Note 16)	4.408.016	2.186.564
- securities (Note 17)	377.501	230.737
- investments in shares (Note 17)	1.623	2.300
- other assets (Note 20)	1.346	10.237
- other placements (Note 18)	45.927	30.825
	5.173.238	**2.543.207**
Income from reversal of provisions:		
- Provisions for off-balance sheet items (Note 24)	1.859.755	161.871
	1.859.755	**161.871**
Income from collected suspended interest	**2.324**	**-**
Additions to allowances for impairment of on-balance sheet items:		
- interest, fees, change in fair value of derivatives and other receivables (Note 15)	323.543	48.545
- loans, advances and deposits (Note 16)	4.811.054	2.283.161
- securities (Note 17)	285.557	259.111
- investments in shares (Note 17)	-	14.252
- other assets (Note 20)	10.077	8.177
- other placements (Note 18)	35.145	35.911
	5.465.376	**2.649.157**
Additions to provisions:		
- Provisions for legal proceedings (Note 24)	197.652	86.913
- Provisions for off-balance sheet losses (Note 24)	2.111.657	228.930
	2.309.309	**315.843**
Loss on impairment and provisions, net	**(739.368)**	**(259.922)**

9. OTHER OPERATING EXPENSES

Salaries, wages and other personal expenses:

	2008 RSD thousand	2007 RSD thousand
Net salaries	698.095	612.966
Tax and contributions on behalf of employees	256.535	242.819
Severance pay, jubilee awards, bonuses and legal remedy	278.712	119.754
Other personal expenses	12.824	8.321
Total salaries, wages and other personal expenses	**1.246.166**	**983.860**

Depreciation and amortisation expense:

	2008 RSD thousand	2007 RSD thousand
Depreciation of property and equipment	107.233	106.088
Amortization of intangible assets	9.512	4.808
Total depreciation expenses	**116.745**	**110.896**

Operating and other expenses:

	2008 RSD thousand	2007 RSD thousand
Professional fees	241.948	307.529
Donations and sponsorships	31.617	19.802
Advertising expenses	251.211	110.461
Mail and telecommunication expenses	50.492	46.134
Insurance premiums	60.406	41.418
Rental expenses	303.583	264.082
Material expenses	91.240	72.345
Taxes and contributions	97.482	58.009
Maintenance of fixed assets and software	140.029	50.808
Losses on sale and disposal of fixed and intangible assets	2.007	3.849
Payroll contributions payable by employer	155.531	146.700
Per diems and travel expenses	42.563	34.084
Education and counseling	18.688	13.778
Other	81.854	90.151
Total operating and other expenses	**1.568.651**	**1.259.150**

10. INCOME FROM ASSETS AND LIABILITIES VALUATION ADJUSTMENTS

	2008 RSD thousand	2007 RSD thousand
Income from valuation adjustments of placements and receivables	5.384.578	2.015.410
Income from valuation adjustments of securities	26.835	19.475
Income from valuation adjustments of liabilities	146.274	134.610
Total income from assets and liabilities valuation adjustments	**5.557.687**	**2.169.495**

11. EXPENSES FROM ASSETS AND LIABILITIES VALUATION ADJUSTMENTS

	2008 RSD thousand	2007 RSD thousand
Expenses from valuation adjustments of placements and receivables	2.777.925	2.093.045
Expenses from valuation adjustments of securities	22.913	42.658
Expenses from valuation adjustments of liabilities	285.522	117.817
Total expenses from assets and liabilities valuation adjustments	**3.086.360**	**2.253.520**

12. INCOME TAX

The components of income tax expense are:

	2008 RSD thousand	2007 RSD thousand
Deferred income tax	1.474	3.226
Total income tax	**1.474**	**3.226**

Amount of prepaid current income tax liabilities is RSD 2.438 thousand since the same amount was paid as advance for 2006 during 2007 and 2008.

Reconciliation of total amount of income tax stated in the income statement with the amount of profit before tax multiplied by prescribed tax rate is as follows:

	2008 RSD thousand
Profit before tax	**332.922**
Income tax at the rate of 10%	(33.292)
Tax effects of non-deductible expenses	(27.744)
Effects of usage of tax loss carryforwards with respect to deferred tax assets where not recognised	56.082
Dividend income deductible for tax purposes	342
Tax credits for new long-term employments	7.729
Tax credits on investments in property, plant and equipment	24.783
Unrecognised deffered tax assets with respect to tax credits on investments in property and equipment	(24.783)
Other	(1.643)
Income tax stated in the income statement	**1.474**

Deferred income tax recognised directly through equity is:

	2008. RSD thousand	2007. RSD Thousand
Total deferred tax charged / credited directly to equity	**(153)**	**1.876**

12. INCOME TAX (continued)

	Deferred tax assets 2008	Deferred tax liabilities 2008	Income statement 2008	Deferred tax assets 2007	Deferred tax liabilities 2007	Income statement 2007
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Temporary differences:						
- Property, plant, equipment and intangible assets	-	(9.847)	762	-	(10.609)	3.226
- Financial assets available for sale	-	(1.738)	712	-	(2.602)	-
Total	**-**	**(11.585)**	**1.474**	**-**	**(13.211)**	**3.226**

As at 31 December 2008 the Bank did not recognize deferred tax assets with respect to tax loss carryforwards in the amount of RSD 472.639 thousand (2007: RSD 528.724 thousand) and tax credit carryforward in the amount of RSD 42.980 thousand (2007: RSD 18.190 thousand), due to uncertainty as to existence of sufficient amount of future taxable income against which deferred tax assets could be utilised. Rights to tax loss and credit carryforwards expire in the following years:

	Tax loss carryforwards 2008	Tax credit carryforwards 2008	Tax loss carryforwards 2007	Tax credit carryforwards 2007
	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Up to 1 year	-	-	-	-
From 1 to 5 years	119.350	-	-	-
Over 5 years	4.607.040	42.982	5.287.240	18.199

13. CASH AND CASH EQUIVALENTS

	2008 RSD thousand	2007 RSD thousand
In RSD		
Gyro account	3.704.544	566.308
Cash on hand	743.119	623.246
Cash equivalents	-	306.947
	4.447.663	**1.496.501**
In foreign currency		
Current accounts in foreign currency	960.771	138.296
Cash on hand in foreign currency	292.344	223.028
Cash equivalents in foreign currency	18	16
	1.253.133	**361.340**
Gold and precious metals	**1.143**	**1.206**
Balance as at 31 December	**5.701.939**	**1.859.047**

The bank is obliged to maintain average daily amount of obligatory reserve denominated in dinars on its gyro account.

The Bank's obligatory reserves represent the minimum reserves that are set aside in accordance with the Decision of National Bank of Serbia on "Obligatory Reserves of Banks held with the National Bank of Serbia" (Official Gazette No. 112/2008). In accordance with the Decision, banks are obligated to calculate the obligatory reserve denominated in dinars at the rate of 10% on the basis of average daily amount of deposits in dinars during a month period. Apart from this, banks calculate obligatory reserve denominated in dinars at the rate of 45% on the basis of average daily carrying balance of deposits in dinars for the previous month, which are indexed by a foreign currency clause, 45% on the basis of the amount of average daily balance of liabilities in dinars for the previous month for deposits and loans received from abroad to the level of the base in September 2008 and at the rate of 0% on the basis of the positive difference between the obligatory reserve base for loan and deposits received from abroad in dinars and the base in September 2008.

The Bank's calculated reserve in dinars represents the sum of calculated obligatory reserve in dinars and 40% of the countervalue of the calculated obligatory reserve in foreign currency.

In December 2008 the amount of calculated obligatory reserve in dinars was RSD 3.548.159 thousand.

14. REVOCABLE DEPOSITS AND LOANS

	2008 RSD thousand	2007 RSD thousand
In RSD		
Deposited surpluses of the liquid assets	-	1.700.000
Reverse repurchase agreements	6.106.114	7.220.663
In foreign currency		
Obligatory reserve with NBS	3.252.664	3.392.254
Balance as at 31 December	**9.358.778**	**12.312.917**

14. REVOCABLE DEPOSITS AND LOANS (continued)

The Bank's obligatory reserves denominated in foreign currency represent the minimum reserves that are set aside in accordance with the Decision of National Bank of Serbia on "Obligatory Reserves of Banks held with the National Bank of Serbia" (Official Gazette No. 112/2008). In accordance with the Decision, banks are obligated to calculate the obligatory reserve in foreign currency at the rate of 45% on the basis of average daily amount of foreign currency deposits during a month period. Apart from this, banks calculate obligatory reserve denominated in foreign currency at the rate of 100% on the basis of average daily carrying balance of deposits in foreign currency for the previous month held by the leasing companies on the special account with the Bank; at the rate of 20% on the basis of average daily carrying amount of subordinated liabilities for the previous month: at the rate of 40% on the basis of liabilities for foreign currency savings held with the Bank; at the rate of 0% on the basis of the positive difference between the base for the obligatory reserve denominated in foreign currency comprising liabilities in foreign currency on the basis of loans and deposits received from abroad from previous calendar months and that part of the base in September 2008 and on the basis of the positive positive difference between the foreign currency base comprising subordinated liabilities for previous months and that part of foreign currency base in September 2008.

The Bank's calculated reserve in foreign currency represents 60% of calculated obligatory reserve in foreign currency while the remaining amount is deposited in dinars.

Calculated obligatory reserve in foreign currency for December 2008 amounts to EUR 35.979 thousand and comprise following: the amount of EUR 20.144 thousand relating to foreign currency deposits and loans, the amount of EUR 32.951 thousand relating to foreign currency savings placed with the Bank, the amount of EUR 2.160 thousand relating to subordinated liabilities and the amount of EUR 4.709 thousand relating to foreign currency reserves that leasing companies held at the special bank account.

15. INTEREST, FEES AND COMMISSION RECEIVABLES, CHANGES IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES

Interest and fees	2008 RSD thousand	2007 RSD thousand
In RSD		
Banking sector	18.433	9.332
Public companies	557	21
Other companies	145.784	67.939
Enterpreneurs	11.961	10.782
Public sector	339	314
Retail	17.471	9.768
Foreign entities	71	9.738
Agricultural activities	1.212	102
	195.828	**107.996**
In foreign currency		
Other companies	205.372	173.175
Enterpreneurs	40	36
Foreign entities	4	-
	205.416	**173.211**
Receivables from sales (in RSD)	21.886	403.089
Total receivables	**423.130**	**684.296**
Allowances for impairment	(229.549)	(201.835)
Balance as at 31 December	**193.581**	**482.461**

15. INTEREST, FEES AND COMMISSION RECEIVABLES AND OTHER RECEIVABLES (continued)

Changes in allowances for impairment losses are as follows:

	2008 RSD thousand	2007 RSD thousand
Interest and fees		
Balance at the beginning of the year	200.249	230.611
Charge for the year (Note 8)	323.543	45.743
Reversal of impairment losses (Note 8)	(337.748)	(80.911)
Foreign exchange differences	42.895	4.806
Balance as at 31 December	**228.939**	**200.249**
Receivables from sales		
Balance at the beginning of the year	1.586	19
Charge for the year (Note 8)	-	2.802
Reversal of impairment losses (Note 8)	(1.077)	(1.633)
Foreign exchange differences	101	398
Balance as at 31 December	**610**	**1.586**
Total		
Balance at the beginning of the year	201.835	230.630
Charge for the year (Note 8)	323.543	48.545
Reversal of impairment losses (Note 8)	(338.825)	(82.544)
Foreign exchange differences	42.996	5.204
Balance as at 31 December	**229.549**	**201.835**

16. LOANS, ADVANCES AND DEPOSITS

	2008			2007		
	Short-term	**Long-term**	**Total 2008**	**Short-term**	**Long-term**	**Total 2007**
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
In RSD						
Loans, advances and deposits						
Banking sector	2.832.087	-	2.832.087	2.354.561	-	2.354.561
Public companies	380.252	11.253	391.505	-	-	-
Other companies	5.862.870	7.625.784	13.488.654	4.987.474	5.291.279	10.278.753
Enterpreneurs	317.546	645.378	962.924	362.448	470.673	833.121
Public sector	41	209.757	209.798	-	126.648	126.648
Retail	530.690	11.153.997	11.684.687	197.620	6.637.288	6.834.908
Foreign entities	5	-	5	1	-	1
Agricultural activities	163.843	456.102	619.945	21.086	13.887	34.973
Total in RSD	**10.087.334**	**20.102.271**	**30.189.605**	**7.923.190**	**12.539.775**	**20.462.965**
In foreign currency						
Loans, advances and deposits						
Public companies	2.498	-	2.498	4.262	-	4.262
Other companies	2.552.707	183.968	2.736.675	2.367.930	292.767	2.660.697
Public sector	12.026	-	12.026	10.272	-	10.272
Foreign entities	19.152	-	19.152	-	-	-
Total in foreign currency	**2.586.383**	**183.968**	**2.770.351**	**2.382.464**	**292.767**	**2.675.231**
Total placements to customers	**12.673.717**	**20.286.239**	**32.959.956**	**10.305.654**	**12.832.542**	**23.138.196**
Allowances for impairment:						
- Individually assessed			(2.416.783)			(2.228.421)
- Collectively assessed			(493.680)			(73.698)
As at 31 December			**30.049.493**			**20.836.077**

Changes in allowances for impairment losses are as follows:

	2008 **RSD thousand**	**2007** **RSD thousand**
Balance at the beginning of the year	2.302.119	2.203.665
Charge for the year (Note 8)	4.811.054	2.283.161
Reversal of impairment losses (Note 8)	(4.408.016)	(2.186.564)
Foreign exchange differences	205.306	1.857
Balance as at 31 December	**2.910.463**	**2.302.119**

17. SECURITIES (EXCLUDING OWN SHARES) AND STAKES

Securities (excluding own shares)

	2008 RSD thousand	2007 RSD thousand
In RSD		
Securities available-for-sale	259.415	314.958
Securities held to maturity:		
- Treasury bills of the National Bank of Serbia	852.064	-
- Discounted corporate bills	1.411.891	1.071.861
	2.523.370	**1.386.819**
In foreign currency		
Securities held-for-trading	168.316	122.366
Securities available-for-sale	16.683	45
	184.999	**122.411**
Total securities	**2.708.369**	**1.509.230**
Allowances for impairment	(306.793)	(307.386)
Balance as at 31 December	**2.401.576**	**1.201.844**

Changes in allowances for impairment losses are as follows:

	2008 RSD thousand	2007 RSD thousand
Balance at the beginning of the year	307.386	382.349
Charge for the year (Note 8)	285.557	259.111
Reversal of impairment losses (Note 8)	(377.501)	(230.737)
Foreign exchange differences	82.170	(6.612)
Other changes	9.181	(96.725)
Balance as at 31 December	**306.793**	**307.386**

Equity investments (stakes):	2008 RSD thousand	2007 RSD thousand
In RSD		
Equity investments	3.495	6.493
In foreign currency		
Equity investments	-	10.745
Total equity investments	**3.495**	**17.238**
Allowances for impairment	(3.449)	(14.253)
Balance as at 31 December	**46**	**2.985**

17. SECURITIES (EXCLUDING OWN SHARES) AND STAKES (continued)

Changes in allowances for impairment losses are as follows:

	2008 RSD thousand	2007 RSD thousand
Balance at the beginning of the year	14.253	1.783
Charge for the year (Note 8)	-	14.252
Reversal of impairment losses (Note 8)	(1.623)	(2.300)
Foreign exchange differences	-	518
Other changes	(9.181)	-
Balance as at 31 December	**3.449**	**14.253**

18. OTHER INVESTMENTS

	2008 RSD thousand	2007 RSD thousand
In RSD		
Other placements	292.360	32.125
In foreign currency		
Other placements	18.730	120.187
Allowances for impairment	(9.814)	(32.259)
Balance as at 31 December	**301.276**	**120.052**

Changes in allowances for impairment losses are as follows:

	2008 RSD thousand	2007 RSD thousand
Balance at the beginning of the year	32.259	16.397
Charge for the year (Note 8)	35.145	35.911
Reversal of impairment losses (Note 8)	(45.927)	(30.825)
Foreign exchange differences	(11.663)	10.776
Balance as at 31 December	**9.814**	**32.259**

19. PROPERTY, PLANT, EQUIPMENT, INVESTMENT PROPERTY AND INTAGIBLE ASSETS

Changes in property, plant, equipment, investment property and intangible assets were as follows:

	Land and buildings RSD thousand	**Equipment** RSD thousand	**Leased equipment** RSD thousand	**Construction in progress** RSD thousand	**Total fixed assets** RSD thousand	**Intangible assets** RSD thousand
Cost						
Balance at the beginning of the year	**686.802**	**681.123**	**242.169**	**2.182**	**1.612.276**	**49.557**
Additions	-	-	-	194.083	194.083	31.502
Transfers	79.439	116.186	-	(195.625)	-	-
Disposals and write-offs	(5.369)	(95.354)	(234.899)	-	(335.622)	(4.173)
Balance at the end of the year	**760.872**	**701.955**	**7.270**	**640**	**1.470.737**	**76.886**
Accumulated depreciation and amortization						
Balance at the beginning of the year	**146.154**	**368.355**	**239.583**	**-**	**754.092**	**14.261**
Depreciation/ amortization charge	18.069	86.741	2.423	-	107.233	9.512
Disposals and write-offs	(2.088)	(88.280)	(234.899)	-	(325.267)	(4.173)
Balance at the end of the year	**162.135**	**366.816**	**7.107**	**-**	**536.058**	**19.600**
Net book value						
As at 31 December 2008	**598.737**	**335.139**	**163**	**640**	**934.679**	**57.286**
As at 31 December 2007	**540.648**	**312.768**	**2.586**	**2.182**	**858.184**	**35.296**

The Bank did not pledge any building as collateral in for borrowings.

Due to incomplete cadastrial records the Bank does not have title deeds for buildings with net carrying value of RSD 78.089 thousand as at 31 December 2008. The Bank's management took all necessary measures in order to obtain title deeds.

Net book value of equipment as at 31 December 2008 mostly relates to computer and telecommunication equipment, office furniture and vehicles.

Net book value of intangible assets as at 31 December 2008 mostly relates to software and licenses.

20. OTHER ASSETS

	2008 RSD thousand	2007 RSD thousand
In RSD		
Other receivables:		
- advances	8.772	12.083
- receivables from employees	12.810	26.912
- other	80.590	66.916
Accruals:		
- accrued interest	71.362	26.400
- other	27.647	25.788
Inventories	67.698	77.641
Value added tax	13	-
	268.892	**235.740**
In foreign currency		
Other receivables:		
- advances	1.540	1.411
- receivables from employees	151	-
- other	42.516	37.932
Accruals: accrued interest	11.025	11.695
	55.232	**51.038**
Total other assets and accruals	**324.124**	**286.778**
Allowances for impairment	(135.652)	(136.233)
Balance as of 31 December	**188.472**	**150.545**

Changes in allowances for impairment losses are as follows:

	2008 RSD thousand	2007 RSD thousand
Balance at the beginning of the year	136.233	167.379
Charge for the year (Note 8)	10.077	8.177
Reversal of impairment losses (Note 8)	(1.346)	(10.237)
Foreign exchange differences	(9.312)	(29.086)
Balance as at 31 December	**135.652**	**136.233**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

21. DEPOSITS

2008	Transaction deposits	Time deposits	Deposits as collateral for loans	Specific purpose deposits	Other	Total 2008
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
In RSD						
Banking sector	32.514	-	-	5.307	-	37.821
Public companies	56.871	-	-	-	11.500	68.371
Other companies	2.271.487	-	102.269	8.003	2.419.466	4.801.225
Enterpreneurs	341.195	-	1.803	-	10.877	353.875
Public sector	9.489	-	38.518	-	812.872	860.879
Retail	983.737	313.834	6.707	7.680	5.945	1.317.903
Foreign entities	33.167	2.151	-	22.962	469.333	527.613
Agricultural activities	113.124	-	260	-	-	113.384
Other customers	1.387	-	-	-	15.408	16.795
	3.842.971	**315.985**	**149.557**	**43.952**	**3.745.401**	**8.097.866**
In foreign currency						
Banking sector	1.013.017	-	-	422.725	4.714.499	6.150.241
Other companies	763.845	-	3.454.615	499.672	1.388.070	6.106.202
Enterpreneurs	-	-	1.329	-	7.974	9.303
Retail	702.548	7.836.532	964.352	20.562	3	9.523.997
Foreign entities	763.331	66.955	40.579	-	602.860	1.473.725
Agricultural activities	-	-	71	-	-	71
	3.242.741	**7.903.487**	**4.460.946**	**942.959**	**6.713.406**	**23.263.539**
Balance as at 31 December 2008	**7.085.712**	**8.219.472**	**4.610.503**	**986.911**	**10.458.807**	**31.361.405**

Deposits as collateral for loans in the amount of RSD 3.454.614 thousand mostly relates to deposits received from NIS A.D., Novi Sad in the amount of RSD 3.434.340 thousand, while other deposits from banking sector mostly relate to short-term deposits from domestic banks.

2007	Transaction deposits	Time deposits	Deposits as collateral for loans	Specific purpose deposits	Other	Total 2007
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
In RSD						
Banking sector	44.420	-	-	-	100.000	144.420
Public companies	51.695	-	-	-	153.310	205.005
Other companies	2.527.478	-	101.945	7.977	2.404.228	5.041.628
Enterpreneurs	453.807	-	-	-	5.413	459.220
Public sector	-	-	41.256	-	24.627	65.883
Retail	712.639	321.045	8.877	19.503	4.516	1.066.580
Foreign entities	29.930	-	-	8.114	136.861	174.905
Agricultural activities	77.496	-	320	-	-	77.816
	3.897.465	**321.045**	**152.398**	**35.594**	**2.828.955**	**7.235.457**
In foreign currency						
Banking sector	362.392	-	-	52	1.765.458	2.127.902
Other companies	528.953	-	233.050	147.528	357.264	1.266.795
Retail	575.430	7.732.253	907.550	19.762	2	9.234.997
Foreign entities	123.165	80.735	539	-	5.465.437	5.669.876
Agricultural activities	-	-	63	-	-	63
	1.589.940	**7.812.988**	**1.141.202**	**167.342**	**7.588.161**	**18.299.633**
Balance as at 31 December 2007	**5.487.405**	**8.134.033**	**1.293.600**	**202.936**	**10.417.116**	**25.535.090**

22. BORROWINGS

2008	Overnight	Borrowings	Other financial liabilities	Total 2008
	RSD thousand	RSD thousand	RSD thousand	RSD thousand
In RSD				
Banking sector	-	7.089	-	7.089
	-	**7.089**	**-**	**7.089**
In foreign currency				
Banking sector	-	-	913	913
Other companies	-	-	119.121	119.121
Public sector	-	-	51.640	51.640
Retail	-	-	8.276	8.276
Foreign entities	4.598.728	-	13.151	4.611.879
	4.598.728	**-**	**193.101**	**4.791.829**
Balance as at 31 December 2008	**4.598.728**	**7.089**	**193.101**	**4.798.918**

Borrowings from foreign entities in the amount of RSD 4.598.728 thousand relate to overnight loan received from Erste Bank, Vienna.

2007	Overnight	Borrowings	Other financial liabilities	Total 2008
	RSD thousand	RSD thousand	RSD thousand	RSD thousand
In RSD				
Banking sector	-	8.861	-	**8.861**
	-	**8.861**	**-**	**8.861**
In foreign currency				
Banking sector	-	-	123	123
Other companies	-	-	130.457	130.457
Public sector	-	-	91.228	91.228
Retail	-	-	873	873
Foreign entities	-	-	10.369	10.369
	-	**-**	**233.050**	**233.050**
Balance as at 31 December 2007	**-**	**8.861**	**233.050**	**241.911**

23. INTEREST, FEES AND COMMISSIONS PAYABLE

	2008 RSD thousand	2007 RSD thousand
In RSD		
Banking sector	-	398
Other companies	299	168
Enterpreneurs	6	-
Retail	-	7
Foreign entities	175	92
	480	**665**
In foreign currency		
Banking sector	5.109	-
	5.109	**-**
Balance as at 31 December 2008	**5.589**	**665**

24. PROVISIONS

	2008 RSD thousand	2007 RSD thousand
Provisions for long-term employee benefits		
- jubilee awards	79.978	62.324
- upon retirement benefits	67.454	55.417
Provisions for legal proceedings	336.105	138.820
Provisions for losses on off-balance sheet items	274.298	109.878
Balance as at 31 December 2008	**757.835**	**366.439**

Changes in provisions were as follows:

	2008 RSD thousand	2007 RSD thousand
Provisions for long-term employee benefits		
Balance at the beginning of the year	117.741	131.018
Interest expenses and current service costs	22.759	16.113
Benefits paid during the year	(10.935)	(7.273)
Actuarial gains / (loans) relating to jubilee payments	13.830	(5.207)
Actuarial gains / (loans) relating to employees retirement benefit	4.037	(16.910)
Balance as at 31 December 2008	**147.432**	**117.741**
Provisions for legal proceedings		
Balance at the beginning of the year	138.820	60.000
Charge for the year	197.652	86.913
Amounts utilized	(1.793)	(8.093)
Other changes	1.426	-
Balance as at 31 December 2008	**336.105**	**138.820**
Provisions for off-balance sheet assets losses		
Balance at the beginning of the year	109.878	56.178
Charge for the year	2.111.657	228.930
Reversals	(1.859.755)	(161.871)
Other changes	(87.482)	(13.359)
Balance as at 31 December 2008	**274.298**	**109.878**

25. PROVISIONS (continued)

The Bank's management recognized a provision for legal proceedings filed against the Bank in the amount of RSD 336.105 thousand. For all litigations filed by the Bank impairment allowances were recognised against the full amounts of receivables.

Bank made provision in the amount of RSD 50 million for unused vacations in 2008.

25. OTHER LIABILITIES

	2008 RSD thousand	2007 RSD thousand
In RSD		
Liabilities to suppliers	105	22.089
Advances received	3.326	6.058
Liabilities with respect to net salaries and contributions	2.779	1.885
Liabilities with respect to taxes, contributions and other duties	567	380
Accruals:		
- Interest accrued	38.102	31.954
- Deferred interest income	4.543	-
- Deferred loan origination fees	158.352	114.206
- Other	392.212	192.893
Other liabilities	33.126	51.920
In foreign currency		
Advances received	4.333	3.394
Subordinated liabilities	956.891	855.751
Accruals:		
- Interest accrued	111.371	101.591
- Other	1.993	95.190
Other liabilities	9	2.126
Balance as at 31 December 2008	**1.707.709**	**1.479.438**

Subordinated liabilities relate to subordinate long-term loan granted by Erste Bank der Oesterreichischen Sparkassen AG, Vienna. Subordinate loan was granted at the amount of EUR 10.800.000 for the period of 10 years with a 5 year grace period and interest rate equal to quarterly EURIBOR increased by 2.4% per annum. In accordance with the agreement, loan principal is repayable in 21 equal quarterly repayments and the first repayment is due upon the end of grace period.

26. EQUITY

	2008 RSD thousand	2007 RSD thousand
Share capital – ordinary shares	10.040.000	10.040.000
Share premium	124.475	2.228.932
Revaluation reserves	15.639	23.422
Profit from current year	334.395	-
Profit from previous years	12.873	380.693
Loss	-	(2.468.241)
Other capital	10.329	10.329
Balance as at 31 December 2008	**10.537.711**	**10.215.135**

26. EQUITY (continued)

Share capital

During 2008 there were no changes in share capital. As at 31 December 2008 the Bank subscribed and fully paid capital was comprised of 1.004.000 ordinary shares with nominal values of RSD 10.000 each (2007: 1.004.000 ordinary shares with nominal value of RSD 10.000 each).

Share premium

Share premium comprises positive difference between achieved selling value of shares and their nominal value as well as gains and losses on sales and repurchases of own shares. During 2008 the Bank covered part of accumulated losses in the amount of RSD 2.104.457 thousand out of share premium.

Accumulated loss

As at 31 December 2007 accumulated losses amounted to RSD 2.087.547 thousand and comprised of losses accumulated up to 2007 in the amount of RSD 2.468.241 thousand, reduced by: actuarial loss in the amount of 16.910 thousand, effects of restatement to the opening balance of revaluation reserves in the amount of RSD 189.680 thousand and profit for the year ended 31 December 2007 in the amount of 174.104 thousand.

In 2008 accumulated losses from previous years were covered in the amount of RSD 2.468.241 thousand from share premium (in the amount of RSD 2.104.457 thousand) and undistributed profit (in the amount of RSD 363.784 thousand).

In 2008, the Bank had actuarial loss in the amount of RSD 4.036 thousand and reduced actuarial gain from 2007.

Revaluation reserves

Revaluation reserves relate to effects of changes in fair value of financial instruments available for sale. As at 31 December 2008 revaluation reserves are stated in the amount of RSD 15.639 thousand and relate to revaluation of securities available-for-sale and the relating effects of deferred taxes.

Reserves for potential losses

Reserves for potential losses in the amount of RSD 1.097.472 thousand (2007: RSD 471.412 thousand) are calculated as the difference between total allowances for impairment of balance sheet assets and provisions of off-balance sheet assets recognised in the financial statements and total reserve for potential losses calculated in accordance with the Decision on classification of balance sheet assets and off-balance sheet items (Official Gazette of the Republic of Serbia No. 129/2007, 63/2008). In accordance with the National Bank of Serbia regulations, the Bank has no right to make payment of dividends before these reserves are covered.

27. OFF-BALANCE SHEET ITEMS

	2008 RSD thousand	2007 RSD thousand
Managed funds	418.431	245.457
Guarantees, other contingent liabilities and irrevocable commitments	14.187.250	4.954.432
Other off-balance sheet items	22.923.521	4.599.345
Balance as at 31 December	**37.529.202**	**9.799.234**

Managed funds

	2008 RSD thousand	2007 RSD thousand
Placements on behalf of third parties in dinars	418.431	245.457
Balance as at 31 December	**418.431**	**245.457**

Managed funds mostly relate to the assets of the Ministry of Agriculture which represent the source of long-term loans to agricultural activities and housing loans subsidised by the Ministry of Finance.

Guarantees, contingent liabilities and irrevocable commitments

	2008 RSD thousand	2007 RSD thousand
In RSD		
Guarantees	5.294.774	1.879.466
Irrevocable commitments for undisbursed loans and placements	3.584.233	1.988.753
Other commitments	211.575	61.512
In foreign currency		
Guarantees	709.284	639.717
Irrevocable commitments for undisbursed loans and placements	7.903	714
Letters of credit	4.379.481	384.270
Balance as at 31 December	**14.187.250**	**4.954.432**

Irrevocable commitments relate to contractual commitments to make loans that cannot be cancelled unilaterally, such as: overdrafts, revolving loans to companies, multi-purpose revolving loans and other irrevocable commitments.

Since irrevocable commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Bank monitors the term to maturity of credit commitments because longer-term commitments have a greater degree of loan risk than short-term commitments.

27. OFF-BALANCE SHEET ITEMS (continued)

Other off-balance sheet items

	2008 RSD thousand	2007 RSD thousand
Suspended interest receivables	86.834	-
Foreign currency sale and purchases	8.099.321	-
Loro guarantees	6.648.745	110.058
Received counter guarantees	2.994.596	196.275
Records of public currency saving bonds	2.884.724	2.702.903
Other	2.209.301	1.590.109
Balance as at 31 December	**22.923.521**	**4.599.345**

Lease commitments

Finance lease – Bank as lessee

The Bank has acquired certain equipment through financial leases in prior years. All financial obligations under the financial lease were repaid off in 2008.

	2008			2007		
	Total of future minimal lease payments	**Total of future interests**	**Present value of finance lease payments**	**Total of future minimal lease payments**	**Total of future interests**	**Present value of finance lease payments**
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Within one year	-	-	-	1.845	66	-
From one to five years	-	-	-	-	-	-
More than five years	-	-	-	-	-	-
Balance as at 31 December	**-**	**-**	**-**	**1.845**	**66**	**-**

The Bank does not lease assets acquired through finance lease.

Operating lease – Bank as lessee

The Bank has concluded agreements on operating leases for computer equipment and cars. Total future minimal payments in respect of operating leases that cannot be cancelled, as of 31 December are shown in the following table:

	2008 RSD thousand	200. RSD thousand
Within one year	62.621	66.429
From one to five years	105.613	115.147
More than five years	-	147
Balance as at 31 December	**168.234**	**181.723**

28. RELATED PARTY TRANSACTIONS

Remuneration to members of the Executive Board and members of the Board of Directors:

	2008 RSD thousand	2007 RSD thousand
Salaries of the members of the Executive Board	54.498	49.144
Fee to the members of the Board of Directors	4.844	7.682

Total amount of the expenses for the fee to the members of the Board of Directors for the year ended 31 December 2008 is paid in January 2009.

Business relationships with members of the Executive Board and other key personnel

In its regular course of operations, the Bank enters into business relationships and arrangements with the members of the Executive Board, other key personnel and related parties, at common market conditions. Balances at the end of the year and effects of those transactions are presented as follows:

	Balance at 31 December 2008	Income / expenses 2008	Balance at 31 December 2007	Income / expenses 2007
	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Overdrafts, credit cards, cash and consumer loans	3.646	8.536	455	126
Housing loans	49.933	-	-	-
Other placements and receivables	1.924	2.720	309	-
Total allowances for impairment	360	-	-	-
Deposits	90.787	3.847	5	25
Liabilities for unpaid bonuses to the members of the Executive Board	22.059	19.412	24.482	21.544
Other liabilities	-	-	35.002	795

28. RELATED PARTY TRANSACTIONS (continued)

The Bank also enters into transactions with the parent company and other members of Erste group.

	2008 RSD thousand		2007 RSD thousand	
	Erste Bank der Oesterreichischen Sparkassen AG	Other members of Erste Group	Erste Bank der Oesterreichischen Sparkassen AG	Other members of Erste Group
Receivables				
Cash and cash equivalents	771.281	-	80.333	-
Interest, fees and commissions receivable	74	-	-	-
Loans, advances and deposits	19.143	394	-	511
Other placements	-	-	94.764	-
Other assets	1.371	129	207	4
	791.869	**523**	**175,304**	**515**
Liabilities				
Transaction deposits	2.413	853.179	8.118	170.382
Other deposits	1.025.189	680.725	5.458.285	736.166
Borrowings	4.598.728	-	-	-
Interest, commissions and fees payable	2.488	1.887	2.469	15.295
Provisions	40	32	179	-
Other liabilities	960.932	275	951.473	556
	6.589.790	**1.536.098**	**6,420,524**	**922.399**
Off-balance sheet items				
Guarantees	10.064	-	8.596	-
Irrevocable commitments	58.183	-	36.266	-
Other off-balance sheet items	6.290.000	28.512	-	18.329
	6.358.247	**28.512**	**44.862**	**18.329**

	2008 RSD thousand		2007 RSD thousand	
	Erste Bank der Oesterreichischen Sparkassen AG	other members of Erste Group	Erste Bank der Oesterreichischen Sparkassen AG	other members of Erste Group
Interest income	1.839	4.984	1.427	176
Interest expense	(51.813)	(35.225)	(56.586)	(48.587)
Fee and commission income	6.483	4.707	4.961	2.195
Fee and commission expense	(33.506)	(1.310)	(7.661)	(436)
Other operating income		2.365		430
Operating expenses	(80.144)	(179.185)	(31.148)	(83.651)

Terms and conditions of transactions with related parties

The above mentioned balances of receivables and liabilities as well as balances of income and expenses arising from relationships with related parties represent the result of usual business activities. The Bank collects and pays interest based on the usual market terms. At 31 December 2008 the Bank had no impaired placements with related parties.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on detailed analysis the Bank assessed that the carrying values of financial instruments approximate to their fair value at 31 December 2008.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments the fair values are calculated based on quoted market prices. For those instruments issued where quoted market prices are not available, a discounted cash flow model based on a current interest rate yield curve appropriate for the remaining term to maturity is used.

Financial instruments measured at fair value

Fair value of financial instruments measured at fair value is based on available market information.

30. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table shows analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

2008	Less than 14 days	15 days to one month	Month to three months	Three months to one year	One to five years	Over five years	Total 2008
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
ASSETS							
Cash and cash equivalents	5.700.796	-	-	-	-	1.143	5.701.939
Revocable deposits and loans	6.358.778	3.000.000	-	-	-	-	9.358.778
Interest, commissions and fees receivable	172.305	-	-	21.276	-	-	193.581
Loans, advances and deposits	7.685.986	679.436	1.380.671	5.722.331	8.119.123	6.461.946	30.049.493
Securities (excluding own shares)	126.674	37.728	352.879	1.623.076	250.123	11.096	2.401.576
Stakes	-	-	-	-	-	46	46
Other investments	6.815	10.743	7.006	31.524	168.129	77.059	301.276
Intangible assets	-	-	-	-	-	57.286	57.286
Tanbigle assets and investment property	-	-	-	-	-	934.679	934.679
Deferred tax assets	-	-	-	-	-	-	-
Other assets	50.926	56.246	80.116	-	-	1.184	188.472
Total assets	**20.102.280**	**3.784.153**	**1.820.672**	**7.398.207**	**8.537.375**	**7.544.439**	**49.187.126**
LIABILITIES							
Transaction deposits	7.085.712	-	-	-	-	-	7.085.712
Other deposits	12.067.036	3.386.046	2.054.118	5.448.046	1.121.090	199.357	24.275.693
Borrowings	4.739.302	52.527	-	-	-	7.089	4.798.918
Interest commissions and fees payable	5.589	-	-	-	-	-	5.589
Provisions	-	-	-	757.835	-	-	757.835
Tax liabilities	-	-	-	6.374	-	-	6.374
Deferred tax liabilities	-	-	-	11.585	-	-	11.585
Other liabilities	13.389	158.368	534.407	-	44.654	956.891	1.707.709
Total liabilities	**23.911.028**	**3.596.941**	**2.588.525**	**6.223.840**	**1.165.744**	**1.163.337**	**38.649.415**
Equity	-	-	-	-	-	10.537.711	10.537.711
Total liabilities and equity	**23.911.028**	**3.596.941**	**2.588.525**	**6.223.840**	**1.165.744**	**11.701.048**	**49.187.126**
Difference on 31 December 2008	**(3.808.748)**	**187.212**	**(767.853)**	**1.174.367**	**7.371.631**	**(4.156.609)**	**-**

At 31 December 2008 the Bank has liquidity gap up to a year. This liquidity gap results from current liquidity of the Bank mainly financed from short-term loans.

30. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

In order to overcome the problem of short-term liquidity the Erste Group approved a loan in the amount of EUR 100 million over 5 years, which will be withdrawn from Erste GCIB Finance IBV Netherlands. This will lead to a reduction of liquidity risk and transition to stable sources of funding.

2007	Less than 14 days	15 days to one month	Month to three months	Three months to one year	One to five years	Over five years	Total 2008
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
ASSETS							
Cash and cash equivalents	1.550.894	-	108.356	198.592	-	1.205	1.859.047
Revocable deposits and loans	12.312.916	-	-	-	-	-	12.312.916
Interest, commissions and fees receivable	80.957	-	-	401.504	-	-	482.461
Loans, advances and deposits	5.612.257	491.033	1.783.472	3.461.061	6.201.757	3.286.498	20.836.078
Securities (excluding own shares)	118.954	114.556	303.330	269.810	394.234	960	1.201.844
Stakes	-	-	-	-	-	2.985	2.985
Other investments	112.451	7.586	-	15	-	-	120.052
Intangible assets	-	-	-	-	-	35.296	35.296
Tanbigle assets and investment property	-	-	-	-	-	858.184	858.184
Deferred tax assets	-	-	-	-	-	-	-
Other assets	41.226	72.503	36.677	-	-	140	150.545
Total assets	**19.829.654**	**685.678**	**2.231.835**	**4.330.982**	**6.595.991**	**4.185.268**	**37.859.408**
LIABILITIES							
Transaction deposits	5.487.405	-	-	-	-	-	5.487.405
Other deposits	9.321.737	3.615.966	2.103.929	4.043.021	640.095	322.937	20.047.685
Borrowings	141.822	91.228	-	-	-	8.861	241.911
Interest commissions and fees payable	665	-	-	-	-	-	665
Provisions	-	-	-	366.439	-	-	366.439
Tax liabilities	-	-	-	7.519	-	-	7.519
Deferred tax liabilities	-	-	-	13.211	-	-	13.211
Other liabilities	108.226	137.680	350.879	1.845	25.057	855.751	1.479.438
Total liabilities	**15.059.855**	**3.844.874**	**2.454.808**	**4.432.035**	**665.152**	**1.187.549**	**27.644.273**
Equity	-	-	-	-	-	10.215.135	10.215.135
Total liabilities and equity	**15.059.855**	**3.844.874**	**2.454.808**	**4.432.035**	**665.152**	**11.402.684**	**37.859.408**
Difference on 31 December 2007	**4.769.799**	**(3.159.196)**	**(222.973)**	**(101.053)**	**5.930.839**	**(7.217.416)**	**-**

31. RISK MANAGEMENT

31.1. Introduction

Risk is inherent in banking activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls.

Risk management in Erste Bank a.d. Novi Sad is a comprehensive process that includes identification, analysis, rating and control of all forms of business risks (credit, interest rate, foreign exchange and other market risk exposure, investment and operating risk). The Bank has adopted policies and procedures that provide control and application of internal by laws of the Bank related to risk management, as well as procedures related to the Bank's regular reporting in relation to the risk management.

This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. This system of risk management provides timely notification of the management of all risks that are present or may occur, and provides adequate and timely response in the case of the same.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors and the Executive Board are ultimately responsible for identifying and controlling risks; however, the Bank established separate independent bodies responsible for managing and monitoring risks. The Bank's primary role in risk management has the following bodies:

Board of Directors and Executive Board

The Board of Directors and Executive Board are responsible for the overall risk management approach and for approving the risk strategies and principles. Their decisions are made on the basis of Assets and Liability Management Committee proposal and other relevant bodies.

Assets and Liability Management Committee

Assets and Liability Management Committee (ALM) has responsibility for the development of a comprehensive risk management strategy and implementation of the principles, framework, policies and limits. ALM is responsible for fundamental issues of risk and for managing and monitoring of relevant decisions related to risk, especially for interest rate, foreign exchange and other market risks.

Risk Management Department

Risk Management Department is responsible for the implementation and maintenance of procedures related to risk, which provides independent control of the process. Based on the above mentioned tasks of risk management include the following:

- assessment and measurement of Bank's exposure to all types risks;
- analysis and reports on the risk significance, their causes and consequences;
- risk assessment of new products;
- development and application of quantitative models for risk management as an element in the process of business decision-making;
- monitoring of parameters that influence the position of the Bank's exposure to risks;
- generating Bank's limit exposure by certain types of risks and their control;
- creating procedures and policies for risk management in accordance with the valid legislation, the requirements of Erste Group Bank and specific needs.

31. RISK MANAGEMENT (continued)

31.1. Introduction (continued)

Risk control unit

Risk control unit within the Risk Management Department is responsible for monitoring compliance with the principles, policies and limits defined by the Bank. This primarily involves monitoring of market risk and monitoring of risk resulting from the new product implementation and complex transactions. This unit also provides complete risk coverage in terms of monitoring, control and reporting on same.

Treasury Department

Treasury department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Assets and Liability Management Unit

Assets and Liability Management Unit within the Treasury Department is responsible for managing the Bank's assets and liabilities as well as the overall financial structure. Also, it is primarily responsible for the Bank's liquidity and financing. Assets and Liability Management Unit prepares daily, weekly and monthly reports related to the assets and liability management for the purposes of the Bank and external users, as well as a report for the ALM Committee.

Internal audit

Risk management processes throughout the Bank are audited at least annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk management and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience received on bank group level, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact occur.

Monitoring and controlling risks is primarily based on limits and procedures establishing. The limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. The Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information complied from all the businesses is examined and processed in order to identify, analyze and control early risks. This information is presented and explained to the Board of Directors, Executive Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, market risk measurement, liquidity ratios and risk profile changes. The reports are prepared on daily, weekly or monthly basis or upon management's requst. The most important reports are reports about the daily dinar and foreign exchange liquidity, the five-daily liquidity and foreign exchange position. Senior management assesses the appropriateness of the allowance for credit losses and takes adequate measures on a quarterly basis.

31. RISK MANAGEMENT (continued)

31.1. Introduction (continued)

Risk management and reporting systems (continued)

Bank quarterly presents extensive report on risks to the Board of Directors that includes all relevant information needed to estimate the risks the Bank is exposed to.

Special reports on risk management, are prepared for each level in the Bank to ensure that all business units have access to extensive, necessary and updated information. Reports on the dinar and foreign exchange liquidity, the state of open foreign currency positions and other relevant information are sent to members of the Executive Board of the Bank and other relevant factors of risk management on daily, i.e. in accordance with the requirements of the same.

Excessive risk concentration

Concentrations arise when a significant number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. In order to maintain secure credit portfolio and to minimise risk in loan placements, exposure levels and credit limits are defined.

31.2. Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. The Bank's credit risk is caused by the debtor's credit capacity, good credit history in carrying out its liabilities, as well as quality of collaterals, and to identify, measure, estimate and monitor in accordance with the decisions that regulate the classification of balance sheet assets and off- balance sheet and capital adequacy. Risk Management Department identifies, measures and evaluates the credit risk to the debtor's creditworthiness and its credit history, as well as quality of collateral.

The process of monitoring the quality of loan enables the Bank to assess the potential losses as a result of which is exposed to risk and to take corrective measures.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit, which may require that the Bank makes payments on their behalf. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

31. RISK MANAGEMENT (continued)

31.2. Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements or other hedging instruments:

	Note	Gross maximum exposure	
		2008 RSD thousand	2007 RSD thousand
Cash and cash equivalents (excluding cash on hand)	13	4.666.476	1.012.773
Revocable deposits and loans	14	9.358.778	12.312.917
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	15	193.581	482.461
Loans, advances and deposits	16	30.049.493	20.836.077
Securities (excluding own shares)	17	2.401.576	1.201.844
Stakes	17	46	2.985
Other investments	18	301.276	120.052
Other assets	20	188.472	150.545
Total		**47.159.698**	**36.119.654**
Contingent liabilities	27	6.004.058	2.519.183
Irrevocable commitments	27	3.803.711	2.050.979
Letters of credit	27	4.379.481	384.270
Total financial guarantees		**14.187.250**	**4.954.432**
Total exposure to credit risk		**61.346.948**	**41.074.086**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in value.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by setting the limits by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2008 was RSD 2.380.856 thousand (2007: RSD 758.463 thousand), before taking account of deductions (collateral or other credit risk enhancements), i.e. the amount of RSD 2.380.856 thousand (2007: RSD 750.299 thousand) net of such protection.

31. RISK MANAGEMENT (continued)

31.2. Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions:

2008	Accounts with NBS, other banks and other due from banks RSD thousand	Placements to customers RSD thousand	Equity investments and securities RSD thousand	Interest, fees and other assets RSD thousand	Contingent liabilities and commitments RSD thousand	Total 2008 RSD thousand
Serbia	13.235.710	30.539.241	2.401.622	193.581	14.187.250	60.557.404
European Union	789.544	-	-	-	-	789.544
Total	**14.025.254**	**30.539.241**	**2.401.622**	**193.581**	**14.187.250**	**61.346.948**

2007	Accounts with NBS, other banks and other due from banks RSD thousand	Placements to customers RSD thousand	Equity investments and securities RSD thousand	Interest, fees and other assets RSD thousand	Contingent liabilities and commitments RSD thousand	Total 2007 RSD thousand
Serbia	13.230.926	21.106.674	1.204.829	482.461	4.954.432	40.979.322
European Union	94.764	-	-	-	-	94.764
Total	**13.325.690**	**21.106.674**	**1.204.829**	**482.461**	**4.954.432**	**41.074.086**

Bank's financial assets analysis before and after taking account of collaterals or other credit risk enhancements is analyzed by the following industrial sectors as follows:

	Gross maximum exposure 2008 RSD thousand	Net maximum exposure 2008 RSD thousand
Banking sector	18.264.651	18.264.651
Public companies	298.050	298.050
Other companies	28.695.013	10.236.257
Enterpreneurs	1.041.113	657.934
Public sector	233.084	233.084
Retail	12.218.220	9.872.739
Foreign entities	41.631	41.631
Agricultural activities	554.823	237.947
Other counterparties	363	363
Other		
Total	**61.346.948**	**39.842.656**

31. RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows: mortgages on residential properties, deposits as well as bank guarantees or guarantees of Republic of Serbia.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan related balance sheet lines, based on the Bank's internal ratings:

2008	**Note**	**High grade 2008** RSD thousand	**Standard grade 2008** RSD thousand	**Sub-standard grade 2008** RSD thousand	**Past due or individually impaired 2008** RSD thousand	**Total 2008** RSD thousand
Due from banks	16	19.182	2.827.529	-	4.561	2.851.272
Placements to customers:						
Corporate lending	16	2.930.319	2.084.714	104.637	1.231.919	6.351.589
Small and middle business lending	16	6.135.631	3.199.902	453.839	1.663.192	11.452.564
Consumer lending	16	11.697.848	124.205	5.463	477.014	12.304.530
Investments in securities						
Serbian government	17	990.123	-	-	-	990.123
Quoted securities	17	-	35.771	2.537	37.179	75.487
Unquoted securities	17	747.526	633.936	6.352	228.182	1.615.996
Total		**22.520.629**	**8.906.057**	**572.828**	**3.642.047**	**35.641.561**

31. RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Collateral and other credit enhancements (continued)

2007	**Note**	**High grade 2008** RSD thousand	**Standard grade 2008** RSD thousand	**Sub-standard grade 2008** RSD thousand	**Past due or individually impaired 2008** RSD thousand	**Total 2008** RSD thousand
Due from banks		-	2.350.000	-	4.561	2.354.561
Corporate lending		3.092.148	1.619.352	66.975	466.554	5.245.029
Small and middle business lending		5.038.082	2.070.795	162.463	1.397.482	8.668.822
Consumer lending		6.499.170	141.302	2.804	226.511	6.869.787
Securities of Serbian government		99.931	-	-	-	99.931
Quoted securities		-	44.786	-	30.810	75.596
Unquoted securities		392.602	154.802	168.034	613.068	1.328.506
Total		**15.121.933**	**6.381.037**	**400.276**	**2.738.986**	**24.642.232**

Aging analysis of loans, due from banks and placements to customers which are past due but not impaired:

2008	**Less than 30 days** RSD thousand	**31 to 90 days** RSD thousand	**Over 91 days** RSD thousand	**Total 2008** RSD thousand
Due from banks	-	-	688	688
Placements to customers				
- Corporate lending	-	-	5.096	5.096
- Small and medium business lending	24.323	5.659	52.710	82.692
Consumer lending	27.074	95.113	289.208	411.395
Total	**51.397**	**100.772**	**347.702**	**499.871**

2007	**Less than 30 days** RSD thousand	**31 to 90 days** RSD thousand	**Over 91 days** RSD thousand	**Total 2007** RSD thousand
Due from banks	-	-	688	688
Placements to customers				
- Corporate lending	-	-	5.096	5.096
- Small and medium business lending	4.846	4.286	373.605	382.737
- Consumer lending	14.111	58.903	148.918	221.932
Total	**18.957**	**63.189**	**528.307**	**610.453**

31. RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Impairment assessment

To ensure the secondary sources of repayment of loans upon approval, the Bank takes collaterals in accordance with the estimated credit risk and catalog collaterals that defines types of collaterals. Fair value of collaterals is regularly tracked and updated.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue for more than 90 days, or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, the realizable value of collateral and the timing of the realization of collateral, the availability of other financial support to customers, the possibility of collecting receivables and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention and more frequent assessment.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) as well as for individually significant loans and advances where there is not yet objective evidence of individual impairment. Assessment of impairment is made quarterly, and if necessary more times during the year.

Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Financial guarantees and letters of credit are assessed and provisions made in a similar manner as for loans.

31.3. Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payments obligations when they fall due. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows in dinars and foreign currency and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains obligatory reserves in dinars and in foreign currency in accordance with requirements of National Bank of Serbia.

The liquidity position is represented by the liquidity ratio which represents the ratio of the sum of assets of primary and secondary liquidity (cash, funds on the accounts with other banks, deposits with the National Bank of Serbia, receivables in the process of realization, irrevocable credit lines,

31. RISK MANAGEMENT (continued)

31.3. Liquidity risk and funding management (continued)

quoted financial instruments and other receivables of the Bank that are due within one month) to the sum of on demand liabilities without contracted maturity and liabilities with contracted maturity within the following month. During 2007 and 2008 Bank had an indicator of daily liquidity significantly above the levels prescribed by law and on average during 2008, at a higher level compared to the previous year. During the year, aforementioned ratio was as follows:

	2008	2007
Average during the period	1,48	1,39
Highest	2,08	2,38
Lowest	1,07	1,22

Analysis of financial liabilities by remaining contractual maturities

The following table summarizes the maturity profile of the Bank's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay.

2008	On demand	Less than three months	Three to twelve months	One to five years	Over five years	Total 2008
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Deposits and borrowings	14.678.451	14.706.290	5.448.046	1.121.090	206.446	36.160.323
Interest and fee liabilities	2.474	67.665	172.264	291.299	228.844	762.546
Subordinated liabilities	-	-	-	-	956.891	956.891
Total	**14.680.925**	**14.773.955**	**5.620.310**	**1.412.389**	**1.392.181**	**37.879.760**

2007	On demand	Less than three months	Three to twelve months	One to five years	Over five years	Total 2007
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Deposits and borrowings	7.846.143	12.915.944	4.043.021	640.095	331.798	25.777.001
Interest and fee liabilities	-	38.211	314.929	248.196	56.979	658.315
Subordinated liabilities	-	-	-	-	855.751	855.751
Total	**7.846.143**	**12.954.155**	**4.357.950**	**888.291**	**1.244.528**	**27.291.067**

31. RISK MANAGEMENT (continued)

31.3. Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and irrevocable commitments:

2008	Less than 14 days	15 days to one month	One to three months	Three months to one year	One to five years	More than five years	Total 2008
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Contingent liabilities	193.359	3.554	73.541	640.683	4.322.130	770.791	6.004.058
Irrevocable commitments and letters of credit	1.515.607	-	3.526.433	754.062	2.380.321	6.769	8.183.192
TOTAL	**1.708.966**	**3.554**	**3.599.974**	**1.394.745**	**6.702.451**	**777.560**	**14.187.250**

2007	Less than 14 days	15 days to one month	One to three months	Three months to one year	One to five years	More than five years	Total 2007
	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand	RSD thousand
Contingent liabilities	39.963	201.139	65.132	638.124	1.069.596	505.228	2.519.182
Irrevocable commitments and letter sof credits	228.024	45	115.722	392.442	1.686.264	12.753	2.435.250
TOTAL	**267.987**	**201.184**	**180.854**	**1.030.566**	**2.755.860**	**517.981**	**4.954.432**

The Bank expects that not all of the contingent liabilities and irrevocable commitments will be drawn before expiry of the commitments.

31.4. Market risk

Risk management objective is to establish an adequate system for identifying, measuring, assessing and monitoring risks to which the Bank is exposed, as well as an adequate response to avoid negative impacts on the capital or the Bank's financial result. The Bank is exposed to market risks, which primarily include the risk of changes in interest rates, foreign exchange risk and other market risks.

Market risk management is defined by policies, procedures and regulations approved by Board of Directors and in accordance with the strategy of risk management at the level of Erste Group, as well as all relevant laws and by-laws of the Republic of Serbia. Audit of policies, procedures and regulations can be done in accordance with the needs, and at least once a year.

Market risk is managed by the Asset and Liability Management Committee, Asset and Liability Department and the Risk Control Unit.

31. RISK MANAGEMENT (continued)

31.4. Market risk (continued)

Identification, measurement, analysis and reporting in market risk exposures is managed by separate organizational Unit, Asset and Liability Management Department. This Department and the Department of Risk Control daily monitor changes in open foreign currency position and other relevant indicators of Bank's exposure to market risks.

Asset and Liability Management Department prepares monthly reports to the Asset and Liability Management Committee. Risk Management Unit monitors market risk through settled limits, risk from introduction of new products and complex transactions. Asset and liability management has advisory role and gives recommendations to the Executive Board for adoption.

Interest rate risk

Interest rate risk is risk that arises from the possibility that changes in interest rates will affect financial results and the Bank is equity. The Bank is exposed to this risk based on items from Bank's book and assesses the risk in total and per each significant foreign currency and for which criterias are defined. Based on these criterias, for materially significant currencies the Bank considers RSD and EUR.

In determning interest rates the Bank considers market interest rates, and their movements. Interest rate changes result in increases or decreases of interest margins. Interest risk management has as goal optimization of this influence, on interest increase in one side, and economic value of capital at the other side.

The Asset and Liabilitiy Management Committee, manages maturity matching of assets and liabilities based on: Erste Group strategy, macroeconomic analysis and forecasts, forecasts of the Bank's liquidity, interest trend analysis for different segments of assets and liabilities.

31. RISK MANAGEMENT (continued)

31.4. Market risk (continued)

Interest rate risk

The following table presents the Bank's exposure to changes in the interest rate risk as of 31 December 2008. Assets and liabilities are stated at the earlier of the next repricing date or maturity.

	Up to 1 month RSD thousand	**1 to 3 months** RSD thousand	**3 to 6 months** RSD thousand	**6 to 12 months** RSD thousand	**Over one year** RSD thousand	**Non-interest bearing** RSD thousand	**Total** RSD thousand
Cash and cash equivalents	-	-	-	-	-	1.036.569	1.036.569
Correspondent accounts	-	-	-	-	-	1.329.913	1.329.913
Obligatory reserves	3.362.246	-	-	-	-	3.252.664	6.614.910
Due from banks	8.899.183		852.064	19.152		143.468	9.913.867
Loans to customers	11.729.428	596.987	1.744.156	1.761.451	12.153.974	17.316	28.003.312
Other assets	-	-	-	-	-	2.288.555	2.288.555
Total	**23.990.857**	**596.987**	**2.596.220**	**1.780.603**	**12.153.974**	**8.068.485**	**49.187.126**
Due to banks	10.385.061	956.891	-	-	7.089	24.338	11.373.379
Due to financial institutions	51.640	-	-	-	-	-	51.640
A vista deposits	6.003.405	-	-	-	-	4.047.264	10.050.669
Other deposits	6.521.128	2.204.121	2.066.770	3.379.359	1.305.553	25.662	15.502.593
Other liabilities	-	-	-	-	-	1.671.135	1.671.135
Equity	-	-	-	-	-	**10.537.710**	**10.537.710**
Total	**22.961.234**	**3.161.012**	**2.066.770**	**3.379.359**	**1.312.642**	**16.306.109**	**49.187.126**
Net exposure to interest rate risk at 31.12.2008	1.029.623	(2.564.025)	529.450	(1.598.756)	10.841.332	(8.237.624)	-
At 31 December 2007							
Total assets	14.224.706	2.075.467	1.437.588	3.714.214	10.664.293	5.743.140	37.859.408
Total liabilities	10.738.908	2.264.420	1.461.334	2.366.335	1.659.914	19.368.497	37.859.408
Net exposure to interest rate risk	**3.485.798**	**(188.953)**	**(23.746)**	**1.347.879**	**9.004.379**	**(13.625.357)**	**-**

The following table presents income statement sensitivity of a reasonable change of interest rates (1%) with other variables held constant. Income statement sensitivity represents the effect of predicted changes in interest rates on interest income in one year on financial assets and liabilities based on interest rates as at 31 December 2008.

Currency	**Change of percent**	**Income statement sensitivity 2008.** RSD thousand	**Change of percent**	**Income statement sensitivity 2007.** RSD thousand
Increase of percent:	1%		1%	
RSD		64.261		68.623
EUR		(27.458)		(43.359)
Decrease of percent:	1%		1%	
RSD		(64.261)		(68.623)
EUR		27.458		45.359

31. RISK MANAGEMENT (continued)

31.4. Market risk (continued)

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

The following table presents the Bank's exposure to foreign currency risk at 31 December 2008 of it's non-trading assets and liabilities.

The analysis presented calculates the effect of reasonable changes in the exchange rate with other variables held constant. Negative values refer to potential decreases in the income statement or equity, while the positive values refer to its increases.

Currency	Changes in the exchange rate (%)2008	Effect on the income statement before taxation 2008 RSD thousand	Changes in the exchange rate (%)2007.	Effect on the income statement before taxation 2007. RSD thousand
EUR	2%	4.006	2%	8.849
CHF	2%	301	2%	(473)
USD	2%	(133)	2%	15

The following tables present the Bank's exposure to foreign currency risk at 31 December 2008 and at 31 December 2007. The table includes assets and liabilities at their book values.

Position	EUR	USD	CHF	Other currencies	Total	Gold and other values
Net spot position	200.298	(6.660)	15.026	17.961	226.625	1.143
Assets in foreign currency	27.900.526	4.051.257	1.567.304	79.718	33.598.805	1.143
Liabilities in foreign currency	27.700.228	4.057.917	1.552.278	61.757	33.372.180	-
Long open position	200.298	-	15.026	41.441	256.765	1.143
Short open position	-	6.660	-	23.480	30.140	-
Net open position	-	-	-	-	256.765	1.143
Equity	-	-	-	-	-	9.745.900
Foreign currency risk ratio 2008						2,65

31. RISK MANAGEMENT (continued)

31.4. Market risk (continued)

Foreign currency risk (continued)

Position	EUR	USD	CHF	Other currencies	Total	Gold and other values
Net spot position	442.468	(23.663)	758	6.858	426.421	1.206
Assets in foreign currency	20.059.120	481.797	139.253	54.907	20.735.077	1.206
Liabilities in foreign currency	19.616.652	505.460	138.495	48.049	20.308.656	-
Long open position	442.468	-	758	18.836	462.062	1.206
Short open position	-	23.663	-	11.978	35.641	-
Net open position	-	-	-	-	462.062	1.206
Equity	-	-	-	-	-	10.123.000
Foreign currency risk ratio 2007						**4,58**

31.5. Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal implications or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank has adopted operational risk management policies that regulate the Bank's exposure to operational risks, i.e. active risk management for reducing these risks on a acceptable level which can be controlled.

To insure consistent identification and classification of all cases of operational risks, the Bank has classified cases of operational risks in accordance with Decision on risk management by banks issued by National Bank of Serbia at 30 July 2007 (Official Gazette RS number 129/2007, 63/2008 and 112/2008). All cases of operational losses are categorized towards the first level of loss cause, and separated on the second and the third level.

The classification allows:
- To ensure priorities over losses and necessary actions that needs to be done;
- To improve ability for risk analysis;
- Enable creating standard information base;
- Comply with Basel II and NBS.

Operational risk events are collected in a single database. The Bank uses several tools for the identification and assessment of the impact of operational risks, such as Risk Mapping methods, Risk assessment methods and Key Risk Indicators methods.

31. RISK MANAGEMENT (continued)

31.4. Market risk (continued)

Foreign currency risk (continued)

The Bank reduces the operational risks by other activities such as BCM project (project of management of business continuity), whereby the Bank will introduce a plan for providing continuity of operations and business plan in case of unexpected events and continuous monitoring and reporting on the development of operational risk and operational risk assessment that may result from implementation of new products, activities, processes or systems. The Bank is planing to implement monitoring of key risk indicators which wil represent the overall framework of management and control of operational risk.

The Bank is insured from usual risks and specific banking risks through Program of insurance from operational risks. Usual risks include damages to property, burglary, theft, violent theft (valuable property) and general responsibility. Specific risks include the Bank's internal and external frauds and technological risks.

32. CAPITAL MANAGEMENT

The Bank's objectives in respect of capital management are:

- to ensure compliance with the requirements of the National Bank of Serbia,
- to ensure a possibility of a long-term continuation of operations with providing of profit to shareholders and benefits to other interested parties,
- to provide solid capital base which would represent a support to the further development of the Bank's operations.

The Bank's management monitors regularly the Bank's capital adequacy ratios and other ratios established by the National Bank of Serbia and delivers quarterly reports on achieved values of ratios. Pursuant to the Law on Banks in the Republic of Serbia, banks are obligated to maintain minimal capital in the amount of EUR 10 million, in dinars calculated at the official middle exchange rate, capital adequacy ratio of at least 12%, as well as to comply the volume and structure of its operations with ratios prescribed by the the Decision on capital adequacy (Official Gazette of the Republic of Serbia No. 129/2007 and 63/2008).

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristic of its activities.

The Decision on the capital adequacy of banks, adopted by the National Bank of Serbia (Official Gazette of RS 129/2007 and 63/2008) establishes the method of calculating the capital adequacy. This decision establishes the changes in the way of calculating capital adequacy in relation to the previous year.

Capital adequacy is equal to the ratio of a bank's capital to the total credit risk weighted assets, capital requirements in the foreign exchange risk is multiplied by reciprocally value indicators of capital adequacy (the prescribed 12%) and capital requirements in relation to other market risks that are reciprocally multiplied by value indicators of capital adequacy.

Since the value of trade book items does not exceed 5% of the Bank's business, or exceed the value of 15 million dinar more than three working days in the calendar month, the Bank does not calculate capital requirement in relation to other market risks.

32. Capital Management (continued)

Core capital is defined by the mentioned decision and must be at least 50% of the total capital. The following table shows the calculated amount of core capital, additional capital and total capital of the Bank, as well as the calculation of capital adequacy.

	2008 RSD thousand	2007 RSD thousand
Core capital		
Ordinary and preference share capital, except cumulative preference shares	10.040.000	10.040.000
Share premium related to ordinary and preference shares, except cumulative preference shares	124.475	2.228.932
Part of retained earnings	12.873	380.694
Uncovered loss	-	(2.468.241)
Intangible assets	(57.286)	(35.296)
	10.120.062	**10.146.089**
Additional capital		
Revaluation reserves related to property, plant , equipment and equity instruments	15.638	23.421
Subordinated liabilities	956.891	855.750
	972.529	**879.171**
Total capital	**11.092.591**	**11.025.260**
Deductible capital items:		
Shortfall of special reserves for potential losses	(1.097.472)	(471.412)
Capital	**9.995.119**	**10.553.848**
Total risk weighted balance sheet assets	33.155.378	21.883.893
Total risk weighted off-balance sheet assets	4.181.910	3.804.663
Total opened foreign currency position	257.920	442.124
Total risk assets	**37.595.208**	**26.130.680**
Capital adequacy at 31 December	**26,58**	**40,39**

The Bank is obligated to comply its volume and structure of activities with ratios prescribed by the Decision on risk management (Official Gazette of the Republic of Serbia No. 129/2007 and 63/2008).

As at 31 December 2008, realized performance ratios of the Bank were as follows:

Ratio	**Prescribed value**	**Realized value**
Bank's investments	max 60%	9,51
Exposure to entities related to the Bank	max 20%	10,9
Ratio of large and the largest possible exposures	max 400%	76,44
Average monthly liquidity ratio:		
– In the first month of reporting period	min 1.00	1,68
– In the second month of reporting period	min 1.00	1,39
– In the third month of reporting period	min 1.00	1,15
Foreign currency risk ratio	max 30%	2,65
The Bank's exposure to the group of related parties	25%	23,82
Gross retail placements	150%	116,25
The Bank's exposure to related parties to the Bank	5%	0,41
The Bank's investments in parties which do not operate in financial sector	10%	0,16

33. EVENTS AFTER THE BALANCE SHEET DATE

The Bank did not have any significant post balance sheet events that would have materially significant influence on the financial statements.

34. EXCHANGE RATES

The exchange rate set at the inter-bank foreign currency market applied to balance sheet items as of 31 December 2008 and 31 December 2007 transaction for the following currencies is:

Currency	**31 December 2008**	**31 December 2007**
EUR	88,6010	79,2362
CHF	59,4040	47,8422
USD	62,9000	53,7267