BANCA INTESA a.d. BEOGRAD

Financial Statements
as of and for the Year Ended
31 December 2008
and
Independent Auditor's Report

CONTENTS

This is an English translation of Independent Auditor's Report originally issued in the Serbian language

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
BANCA INTESA a.d. BEOGRAD

We have audited the accompanying financial statements of Banca Intesa a.d. Beograd (hereinafter "the Bank"), which comprise the balance sheet as of 31 December 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.

The financial statements of the Bank as of and for the year ended 31 December 2007 were audited by another auditor, whose Report dated 27 March 2008, expressed an unqualified audit opinion on those financial statements.

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 ("Official Gazette of the Republic of Serbia", no. 46/2006), Law on Banks ("Official Gazette of the Republic of Serbia", no. 107/2005) and respective decisions of the National Bank of Serbia which regulate banks' financial reporting. 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
BANCA INTESA a.d. BEOGRAD (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and of its financial performance and its cash flows for the year then ended, in accordance with the Law on Accounting and Auditing, Law on Banks and respective decisions of the National Bank of Serbia which regulate banks' financial reporting.

Belgrade, 23 March 2009

Ksenija Ristić Kostić
Certified Auditor

Preduzeće za reviziju BDO BC Excel d.o.o. Beograd

INCOME STATEMENT
For the Year Ended 31 December 2008

	Note	2008	2007
		In thousand of Dinars	
OPERATING INCOME AND EXPENSES			
Interest income	3	21,584,582	13,833,862
Interest expense	3	(8,347,626)	(5,272,986)
Net interest income		**13,236,956**	**8,560,876**
Fees and commission income	4	5,828,430	4,914,924
Fees and commission expense	4	(1,437,485)	(1,233,026)
Net fees and commission income		**4,390,945**	**3,681,898**
Net gain from sale of securities at fair value through profit or loss		6,051	11,192
Net gain from sale of securities available-for-sale		108,465	-
Net gain from sale of securities held-to-maturity		-	4,188
Net foreign exchange (losses)/gains	5	(8,793,505)	898,872
Dividend income		236	43
Other operating income	6	152,598	66,622
Impairment losses on financial assets and provisions, net	7	(4,183,400)	(2,167,538)
Salaries and other personal expenses	8	(3,496,147)	(3,165,420)
Depreciation and amortization charge	9	(864,389)	(781,125)
Other operating expenses	10	(4,531,368)	(3,626,968)
Gains from changes in value of assets and liabilities	11	22,195,577	6,954,867
Losses from changes in value of assets and liabilities	12	(11,813,322)	(7,110,598)
PROFIT BEFORE TAX		**6,408,697**	**3,326,909**
Current income tax	13	(300,379)	(130,009)
Deferred tax income	13	18,245	10,989
Deferred tax expense	13	(234,064)	(50,362)
PROFIT FOR THE YEAR		**5,892,499**	**3,157,527**

The accompanying notes on pages 8 to 89
are an integral part of these financial statements.

The accompanying financial statements were authorized for issue on 27 February 2009 and signed on behalf of the Bank's Management by:

Rada Radović
Responsible for preparation of financial statements

Giancarlo Miranda
Deputy Executive Board President

Draginja Đurić
Executive Board President

Banca Intesa a.d. Beograd 3

BALANCE SHEET
As of 31 December 2008

	Notes	2008	2007
		In thousand of Dinars	
ASSETS			
Cash and cash equivalents	15	32,288,288	9,305,761
Revocable deposits and loans	16	37,112,238	79,175,025
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	17	1,308,508	842,550
Loans and advances	18	165,524,335	95,718,412
Securities (excluding treasury shares)	19	254,392	163,291
Equity investments	20	13,076	115,003
Other placements	21	4,255,220	1,162,687
Intangible assets	22	480,707	756,343
Property and equipment and investment property	23	6,879,007	5,507,840
Deferred tax assets	13(c)	205,324	439,388
Other assets	24	1,879,619	751,965
TOTAL ASSETS		**250,200,714**	**193,938,265**
LIABILITIES AND EQUITY			
Sight deposits	25	53,009,252	62,422,261
Other deposits	26	88,951,814	66,998,744
Borrowings	27	47,993,228	23,357,730
Securities issued		19,825	41,286
Interest and fees payable and changes in fair value of derivatives	28	142,534	111,893
Provisions	29	2,316,955	2,079,357
Tax liabilities		158,445	80,870
Liabilities from profit		181,204	45,440
Deferred tax liabilities	13(d)	8,145	26,390
Other liabilities	30	13,498,624	10,560,574
TOTAL LIABILITIES		**206,280,026**	**165,724,545**
EQUITY	31		
Share capital		28,446,332	18,753,799
Reserves from profit		8,875,587	6,522,199
Revaluation reserves		706,270	584,333
Retained earnings		5,892,499	3,172,296
Accumulated losses		-	(818,907)
TOTAL EQUITY		**43,920,688**	**28,213,720**
TOTAL LIABILITIES AND EQUITY		**250,200,714**	**193,938,265**
OFF-BALANCE SHEET ITEMS	32	**132,893,895**	**109,671,890**

The accompanying notes on pages 8 to 89 are an integral part of these financial statements.

Rada Radović
Responsible for preparation of financial statements

Giancarlo Miranda
Deputy Executive Board President

Draginja Đurić
Executive Board President

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2008

In thousand of Dinars

	Share capital	Other capital	Share premium	Reserves from profit	Revaluation reserves	Retained earnings	Accumulated losses	Total equity
Balance as of 1 January 2007	**8,404,943**	**11,158**	**-**	**5,229,554**	**569,206**	**1,302,837**	**(818,907)**	**14,698,791**
New issue of shares	8,785,098	-	1,557,086	-	-	-	-	10,342,184
Transfer from share capital due to merger	(1,432,855)	-	1,432,855	-	-	-	-	-
Transfer to reserves	(4,486)	-	-	4,486	-	-	-	-
Transfer from revaluation reserves to retained earning	-	-	-	-	(91)	91	-	-
Fair value adjustment of securities available-for-sale	-	-	-	-	15,218	-	-	15,218
Allocation of retained earnings	-	-	-	1,288,159	-	(1,288,159)	-	-
Profit for the year	-	-	-	-	-	3,157,527	-	3,157,527
Balance as of 31 December 2007	**15,752,700**	**11,158**	**2,989,941**	**6,522,199**	**584,333**	**3,172,296**	**(818,907)**	**28,213,720**
New issue of shares	2,724,700	-	6,967,833	-	-	-	-	9,692,533
Fair value adjustment of securities available-for-sale	-	-			121,937		-	121,937
Allocation of retained earnings	-	-		2,353,388	-	(3,172,296)	818,907	
Profit for the year	-	-	-	-	-	5,892,499	-	5,892,499
Balance as of 31 December 2008	**18,477,400**	**11,158**	**9,957,774**	**8,875,587**	**706,270**	**5,892,499**	**-**	**43,920,688**

The accompanying notes on pages 8 to 89 are an integral part of these financial statements.

Rada Radović
Responsible for preparation of financial statements

Giancarlo Miranda
Deputy Executive Board President

Draginja Đurić
Executive Board President

CASH FLOW STATEMENT
For the Year Ended 31 December 2008

	2008	2007
	In thousand of Dinars	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**28,155,669**	**19,891,423**
Interest receipts	19,286,046	12,405,050
Fees and commission receipts	6,031,780	5,347,076
Receipts from other operating income	2,837,607	2,138,752
Receipts from dividends and equity instruments	236	545
Cash outflow from operating activities	**(18,024,093)**	**(14,016,353)**
Interest paid	(5,562,536)	(4,491,674)
Fees and commission paid	(1,546,627)	(1,331,219)
Payments for gross salaries, compensations and other personal expenses	(4,144,684)	(3,390,392)
Taxes, contributions and other duties paid	(594,402)	(374,686)
Outflow for other operating expenses	(6,175,844)	(4,428,382)
Net cash from operating activities before increase or decrease in placements and deposits	**10,131,576**	**5,875,070**
Decrease in placements and increase in deposits	***19,490,598***	***39,644,824***
Decrease in securities at fair value through profit and loss, trading investments and short-time securities held-to-maturity	1,451,116	1,327,771
Increase in deposits from banks and customers	18,039,482	38,317,053
Increase in placements and decrease in deposits	***(15,662,767)***	***(66,195,073)***
Increase in placements with, and loans to banks and customers	(15,662,767)	(66,195,073)
Net cash from/(used in) operating activities before income taxes	**13,959,407**	**(20,675,179)**
Income taxes paid	(162,443)	(11,583)
Net cash flow from/(used in) operating activities	**13,796,964**	**(20,686,762)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**128,941**	**82,557**
Proceeds from long-term investments in securities	-	21,376
Proceeds from sale of equity investments	118,089	-
Proceeds from sale of intangible assets and property and equipment	10,852	61,181
Cash outflow from investing activities	**(2,154,902)**	**(821,631)**
Investments in long-term securities	-	(21,376)
Purchase of intangible assets and property and equipment	(2,141,719)	(800,255)
Purchase of investment property	(13,183)	-
Net cash flows used in investing activities	**(2,025,961)**	**(739,074)**

CASH FLOW STATEMENT
For the Year Ended 31 December 2008

	2008	2007
	In thousand of Dinars	
CASH FLOWS FROM FINANCING ACTIVITES		
Cash inflow from financing activities	**10,862,763**	**18,692,003**
Increase in equity	9,692,533	12,723,883
Net receipts from borrowings	1,166,511	5,968,120
Net receipts from securities	3,719	-
Cash outflow from financing activities	**-**	**(81)**
Other outflow from financing activities	-	(81)
Cash inflow from financing activities	**10,862,763**	**18,691,922**
TOTAL NET CASH INFLOW	58,637,971	78,310,807
TOTAL NET CASH OUTFLOW	(36,004,205)	(81,044,721)
NET INCREASE/(DECREASE) IN CASH	**22,633,766**	**(2,733,914)**
CASH AT THE BEGINING OF THE YEAR	9,305,761	12,180,516
FOREIGN EXCHANGE GAINS	711,536	482,926
FOREIGN EXCHANGE LOSSES	(362,775)	(623,767)
CASH AT THE END OF THE YEAR (Note 15)	**32,288,288**	**9,305,761**

The accompanying notes on pages 8 to 89
are an integral part of these financial statements.

Banca Intesa a.d. Beograd 3

Rada Radović Responsible for preparation of financial statements	Giancarlo Miranda Deputy Executive Board President	Draginja Đurić Executive Board President

1. CORPORATE INFORMATION

Banca Intesa Beograd a.d. Beograd (hereinafter referred to as the "Bank") was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD, Beograd dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permit for the foundation of Delta banka DD, Beograd.

On 16 October 1991, the Bank was duly registered with the Commercial Court in Belgrade and subsequently commenced its operations. On 7 June 1995, a new Memorandum on Association was concluded, with a new Article of Association adopted at the General Assembly meeting held on 10 July 1995, whereby reconciliation of the Bank's acts with the provisions of the Law on Banks and other financial organisations was made.

In 2005, the Bank's shareholders sold the majority of their shares in the Bank to Intesa Holding international S.A. After this ownership change, the Bank has two shareholders, out of which Intesa Holding International S.A., Luxemburg (including Intesa Sanpaolo S.p.A.) owns more than 90% of the Bank's share capital.

Pursuant to the General Manager's Decision no. 18600 dated 7 November 2005, the Approval of National Bank of Serbia and the Decision of the Agency for Commercial Registries no. BD 98737/2005 dated 29 November 2005, the Bank changed its previous name into Banca Intesa a.d. Beograd.

In accordance with the Decision of the Agency for Commercial Registries no. BD. 159633/2006 dated 5 October 2006, the abovementioned alteration and the change of legal form of the Bank into a closed joint-stock company were registered.

The Bank is authorised and registered with the National Bank of Serbia for performing payment traffic operations, loan and deposit activities in the country and clearing and settlement transaction services abroad. In accordance with the provisions of the Law on Banks, the Bank operates on the principles of liquidity, safety and profitability.

During the year ended 31 December 2007, the legal status change of merger by absorption was carried out, whereby the bank acquirer was Banca Intesa a.d. Beograd, and the acquired bank was Panonska banka a.d. Novi Sad. On 26 July 2007, the Decisions on signing of the letter of intent to perform the legal status change of merger by absorption and launch relating activities were passed at the meetings of the Board of Directors of both Banca Intesa a.d. Beograd and Panonska banka a.d. Novi Sad. Draft of the Agreement on merger was prepared and adopted by the Boards of Directors of both banks at the meetings held on 29 October 2007.

Upon registration of the procedure of merger by absorption with the Agency for Commercial Registers, the Bank as the acquirer and the legal successor has continued to operate under its existing business names, while the acquired bank – Panonska banka a.d. Novi Sad ceased its operations without liquidation process, and its shares were withdrawn and annulled.

In accordance with article 384 of the Company of the Republic of Serbia, 30 September 2007 was determined as the date of merger, i.e. the date when all operations of Panonska banka a.d. Novi Sad were considered as taken over by the Bank.

1. CORPORATE INFORMATION (Continued)

The legal status change of merger by absorption was carried out in such a way that the acquired bank – Panonska banka a.d. Novi Sad transferred all assets and liabilities as of 30 September 2007 to the Bank as the acquirer in exchange for share issue to the shareholders of the acquired bank by the Bank acquirer.

In accordance with the valuation performed, the shares in the banks were exchanged so that shareholders of the acquired bank received 1 ordinary share of the Bank acquirer in exchange for 38 ordinary shares of the acquired bank. In order to exchange the total number of shares of Panonska banka a.d. Novi Sad, the Bank issued 26.166 ordinary shares, with nominal value of RSD 100,000.00 and consequently, after the merger the Bank's share capital amounted to RSD 15,752,700,000.00, divided into 157.527 ordinary shares with nominal value of RSD 100,000.00 per share.

Shareholders of the acquired bank in the merger have become the shareholders of Banca Intesa a.d. Beograd, with the appropriate number of ordinary shares, and they have the same status, rights and obligations as the shareholders of the Bank, with the right to participate in profit distribution of the Bank acquirer starting from 1 January 2008.

Since there were no significant differences in the accounting policies applied in the preparation of the financial statements of both banks, neither adjustments to net assets nor adjustments to net results for 2007 of the Bank were made as a consequence of the accounting for the merger by absorption.

The Agreement on merger by absorption was adopted at the Bank's Assembly meeting held on 17 December 2007.

At 31 December 2008, the Bank operated through its Head Office located in Belgrade, Milentija Popovica 7b, with its associated organizational divisions in Belgrade, 6 regional centres and 226 branches.

The Bank had 3,027 employees at 31 December 2008 (31 December 2007: 2,966 staff).

The Bank's registration number is 7759231. The Bank's tax identification number is 100001159.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Financial Statements

The accompanying financial statements have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia, no. 46/2006), Law on Banks and the respective decisions issued by the National Bank of Serbia that are based on the aforementioned legislation. Pursuant to the Law on Accounting and Auditing, banks are obliged to maintain, prepare and present their financial statements in accordance with the International Accounting Standards (IAS), i.e. International Financial Reporting Standards (IFRS").

Pursuant to the Resolution of the Republic of Serbia's Minister of Finance no. 401-00-11/2008-16 dated 18 January 2008 ("Official Gazette of the Republic of Serbia", no. 16/2008), International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued respectively by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), which are in effect as of the date of preparation of the financial statements, have been published.

The accompanying financial statements have been prepared under the historical cost convention, except for the measurement at fair value of trading securities and investments available-for-sale.

The accompanying financial statements include accounts receivable, accounts payable, operations result, statement of changes in equity and cash flow statement of the Bank, excluding its subsidiary – Intesa Leasing d.o.o., Beograd. The Bank also prepares and submits consolidated financial statements separately, in accordance with the respective Republic of Serbia's accounting regulations.

The Bank's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Bank. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

In the preparation of these financial statements, the Bank has adhered to the principal accounting policies further described in Note 2.

In 2007, the Bank adopted IFRS 7 "Financial Instruments": Disclosures, and the complementary amendment to IAS 1 "Presentation of Financial Statements" – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). This standard introduced new disclosures relating to financial instruments and did not have any impact on the classification and valuation of the Bank's financial instruments. The main additional disclosures required by these standards relate to qualitative and quantitative information about exposure to risks arising from financial instruments, including disclosures about credit risk, liquidity risk and market risk and risk management policy.

The application of the new interpretations mandatory for accounting periods beginning on or after 1 January 2007 (IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"; IFRIC 8, Scope of IFRS 2 "Share-Based Payments"; IFRIC 9 "Reassessment of Embedded Derivatives"; and IFRIC 10 "Interim Financial Reporting and Impairment"), did not have impact on the Bank's financial statements in the periods of their first application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

The accounting policies and accounting estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2007, except for the adoption of new Standards and Interpretations noted below, whose application did not have any effect on the financial position or performance of the Bank.

(a) Interpretations effective in 2008

The application of the following interpretations mandatory for annual accounting periods beginning on or after 1 January 2008 did not result in substantial changes to the Bank's accounting policies and did not have impact on the Bank's financial statements in the periods of their first application:

- IFRIC 11, IFRS 2 "Group and Treasury Share Transactions", provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies.
- IFRIC 12 "Service Concession Arrangements", applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.
- IFRIC 13 "Customer Loyalty Programmes" (effective for accounting periods beginning on or after 1 July 2008).
- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", provides guidance on assessing the limit in IAS 19 "Employee Benefits" on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008).
- IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" and IFRS 7 (Amendments) "Financial Instruments: Disclosures", were published in October 2008, and have been effective on or after 1 July 2008.

  Pursuant to these amendments, from 1 July 2008 reclassifications and appropriate disclosures of non-derivative financial instruments classified into the category of financial assets at fair value through profit and loss have been made possible into the categories of financial assets available-for-sale, held-to-maturity investments or loans and receivables, provided that they satisfy the definitions of such categories. The effects of the changes in values of these reclassified financial assets are recognised in the Bank's equity. Amendments to the aforementioned standards did not have effect on the accompanying financial statements, considering that the Bank did not have a significant portfolio of securities held for trading in 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

(b) New Standards, Amendments and Interpretation to published standards that are not yet effective and have not been early adopted by the Bank

The Bank has not early adopted the following standards, interpretations of standards and amendments and supplements to existing standard that have been published and are mandatory for the accounting periods beginning on or after 1 January 2009:

- IFRS 8 "Operating Segments" (effective beginning on or after 1 January 2009).
- IAS 23 "Borrowing Cost" applies to borrowing cost relating to qualifying assets (effective for annual periods beginning on or after 1 January 2009).
- Revised IAS 1 "Presentation of Financial Statements" (effective beginning on or after 1 January 2009).
- Amendments to IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2009). The amended standard deals with vesting conditions and cancellations.
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidations (effective for annual periods beginning on or after 1 January 2009).
- Revised IFRS 3 "Business Combinations" and complementary Amendments to IAS 27 "Consolidated and Separate Financial Statements" (both effective for annual reporting periods beginning on or after 1 July 2009).
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009).
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual reporting periods beginning on or after 1 July 2009).
- IFRIC 18 "Transfers of Assets from Customers" (effective from 1 July 2009).

The Bank's management assesses the impact of the aforementioned standards, interpretations and amendments to existing standards, and deems that their application will neither result in substantial changes to the Bank's accounting policies nor is it expected to have a material impact on the Bank's financial statements in the periods of their first application.

Furthermore, in May 2008, a set of amendments to the existing IASs and IFRSs were published as part of the IASB's annual improvements project, which are mandatory for the accounting periods beginning on or after 1 January 2009 or later periods. The Bank has not early adopted the amendments and supplements to the standards, out of which the majority is not relevant for the Bank's operations.

The accompanying financial statements are presented in the format prescribed by the "Rulebook on the Format and Contents of Positions in the Forms of the Financial Statement of Banks" ("Official Gazette of the Republic of Serbia", no. 74/2008 and 3/2009), which in some respects differ from the presentation of certain amounts as required under IAS 1 "Presentation of Financial Statements". Accordingly, the accompanying financial statements do not fully comply with IFRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Comparative Figures

The comparative figures represent the audited financial statements of the Bank as of and for the year ended 31 December 2007.

As disclosed in Note 1 to the financial statements, on 30 September 2007, the Bank made the legal status change of merger by absorption of Panonska banka a.d. Novi Sad. As of that date, the financial statements of the Bank as the legal successor resulted from merger of individual items of assets, liabilities, income and expenses recognized in the financial statements of both banks. The financial statements as of and for the year ended 31 December 2007 were presented as that the Bank operated as a single entity, and comparative financial information were presented accordingly with elimination of transactions between the banks.

In addition, In order to conform the presentation of prior year figures to the current reporting period as prescribed by the new "Rulebook on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts for Banks ("Official Gazette of the Republic of Serbia", no. 98/2007, 57/2008 and 3/2009), the Bank accordingly reclassified the amounts reported in the financial statements as of and for the year ended 31 December 2007.

2.3. Critical Judgements and Estimates

Use of Estimates

The preparation of the financial statements requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period.

These estimations and related assumptions are based on information available as of the date of the preparation of the financial statements. Actual results could differ from those estimates. These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the periods in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

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, and impairment losses are incurred, 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.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Critical Judgements and Estimates (Continued)

Impairment of Financial Assets (Continued)

In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The Bank's management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Useful Lives of Intangible Assets, Property and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

Due to the significant weight of long-lived assets in the total assets, the impact of any changes in these assumptions could be material to the Bank's financial position, and the results of its operations. As an example, if the Bank was to shorten the average useful life of these assets for 1%, this would result in additional depreciation and amortization expense of approximately 78,900 thousand of Dinars for the twelve-month period.

Impairment of Non-Financial Assets

At each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Accounting for Provisions and Contingencies

The Bank is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Bank routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonable estimated losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Critical Judgements and Estimates (Continued)

Accounting for Provisions and Contingencies (Continued)

Reasonable estimates involve judgement made by management after considering information including notifications, settlements, estimates performed by legal department, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience.

A provision is recognized when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter (see Note 29). The required provision may change in the future due to new developments and as additional information becomes available. Matters that are either possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax credits to the extent to which taxable profit will be available against which the unused tax credits can be utilized. Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognized, based on the period of in which it was created and the amount of future taxable profits and the tax policy planning strategy (Note 13(c)).

Retirement and Other Post-Employment Benefits to Employees

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and future increases in post-employment benefits. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 29.

Were the discount rate used to differ by 1% from management's estimates, the provision for retirement benefits would be an estimated 33,108 thousand of Dinars lower or 42,330 thousand of Dinars higher, in comparison with the provision for retirement benefits recognized in the Bank's financial statements as of and for the year ended 31 December 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Interest Income and Expenses

Interest income and expense, including penalty interest and other income and other expenses from interest bearing assets, i.e. liabilities are recognized on an accrual basis based on obligatory terms defined by a contract signed between the Bank and a customer.

Interest income and expense for all interest-bearing financial instruments, except for those classified as available-for-sale or designated at fair value through profit or loss, are recognized within "Interest income" and "Interest expense" in the income statement using the effective interest method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Loan origination fee, which is a part of effective interest rate, is recorded within interest income.

On receivables for collection of which the legal proceedings have been initiated, regular interest is not accrued.

From the moment of charges being filed, interest recognition is suspended and transferred from the income statement to the off-balance sheet items, where the accrual of suspended interest is continued until the legal proceeding is finalized.

2.5. Fee and Commission Income and Expenses

The Bank earns, i.e. pays fee and commission income from a diverse range of banking services. Fees and commissions are generally recognized on an accrual basis when the service has been provided.

Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other services.

Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and amortized to interest earned on loans and advances over the life of the loan using the straight-line method, which approximates the effective yield.

2.6. Foreign Currency Translation

Balance Sheet and Income Statement items stated in the financial statements are valued by using currency of primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date (Note 37).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Foreign Currency Translation (Continued)

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or debited as appropriate, to the income statement, as foreign exchange gains or losses (Note 5).

Income or expenses arising upon the translation of financial assets and liabilities with contacted foreign currency clause are credited or debited as appropriate, to the income statement, as gains/losses from changes in value of assets and liabilities (Notes 11 and 12).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official median exchange rate prevailing at the balance sheet date.

2.7. Financial Instruments

All financial instruments are initially recognized at fair value (usually equal to the consideration paid) including any directly attributable incremental costs of acquisition or issue, except for financial assets and financial liabilities at fair value through profit and loss.

Financial assets and financial liabilities are recognized in the Bank's balance sheet on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date the assets is delivered to the counterparty.

Financial assets cease to be recognized when the Bank loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. A financial liability is derecognized when the contracted obligation has been settled, cancelled or expired.

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management of the Bank determines the classification of its investments at initial recognition.

2.7.1. Financial Assets at Fair Value through Profit or Loss

This category includes two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

Financial assets held for trading have been primarily acquired for generating profit from short-term price fluctuations. Trading securities are stated in the balance sheet at fair value.

Financial instruments held for trading comprise financial derivatives, Government's savings bonds and shares of other banks.

All realized or unrealized gains from changes in fair value of trading securities are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial Instruments (Continued)

2.7.1. Financial Assets at Fair Value through Profit or Loss (Continued)

During 2007, the Bank introduced several types of financial instruments which met definition of financial derivatives according to IAS 39 "Financial Instruments: Recognition and Measurement" and which basic underlying variable was foreign exchange rate. Derivatives used by the Bank are FX swap and FX forward contracts. For the accounting purposes, and in accordance with the requirements of IAS 39, the derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value, while all fair value changes are recorded in the income statement under foreign exchange gains and losses.

Derivatives are initially recognised when the Bank becomes a party to agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as asset or liability. The initial recognition of fair value applies to the cases when there is available market price for the same or a similar derivative on an organised market, and when the price differentiates from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognised fair value, since there is no active market for similar derivatives in the country. When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognise in the balance sheet (as assets or liabilities) and the income statement (initially positive or negative fair value), the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques. Pursuant to the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognised at the end of each month, and the effect of changes in fair value are recognised in the income statement as unrealised foreign exchange gains or losses. Derivatives are recognised as assets or liabilities depending whether their fair value is positive or negative. Derivatives are derecognised at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at the date of execution. At that moment, ultimate effect of exchange differences is recorded against realised exchange differences, and all previously recognised changes in fair value (through unrealised exchange differences) are reversed.

Since there is neither an active market for derivatives in Serbia nor a possibility to determine fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries having developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value which would be achieved on an active market.

The methodology incorporates market factors (median exchange rate, interest rates and similar) and it is consistent with generally accepted methodologies for valuation of derivatives. At least once a month, the Bank performs back-testing and calibration of the implemented methodology using market variables and alternative methods of calculation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial Instruments (Continued)

2.7.2. *Loans and Advances*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All loans and advances are recognized when cash is advanced to borrowers. Loans and receivables are initially recognized at fair value. After the initial recognition, loans are measured at amortized cost, net of any amounts written off and allowance for loan impairment.

Interest income and receivables in respect of these instruments are recorded and presented under interest income and interest, fees and commissions receivable, respectively. Fees which are part of effective yield on these instruments are recognised as deferred income and credited to the income statement as interest income over the life of a financial instrument using the straight-line method, which approximates the effective yield.

The Bank negotiates a consumer price index and foreign currency clause with the beneficiaries of the loans. Loans and advances in dinars, with contracted consumer price index and foreign currency clause, i.e. dinar-euro and dinar-usd foreign exchange rate, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated from consumer price index and foreign currency clause applied is disclosed within loans and advances. Foreign currency clause represents embedded derivatives that are not accounted for separately from the host contract, since the economic characteristics and risks of this embedded derivative are closely related to the economic characteristics and risks of the host contract. Income and expenses resulting from the application of foreign currency clause are recorded in the income statement, as gains/losses from changes in value of assets and liabilities.

Allowance for Loan Impairment

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 reorganization 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.

For placements with banks and loans and advances to customers, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial Instruments (Continued)

2.7.2. *Loans and Advances (Continued)*

Allowance for Loan Impairment (Continued)

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes an asset in a group of financial assets 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 impairment losses on loans and advances and other financial assets carried at amortized cost are charged to the income statement (Note 7). 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 period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement (Note 7).

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

A write off is made when all or part of a claim is deemed uncollectible, pursuant to a court decision, or based on decisions made by the Bank's authorized bodies

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial Instruments (Continued)

2.7.3. 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 renegotiated, 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.

2.7.4. Securities Held-to-Maturity

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

Securities held-to-maturity are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. The amount of impairment loss for investments held to maturity is calculated as the difference between the investments' carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate.

2.7.5. Available-for-Sale Financial Assets

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available-for-sale".

They comprise shares and investments in shares of other banks and companies.

Upon initial measurement, these instruments are measured at fair value, excluding non-quoted investments in shares, whose value cannot be determined with certainty, and which are measured at cost. The fair values of quoted investments in active markets are based on current bid prices. Unrealised gains and losses are recognised directly in revaluation reserves, in equity. In the case of disposal of assets, accumulated gains or losses, previously recognised in equity, are recognised in gains or losses from sales of securities in the income statement. For all estimated risks that investments in shares and other securities available-for-sale will not be collected, the Bank recognises allowances for impairment.

Dividend income in respect of investments in shares of other legal entities, and income from investments in equity instruments of other legal entities are recognised as income at the moment of their collection.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial Instruments (Continued)

2.7.6 Deposits from Other Banks and Customers

All deposits from other banks and customers and interest-bearing borrowings are initially recognized at the fair value of the consideration received including transaction cost, except for financial liabilities through profit and loss. After initial recognition, interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method.

2.7.7. Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Borrowings are classified as current liabilities, unless the Bank has indisputable right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.7.8. Operating Liabilities

Obligations towards suppliers and other short-term operating liabilities are measured at the amount of the consideration received.

2.8. Offsetting Financial Instruments

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

2.9. Special Reserves for Estimated Losses on Bank Balance Sheet Assets and Off-balance Sheet Items

Special reserves against potential losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia’s Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items (“Official Gazette of the Republic of Serbia“, no. 129/2007 and 63/2008).

All receivables (balance sheet and off-balance sheet exposure) from a single borrower are classified in categories A to D in accordance with the assessment of their recoverability. Individual credit exposures are evaluated based upon the borrower's character and payment record, which correspond to the number of days the payments are overdue, overall financial position, the prospects for support from any creditworthy guarantors and where applicable the realizable value of any collateral.

In accordance with the classification of receivables and pursuant to the aforementioned decision, the amount of the special reserves against potential losses is calculated by applying the following percentages: A (1%- 2%), B (5%-10%), V (20%- 35%), G (40%- 75%) and D (100%).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. Special Provisions against Potential Losses on Bank Balance Sheet Assets and Off-balance Sheet Items (Continued)

Through its internal enactments, the Bank has defined the criteria and methodology for determining special provisions against potential losses within percentages prescribed by the National Bank of Serbia decision, in line with the assessment of individual credit risk exposure based on borrower's defaults in contractual payments of principal or interest, financial position, adequacy of cash flows and quality and value of collateral.

Special reserves for estimated losses are reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the Bank's accounting policy disclosed in Note 2.7.2. and charged to the income statement (Note 7).

After being reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, special reserves for estimated losses are created from retained earnings pursuant to the Bank's Assembly decision, and recorded at a special loan loss provision account within reserves. In the event that the Bank's retained earnings are insufficient to cover the estimated amount of special reserves for potential losses in a particular year, the difference is to be disclosed as the shortfall amount of such reserve (see Note 31(a)).

2.10. Cash and Cash Equivalents

For the purposes of the Cash flow statement, cash and cash equivalents comprise cash at current account and cash on hand (in Dinars and in foreign currency), gold and other precious metals, cheques and foreign currency current accounts held with other domestic banks and foreign banks.

2.11. Repurchase Agreements ("Repo transactions")

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the balance sheet. The corresponding cash received, including accrued interest, is recognized in the balance sheet. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement.

2.12. Investments in Subsidiaries

Subsidiary is a legal entity in which the Bank possesses a stake of more than 50 percent, or otherwise holds more than half of voting rights, or the right to manage the financial (business) policy of the subsidiary.

As of 31 December 2008, the Bank owned 51% of capital of Intesa Leasing d.o.o., Beograd. Equity investment in the aforementioned subsidiary is stated at cost, less allowance for impairment (Note 20).

In accordance with IAS 27 "Consolidated and Separate Financial Statements", the Bank prepares consolidated financial statements. In preparing consolidated financial statements, the Bank combines its financial statements and the financial statements of its subsidiary line by line by adding together like items of assets, liabilities, equity, income and expenses. Intragroup balances and transactions, including income, expenses and unrealized gains, are eliminated in full.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Intangible Assets

Intangible assets consist of software, licenses and intangible assets under construction. Intangible assets are stated at cost less accumulated amortization.

Licenses are initially recognized at cost. They have limited useful life and are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method in order to fully write off the cost of these assets over their estimated useful lives (from 5 to 10 years).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (from 2 to 5 years).

Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the cost of the software development employees and an appropriate portion of relevant overheads.

Intangible assets are amortized over their estimated useful lives:

– Licenses and similar rights	10% - 20%
– Software	20% - 50%

Intangible assets include not amortized assets since they are not yet in use.

2.14. Property and Equipment and Investment Property

As of 31 December 2008, property and equipment are stated at revalued cost, less allowance for impairment. In accordance with IAS 16, valuation of land and buildings was performed as of 1 January 2004 by an independent appraiser. Property acquired in the period from 2004 to 2008 has been cost, less accumulated depreciation. Equipment is stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income statement of the financial period in which they are incurred.

The Bank owns property as investments to generate profits from rents and/or increases in property value on the market. Investment property is stated at cost less accumulated depreciation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14. Property and Equipment and Investment Property (Continued)

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

Buildings	2,5%
Computer equipment	20%
Furniture and other equipment	7% - 25%
Investment property	2,5%

In the determination of depreciation of assets, the depreciable values of assets equal their cost or revalued amount, since the Bank assesses the residual values of assets as nil.

Calculation of depreciation and amortization of property and equipment commences at the beginning of month following the month when an asset is put into use. Assets under construction are not depreciated. Depreciation and amortization charge are recognised as expenses for the period when incurred.

The useful lives of the assets are reviewed periodically, and adjusted if necessary at each balance sheet date. Change in the expected useful life of an asset is considered as a change in an accounting estimate.

Gains from the disposal of property and equipment are credited directly to other income, whereas any losses arising on the disposal of property and equipment are charged to other operating expenses.

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes. Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 13(d)).

2.15. Impairment of Non-financial Assets

In accordance with adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Finance Leases

Bank as a Lessee

Finance 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 lessor 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 expense.

It is regulated by the Agreement on leasing that the Bank can, but it does not have to, obtain ownership of the leased item after the expiration of the Agreement on leasing.

2.17. Operating Lease

A lease is classified as an operating lease if it does not transfer to the Bank substantially all the risks and rewards incidental to ownership.

The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

2.18. Provisions and Contingencies

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. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognised in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognised initially for. Provisions are not recognised for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed (Note 35), unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2.19. Equity

Shareholders' equity consists of share capital (ordinary shares), other capital, share premium, reserves and retained earnings.

Dividends on ordinary shares are recognized as a liability and deducted from equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are disclosed as an event after the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

(b) Termination Benefits arising from Restructuring

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Other Employee Benefits - Retirement Benefits

Pursuant to the Labour Law, the Bank is obligated to pay retirement benefits in an amount equal to three gross monthly salaries, based on the average salary in the Republic of Serbia earned in the month prior to retirement. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Long-term provision for retirement benefits and jubilee awards is calculated by independent actuary. The liability recognized in the balance sheet is the present value of the defined benefit obligation, determined by discounting estimated future outflows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax represents an amount that is calculated and paid in accordance with the effective Law on Corporate Income Tax of the Republic of Serbia. During the year, the Bank pays income tax in monthly instalments, estimated on the basis of the prior year Tax return. Income tax at the rate of 10% is payable based on the profit disclosed in the Tax return.

In order to arrive at the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year, as shown in the Tax return. Tax return is submitted to Tax authorities 10 days after the submission of the financial statements, i.e. until the 10 March of the following year.

In accordance with the Law on Corporate Income Tax of the Republic of Serbia, tax credits are recognized in the amount equal to 20% of the investment in property and equipment made, and can be used for setting off against future current tax liability in the amount that cannot exceed 50% of current tax liability. The tax credits in respect of investments in property and equipment can be used in the next ten years.

Deferred Income Tax

Deferred income taxes are provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The currently-enacted tax rates or the substantively-enacted rates at the balance sheet date are used to determine the deferred income tax amount.

Deferred tax liabilities are recognised 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; and in respect of taxable temporary differences associated with investments in subsidiaries and associates, where 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 recognised for all deductible temporary differences, carry forward 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 carry forward of unused tax credits and unused tax losses can be utilised 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 when deferred tax assets are recognised 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 utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Deferred Income Tax (Continued)

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 utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current and deferred taxes are recognized as income or expense and are included in the profit for the period.

Deferred income taxes related to items that are recorded directly in equity are also recorded in equity.

(b) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Bank's operating result, include property taxes, employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other operating expenses (Note 10).

2.22. Funds Managed on Behalf of Third Parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 32(a)). The Bank bears no risk in respect of repayment of these placements.

3. INTEREST INCOME AND EXPENSE

	In thousand of Dinars 2008	2007
Interest income		
Loans, advances and other placements:		
– Other banks	31,819	140,554
– National Bank of Serbia	6,193,961	2,852,814
– Enterprises	9,040,966	5,348,614
– Public sector	397,687	284,710
– Other customers	116,967	225,877
– Foreign entities	81,147	50,512
– Retail customers	5,477,679	4,161,875
Securities	244,356	768,906
Total	**21,584,582**	**13,833,862**
Interest expenses		
– Other banks	597,902	284,865
– National Bank of Serbia	296	2,449
– Enterprises	2,820,209	1,588,348
– Public sector	473,825	531,522
– Other customers	179,550	137,583
– Foreign entities	1,954,015	1,505,823
– Retail customers	2,321,829	1,222,347
– Securities	-	49
Total	**8,347,626**	**5,272,986**
Net interest income	**13,236,956**	**8,560,876**

4. FEES AND COMMISSION INCOME AND EXPENSE

	In thousand of Dinars 2008	2007
Fees and commission income		
Fees for banking services:		
- Domestic payment traffic operations	1,850,650	1,696,294
- International payment traffic operations	318,601	345,605
- Loan operations	3,053	146,250
- Cards operations	1,894,527	1,485,645
	4,066,831	**3,673,794**
Commissions in respect of issued guaranties	579,988	483,441
Other fees and commission	1,181,611	757,689
Total	**5,828,430**	**4,914,924**
Fees and commission expenses		
Fees for payment traffic operations:		
– Domestic	135,846	140,537
– International	25,976	49,841
National Bank of Serbia's fees and commission	20,089	14,909
Credit Bureau's fees	20,481	20,745
Fee for cards operations	1,204,467	994,144
Other fees and commissions	30,626	12,850
Total	**1,437,485**	**1,233,026**
Net fees and commission income	**4,390,945**	**3,681,898**

Other fees and commission income earned in 2008 mostly relate to:

- fees for the maintenance of current accounts in the amount of 728,578 thousand of Dinars, and
- fees for payment slips, EDB and Telekom Srbija amounting to 130,375 thousand of Dinars.

5. NET FOREIGN EXCHANGE (LOSSES)/GAINS

	In thousand of Dinars 2008	2007
Foreign exchange gains	118,714,305	77,219,975
Foreign exchange losses	(127,507,810)	(76,321,103)
Net exchange(losses)/gains	**(8,793,505)**	**898,872**

6. OTHER OPERATING INCOME

	In thousand of Dinars 2008	2007
Recovery of amounts previously written-off	5,435	-
Rental income	9,242	6,970
Gains from sales of property and equipment, and surpluses	6,050	8,592
Reimbursed expenses	3,027	15,409
Other income	128,844	35,651
Total	**152,598**	**66,622**

7. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS, NET

(a) Charged/(Credited) to the Income Statement

	In thousand of Dinars 2008	2007
Expenses from indirect write-offs of placements and provisions:		
Impairment losses on financial assets	**9,051,081**	**7,123,490**
Provisions for losses on off-balance sheet assets	**714,048**	**1,046,864**
Provisions for:		
– long-term employee benefits	164,586	390,618
– litigations	336,309	156,271
– other liabilities – arising from VAT	27,997	115,810
– other	-	847
	528,892	**663,546**
Total	**10,294,021**	**8,833,900**
Reversal of impairment losses		
Reversal of impairment losses on balance sheet assets	(5,066,993)	(5,704,294)
Suspended interest	(38,286)	(64,729)
	(5,105,279)	**(5,769,023)**
Release of provision for losses on off-balance sheet assets	**(571,516)**	**(663,502)**
Release of provisions for:		
– Long-term employee benefits	(314,475)	(156,678)
– Litigations	(119,351)	(77,159)
Total	**(6,110,621)**	**(6,666,362)**
Impairment losses and provisions, net	**4,183,400**	**2,167,538**

7. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS, NET (Continued)

(b) Movements in the Allowance for Impairment of Financial Assets and Provisions

Movements in the allowance for impairment of loans and other financial assets and provisions during the year ended 31 2008 were as follows:

In thousand of Dinars

	Interest and fees receivable (Note 17)	Loans and advances (Note 18)	Securities (Note 19)	Equity investments (Note 20)	Other placements (Note 21)	Other assets (Note 24)	Provisions (Note 29)	Total
Balance as of 1 January 2008	**220,016**	**7,102,693**	**9,283**	**100,558**	**112,514**	**12,021**	**2,079,357**	**9,636,442**
Charge for the year	585,380	7,473,188	28,807	127,229	561,870	274,607	1,242,940	10,294,021
Reversal of impairment losses	(153,566)	(4,159,255)	(20,568)	(25,302)	(461,393)	(246,909)	(1,005,342)	(6,072,335)
Other movements	200	(5,867)	-	-	-	-	-	(5,667)
Balance as of 31 December 2008	**652,030**	**10,410,759**	**17,522**	**202,485**	**212,991**	**39,719**	**2,316,955**	**13,852,461**

8. SALARIES AND OTHER PERSONAL EXPENSES

In thousand of Dinars

	2008	2007
Salaries and compensations	2,322,002	2,148,167
Payroll taxes	363,168	338,459
Payroll contributions	523,776	603,158
Other personal expenses	287,201	75,636
Total	**3,496,147**	**3,165,420**

9. DEPRECIATION AND AMORTIZATION CHARGE

In thousand of Dinars

	2008	2007
Amortization of intangible assets (Note 22)	158,136	230,582
Depreciation of property, equipment and investment property (Note 23)	706,253	550,543
Total	**864,389**	**781,125**

10. OTHER OPERATING EXPENSES

	In thousand of Dinars 2008	2007
Material and energy and spare parts	415,068	459,102
Professional services	510,909	115,234
Advertising, marketing and representation	556,670	404,236
Telecommunications and postage	278,872	265,644
Insurance premiums	390,472	276,114
Maintenance of property and equipment	288,795	387,989
Rental cost	503,725	413,946
Fees and commission	158,980	111,281
Taxes and contributions	644,755	505,126
Physical-technical security	112,776	156,948
General and administrative expenses	376,012	206,380
Direct write-off of receivables	237,653	68,125
Losses on disposals and retirements of property, equipment and intangible assets	11,227	148,399
Other expenses	45,454	108,444
Total other operating expenses	**4,531,368**	**3,626,968**

11. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	In thousand of Dinars 2008	2007
Gains from changes in value of loans and advances	21,946,923	6,771,118
Gains from changes in value of securities	4,006	8,104
Gains from changes in value of other financial assets	1,453	2,060
Gains from changes in value of liabilities	243,195	173,585
Total	**22,195,577**	**6,954,867**

12. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	In thousand of Dinars 2008	2007
Losses from changes in value of loans and advances	11,168,058	6,947,188
Losses from changes in value of securities	-	12,875
Losses from changes in value of derivatives	2	1,529
Losses from changes in value of other financial assets	2,432	365
Losses from changes in value of liabilities	642,830	148,641
Total	**11,813,322**	**7,110,598**

13. INCOME TAXES

(a) Components of Income Taxes

Components of income tax expense are:

	In thousand of Dinars 2008	2007
Current income tax	300,379	130,009
Deferred tax income	(18,245)	(10,989)
Deferred tax expense	234,064	50,362
Total income taxes	**516,198**	**169,382**

(b) Numerical Reconciliation of the Tax Expense Recognized in the Income Statement and Profit Before Tax Multiplied by the Statutory Income Tax Rate

	In thousand of Dinars 2008	2007
Profit before tax	**6,408,697**	**3,326,909**
Operating result of Panonska banka a.d. until the merger as of 30 September 2007	-	(352,499)
Adjusted profit before tax	**6,408,697**	**2,974,410**
Income tax at the rate of 10%	**640,870**	**297,441**
Tax effect of expenses not recognised for the tax purposes	56,100	62,873
Tax credit from investments in property and equipment	(66,346)	(95,573)
Tax effects of tax losses carry forward for which deferred tax assets were not recognised	(120,614)	(108,751)
Other	6,188	13,392
Income taxes reported in the income statement	**516,198**	**169,382**
Effective tax rate	***8.05%***	***5.69%***

For the purpose of determining income taxes for the year ended 31 December 2008, the Bank adjusted the accounting profit by the amounts of provisions charged to the income in the total amount of 528,892 thousand of Dinars, which includes the following items:

- Provision for litigations in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in the amount of 336,309 thousand of Dinars;
- Provision for restructuring in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets" in the amount of 142,923 thousand of Dinars;
- Provisions for retirement benefits in accordance with to IAS 19 "Employee Benefits" in the amount of 21,663 thousand of Dinars; and
- Provisions for tax liabilities 27,997 thousand of Dinars.

13. INCOME TAXES (Continued)

(c) Deferred Tax Assets

Deferred tax assets completely relate to the unused tax credits for investment into property and equipment, which can be carried forward and utilized in future periods, but no longer than ten ensuing years from the date of tax credit origin.

Movement in deferred tax assets during the year was as follows:

	In thousand of Dinars 2008	2007
Balance as of 1 January	**439,388**	**491,703**
Effects of temporary differences charged to the income statement	(234,064)	(52,315)
Balance as of 31 December	**205,324**	**439,388**

Not utilized tax credits arising from investments in property and equipment are presented in the table below:

Date of origin/ Tax credit carry forwards	Expiration date	In thousand of Dinars 31 December 2008	31 December 2007
2003	2013	-	108,494
2004	2014	1,292	126,862
2005	2015	63,710	63,710
2006	2016	140,322	140,322
Total		**205,324**	**439,388**

(d) Deferred Tax Liabilities

Deferred tax liabilities entirely relate to the taxable temporary differences arising between the carrying value of property, equipment and intangible assets and their tax base.

Movements in deferred tax liabilities during the year were as follows:

	In thousand of Dinars 2008	2007
Balance as of 1 January	**26,390**	**39,331**
Effects of temporary differences credited to the income statement	(18,245)	(12,941)
Balance as of 31 December	**8,145**	**26,390**

14. EARNING PER SHARE

Pursuant to the Serbian Business Registers Agency Decision no. BD 159633/2006 dated 5 October 2006, the Bank became a closed joint-stock company, and therefore it is not obliged to calculate and disclose the earning per share as required by IAS 33 "Earning per Share".

15. CASH AND CASH EQUIVALENTS

	In thousand of Dinars	
	2008	**2007**
In Dinars		
Gyro account	27,267,990	2,860,818
Cash on hand	2,023,557	2,174,061
National Bank of Serbia treasury bills	1,153,747	367,880
	30,445,294	**5,402,759**
In foreign currency		
Current accounts held with foreign banks	519,858	2,456,741
Foreign currency cash on hand	1,270,651	1,374,791
Other monetary assets	27,929	51,450
	1,818,438	**3,882,982**
Gold and precious metals	24,556	20,020
Balance as of 31 December	**32,288,288**	**9,305,761**

Pursuant to the Decision of the National Bank of Serbia on Banks' Required Reserves Held with the National Bank of Serbia, the Bank is required to calculate and allocate the required reserves in dinars to its gyro account with the National Bank of Serbia amounting to 10% (2007: 10%) of the average daily balance of dinars during the preceding calendar month. 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, as well as on the basis of the amount of average daily carrying balance of liabilities in Dinars for the previous month for deposits and loans received from abroad In addition, as an exception to the aforementioned rules, banks calculate obligatory reserve denominated in Dinars at the rate of 5% on the amount of the average daily balance of deposits in Dinars in the preceding calendar month arising from deposits with fixed term over one month. Moreover, the obligatory reserve in Dinars includes up to 40% of the foreign currency reserve translated into Dinars.

As of 31 December 2008, the obligatory reserve in dinars amounted to 22,760,383 thousand of Dinars, and it was in line with the aforementioned Decision of the National Bank of Serbia.

Interest rate on the average balance of the obligatory reserve in Dinars set aside equalled to 2,5% annually during 2008.

16. REVOCABLE DEPOSITS AND LOANS

	In thousand of Dinars 2008	2007
In Dinars		
Liquidity surpluses deposited with the National Bank of Serbia	-	6,800,000
Repo placements with the National Bank of Serbia	10,000,000	36,800,000
	10,000,000	**43,600,000**
In foreign currency		
Obligatory reserve with the National Bank of Serbia	27,112,238	35,575,025
	27,112,238	**35,575,025**
Balance as of 31 December	**37,112,238**	**79,175,025**

The obligatory reserves in foreign currency represents the minimal reserve in foreign currency allocated in line with the National Bank of Serbia's (NBS) Decision on Banks' Required Reserves Held with the NBS, according to which banks are required to allocate the obligatory reserves to their account amounting to 45% (2007: 45%) of the average daily balance of foreign currency deposits during the preceding calendar month. The amount of obligatory reserves is reduced by the amount of long-term housing loans secured with the National Insurance Corporation. Apart from this, banks calculates obligatory reserve denominated in foreign currency at the rate of rate of 40% on the basis of liabilities for foreign currency savings held with a bank, at the rate of 20% on the basis of average daily carrying amount of foreign currency subordinated liabilities, and at the rate of 100% on the basis of average daily carrying balance of deposits in foreign currency for the previous month kept by the leasing companies at the special account held with a bank and at the rate of 0% on the positive difference between the foreign currency base, comprised of deposits and loans from abroad from the preceding calendar month and the month of September 2008. Out of the total calculated reserve in foreign currency, 60% is allocated in EUR, and the remaining 40% in Dinars on the gyro account

The National Bank of Serbia does not pay interest on obligatory reserves in foreign currency.

As of 31 December 2008, the Bank's obligatory reserve was in compliance with the aforementioned Decision of the National Bank of Serbia.

Repo transactions are stated as placements or borrowings. They represent purchase and sale of securities where the contractual parties agreed that securities are sold by a seller to a buyer at purchase cost as of the date of transaction, and at the same time the buyer is obligated to resell the same securities to the seller, who is obligated to pay the agreed repurchase price.

Repo placements amounting to 10,000,000 thousand of Dinars as of 31 December 2008 relate to purchase of treasury bills from the National Bank of Serbia with maturity period ranging from 14 to 16 days, and bearing an interest at rate of 17,75% per annum.

17. INTEREST AND FEES RECEIVABLE, RECEIVABLES FROM SALES, CHANGES IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES

In thousand of Dinars

	2008	2007
In Dinars		
Interest and fees receivable:		
– Other banks	11,988	4,828
– National Bank of Serbia	22,148	23,835
– Enterprises	1,448,184	669,915
– Public sector	23,444	20,251
– Retail customers	349,919	209,303
– Foreign entities	237	22
– Other customers	5,986	66,916
Receivables from sales	7,898	1,700
Other receivables	-	2,813
	1,869,804	**999,583**
In foreign currency		
Interest and fees receivable:		
– Other banks	56	3
– Enterprises	73,923	51,215
– Public sector	173	4
– Retail customers	11,417	1,824
– Foreign entities	4,836	9,937
– Other customers	329	-
	90,734	**62,983**
Gross receivables	**1,960,538**	**1,062,566**
Less: Allowance for impairment (Note 7(b))		
– in Dinars	(627,689)	(220,016)
– in foreign currency	(24,341)	-
	(652,030)	**(220,016)**
Balance as of 31 December	**1,308,508**	**842,550**

18. LOANS AND ADVANCES

In thousand of Dinars

	2008			2007		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In Dinars						
Loans and advances to:						
– Other banks and financial institutions	852,289	1,588,666	**2,440,955**	1,152,467	11,488	**1,163,955**
– Enterprises	54,017,728	46,428,905	**100,446,633**	28,480,052	28,951,168	**57,431,220**
– Retail customers	10,840,403	34,555,779	**45,396,182**	3,642,187	24,071,782	**27,713,969**
– Public sector	61,518	5,876,196	**5,937,714**	272,736	4,454,290	**4,727,026**
– Foreign entities	664	164,536	**165,200**	-	-	**-**
– Other customers	26,831	-	**26,831**	5,572,583	-	**5,572,583**
Total in Dinars	**65,799,433**	**88,614,082**	**154,413,515**	**39,120,025**	**57,488,728**	**96,608,753**
In foreign currency						
Loans and advances to:						
– Other banks and financial institutions	444,223	31,179	**475,402**	325	46,472	**46,797**
– Enterprises	2,856,572	4,867,900	**7,724,472**	1,961,911	3,827,965	**5,789,876**
– Retail customers	293,690	-	**293,690**	-	-	**-**
– Public sector	2,983	-	**2,983**	-	-	**-**
– Foreign entities	12,475,706	549,326	**13,025,032**	316,945	-	**316,945**
– Other customers	-	-	-	58,734	-	**58,734**
Total in foreign currencies	**16,073,174**	**5,448,405**	**21,521,579**	**2,337,915**	**3,874,437**	**6,212,352**
Gross loans and advances	**81,872,607**	**94,062,487**	**175,935,094**	**41,457,940**	**61,363,165**	**102,821,105**
Less: Allowance for impairment (Note 7(b))	(6,684,676)	(3,726,083)	(10,410,759)	(4,500,717)	(2,601,976)	(7,102,693)
Balance as of 31 December	**75,187,931**	**90,336,404**	**165,524,335**	**36,957,223**	**58,761,189**	**95,718,412**

Loans and advances to other banks in foreign currency relate to short-term placements deposited with foreign banks for period from 3 to 7 days, bearing interest at rates ranging from 0,85% to 3,90% per annum.

Short-term loans have been granted to corporate customers for financing business activities in trading, manufacturing, construction, agriculture and food processing industry, and for other purposes, at the rates ranging from 0,45% to 2,6% monthly for loans in dinars, i.e. from 0,6% to 2% monthly for loans in foreign currency.

Long-term loans to corporate customers in dinars bear interest at rates ranging from 0.5% to 1,3% monthly.

Cash retail loans with total deposit coverage have been granted up to 15 years with interest rate of 0,4% monthly. Consumer loans have been granted up to 6 years with interest rate ranging from 0,75% to 0,9% monthly, while housing loans have been approved for a period up to 20 years with interest rate of 0,5% monthly.

18. LOANS AND ADVANCES (Continued)

Short-term retail loans, which mostly comprise consumer loans and cash loans, have been granted with a 20% participation and interest rates ranging from 0,79% to 2,21% monthly, and in case of foreign currency cash deposit with rates ranging from 0,55% to 0,80% per month.

The interest rate on permitted overdrafts on citizens' current accounts is 1,75% per month, while the Bank accrues interest on non-permitted overdrafts on citizens' accounts at the rate of 3,5% per month.

Long-term retail loans have been granted for purchase of consumer goods, renovating, adaptation and purchase of business and residential space for a period from 2 up to 20 years, bearing interest at the rates ranging from 0,75% to 2,21% per month, depending on the purpose of the loans and the amount of deposit placed.

19. SECURITIES (EXCLUDING TREASURY SHARES)

In thousand of Dinars

	2008			2007		
	Securities at fair value through profit or loss	**Securities available-for-sale**	**Total**	**Securities at fair value through profit or loss**	**Securities available-for-sale**	**Total**
Quoted securities and other placements::						
– Investments in shares	-	105,993	**105,993**	3,041	18,951	**21,992**
– Debt securities issued by the Government of the Republic of Serbia	139,372	-	**139,372**	154,691	-	**154,691**
	139,372	**105,993**	**245,365**	**157,732**	**18,951**	**176,683**
Unquoted securities and other placements:						
– Investments in shares	-	19,082	**19,082**	-	17,410	**17,410**
Variation from cost	(45,851)	53,318	**7,467**	(46,317)	24,798	**(21,519)**
	(45,851)	**72,400**	**26,549**	**(46,317)**	**42,208**	**(4,109)**
Gross balance	**93,521**	**178,393**	**271,914**	**111,415**	**61,159**	**172,574**
Less: Allowance for impairment (Note 7(b))	-	(17,522)	**(17,522)**	(90)	(9,193)	**(9,283)**
Balance as of 31 December	**93,521**	**160,871**	**254,392**	**111,325**	**51,966**	**163,291**

The effects of valuation of the securities available-for-sale at market price, based on the statement of the Belgrade Stock Exchange on the value of the shares at the year end, are credited to revaluation reserves (see Note 31(a)).

20. EQUITY INVESTMENTS

	In thousand of Dinars 2008	2007
In Dinars		
Investments in subsidiaries:		
– Intesa Leasing d.o.o., Beograd – 51% of capital	214,574	214,574
Less: Allowance for impairment (Note 7(b))	(201,634)	(99,707)
	12,940	**114,867**
Investments in shares of other legal entities:		
Alma Mons d.o.o., Novi Sad	30	30
Bankor Consulting Group d.o.o., Novi Sad	267	267
Pan Trgovina d.o.o., Novi Sad	466	466
Nikola Tesla d.o.o., Subotica	162	162
Veeda d.o.o., Vranje	29	29
Poslovni Inkubator Beocin d.o.o., Beocin	33	33
Less: Allowance for impairment (Note 7(b))	(851)	(851)
	136	**136**
Balance as of 31 December	**13,076**	**115,003**

21. OTHER PLACEMENTS

	In thousand of Dinars 2008	2007
In Dinars		
Factoring	1,799,544	612,872
Covered letters of credit and guarantees	208,254	-
Placements in respect of assigned receivables	666,822	-
Other placements	1,679,358	615,134
	4,353,978	**1,228,006**
In foreign currency		
Other placements	114,233	47,195
	114,233	**47,195**
Gross placements	**4,468,211**	**1,275,201**
Less: Allowance for impairment (Note 7(b))		
– in Dinars	(212,446)	(99,120)
– in foreign currency	(545)	(13,394)
	(212,991)	**(112,514)**
Balance as of 31 December	**4,255,220**	**1,162,687**

22. INTANGIBLE ASSETS

In thousand of Dinars

	Licences	Software	Assets in course of construction	Total
COST				
Balance as of 1 January 2007	240,557	334,893	457,911	1,033,361
Additions during the year	90	240,240	340,337	580,667
Disposals	-	(53,812)	(474,707)	(528,519)
Balance as of 31 December 2007	**240,647**	**521,321**	**323,541**	**1,085,509**
Additions during the year	-	44,494	63,016	105,510
Transfer to property and equipment	-	-	(300,464)	(300,464)
Disposals and other movements	(19,810)	-	-	(19,810)
Balance as of 31 December 2008	**220,837**	**565,815**	**86,093**	**872,745**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2007	24,229	82,901	98,198	205,328
Amortization (Note 9)	25,905	126,640	78,037	230,582
Disposals	-	(25,773)	(80,971)	(106,744)
Balance as of 31 December 2007	**50,134**	**183,768**	**95,264**	**329,166**
Amortization (Note 9)	24,919	133,217	-	158,136
Transfer to property and equipment	-	-	(95,264)	(95,264)
Balance as of 31 December 2008	**75,053**	**316,985**	**-**	**392,038**
Net book value as of:				
– 31 December 2008	**145,784**	**248,830**	**86,093**	**480,707**
– 31 December 2007	**190,513**	**337,553**	**228,277**	**756,343**

The management considers that the Bank's intangible assets in use as of 31 December 2008 are not impaired.

23. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

In thousand of Dinars

	Land and buildings	Equipment and leased equipment	Leasehold improve-ments	Construction in progress and advances	Total property and equipment	Investment property
COST						
Balance as of 1 January 2007	4,121,171	3,059,111	-	163,436	7,343,718	-
Additions	-	-	-	455,085	455,085	-
Transfers	4,799	506,394	-	(511,193)	-	-
Disposals	(21)	(118,179)	-	(66,267)	(184,467)	-
Balance as of 31 December 2007	**4,125,949**	**3,447,326**	**-**	**41,061**	**7,614,336**	**-**
Additions	1,338,579	81,770	-	465,011	1,885,360	
Transfer from construction in progress	-	331,455	128,442	(459,897)	-	-
Transfer (from)/to	(13,183)	(22,554)	22,554	-	(13,183)	13,183
Transfer from intangible assets	-	-	300,464	-	300,464	-
Disposals	-	(178,611)	(4,282)	-	(182,893)	-
Balance as of 31 December 2008	**5,451,345**	**3,659,386**	**447,178**	**46,175**	**9,604,084**	**13,183**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2007	401,957	1,266,018	-	-	1,667,975	-
Depreciation (Note 9)	53,578	496,965	-	-	550,543	-
Disposals	-	(112,022)	-	-	(112,022)	-
Balance as of 31 December 2007	**455,535**	**1,650,961**	**-**	**-**	**2,106,496**	**-**
Depreciation (Note 9)	102,947	538,661	64,316	-	705,924	329
Transfer (from)/to	(1,216)	(22,554)	22,554	-	(1,216)	1,216
Transfer from intangible assets	-	-	95,264	-	95,264	-
Disposals	-	(165,471)	(4,282)	-	(169,753)	-
Balance as of 31 December 2008	**557,266**	**2,001,597**	**177,852**	**-**	**2,736,715**	**1,545**
Net book value as of:						
– 31 December 2008	**4,894,079**	**1,657,789**	**269,326**	**46,175**	**6,867,369**	**11,638**
– 31 December 2007	**3,670,414**	**1,796,365**	**-**	**41,061**	**5,507,840**	**-**

As of 31 December 2008, the Bank has title deeds for property it owns. Except for the mortgage constituted on the business premises of the Bank in Novi Sad, 4 Boulevard Mihajla Pupina, the Bank has no buildings pledged as collateral.

As of 31 December 2008, the carrying value of leased equipment amounts to 38,476 thousand of Dinars (31 December 2007: 53,986 thousand of Dinars).

The Bank's management concluded, using the external and internal sources of information in accordance with IAS 36 "Impairment of Assets", that there were no indications of impairment of the property and equipment in use at the balance sheet date.

24. OTHER ASSETS

	In thousand of Dinars 2008	2007
Receivables from employees	7,108	7,296
Receivables for overpaid taxes, except income taxes	863	2,598
Advances paid	88,428	25,590
Other receivables from operations	1,431,553	395,247
Inventories	-	785
Assets received on foreclosed loans	18,838	18,691
Other assets	31,469	(10,639)
Accrued interest income:		
– in Dinars	113,143	115,176
– in foreign currency	47,625	39,361
Other accrued income in foreign currency	18,105	20,123
Other deferred expenses:		
– in Dinars	129,799	113,438
– in foreign currency	32,330	36,243
Other accruals in Dinars	77	77
Gross other assets	**1,919,338**	**763,986**
Less: Allowance for impairment (Note 7(b))	(39,719)	(12,021)
Balance at 31 December	**1,879,619**	**751,965**

Other receivables from operations totalling 1,431,553 thousand of Dinars as of 31 December 2008 mostly relate to receivables in Dinars with respect to payment cards – Other receivables in Dinars as per other card issuers – Master Card in the amount of 72,399 thousand of Dinars and VISA in the amount of 858,709 thousand of Dinars, as well as withdrawals at ATMs BIB in the amount of 297,201 thousand of Dinars.

25. SIGHT DEPOSITS

In thousand of Dinars

	2008			2007		
	In Dinars	**In foreign currency**	**Total**	**In Dinars**	**In foreign currency**	**Total**
Other banks	81,918	47,715	**129,633**	72,198	42,633	**114,831**
Financial organisations	158,574	86,017	**244,591**	191,503	935,940	**1,127,443**
Voluntary pension funds	11,565	-	**11,565**	-	-	-
Insurance companies	180,958	87,792	**268,750**	118,984	199,635	**318,619**
Enterprises	21,238,225	10,074,920	**31,313,145**	28,266,346	7,320,729	**35,587,075**
Public sector	3,880	84	**3,964**	221	2,648	**2,869**
Retail customers	4,462,066	14,615,677	**19,077,743**	3,782,731	20,016,813	**23,799,544**
Foreign banks	2,669	19,421	**22,090**	-	24,845	**24,845**
Other foreign entities	66,474	776,535	**843,009**	458,824	919,552	**1,378,376**
Other customers	1,229	1,093,533	**1,094,762**	-	68,659	**68,659**
Balance as of 31 December	**26,207,558**	**26,801,694**	**53,009,252**	**32,890,807**	**29,531,454**	**62,422,261**

Transaction deposits in dinars are deposited with the interest ranging from 1,0% to 16,75% per annum, depending on the currency and the amount of deposit.

The Bank pays interest on sight deposits of retal customres in Dinars at the rate of 3% per annum. Sight deposits of retail customers earn interest at the rate of 1% per annum for deposits in EUR, and interest at rates ranging from 0,5% to 1,5% per annum for deposits in other currencies.

26. OTHER DEPOSITS

In thousand of Dinars

	2008			2007		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In Dinars						
Savings deposits:						
– Retail customers	617,088	4,729	**621,817**	685,012	5,113	**690,125**
– Foreign entities	7,914	-	**7,914**	3,868	-	**3,868**
Specific purpose deposits	1,195,564	1,594,107	**2,789,671**	142,982	82,151	**225,133**
Other deposits	23,041,992	32,612	**23,074,604**	20,632,228	413,548	**21,045,776**
Total in Dinars	**24,862,558**	**1,631,448**	**26,494,006**	**21,464,090**	**500,812**	**21,964,902**
In foreign currency						
Savings deposits:						
– Retail customers	38,095,138	2,737,493	**40,832,631**	19,350,287	1,498,774	**20,849,061**
– Foreign entities	634,524	38,674	**673,198**	133,005	19,809	**152,814**
Specific purpose deposits	4,492,517	4,941,567	**9,434,084**	10,908,336	4,957,218	**15,865,554**
Other deposits	11,510,221	7,674	**11,517,895**	7,635,134	531,279	**8,166,413**
Total in foreign currency	**54,732,400**	**7,725,408**	**62,457,808**	**38,026,762**	**7,007,080**	**45,033,842**
Balance as of 31 December	**79,594,958**	**9,356,856**	**88,951,814**	**59,490,852**	**7,507,892**	**66,998,744**

Fixed-term deposits in dinars and foreign currency are deposited with interest rates ranging from 1,0% to 19,5% per annum, depending on the currency and the period the funds have been deposited for. Specific purpose deposits of corporate and retail customers are not interest-bearing.

Short-term deposits in Dinars deposited by retail customers earn interest at rates ranging from 9,0% to 14% per annum, depending on the period that the funds have been deposited for. The interest rates on the short-term retail customers' deposits in foreign currency range from 1,0% do 8,0% per annum, depending on the currency and the period the funds have been deposited for. Long-term deposits of retail customers in foreign currency earn interest at rates ranging from 4,0% to 8,0% per annum for deposits in EUR, i.e. at rates rangning from 1,0% to 4,0% per annum for other currencies, depending on the period that the funds have been deposited for.

The structure of other deposits by type of customers is presented in the table below:

In thousand of Dinars

	2008	2007
Banks	2,962,508	781964
Enterprises	26,156,791	26,680,131
Retail customers	3,884,407	583,971
Foreign entities	35,209	2,783
Public sector	710,294	437,835
Other customers	843,290	725,505
Balance as of 31 December	**34,592,499**	**29,212,189**

27. BORROWINGS

In thousand of Dinars

	2008			2007		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In Dinars						
Borrowings from:						
– Other banks	410,000	40,204	**450,204**	796,210	36,644	**832,854**
Other financial liabilities	-	-	**-**	1,588	-	**1,588**
Total in Dinars	**410,000**	**40,204**	**450,204**	**797,798**	**36,644**	**834,442**
In foreign currency						
Borrowings from:						
– Other banks	-	-	**-**	1,639	-	**1,639**
– Enterprises	335,622	-	**335,622**	427,910	-	**427,910**
– Public sector	-	1,236,757	**1,236,757**	-	583,113	**583,113**
– Foreign entities	29,146,054	16,581,880	**45,727,934**	7,977,701	13,329,776	**21,307,477**
Other financial liabilities	242,711	-	**242,711**	203,149	-	**203,149**
Total in foreign currency	**29,724,387**	**17,818,637**	**47,543,024**	**8,610,399**	**13,912,889**	**22,523,288**
Balance as of 31 December	**30,134,387**	**17,858,841**	**47,993,228**	**9,408,197**	**13,949,533**	**23,357,730**

Interest rates on short-term borrowings in Dinars range from 18,10% to 18,40% per annum, i.e. from 3,5% to 4,0% per annum for loans in foreign currency, depending on the date of maturity and the currency (for CHF 0,75%; for USD 0,20% and for EUR 2,85% per annum).

Long-term loans have been granted to the Bank at interest rates ranging from 0,5% to 5,5% per annum. Interest rates on long-term borrowings in foreign currency range from EURIBOR 3M + 0,01% to EURIBOR 6M + 2,0%, depending on the date of the loan approval and the currency.

27. BORROWINGS (Continued)

As of 31 December 2008, the outstanding liabilities arising from borrowings from foreign banks, which are presented within borrowings from foreign entities in foreign currency, amount to 16,581,880 thousand of Dinars (31 December 2007: 13,560,361 thousand of Dinars).

Major portion of these borrowings amounting to 14,695,805 thousand of Dinars (31 December 2007: 11,489,249 thousand of Dinars) relates to loans granted to the Bank by the members of Intesa Sanpaolo Group, as presented in the table below:

In thousand of Dinars

Name of creditor	Currency	Contracted amount	Maturity date	Interest rate	2008	2007
Intesa Sanpaolo S.p.A., Italy	EUR	50,000,000	09.11.2010.	3M Euribor + 1,6% p.a.	4,430,050	3,961,810
Intesa Sanpaolo S.p.A., Italy	EUR	5,000,000	13.01.2016.	3M Euribor – 1 b.p.	196,891	396,181
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	13.01.2014.	3M Euribor – 1 b.p.	664,507	792,362
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	21.12.2014.	3M Euribor – 1 b.p.	664,507	792,362
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	21.12.2016.	3M Euribor – 1 b.p.	708,808	792,362
Intesa Sanpaolo S.p.A., Italy	EUR	10.000.000	03.12.2015.	3M Euribor	775,259	792,362
Intesa Sanpaolo S.p.A., Italy	EUR	5.000.000	25.07.2018.	3M Euribor + 1 b.p.	443,006	-
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	07.11.2016.	3M Euribor	886,010	-
Intesa Sanpaolo S.p.A., Italy	EUR	500.000	19.12.2014.	3M Euribor	44,300	-
Intesa Sanpaolo S.p.A., Italy	EUR	2.000.000	13.01.2016.	3M Euribor – 1 b.p.	157,513	-
Intesa London	EUR	19.500.000	27.12.2011.	6M Euribor + 1,00% p.a.	1,727,719	-
Intesa London	USD	7.205.000	08.01.2010.	6M Euribor + 0,75% p.a.	453,195	-
Vseobecna Uverova banka A.S., Slovakia	EUR	40,000,000	03.05.2011.	3M Euribor + 1,3% p.a.	3,544,040	3,169,448
Vseobecna Uverova banka A.S., Slovakia	EUR	10,000,000	14.01.2008.	3M Euribor + 85 b.p.	-	792,362
Balance as of 31 December					**14,695,805**	**11,489,249**

28. INTERESTS AND FEES PAYABLE AND CHANGES IN FAIR VALUE OF DERIVATIVES

	In thousand of Dinars 2008	2007
In Dinars		
Interests and fees payable:		
– Banks	529	95
– Corporate customers	1,699	1,620
– Public sector	2,162	15
– Other customers	674	-
Payables arising from the change in value of derivatives	134,027	110,128
	139,091	**111,858**
In foreign currency		
Interests and fees payable:		
– Banks	3,443	35
	3,443	**35**
Balance as of 31 December	**142,534**	**111,893**

29. PROVISIONS

	In thousand of Dinars 2008	2007
Provision for off-balance sheet exposures	1,483,053	1,340,521
Provision for employee benefits:		
– restructuring (b)	142,923	314,475
– long-term retirement benefits (c)	202,227	180,564
Provision for litigation (Note 35(a))	344,945	127,987
Provision for additional VAT related liabilities	143,807	115,810
Balance as of 31 December	**2,316,955**	**2,079,357**

(a) According to the Bank's internal policy, provisioning for commitments and other risky off-balance sheet items is performed in the same manner as for on balance sheet assets, i.e. off-balance sheet items are classified into collectability categories based on the estimation of the recoverable amount of receivables, when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank's commitment, and when the objective evidence of such probability exists. Commitments and other risky off-balance sheet items, for which the Bank does not expect any outflow of resources and/or it estimates that in the case of an outflow of resources all receivables will be fully collected, are not provided for.

(b) Provision for restructuring has been recorded on the basis of the Bank's Redundancy Program for the purposes of effecting redundancy payments, in accordance with the number of employees listed as redundant or employees opting for voluntary termination of employment due to retirement based on age criteria.

29. PROVISIONS (Continued)

(c) Long-term provision for retirement benefits and jubilee awards has been recorded in the Bank's financial statements on the basis of an independent actuary's calculation, and it is stated in the amount of present value of the defined benefit obligation, determined by discounting estimated future outflows. The discounted rate used by the actuary was 8% representing the adequate rate under IAS 19 "Employee Benefits", in the absence of a developed market for high quality corporate bonds. The provision was determined in accordance with the provision of the Bank's Rulebook and the assumption of average salary increase rate of 5% per annum over the period the provision has been established for.

30. OTHER LIABILITIES

	In thousand of Dinars	
	2008	**2007**
Net salaries and compensations	112,933	170,132
Taxes, contributions and other duties payable, excluding income tax liability	78,167	117,576
Trade payables	729,227	167,734
Advances received	94,418	70,096
Other liabilities	769,769	-
	1,784,514	**521,538**
Accruals and deferred income		
Accrued interest expenses:		
– in RSD	292,071	148,149
– in foreign currencies	917,392	606,428
Accrued other expenses in foreign currency	-	6,887
Deferred loan origination fees	593,649	446,346
Other deferred income in Dinars	43,833	491
Other deferrals:		
– in RSD	78,241	59,268
– in foreign currencies	519	3,097
	1,925,705	**1,270,666**
Subordinated liabilities (a)	9,746,110	8,715,982
Finance lease liabilities (b)	42,295	52,388
Balance as of 31 December	**13,498,624**	**10,560,574**

30. OTHER LIABILITIES (Continued)

(a) Outstanding balance and structure of subordinated liabilities as of 31 December 2008 and 2007 are presented in the following table:

In thousand of Dinars

Name of creditor	Currency	Contracted amount	Maturity date	Interest rate	31 Dec 2008	31 Dec 2007
International Finance Corporation (IFC), Washington, USA	EUR	60,000,000	15.12.2012.	6M Euribor + 2,25% p.a.	4,430,050	4,754,172
Intesa Holding International S.A., Luxembourg	EUR	50,000,000	12.03.2012.	3M Euribor + 1,8% p.a.	5,316,060	3,961,810
Balance as of 31 December					**9,746,110**	**8,715,982**

(b) Finance lease liabilities for leased equipment as of 31 December 2008 and 2007 are presented as follows:

In thousand of Dinars

Minimal lease payments	2008 Present value	2008 Future value	2007 Present value	2007 Future value
Up to 1 year	33,432	35,193	20,808	25,842
From 1 to 5 years	8,863	9,684	31,580	33,077
Balance as of 31 December	**42,295**	**44,877**	**52,388**	**58,919**

31. EQUITY

(a) Shareholders' Equity Structure

The Bank's equity as of 31 December 2008 consist of share capital, other capital, share premium, reserves from profit, revaluation reserves and profit for the year.

The structure of the Bank's equity is presented in the table below:

In thousand of Dinars

	2008	2007
Share capital – ordinary shares /i/	18,477,400	15,752,700
Other capital	11,158	11,158
Share premium /ii/	9,957,774	2,989,941
Reserves from profit /iii/	8,875,587	6,522,199
Revaluation reserves /iv/	706,270	584,333
Retained earning from previous years	-	14,677
Accumulated losses	-	(818,907)
Profit for the year	5,892,499	3,157, 619
Balance as of 31 December	**43,920,688**	**28,213,720**

31. EQUITY (Continued)

(a) Shareholders' Equity Structure (Continued)

/i/ *Share Capital*

As disclosed in Note 1 to the financial statements, before 30 September 2007, the Bank and Panonska banka a.d. Novi Sad operated as two independent banks and both of them issued new shares during the year ended 31 December 2007.

The calculation of the share exchange ratio upon the merger of two banks was carried out in accordance with the both Banks' management decision and, subsequently, new share capital structure of the Bank as the successor was established.

Subsequent to the merger, the shareholders' structure of the Bank as of 31 December 2007 was as follows:

Shareholder	Number of shares	Interest in %
Intesa Holding International S.A., Luxembourg	122,166	77,552
International Finance Corporation (IFC), Washington, USA	9,195	5,837
Intesa Sanpaolo S.p.A., Italy	26,157	16,605
Elnos Agrovojvodina, Novi Sad	9	0,006
Total	**157,527**	**100,00**

As of 31 December 2007, the Bank's share capital consisted of 157,527 of ordinary shares with nominal value of 100 thousand of Dinars per share.

In 2008, the Bank carried out two new issues of shares in the total amount of 9,692,532 thousand of Dinars. The shares were purchased by the Bank's existing shareholders.

On its session held on 6 March 2008, the Shareholders' Assembly passed the Decision on the 4th issue of ordinary shares without public offer, in order to increase the share capital. The total volume of this share issue amounted to 4,300,000,000.00 Dinars, i.e. 12,088 ordinary shares were issued with nominal value of 100,000.00 Dinars.

Shares were sold at the price of 355,725.00 Dinars, comprising the nominal value of 100,000.00 Dinars and share premium amounting to 255,733.00 Dinars.

Shares of the 4th issue were acquired by the Bank's existing shareholders, as presented in the table below:

Shareholder	Number of shares
Intesa Holding International S.A., Luxemburg	9,079
International Finance Corporation (IFC), Washington, USA	683
Intesa Sanpaolo S.p.A., Italy	1,944
Total	**11,706**

31. EQUITY (Continued)

(a) Shareholders' Equity Structure (Continued)

/i/ *Share Capital (Continued)*

On its session held on 31 March 2008, the Bank's Shareholders' Assembly passed the Decision on 5th issue of ordinary shares without public offer, in order to increase the share capital. The total volume of this share issue amounted to 6,300,031,430.00 Dinars, i.e. 17,710 ordinary shares were issued with nominal value of 100,000.00 Dinars. Shares were sold at the price of 355,725.00 Dinars, comprising the nominal value of 100,000.00 Dinars and share premium amounting to 255,725.00 Dinars. Shares of the 5th issue were acquired by the Bank's existing shareholders, as presented in the table below:

Shareholder	Number of shares
Intesa Holding International S.A., Luxemburg	12,485
International Finance Corporation (IFC), Washington, USA	3,056
Total	**15,541**

As of 31 December 2008, the Bank's share capital consisted of 184,774 of ordinary shares with nominal value of 100 thousand of Dinars per share. The major shareholder of the Bank is Intesa Holding Intrenational S.A., Luxemburg, with the interest of 77,787% in the share capital as of 31 December 2008. The shareholders structure of the Bank as of 31 December 2008 is presented in the table below:

Shareholder	Number of shares	Interest in %
Intesa Holding International S.A., Luxemburg	143,730	77,787
International Finance Corporation (IFC), Washington, USA	12,934	7,00
Intesa Sanpaolo S.p.A., Italy	28,101	15,208
Elnos Agrovojvodina, Novi Sad	9	0,005
Total	**184,774**	**100,00**

/ii/ *Share Premium*

Share premium amounting to 9,957,774 thousand of Dinars as of 31 December 2008, is the result of the Bank's status change, i.e. the merger of Panonska banka a.d. Novi Sad in the amount of 2,989,941 thousand of Dinars, as well as the result of the 4th and the 5th issues of ordinary shares without public offer, as explained below:

– Share premium in the total amount of 2,993,611 thousand of Dinars, is the result of the difference between the 4th share issuance price amounting to 355,733.00 Dinars and the nominal value of 100,000.00 Dinars per share; and

– Share premium in the total amount of 3,974,222 thousand of Dinars is the result of the difference between the 5th share issuance price amounting to 355,725.00 and the nominal value of 100,000.00 Dinars per share.

31. EQUITY (Continued)

(a) Shareholders' Equity Structure (Continued)

/iii/ Reserves from Profit

The Bank's reserves from profit comprise:

	In thousand of Dinars 2008	2007
Statutory reserves	-	6,192,003
Special reserves for estimated losses	17,397,618	4,601,394
Shortfall amount of special reserves for estimated losses	(8,522,031)	(4,271,198)
Balance as of 31 December	**8,875,587**	**6,522,199**

Pursuant to the Decision of the Bank's Shareholders' Assembly, and in accordance with Article 70 of the Rulebook on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts for Banks ("Official Gazette of the Republic of Serbia", no. 98/2007, 57/2008 and 3/2009), the shortfall amount of special reserves for estimated losses was covered by statutory reserves which were created by allocation of the prior years' retained earnings.

Special reserves for potential arising from credit risk contained in the Bank's loan portfolio and off-balance sheet items are calculated in accordance with the National Bank of Serbia's Decision on Classification of Bank Balance Sheet Assets and Off-balance Sheet Items ("Official Gazette of the Republic of Serbia", no. 129/2007 and 63/2008). As of 31 December 2008, special reserves against estimated losses on balance sheet assets and off-balance sheet items, after being reduced for allowances for impairment of balance sheet assets and provision for losses for off-balance sheet items, and calculated in accordance with the aforementioned Decision of the National Bank of Serbia (Note 2.9.), amounts to 17,397,618 thousand of Dinars.

Pursuant to the proposal of the Board of Directors, the retained earnings for 2008 amounting to 5,892,499 thousand of Dinars are used for coverage of the shortfall amount of the special reserves for estimated losses.

The final Decision on profit distribution, upon the proposal by the Board of Directors, is to be passed by the Shareholders' Assembly on its ordinary annual session, subsequent to the adoption of the financial statements for the year ended 31 December 2008.

The shortfall amount of the special reserves for estimated losses, subsequent to the transfer of profit for the year 2008, amounts to 2,629,532 thousand of Dinars (31 December 2007: 4,271,198 thousand of Dinars).

31. EQUITY (Continued)

(a) Shareholders' Equity Structure (Continued)

/iv/ *Revaluation Reserves*

Revaluation reserves amounting to 706,270 thousand of Dinars as of 31 December 2008 (31 December 2007: 584,333 thousand of Dinars), have been created from the positive effects of the performed appraisal of buildings and fair value adjustments of available-for-sale securities.

	In thousand of Dinars 2008	2007
Effects of buildings' appraisal	559,125	559,125
Effects of fair value adjustments of securities available-for-sale	147,145	25,208
Balance as of 31 December	**706,270**	**584,333**

(b) Capital Adequacy and Performance Indicators – Compliance with Legal Regulations

The Bank is obliged to reconcile the scope and the structure of its operations and risky placements with the performance indicators prescribed by the Law on Banks and the relevant decisions of National Bank of Serbia brought on the basis of the aforementioned Law.

As of 31 December 2008, the Bank was in compliance with all prescribed performance indicators.

The Bank's performance indicators as of 31 December 2008 were as follows:

Performance indicators	Prescribed values	Realized values
1. Capital	Minimum EUR 10 milion	48,051,632
2. Capital adequacy ratio	Minimum 12%	18,79%
3. Permanent investments indicator	Maximum 60%	14,33%
4. Related parties' exposure	Maximum 20%	8,97%
5. Indicator of large and largest permissible loans	Maximum 400%	26,73%
6. Liquidity ratio:		
– as of 31 December 2008	Minimum 1	1,28
7. Foreign currency risk indicator	Maximum 20%	3,98%

As of 31 December 2008, the Bank has large loans that exceed 10% of the Bank's capital, granted to the following customers: Delta Group, Beograd (15,4% of the Bank's capital) and NIS, Novi Sad (11,4% of the Bank's capital).

32. OFF-BALANCE SHEET ITEMS

	In thousand of Dinars 2008	2007
Funds managed on behalf of third parties (a)	1,415,101	1,157,191
Guarantees and other irrevocable commitments (b)	93,534,746	55,166,180
Derivatives (c)	7,717,600	6,515,423
Other off-balance sheet items (d)	30,226,448	46,833,096
Balance as of 31 December	**132,893,895**	**109,671,890**

(a) Funds Managed on Behalf of Third Parties

	In thousand of Dinars 2008	2007
Placements managed on behalf of third parties:		
– short-term	424,331	500,926
– long-term	990,770	656,265
Balance as of 31 December	**1,415,101**	**1,157,191**

(b) Guarantees and Other Irrevocable Commitments

	In thousand of Dinars 2008	2007
Payment guarantees:		
– in dinars	12,839,629	9,120,509
– in foreign currency	20,105,430	4,483,811
	32,945,059	**13,604,320**
Performance bonds:		
– in dinars	8,799,136	6,993,294
– in foreign currency	1,343,365	1,127,725
	10,142,501	**8,121,019**
Uncovered letters of credit in foreign currency	1,479,072	1,978,550
Acceptances	637,560	719,074
Sureties	66,451	43,580
Other irrevocable commitments for undrawn credit facilities	48,264,103	30,699,637
Balance as of 31 December	**93,534,746**	**55,166,180**

Irrevocable commitments for undrawn credit facilities represent unused portions of approved loans that cannot be cancelled unilaterally, such as: overdrafts, revolving loans to corporate clients, multi-purpose revolving loans, purchases and sales of foreign currencies from banks in forward transactions.

As of 31 December 2008, provision for guarantees and other irrevocable commitments amounts to 1,483,053 thousand of Dinars (31 December 2007: 1,340,521 thousand of Dinars).

32. OFF-BALANCE SHEET ITEMS (Continued)

(c) Derivatives

	2008	2007
	In thousand of Dinars	
Liabilities with respect to currency swaps (nominal amount) – sale of EUR	3,909,730	3,283,851
Receivables with respect to currency swaps (nominal amount) – purchase of USD	3,774,000	2,793,787
Receivables with respect to currency swaps (nominal amount) – purchase of CHF	-	382,738
Liabilities with respect to forward foreign exchange contracts (nominal amount) – sale of EUR	17,140	27,733
Receivables with respect to forward foreign exchange contracts (nominal amount) – purchase of RSD	16,730	27,314
Balance as of 31 December	**7,717,600**	**6,515,423**

Fair Value of Financial Derivates

	Valuation techniques of entry value unavailable on the market	2008	2007
		In thousand of Dinars	
Financial assets			
Net positive fair value of forward foreign exchange contracts	-	**-**	**116**
Financial liabilities			
Net negative fair value of forward foreign exchange contracts	266	**266**	**-**
Net negative fair value of foreign currency swap contracts (far leg)	133,761	**133,761**	**107,431**

(d) Other Off-Balance Sheet Items

	2008	2007
	In thousand of Dinars	
Foreign currency savings' bonds	998,550	749,271
Other off-balance sheet items	29,227,898	46,083,825
Balance as of 31 December	**30,226,448**	**46,833,096**

33. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with shareholders and other related parties in the ordinary course of business. These transactions were carried out on commercial terms and conditions and at market rates.

(a) The Bank enters into business relationship with its Parent company – major shareholder Intesa Holding International S.A., Luxembourg and other members of Intesa Sanpaolo Group.

Outstanding balance of receivables and liabilities as of 31 December 2008 and 2007, as well as income and expenses for the years then ended, resulting from transactions with the shareholders and other Bank's related parties within Intesa Sanpaolo Group are presented in the following table:

In thousand of Dinars

2008	Intesa Holding Interna-tional, Luxem-bourg	Intesa Sanpaolo S.p.A., Italy	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Beograd	Vseobecna Uverova banka A.S., Slovakia	Banka Koper d.d., Slovenia	Pravex Bank Comm. bank	Intesa Sanpaolo Banka d.d. Bosnia and Herzego-vina
Total placements	-	11,814,625	6,311	1,527,811	-	-	-	-
Other receivables	-	5,236	-	2,486	-	-	1,537	-
Total receivables	**-**	**11,819,861**	**6,311**	**1,530,297**	**-**	**-**	**1,537**	**-**
Borrowing and deposits	4,430,637	40,374,040	-	730,228	3,596,752	-	-	-
Fair value of derivatives	-	133,761	-	-	-	-	-	-
Other liabilities	-	292,383	2,300	-	-	8,394	-	-
Total liabilities	**4,430,637**	**40,800,184**	**2,300**	**730,228**	**3,596,752**	**8,394**	**-**	**-**
Interest income	-	3,023	-	84,754	-	-	-	-
Fees and commission income	-	17,694	523	85	-	-	-	-
Total income	**-**	**20,717**	**523**	**84,839**	**-**	**-**	**-**	**-**
Interest expense	278,822	837,521	-	3,176	208,482		-	2,848
Fees and commission expense	-	10,683	17,414	-	-	94,520	-	-
Other expenses	-	433,398	8,015	-	-	1,982	-	-
Total expenses	**278,822**	**1,281,602**	**25,429**	**3,176**	**208,482**	**96,502**	**-**	**2,848**

33. RELATED PARTY DISCLOSURES (Continued)

In thousand of Dinars

2007	Intesa Holding Interna-tional, Luxembourg	Intesa Sanpaolo S.p.A., Italy	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Beograd	Vseobecna Uverova banka A.S., Slovakia	Banka Koper d.d., Slovenia
Fair value of derivatives	-	2,682	-	-	-	-
Total placements	-	1,509,811	1,675	558,303	-	-
Other receivables	-		-	3,293	-	-
Total receivables	**-**	**1,512,493**	**1,675**	**561,596**	**-**	**-**
Borrowing and deposits	3,962,532	16,729,620	-	685,172	4,008,048	-
Fair value of derivatives	-	110,113	-	-	-	-
Other liabilities	-	79,157	1,076	-	-	11,328
Total liabilities	**3,962,532**	**16,918,890**	**1,076**	**685,172**	**4,008,048**	**11,328**
Interest income	-	11,380		41,003	-	-
Fees and commission income	-	14,477	1,344	994	-	-
Total income	**-**	**25,857**	**1,344**	**41,997**	**-**	**-**
Interest expense	198,541	564,297	-	3,172	191,892	-
Fees and commission expense	-	8,425	9,372	-	8,114	128,051
Other expenses	-	186,588	1,186	-		2,432
Total expenses	**198,541**	**759,310**	**10,558**	**3,172**	**200,006**	**130,483**

The aforementioned receivables and liabilities, as well as income and expenses incurred from transactions with the related parties from Intesa Sanpaolo Group arose in the ordinary course of business.

The interests charged to and by related parties are at normal commercial rates. Receivables from related parties are unsecured. There are no guarantees provided by the Bank to its related parties, or received by the Bank from the above related parties.

As of 31 December 2008 and 2007, the Bank did not make any provision for doubtful debts relating to amounts owed by related parties.

(b) Gross salaries and other benefits of the Executive Board's members and other key personnel of the Bank, including the Board of Directors' members, during 2008 and 2007, are presented in the following table:

In thousand of Dinars

	2008	2007
Remunerations to the members of the Executive Board and management of the Bank	72,279	67,407
Total	**72,279**	**67,407**

34. RISK MANAGEMENT

Risks are inherent in the Bank's activities and cannot be eliminated completely. It is important to manage these risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, legislators. Risk management is the process of constant monitoring, assessment, measurement, tracking and control of the Bank's exposure to risks. An important part of risk management is reporting and mitigating the risk. The adequate system of risk management is critical element in ensuring the Bank's stability and profitability of its operations.

Owing to the nature of its activities, the Bank is exposed to the following major risks: credit risk, liquidity risk and market risk (which includes the interest risk, currency risk and other market risks). The Bank is also subject to, and monitors operating risk and the risk of its exposure to one entity or a group of related entities, risk of investments in other legal entities and property, plant and equipment, as well as the impact of risk related to the country of origin of the entity to which the Bank is exposed.

The Board of Directors and the Executive Board are responsible for implementing of the adequate risk management system and its consistent application.

The Bank's Board of Directors determines the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring the risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors.

The Committee for monitoring business activities (Audit Committee) analyses and adopts the proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of the adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

Risk Management Sector has been established in the Bank in order to implement a special and unique system for risk management and to enable a functional and organizational segregation of risk management activities from regular business activities.

The Bank has developed the comprehensive risk management system by introducing the policies and procedures, as well as the limits for the risk levels acceptable for the Bank.

The Bank's bodies, authorized for risk management, constantly monitor changes in the legislative provisions, while analizing its influence on the risks at the entity level of the Bank. They take necessary measures to bring the Bank's business activities and procedures in accordance with new procedures within the scope of controlled risk. In additon, introduction of new services is followed by necesarry market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk

Credit risk is the risk that credit beneficiaries will not be able to discharge contractual obligations to the Bank, whether fully or partially. By its internal acts, policies and procedures, the Bank has implemented the adequate system of credit risk management so as to reduce the credit risk to an acceptable level. The Bank manages the credit risk through setting the limits of credit risk, establishing acceptable credit limits for individual customers or for the group of customers.

The credit risk is managed by the Bank at a counter-party specific level, group of related parties, and on the total credit portfolio level. For the purpose of conducting the policy of optimal credit risk exposure, the Bank evaluates the credit worthiness of each client both at the moment of application of the loan as well as through a subsequent regular and continuous performance analysis. The analysis of the clients' credit worthiness, timely settlement of liabilities in the past, the value of collateral on the individual level and for each transaction, is performed in the Credit Analysis Sector.

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for covering the risk, concentration risk (large exposures), portfolio credit risk, the level of capital necessary for coverage all credit risks is performed by the Risk Management Sector. Credit Analysis Sector and the Risk Management Sector are the independent parts of the Bank.

Principles prescribed by the National Bank of Serbia legislation are implemented in these analysis as well as the Bank's internal procedures, all for the purpose of anticipating potential risks that can arise in terms of a client's inability to discharge its commitments when they fall due.

In that sense an assessment of the required reserve level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, monthly portfolio analysis, are carried out. The analysis entails measuring the adequacy of provision/reserves according to clients' types, their geographical layout, shareholders' equity and managerial relationships, by business segment and type of placements.

Making decisions on exposure to credit risk is made by credit committees based on the proposals provided by the Credit Analysis Sector. The terms for approval of each corporate loan are determined individually depending on client type, loan's purpose, estimated creditworthiness and current market situation. Type of collateral that accompany each loan are also determined according to a client credit worthiness analysis, type of credit risk exposure, term of the placement as well as the amount of a particular loan.

Due to the fact that this risk is at high level for the Bank, dispersion in authorities in respect of decision making process in granting activities has been made. This dispersion is provided with the prescribed limits up to which authorized person or management bodies may decide. Bodies passing the decisions with respect to loan approvals, with different levels of authorisations, are: Branch managers, Regional Managers, Credit Analysis Sector managers, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, the approval of the parent bank is necessary.

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

The Bank manages the credit risk by setting up limitations with respect to period, amount and results of the individual customer's credit worthiness, by diversification of loans to a larger number of customers and contracting foreign exchange clause and index-linking to a consumer price index in order to maintain the real value of loans.

Furthermore, in addition to the above mentioned the Bank manages the credit risk through assesment and analysis of received collateral, by providing for adequate allowance for impairment of financial assets, provision for commitments and other risky off-balance sheet items and special reserves for estimated losses, as well as by determining the adequate price of a loan which covers the risk of a particular placement.

In addition to clients' credit worthiness, the risk limits are also determined based on different types of collateral. Risk exposure toward a singe debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. The total exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analysed before the transaction.

Loan Concentration Risk

The concentration risk is the risk of incurring losses due to an excessive volume of placements into a certain group of debtors. A group of debtors can be defined by different categories: by geographical sectors, industrial sectors, countries, related parties or economic groups, etc. The Bank manages and controls the concentration risk by limiting and monitoring the exposure toward certain groups, above all by countries and economic groups.

Derivate Financial Instruments

Derivative financial instruments lead to the Bank's exposure to credit risk in case their fair value is positive. Such credit risk is limited by determining the maximum far value of the total derivatives' portfolio, as well as determination of the maximum positive fair value of each individual transaction.

Credit-related Commitments Risks

The Banks issues guarantees and letters of credit to its customers, which may require that the Bank makes payments on the behalf of the third party. In this way the Bank is exposed to similar risks to loans, which can be mitigated by the same control processes and policies used for credit risk in respect of loans and advances.

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

Collateral and Other Credit Enhancements

The amount and type of the collateral required depends on an assessment of the credit risk of each customer. Terms of protection with respect to each placement are determined by the analysis of customers' credit worthiness, type of exposure to the credit risk, placements' maturity as well as the amount itself.

A power of authority as well as bill of exchange are taken from customers as standard collaterals, while, depending on the assessment, additional collaterals may be real estate mortgages, movable property pledges, partial or complete coverage of placements with deposits, guarantees of other banks or legal entities, adequate securities, or contracting joint and several debtorship of another legal entity which then becomes the joint and several debtor.

In cases of real estate mortgages or movable property pledges the Bank always obtains valuations of the assets carried out by the approved appraiser, in order to reduce the potential risk to the lowest rate. Decisions on placements to citizens and small customers (entrepreneurs) are mostly based on appraisal of standardised, previously defined conditions, using the scoring model with the additional analysis of the credit analysts.

Assessment of Impairment of Financial Assets

The main factors considered in the financial assets impairment assessment include: whether any payments of principal or interest are overdue, any known difficulties in the cash flows of customers, credit rating downgrades, or breach of original terms of the contract. The Bank performs impairment assessment at two levels: individual assessment and collective assessment of financial assets impairment.

Individually Assessed Allowances

The Bank determines an allowances for each individually significant loan or advance on an individual basis (exceeding EUR 50.000) if it is in the status of default (overdue more than 90 days), i.e. if there is an objective evidence that the loan has been impaired.

The level of impairment of loans and advances is determined based on the projection of expected cash flows which shall be collected pursuant to the contract with clients, taking into consideration the assessment of financial position and credit worthiness of the client, the realisable value of collateral, as well as the timing of the expected cash flows from realisation of collaterals, etc. Projected cash flows are discounted using the effective interest rate so as to arrive to their present value. Impairment loss is measured as the difference between the carrying amount of loan and its estimated recoverable amount, being the present value of the expected future cash flows. Individual assessment of the impairment of placements is performed at least once a year.

If new information becomes available, which, as estimated by credit analysts, do not have an effect to the client's credit worthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

Assessment of Impairment of Financial Assets (Continued)

Collectively Assessed Allowances

Allowances for impairment are assessed and established collectively for loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review, which represents a specific group of loans and advances with similar characteristics. The collective assessment takes into account impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated based on migration matrices and the probability of collection of receivables overdue more than 90 days. Migration matrices and the probabilities are determined based on monitoring the migrations of internal rating of the clients in the Bank's portfolio.

Special Reserves for Estimated Losses

Both for corporate and retail loans, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates special reserves for estimated losses as defined by the Decision on the Classification of Banks Balance Sheet Assets and Off Balance Sheet Items. Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans and advances.

(a) Maximum Exposure to Credit Risk

Breakdown of maximum credit risk exposure, before taking into account collaterals held or other credit enhancements, as of 31 December 2008 and 2007, grouped by geographical locations, is presented in the table below:

In thousand of Dinars

	Accounts with NBS, other banks and placements with banks	Loans and advances to customers	Equity investments and securities	Interests, fees and other assets	Guarantees and other commit-ments	Total 2008
Serbia	***2,179,181***	***162,428,358***	***377,294***	***5,792,433***	***93,513,685***	***264,290,951***
Belgrade	2,177,314	76,034,439	355,888	2,986,546	43,677,708	125,231,895
Vojvodina	1,847	43,677,894	21,377	1,609,932	27,653,420	72,964,470
Rest of Serbia	20	42,716,025	29	1,195,955	22,182,557	66,094,586
Other countries	***1,269,248***	***640,679***	***-***	***3,665***	***21,061***	***1,934,653***
European Union	1,234,911	612,415	-	3,488	13,685	1,864,499
Other European countries	31,404	13,792	-	123	4,438	49,757
Rest of the world	2,933	14,472	-	54	2,938	20,397
Total	**3,448,429**	**163,069,037**	**377,294**	**5,796,098**	**93,534,746**	**266,225,604**

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

(a) Maximum Exposure to Credit Risk (Continued)

In thousand of Dinars

	Accounts with NBS, other banks and placements with banks	Loans and advance to customers	Equity investments and securities	Interests, fees and other assets	Guarantees and other commit-ments	Total 2007
Serbia	***2,301,826***	***100,589,716***	***426,039***	***4,250,539***	***55,127,691***	***162,695,811***
Belgrade	1,791,301	58,916,371	383,213	2,357,471	41,901,128	105,349,484
Vojvodina	510,525	31,697,684	42,826	962,275	11,755,085	44,968,395
Rest of Serbia	-	9,975,661	-	930,793	1,471,478	12,377,932
Other countries	***-***	***316,975***	***3,074***	***1,824***	***43,992***	***365,865***
European Union	-	316,975	3,074	1,824	43,497	365,370
Other European countries	-	-	-	-	495	495
Total	**2,301,826**	**100,906,691**	**429,113**	**4,252,363**	**55,171,683**	**163,061,676**

Structure of the Bank's credit exposures stated at their carrying values as of 31 December 2008 and 2007, before and after taking into account collateral held and other credit enhancements and grouped by industry sectors, is presented in the table below:

In thousand of Dinars

	Gross maximum exposure 2008	Net maximum exposure 2008	Gross maximum exposure 2007	Net maximum exposure 2007
Retail customers	60,391,514	31,668,636	47,598,865	25,934,774
Processing industry	58,254,639	46,054,839	33,772,391	24,095,342
Trade	55,131,689	44,816,408	33,689,202	25,604,600
Mining and energetic	6,938,113	6,703,709	3,506,047	2,425,899
Agriculture, hunting, fishing and forestry	8,797,707	6,742,179	4,687,568	3,355,425
Civil engineering	27,594,837	19,253,810	13,067,366	7,309,242
Traffic and communications	10,434,000	9,338,450	6,133,057	5,383,991
Services, tourism and hospitality	1,273,695	1,053,225	624,652	403,415
Other	33,960,981	29,662,520	17,680,702	9,088,782
National Bank of Serbia and other banks	3,448,429	1,559,088	2,301,826	-
Total	**266,225,604**	**196,852,864**	**163,061,676**	**103,601,470**

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

The Bank manages the quality of its financial assets using the internal classification of placements. The following table presents the quality of gross portfolio (including off-balance sheet exposure) as of 31 December 2008, by types of placements and based on the Bank's grading system:

In thousand of Dinars

	Neither past due nor impaired				
	High quality level	**Standard quality level**	**Sub-standard quality level**	**Due or individually impaired**	**Total 2008**
Banks	3,448,429	-	-	-	3,448,429
Customers:					
Corporate customers	81,810,151	22,251,235	-	467,607	104,528,993
Small size and medium size companies	79,904,749	15,989,878	-	1,962,041	97,856,668
Mortgage loans to retail customers	16,895,689	1,098,955	-	650,135	18,644,779
Other placements to retail customers	35,133,926	2,811,474	-	3,801,335	41,746,735
Total	**217,192,944**	**42,151,542**	**-**	**6,881,118**	**266,225,604**

The following table presents the quality of gross portfolio as of 31 December 2007, by types of placements and based on the Bank's grading system:

In thousand of Dinars

	Neither past due nor impaired				
	High quality level	**Standard quality level**	**Sub-standard quality level**	**Due or individually impaired**	**Total 2007**
Banks	2,194,865	106,961	-	-	2,301,826
Customers:					
Corporate customers	17,262,862	28,252,009	-	1,867,540	47,382,411
Small size and medium size companies	37,878,360	16,748,235	-	2,177,371	56,803,966
Mortgage loans to retail customers	9,117,182	807,341	-	271,653	10,196,176
Other placements to retail customers	31,826,925	1,853,009	-	1,850,576	35,530,510
Other	9,086,169	1,681,608	-	79,010	10,846,787
Total	**107,366,363**	**49,449,163**	**-**	**6,246,150**	**163,061,676**

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

Ageing Analysis of Loans and Advances to Customers Past Due but Not Impaired

The ageing analysis of loans and advances to customers past due but not impaired as of 31 December 2008 and 2007 is presented in the tables below:

In thousand of Dinars

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Placements to customers:					
Corporate customers	693,879	221,405	62,768	124,925	1,102,977
Small size and medium size companies	799,266	921,724	296,633	123,170	2,140,793
Mortgage loans to retail customers	10,797	1,709	442	52	13,000
Other placements to retail customers	77,676	16,030	6,565	17,274	117,545
Balance as of 31 December 2008	**1,581,618**	**1,160,868**	**366,408**	**265,421**	**3,374,315**

In thousand of Dinars

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 90 days	Total
Placements to customers:					
Corporate customers	1,508,156	36,310	3,245	59,581	1,607,292
Small size and medium size companies	162,084	43,530	17,616	5,743	228,973
Mortgage loans to retail customers	3,026	1,817	1,048	-	5,891
Other placements to retail customers	166,951	27,885	21,409	-	216,245
Balance as of 31 December 2008	**1,840,217**	**109,542**	**43,318**	**65,324**	**2,058,401**

Fair value of collaterals arising from the aforementioned past due but not impaired loans and advances to customers amounts to 895,616 thousand of Dinars as of 31 December 2008 (31 December 2007: 489,313 thousand of Dinars).

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

Assessment of Impairment of Financial Assets

The structure of balance sheet assets and off-balance sheet items as of 31 December 2008 and the related allowance for impairment, i.e. provision, which are determined in accordance with the Bank's internal methodology disclosed in Note 2.7.2., is presented in the table below:

In thousand of Dinars

	Individual assessment		Collective assessment		Total	
	Classified balance sheet assets	Allowance for impairment	Classified balance sheet assets	Allowance for impairment	Classified balance sheet assets	Allowance for impairment
Physical persons	1,100,966	257,567	45,157,784	3,223,032	46,258,750	3,480,599
Legal entities	8,631,943	4,316,782	113,985,203	3,133,894	122,617,146	7,450,676
Entrepreneurs	11,898	717	3,803,064	142,667	3,814,962	143,384
A (1+2+3)	**9,744,807**	**4,575,066**	**162,946,051**	**6,499,593**	**172,690,858**	**11,074,659**
	Classified off-balance sheet assets	**Provision**	**Classified off-balance sheet assets**	**Provision**	**Classified off-balance sheet assets**	**Provision**
Physical persons	-	-	14,132,764	1,426	14,132,764	1,426
Legal entities	2,031,728	279,234	76,066,562	1,189,767	78,098,290	1,469,001
Entrepreneurs	19,269	181	1,284,423	12,445	1,303,692	12,626
B (1+2+3)	**2,050,997**	**279,415**	**91,483,749**	**1,203,638**	**93,534,746**	**1,483,053**
Total (A+B)	**11,795,804**	**4,854,481**	**254,429,800**	**7,703,231**	**266,225,604**	**12,557,712**

Portfolio quality indicators

1) The ratio of overdue loans and advances amounts to 4,80%. This ratio indicates the proportion of outstanding balance of loans overdue more than 90 days in relation to the total loans and advances of the Bank. The ratio takes into consideration all loans overdue more than 90 days, not only the due (matured) portion of the loans.
2) The ratio of bad and doubtful loans amounts to 4,57%. This ratio indicates the proportion of outstanding balance of loans classified into the last two categories (doubtful and bad) in relation to the total loans and advances of the Bank.
3) The ratio of annual write-off amounts to 1,73%. This ratio indicates the proportion of annual write-off of loans in relation to the total loans and advances of the Bank. Written-off loans comprise all loans classified into the last category (bad loans).
4) The ratio of credit exposure amounts to 8,57%. This ratio indicates the proportion of net outstanding balance of loans overdue more than 90 days (gross balance of loans less allowance for impairment) in relation to the regulatory capital. The ratio takes into consideration total loans and advances of the Bank, not only the due (matured) portion of the loans.

34. RISK MANAGEMENT (Continued)

34.1. Credit Risk (Continued)

(c) Default Receivables

The Bank gives special attention to default receivables by monitoring their total outstanding balance and the trend of these receivables. Default receivables are monitored at the Bank level, regional level and in accordance with the product criteria (for physical persons) and the industrial sector the customers belongs to, as well as the maturity structure (for companies and entrepreneurs).

In accordance with the regulations, default receivables related to companies and entrepreneurs are monitored at customer (counter party) level, and, as for physical persons, at the level of individual receivable.

Breakdown of gross default receivables as of 31 December 2008 is presented in the table below:

	Companies and entrepreneurs		Physical persons		Banks	
Organisational unit/Regional centre	**Assets in '000 of Dinars**	**Default receivables**	**Assets in '000 of Dinars**	**Default receivables**	**Assets in '000 of Dinars**	**Default receivables**
Novi Sad	16,901,062	1,003,228	8,067,961	761,319	3,446,562	-
Niš	10,225,626	755,887	6,052,424	588,635	1,847	-
Beograd	57,869,955	4,311,423	14,419,763	1,550,060	20	-
Pančevo	13,979,290	978,677	5,168,041	459,701	-	-
Kragujevac	10,050,143	643,601	7,821,665	786,551	-	-
Užice	13,957,603	917,159	4,728,896	505,541	-	-
Total	**122,983,679**	**8,609,975**	**46,258,750**	**4,651,807**	**3,448,429**	**-**

Default balance sheet receivables disclosed above, are covered by provisions of 7,039,727 thousand of Dinars (53.1%).

Default off-balance sheet items amount to 1,564,093 thousand of Dinars, while the related provision for those items amounts to 129,374 thousand of Dinars (8.3%).

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk and Financial Assets Management

Liquidity risk relates to the risk that the Bank does not have enough highly liquid assets to settle liabilities when they fall due and to cover the unexpected deposit outflows and non-deposit liabilities. The liquidity issue is presented as the deficit in reserves or hindered or impossible acquisition of highly liquid assets at a reasonable market price.

Liquidity risk is measured by permanent monitoring and analysis of the maturity structure of assets and liabilities through appropriate reports and indicators: report on structural maturity mismatch, indicator of structural maturity mismatch and the so called Rules - Rule 1 and Rule 2, short-term liquidity gaps, reports on daily liquidity and the liquidity indicator prescribed by the National Bank of Serbia.

The Risk Management Sector is responsible for measuring and monitoring of the liquidity blaances and for the regular preparation of reports which present the effects of the migration of various Bank's categories of assets and liabilities to the Bank's liquid asset position. The Risk Management Sector reports on liquidity to the parent bank and ALCO Committee. Furthermore, the Risk Management Sector provides support to the Treasury Sector within the field of statistical analysis and testing the assumptions on the behaviour of certain assets and liabilities items effecting cash inflows and outflows.

Objectives of liquidity management comprise:

- Cash inflows and outflows planning;
- Implementation and monitoring of liquidity indicators;
- Measurement and monitoring of the Bank's liquidity;
- Measurement of liquidity gaps and the estimation of deposit stability; and
- Preparation of the Reports for the management

Liquidity ratio prescribed by the National Bank of Serbia represents the relation between the liquid assets and current liabilities. Liquid assets include all receivables and assets items due within one month. Current liabilities represent all the Bank's liabilities due within one month.

This liquidity indicator cannot be less then 1 (the average liquidity indicator for all work days in a month), or less than 0,9 for more than two consecutive work days or 0,8 – when calculated for a single work day.

	2008	2007
As of 31 December	1,28	2,01
Average for the period	1,69	1,97
Highest	2,38	2,69
Lowest	1,23	1,59

Liquidity is monitored by the report on structural maturity mismatch, in which all balance sheet and off-balance sheet items are classified in certain maturity intervals according to the remaining maturity. The most demanding part of the report is the determination of the maturity of those balance sheet and off-balance sheet items with non-defined maturity (sight deposits, credit cards, overdrafts, statutory reserves in Dinars and in foreign currency, etc.). At least once per year, the Risk Management Sector determines the ratios of the behaviour of these balance sheet items and applies them upon the distribution of items by maturity intervals.

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk and Financial Assets Management (Continued)

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date.

The following table presents Maturity mismatch report as of 31 December 2008:

In thousand of Dinars

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over five years	With non-defined maturity	Total
ASSETS									
Cash and cash equivalents	31,038,288	600,000	650,000	-	-	-	-	-	32,288,288
Revocable deposits and loans	18,801,850	2,901,135	1,967,714	6,114,172	749,784	5,656,211	921,372	-	37,112,238
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	-	1,308,508	1,308,508
Loans and advances to customers	29,723,772	8,934,354	14,162,455	35,168,635	8,384,726	32,488,181	36,662,212	-	165,524,335
Securities (excluding treasury shares)	93,521	-	-	-	-	-	-	160,871	254,392
Equity investments	-	-	-	-	-	-	-	13,076	13,076
Other placements	1,663,119	892,498	684,554	644,604	21,626	292,527	8,709	47,583	4,255,220
Intangible assets	-	-	-	-	-	-	-	480,707	480,707
Property and equipment and investment property	-	-	-	-	-	-	-	6,879,007	6,879,007
Deferred tax assets	-	-	-	-	-	-	-	205,324	205,324
Other assets	-	-	-	-	-	-	-	1,879,619	1,879,619
TOTAL ASSETS	**81,320,550**	**13,327,987**	**17,464,723**	**41,927,411**	**9,156,136**	**38,436,919**	**37,592,293**	**10,974,695**	**250,200,714**

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk and Financial Assets Management (Continued)

Maturity mismatch report as of 31 December 2008 (Continued)

In thousand of Dinars

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over five years	With non-defined maturity	Total
LIABILITIES AND EQUITY									
Sight deposits	53,009,252	-	-	-	-	-	-	-	53,009,252
Other deposits	21,349,379	24,199,772	9,417,225	25,884,973	1,286,386	6,684,881	129,198	-	88,951,814
Borrowings	30,329,643	-	119,074	485,967	1,899,696	11,828,234	3,330,614	-	47,993,228
Securities issued	-	-	-	-	-	-	-	19,825	19,825
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	-	142,534	142,534
Provisions	-	-	-	-	-	-	-	2,316,955	2,316,955
Tax liabilities	-	-	-	-	-	-	-	158,445	158,445
Liabilities from profit	-	-	-	-	-	-	-	181,204	181,204
Deferred tax liabilities	-	-	-	-	-	-	-	8,145	8,145
Other liabilities	-	-	-	-	-	9,746,110	-	3,752,514	13,498,624
TOTAL LIABILITIES	**104,688,274**	**24,199,772**	**9,536,299**	**26,370,940**	**3,186,082**	**28,259,225**	**3,459,812**	**6,579,622**	**206,280,026**
TOTAL EQUITY	-	-	-	-	-	-	-	43,920,688	**43,920,688**
TOTAL LIABILITIES AND EQUITY	**104,688,274**	**24,199,772**	**9,536,299**	**26,370,940**	**3,186,082**	**28,259,225**	**3,459,812**	**50,500,310**	**250,200,714**
MATURITY MISMATCH AS OF:									
- 31 December 2008	**(23,367,724)**	**(10,871,785)**	**7,928,424**	**15,556,471**	**5,970,054**	**10,177,694**	**34,132,481**	**(39,525,615)**	**-**
- 31 December 2007	**(28,984,943)**	**(7,424,981)**	**8,013,807**	**12,671,904**	**2,613,481**	**11,926,761**	**13,862,570**	**(12,678,599)**	**-**

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk and Financial Assets Management (Continued)

The negative gap in the interval up to one month occurs primarily as a consequence of conservative assumption that all demand deposits will be withdrawn in this interval. The practice has shown that this scenario is highly unlikely even in the liquidity crisis situation (e.g., the crisis in the last quarter of 2008, when the domestic banking market suffered the impact of the global financial crisis).

Ratios of maturity mismatch are calculated based on the data from Maturity mismatch report, so called Rule 1 and Rule 2 indicators.

Rule 1 shows coverage of permanent (non-current) investments by the Bank's capital, and Rule 2 coverage of long-term investments by all long-term sources.

For the purpose of the calculation of structural maturity mismatch indicators, the short-term is defined as a period up to 18 months, middle-term as a period between 18 months to 5 years and long-term as a period over 5 years.

Rule 1:
Investments in property and equipment + investments in equity securities ≤ Bank's equity

Rule 2:
Long-term receivables ≤ Surplus of equity from Rule 1 + Long-term liabilities + 0,5 (Middle-term liabilities – Middle-term receivables) + 0,25 (Short-term liabilities to customers + Short-term liabilities to banks).

	In thousand of Dinars 31 December 2008
Rule 1	**36,867,734**
Fixed assets	6,879,007
Investments in equity securities	173,947
Equity	43,920,688
Rule 2	**39,641,747**
Long-term assets	37,592,294
Surplus of equity from Rule 1	36,867,734
Long-term liabilities	3,459,812
Middle-term liabilities	28,259,225
Middle-term assets	38,436,919
Short-term liabilities	167,981,367

The ratio of aggregate maturity mismatch amounts to – 65,49%. This ratio indicates the mismatch between receivables and payables due within 3 months in relation to the regulatory capital of the Bank. Furthermore, this ration also implies a cautious assumption that all sight and short-term deposits shall flow out within the period of 3 months, which never happens in practice.

34. RISK MANAGEMENT (Continued)

34.2. Liquidity Risk and Financial Assets Management (Continued)

In the last quarter of 2008, the Bank had a certain decrease of liquidity as a consequence of the global financial crisis which found its way to the domestic banking market. However, the Bank still has a good maturity structure of assets and liabilities, which can be seen from the above indicators.

The Bank finances its non-current assets from equity (Rule 1), and long-term placements from long-term and stable sources of financing (Rule 2).

The maturity structure of undrawn loans and limits, received guarantees and letters of credit based on the remaining period on the balance sheet date to the contractual maturity date is presented in the table below:

In thousand of Dinars

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
31 December 2008				
Undrawn loans and limits	33,425,948	14,838,156	-	**48,264,104**
Letters of credit	1,180,044	299,028	-	**1,479,072**
Guarantees	21,252,109	17,867,334	3,968,115	**43,087,559**
Total	**55,858,101**	**33,004,518**	**3,968,115**	**92,830,735**
31 December 2007				
Undrawn loans and limits	22,502,257	8,026,012	-	**30,528,269**
Letters of credit	730,224	1,168,795	-	**1,899,019**
Guarantees	8,049,963	12,391,224	1,284,152	**21,725,339**
Total	**31,282,444**	**21,586,031**	**1,284,152**	**54,152,627**

34. RISK MANAGEMENT (Continued)

34.3. Market Risk

In its ordinary course of business, the Bank is exposed to the fluctuations in market variables which can affect the Bank's income in a positive or a negative way. There are four types of market risks:

- Interest rate risk,
- Equity securities price risk,
- Foreign currency risk, and
- Goods price risk.

The Bank is not exposed to equity securities price risks. Goods price risk is negligible and only relates to the position in precious metals (the highest percentage of gold) amounting to EUR 280 thousand.

Interest rate risk is measured on the positions in the trading books, while the foreign currency risk is measured on the positions in the trading and the banking book.

Trading book comprises items in financial instruments and goods held for trading or with the intention of protecting of other elements in the trading book. In order to be treated as a part of the trading book, a financial instrument has to be free of any provisions which would limit its trade and its use for the hedging purposes.

The Risk Management Sector is responsible for the measurement, monitoring, control and reporting on the aforementioned risks.

Market risks are measured using the following tools: sensitivity analysis, scenario analysis, monitoring of the fair value of the portfolio, calculation of the Value at risk (VAR) risk measure.

Market risks are limited by the primary and secondary limits. The primary limit is the Value at risk (VAR) limit for the interest rate risk, foreign currency risk and the total portfolio risk. The secondary limits restrict the maximal amount of the position in the trading book and the maximal loan concentration in the certain positions in the trading book.

34. RISK MANAGEMENT POLICIES (Continued)

34.3. Market Risk (Continued)

34.3.1. Interest Rate Risk

Interest risk is the risk of the occurrence of adverse impact on the financial result and equity of the Bank due to changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Banks exposure to the interest rate risk is monitored through the ratio of the interest-sensible assets and interest-sensible liabilities (gap analysis – the interest risk ratio).

Interest rate risk is calculated separately in the banking book and in the trading book. In the trading book only Value at risk (VaR), duration and convexity are calculated, as the measures of interest rate risk exposure.

In the banking book, interest rate risk is measured and monitored using the Reprising Gap technique and scenario analysis, i.e. sensitivity analysis. Reprising Gap report shows the structure and level of interest bearing assets and interest bearing liabilities in different future maturity intervals. Based on the determined gaps, the profit and equity sensitivity analysis is performed for certain changes in market interest rates.

In accordance with the internal methodology, the Bank established the limit on interest rate risk in 2008. In 2008, the defined limit was not exceeded.

In addition, pursuant to the methodology of Intesa Sanpaolo S.p.A., Milan, the limit for interest rate Value at risk (VaR) calculated on the trading book was established. It is monitored on a daily basis and its value is presented in the Bank's daily reports.

The table below presents the benchmark values of the interest rate Value at risk in 2008.

Interest rate VaR on the trading book

		VaR (In EUR)
	2008	**2007**
Average	7,014	16,276
Maximum	10,273	35,634
Maximum	4,604	5,653

34. RISK MANAGEMENT POLICIES (Continued)

34.3. Market Risk (Continued)

34.3.1. Interest Rate Risk (Continued)

The following table shows Reprising Gap report, i.e. the Bank's exposure to the interest rate risk as of 31 December 2008. The table includes the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

In thousand of Dinars

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Non-interest bearing	Total
ASSETS									
Cash and cash equivalents	23,211,917	600,000	650,000	-	-	-	-	7,826,371	32,288,288
Revocable deposits and loans	10,000,000	-	-	-	-	-	-	27,112,238	37,112,238
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	-	1,308,508	1,308,508
Loans and advances	100,274,367	23,319,240	6,672,590	13,992,275	4,048,983	11,861,252	5,355,628	-	165,524,335
Securities (excluding treasury shares)	93,521	-	-	-	-	-	-	160,871	254,392
Equity investments	-	-	-	-	-	-	-	13,076	13,076
Other placements	1,735,424	890,800	661,529	644,604	21,626	292,528	8,709	-	4,255,220
Intangible assets	-	-	-	-	-	-	-	480,707	480,707
Property and equipment and investment property	-	-	-	-	-	-	-	6,879,007	6,879,007
Deferred tax assets	-	-	-	-	-	-	-	205,324	205,324
Other assets	-	-	-	-	-	-	-	1,879,619	1,879,619
TOTAL ASSETS	**135,315,229**	**24,810,040**	**7,984,119**	**14,636,879**	**4,070,609**	**12,153,780**	**5,364,337**	**45,865,721**	**250,200,714**

34. RISK MANAGEMENT (Continued)

34.3. Market risk (Continued)

34.3.1. Interest Rate Risk (Continued)

Reprising Gap report, i.e. the Bank's exposure to the interest rate risk as of 31 December 2008 (Continued)

In thousand of Dinars

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Non-interest bearing	Total
LIABILITIES AND EQUITY									
Sight deposits	53,009,252	-	-	-	-	-	-	-	53,009,252
Other deposits	13,523,008	19,802,388	9,417,225	25,884,973	1,286,386	6,684,881	129,198	12,223,755	88,951,814
Borrowings	30,291,584	14,114,383	2,327,431	12,856	1,241,042	5,932	-	-	47,993,228
Securities issued	-	-	-	-	-	-	-	19,825	19,825
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	-	142,534	142,534
Provisions	-	-	-	-	-	-	-	2,316,955	2,316,955
Tax liabilities	-	-	-	-	-	-	-	158,445	158,445
Liabilities from profit	-	-	-	-	-	-	-	181,204	181,204
Deferred tax liabilities	-	-	-	-	-	-	-	8,145	8,145
Other liabilities	-	4,430,050	5,316,060	-	-	-	-	3,752,514	13,498,624
TOTAL LIABILITIES	**96,823,844**	**38,346,821**	**17,060,716**	**25,897,829**	**2,527,428**	**6,690,813**	**129,198**	**18,803,377**	**206,280,026**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**-**	43,920,688	**43,920,688**
TOTAL LIABILITIES AND EQUITY	**96,823,844**	**38,346,821**	**17,060,716**	**25,897,829**	**2,527,428**	**6,690,813**	**129,198**	**62,724,065**	**250,200,714**
PERIODICAL GAP AS OF 31 DECEMBER 2008	**38,491,385**	**(13,536,781)**	**(9,076,597)**	**(11,260,950)**	**1,543,181**	**5,462,967**	**5,235,139**	**(16,858,344)**	**-**
CUMULATIVE GAP	**38,491,385**	**24,954,604**	**15,878,007**	**4,617,057**	**6,160,238**	**11,623,205**	**16,858,344**		

34. RISK MANAGEMENT (Continued)

34.3. Market Risk (Continued)

34.3.1. Interest Rate Risk (Continued)

Interest rate risk is also monitored by scenario analyses, i.e. observing the effect of interest rate fluctuations to the Bank's income and expenses, as presented in the table below:

Scenario	Interest rate fluctuation	Interest risk In thousand of Dinars
1	1%	29,968
2	2%	59,936
3	-1%	(29,968)
4	-2%	(59,936)

34.3.2. Foreign Currency Risk

Foreign currency risk is the risk of the occurrence of negative effect to the financial result and equity of the Bank due to the fluctuations in foreign currencies. Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The banking operations in different foreign currencies cause the exposure to fluctuation in foreign currencies exchange rates.

In accordance with the internal policy of the Bank, considering potential fluctuations in foreign currency exchange rate, the Board of Directors decides on the limit of the open foreign currency position based on the proposal of the Risk Management Sector.

The Bank's Board of Directors has established the limit of the open foreign currency position which is even more conservative then the regulatory limit of the foreign currency position. The positions are monitored on a daily basis to ensure positions are maintained within established limits.

The Bank measures the foreign currency risk in accordance with the methodology of the National Bank of Serbia, through the Report on the foreign currency risk indicator.

The foreign currency risk indicator is the ration between the total open net foreign currency position and the Bank's regulatory capital (calculated in accordance with the Decision on Capital Adequacy of Banks), whereby the Bank is obliged to ensure that its total net open position does not exceed the amount of 20% of its capital (the National Bank of Serbia reduced this ratio from 30% to 20% of regulatory capital on 1 July 2008)..

During 2008, the Bank strictly paid attention to reconcile the foreign currency risk indicator with the prescribed limit, where this indicator was mostly at the level far bellow the limit.

34. RISK MANAGEMENT (Continued)

34.3. Market Risk (Continued)

34.3.2. Foreign Currency Risk (Continued)

The following table presents the Bank's exposure to foreign currency risk as of 31 December 2008:

In thousand of Dinars

	EUR	USD	CHF	Other Currencies	Total in foreign currency	Total in Dinars	Total
ASSETS							
Cash and cash equivalents	1,470,226	115,916	112,158	120,138	1,818,438	30,469,850	32,288,288
Revocable deposits and loans	27,112,238	-	-	-	27,112,238	10,000,000	37,112,238
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	245,562	10,525	1,603	44	257,734	1,050,774	1,308,508
Loans and advances	114,775,831	1,217,508	3,599,553	337,911	119,930,803	45,593,532	165,524,335
Securities (excluding treasury shares)	146,386	95,939	-	-	242,325	12,067	254,392
Equity investments	-	-	-	-	-	13,076	13,076
Other placements	525,983	-	24,653	31,665	582,301	3,672,919	4,255,220
Intangible assets	-	-	-	-	-	480,707	480,707
Property and equipment and investment property	-	-	-	-	-	6,879,007	6,879,007
Deferred tax assets	-	-	-	-	-	205,324	205,324
Other assets	142,386	4,785	405	255	147,831	1,731,788	1,879,619
TOTAL ASSETS (I)	**144,418,612**	**1,444,673**	**3,738,372**	**490,013**	**150,091,670**	**100,109,044**	**250,200,714**
LIABILITIES AND EQUITY							
Sight deposits	24,499,789	1,418,003	571,090	312,812	26,801,694	26,207,558	53,009,252
Other deposits	62,429,326	3,067,647	502,586	110,718	66,110,277	22,841,537	88,951,814
Borrowings	44,128,300	787,168	2,650,637	11,191	47,577,296	415,932	47,993,228
Securities issued	-	-	-	3,095	3,095	16,730	19,825
Interest and fees payable and changes in fair value of derivatives	3,443	-	-	-	3,443	139,091	142,534
Provisions	-	-	-	-	-	2,316,955	2,316,955
Tax liabilities	-	-	-	-	-	158,445	158,445
Liabilities from profit	-	-	-	-	-	181,204	181,204
Deferred tax liabilities	-	-	-	-	-	8,145	8,145
Other liabilities	11,208,221	23,266	3,089	1,351	11,235,927	2,262,697	13,498,624
TOTAL LIABILITIES	**142,269,079**	**5,296,084**	**3,727,402**	**439,167**	**151,731,732**	**54,548,294**	**206,280,026**
TOTAL EQUITY	-	-	-	-	-	43,920,688	**43,920,688**
TOTAL LIABILITIES AND EQUITY (II)	**142,269,079**	**5,296,084**	**3,727,402**	**439,167**	**151,731,732**	**98,468,982**	**250,200,714**
Financial derivatives effecting the foreign currency position, recorded in the off balance sheet items (III)	**(3,957,978)**	**3,774,000**	**-**	**-**	**(183,978)**	**-**	
Net currency position as of: (I – II+ III and gold)							
– 31 December 2008	**(1,808,455)**	**(77,441)**	**10,970**	**50,846**	**(1,824,040)**	**1,910,412**	
– 31 December 2007	**(3,939,869)**	**(105,441)**	**161,487**	**62,575**	**(3,821,248)**	**3,821,248**	

34. RISK MANAGEMENT (Continued)

34.3. Market Risk (Continued)

34.3.2. Foreign Currency Risk (Continued)

In addition, the Bank has developed internal methodology for measuring the foreign currency risk, which implies that VaR is calculated and monitored on a daily basis with 99% trust interval. VaR is the highest possible loss the Bank can suffer in normal market conditions with the probability of 99%. Basel II Accord prescribes that the capital requirement for foreign currency risk can be also measured using the internal model, i.e. VaR concept. In this case the capital requirement is determined by calculating the higher of the last 10-day VaR, or the average 10-day VaR, by the multiplier of the reliability model (at least 3). The Risk Management Sector monitors the VaR limit on a daily basis and reports to the Executive Board and relevant persons in Intesa Sanpaolo Group.

The table below presents the benchmark amounts of the foreign currency VaR in 2008 and 2007:

		VaR (In EUR)
Foreign currency VaR	**2008**	**2007**
Average	83,745	94,385
Maximum	601,031	843,156
Minimum	3,149	25

The following table presents the impact of the reasonably possible changes of foreign currency rates of the foreign currencies the Bank is exposed to in a significant measure, on the Bank's income statement, i.e. profit before tax in 2008:

	In thousand of Dinars
Scenario	**Effect to the profit before tax**
10% depreciation of Dinar	(102,075)
20% depreciation of Dinar	(204,150)

34.4. Operational Risk

Operational risk is the risk of negative effects on the Bank's financial result and equity due to failures in performance of operating activities, human mistakes, system errors and external factors influence.

The function of operational risk management process is to identify, assess, control and minimise the possibility of occurrence and effect of net losses. The Bank cannot eliminate all operational risks, but it can, trough the processes of recording and analysing the operational risks identify the failures in its processes, products and procedures. Hence, the Bank's improvement of its processes, products and procedures can decrease frequency and negative influence of operational losses on its operations and profitability. An important aspect of the operative risk management is updating the management on significant operative risks in timely manner, as well as permanent education of all employees included in the process of collecting data on operational risks and comprehensive development of the awareness on the importance of identification, measurement, control and mitigation of operational risks.

34. RISK MANAGEMENT (Continued)

34.4. Operational Risk (Continued)

Data on operational risks are gathered in all organisational units of the Bank. Data is classified and analysed, and the methods of risk mitigation and its impact reduction are recommended.

Once per year the Bank performs the self-assessment of risks, based on a certain number of scenarios, where the members of the Executive Board assess the frequency of the operative occurrences, their influence and the existing level of controls, from the field they are responsible for. By combining the results of the self-assessment of risks and statistics of historical cases of operational risks, a clear picture of the Bank's exposure to operational risks is obtained.

34.5. Exposure Risk

The Risk Management Sector measures, monitors and reports to the Bank's boards on the Bank's exposure to other risks, above all, on the risk of the Bank's exposure to a single person or a group of persons, investment risk in other legal entities and property, plant and equipment, country risk and operational risk.

In 2008, the Bank maintained the exposure risk indicators and investment risk indicators within the prescribed values. By undertaking appropriate activities anticipated by the relevant procedures and decisions on credit approval and investments in financial and non-financial assets, the Bank has ensured the scope and the structure of its operations and risky placements to be reconciled with the performance indicators prescribed by the National Bank of Serbia.

The Bank's exposure risk include the risk of its exposure to a single person or a group of related parties, as well as its exposure risk to a person related to the Bank.

In accordance with the Risk management policies, the management of the Bank determines and approves exposure limits, i.e. the loan concentration on certain legal entities or a group of related parties, and persons related to the Bank.

The Bank's management and the relevant bodies and authorised persons in the Bank carry out the prescribed measures in order to ensure the compliance of the Bank's exposure to the prescribed limits, i.e., to ensure that the sum of all large exposures do not exceed 400% of the Bank's equity, as well as that the total Bank's exposure to a person related to the Bank does not exceed 5% of the Bank's equity, i.e., 25% of the Bank's capital when exposed to a single person or a group of related parties.

34.6. Investment Risk

In accordance with the National Bank of Serbia legislation, the Risk Management Sector monitors the Bank's investments and informs the Board of Directors. The Sector also ensures that the investment of the Bank in a single non- financial sector entity does not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in property and equipment can not exceed 60% of its regulatory capital.

34. RISK MANAGEMENT (Continued)

34.7. Country Risk

The risk related to the Bank's exposure to a counterparty's country of origin includes negative effects which may influence financial result and capital of the Bank, as the Bank might not be able to collect receivables from this counteparty, as a result of political, economical or social situtaion in the country of origin.

The Bank's exposure to the country risk is low, due to insignificant participation of non-residents in the total loan portfolio of the Bank.

34.8. Capital Management

The objective of capital management is for the Bank to maintain its operations in the indefinite period in the foreseeable future, in order to keep the optimal structure of the capital with the aim of decreasing the costs of capital and secure dividends for the shareholders.

The Bank permanently manages its capital in order to:

- Comply with the capital requirements set by the National Bank of Serbia;
- Provide an adequate level of capital so as to enable the Bank to continue its operations as a going concern; and
- Maintain a strong capital base to support the development of its business.

The adequacy of capital, as well as the use of the Bank's capital is monitor on monthly basis by the Bank's management.

The National Bank of Serbia has defined the following capital limits:

– The minimum amount of the capital of EUR 10 million;
– Capital adequacy ratio of 12%; and
– Gross dinar placements to citizens in the amount of 150% of Tier 1 capital.

The Bank's total capital comprises Tier 1 and Tier 2 capital, as decreased by prescribed deductible items:

– Tier 1 capital include: share capital from ordinary shares, share premium, statutory reserves, retained earnings/accumulated losses, capital gain and loss from treasury shares, decreased by intangible assets and treasury shares as Tier 1 deductible items.
– Tier 2 capital include: share capital from preference shares, share premium from preference shares, revaluation reserves related to property, plant and equipment and equity investments, reserves for general banking risks up to 1,25% of risk-weighted assets, subordinated liabilities up to 50% of Tier 1 capital, decreased by treasury preference shares as Tier 2 capital deductible item.
– Deductible items are: shortfall amount of the special reserves for estimated losses, equity investments in banks or other financial institutions exceeding 10% of capital of the entity that is invested into, and 10% of the investing bank capital, and the amount of the Tier 2 capital of the Bank which exceeds its Tier 1 capital.

34. RISK MANAGEMENT (Continued)

34.8. Capital Management (Continued)

The risk weighted on balance sheet assets and off-balance sheet items are determined in accordance with the prescribed risk ratios for all types of assets. The risk ratios are divided into five groups (0%, 20%, 50%, 100%, and 125%). When calculating the capital adequacy ratio in accordance with the regulations of the National Bank of Serbia, the overall risk-weighted on balance and off-balance assets are increased by the amount of unquoted derivatives, open foreign currency position and price risk exposure.

The table below summarizes the structure of the Bank's capital as of 31 December 2008 and 2007, as well as the capital adequacy ratio:

	In thousand of Dinars	
	2008	**2007**
Regulatory capital		
Tier 1 capital	42,722,553	25,145,240
Tier 2 capital	7,971,552	8,824,898
	50,694,105	**33,970,138**
Shortfall amount of the special reserves for estimated losses	(2,629,532)	(4,271,198)
Equity investment in Intesa Leasing d.o.o. Beograd	(12,941)	(114,869)
Total (1)	**48,051,632**	**29,584,071**
Risk weighted assets		
Balance sheet	192,099,322	90,751,045
Off-balance sheet items	61,703,742	27,106,935
Unquoted derivatives	7,548	-
Foreign currency risk exposure	1,910,412	3,821,248
Price risk exposure	62,557	-
Total (2)	**255,783,581**	**121,679,228**
Capital adequacy (1/2 x 100)	***18,79%***	***24,31%***

34.9. Judgements on the Effects of the Global Financial Crisis

The ongoing global financial crisis had started in mid 2007, while its real effects to the banking and economic sector had become evident in 2008. The effects of the crisis have caused the decrease in the investment activities on the capital market, decrease of the banking sector liquidity, the increase of the interbank interest rates and great fluctuations on stock markets. The overall implications of the global financial crisis cannot be predicted with certainty at present, and all of the appropriate protective measures cannot be taken. The effects of the crises started to become felt in Serbia in the last quarter of 2008, first impacting the banking sector through a significant withdrawal of the deposits in retail banking, which had a further impact on the general liquidity crisis, fluctuation and decrease in the exchange rate of the dinar against foreign currencies and decrease in the commercial activities and the purchasing power of the population and economy. The National Bank of Serbia and the Government of the Republic of Serbia introduced a set of measures in order to mitigate the early effects of the crisis, thus contributing to the return of the confidence in the banking sector, as well as establishing the conditions for reviving the commercial activities through more favourable financing terms and conditions.

34. RISK MANAGEMENT (Continued)

34.9. Judgements on the Effects of the Global Financial Crisis (Continued)

Measures undertaken by the National Bank of Serbia to protect stability in the midst of the financial crisis are contained in the following documents:

- Decision on Temporary Measures for Preserving Banking Sector Stability in the Republic of Serbia;
- Decision on Temporary Measures for Preserving Financial Stability in the Republic of Serbia;
- Agreement of Cooperation for Preserving Financial Stability in the Republic of Serbia; and
- Monetary Policy Programme of the National Bank of Serbia for the Year 2009.

The aim of these measures is to secure:

- The confidence of the commercial banks that, in case of liquidity issues, they can be granted loans from the National Bank, for the purposes of overcoming temporary liquidity issues;
- The increase of the liquidity of the banking sector which has been drastically jeopardized by the decrease of confidence in the banking sector and money market, by the amendments to the regulations on the obligatory reserve and other borrowings in foreign currency and other borrowings up to mid 2010;
- Overcoming the problems on the occasion of repayment of the loans by the Bank’s customers;
- Measures for stimulating the credit activities;
- Investments into financial institutions (activities of insurance companies, purchase of financial derivatives abroad for protection against interest, currency and market risk; purchase of foreign equity instruments under the prescribed conditions); and
- Increase of the insured amount of the deposit from EUR 3,000 to EUR 50,000.

The Government of the Republic of Serbia adopted the “Program of measures for mitigating the adverse effects of the global economic crisis“. The goals of this Program are to maintain the competitiveness of the Serbian economy, to maintain the employment, and to stimulate domestic demand.

The Bank management anticipates that the aforementioned general effects of the crisis to the economic environment in the country might affect the quality of the credit portfolio and the capability of the debtors to settle their liabilities within the maturity period. In accordance with the regulatory requirements and the National Bank of Serbia’s measures, as well as the internal risk management policies, the Bank conducts appropriate activities in order to maintain the quality of its credit portfolio and to provide appropriate sources of financing in the future period. Such measures particularly include: prudent policy of granting loans and analysis of the credit worthiness of the debtor, obtaining relevant collaterals for securing the collection of receivables, as well as establishing appropriate provisions for credit risks. The Bank management deems that the liquidity risk management and securing the appropriate sources of financing shall be the key determination of the management and the management bodies of the Bank in the future period.

The significant fluctuations in the prices of securities which are quoted on an active market, i.e. on the Belgrade Stock Exchange in the last quarter of 2008, did not have a negative effect on the securities portfolio and the result of the Bank’s operations, as the Bank does not have significant exposure to this risk.

34. RISK MANAGEMENT (Continued)

34.9. Judgements on the Effects of the Global Financial Crisis (Continued)

The management deems that, in the given circumstances, it undertakes all necessary measures in order to secure the sustainable growth and development of the Bank. Furthermore, the management cannot reliably estimate the effects of the further development and the scope of the crisis to the economic environment in Serbia, or the impact on the financial position and the results of the Bank's operations, but they consider that the crisis will not affect the Bank's ability to continue as a going concern.

34.10. Fair Value of Financial Assets and Liabilities

It is a policy of the Bank to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts.

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot readily or reliably be determined in the absence of an active market. The Bank's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books of account may not have been realized, it recognizes a provision.

The Bank's financial instruments carried at amortized cost mostly have short maturity terms and/or bear variable interest rates that are reflective of current market conditions. The Bank considers consequently that their carrying value approximates their fair value. The fair value of loans and advances to customers is approximately equal to their book value net of related allowance for impairment. Available for sale investments also comprise some equity instruments that do not have a quoted market price in an active market since there is no developed financial market in Serbia. Since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, these investments are carried at cost, less any allowance for impairment. Deposits from other banks and customers are mostly on demand and with short-term maturity, all deposits bear variable market interest rates; therefore management of the Bank is of the opinion that the fair value of deposits is equal to their carrying values.

In the opinion of the Bank's management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

35. CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2008, the Bank acted as a defendant in a certain number of legal proceedings. The total estimated value of damage claims arising from the legal proceedings amounts to 381,937 thousand of Dinars (31 December 2007: 127,987 thousand of Dinars), including penalty interests and fees.

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 29 to the financial statement, as of 31 December 2008, the Bank recognized provision of 344,945 thousand of Dinars (31 December 2007: 127,987 thousand of Dinars) for potential losses that might arise as a result of the aforementioned litigations The Bank's management considers that no material losses will arise from the contingent liabilities other than those provided for.

The Bank is subject to a number of lawsuits as a plaintiff so as to collect its receivables. All disputed receivables from corporate and retail customers have been fully provided for.

(b) Tax Risks

Tax system in the Republic of Serbia is undergoing continuous amendments. Tax period in the Republic of Serbia is considered to be open in the five-year period. In different circumstances, tax authorities could have different approach to some problems, and could detect additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are fairly presented.

36. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 20 of the Law on Accounting and Auditing, the Bank performed reconciliation of receivables and payables with its debtors and creditors, and it maintains credible documentation on the circularization process. The Bank submitted the confirmations to its customers and debtors with the outstanding balance as of 31 December 2008.

Based on the exchanged confirmations, 39 items of loans and advances to customers in the total amount of 137,842 thousand of Dinars remained unreconciled. The largest amounts of the disputed receivables totalling 51,790 thousand of Dinars relate to factoring transactions. Legal entities often do not change the client toward which they have an obligation in their accounting records, regardless of the fact that the client has ceded the receivables to the Banks pursuant to the Sale of Receivables Agreement.

Unreconciled outstanding balances of receivables in the amount of 53,160 thousand of Dinars relate to the maturity mismatch between the clients and the Bank, when recording receivables arising from issued guarantees and acceptances. The Bank records the decrease in its receivables based on the official letter from the Development Fund on the settlement of an instalment or liability, regardless of the fact that such instalment or liability was settled twenty days before.

The remaining portion of unreconciled receivables at the balance sheet date amounting to 32,892 thousand of Dinars, mostly relate to the method of posting and recording of principal and foreign currency gains/losses arising from the placements in Dinars and other fees.

37. EXCHANGE RATES

The official exchange rates for major currencies, determined on the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies as of 31 December 2008 and 2007 into Serbian Dinars (RSD) were as follows:

		In Dinars
	2008	**2007**
EUR	88.6010	79.2362
USD	62.9000	53.7267
CHF	59.4040	47.8422

38. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events subsequent to the balance sheet date, which would require disclosures in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2008.