EUROBANK EFG A.D. BEOGRAD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
AND INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Eurobank EFG a.d. Beograd

We have audited the accompanying financial statements of Eurobank EFG a.d. Beograd (the "Bank") which comprise the balance sheet as at 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 statistical annex is an integral part of these 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 requirements of the Law on Accounting and Auditing of the Republic of Serbia and the regulations of the National Bank of Serbia. This responsibility includes: designing, implementing and maintaining internal controls 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 that 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 Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Eurobank EFG a.d. Belgrade as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Serbia, the regulations of the National Bank of Serbia and the provisions disclosed in Note 2 to the financial statements.

Jelena Pešić
Certified auditor

PricewaterhouseCoopers d.o.o. Beograd

Belgrade, 13 April 2009

All amounts are expressed in 000 RSD unless otherwise stated

	Note	2008	Reclassified 2007
Interest income	6	12,162,261	7,015,327
Interest expenses	6	(3,693,699)	(2,331,565)
Net interest income		**8,468,562**	**4,683,762**
Fee and commission income	7	1,742,740	1,144,422
Fee and commission expense	7	(179,855)	(189,408)
Net fee and commission income		**1,562,885**	**955,014**
Net gains from sale of securities	8	44,275	30,883
Net foreign exchange gains/(losses)	9	(5,820,004)	373,642
Operating and other income	10	237,969	312,852
Net provisions and impairment losses on loans and advances	11	(1,317,045)	(628,331)
Salaries, benefits and other personal expenses	12	(1,781,026)	(1,310,993)
Depreciation expenses	13	(604,104)	(493,658)
Operating and other expenses	14	(3,036,605)	(2,626,240)
Income arising from change in value of assets and liabilities	15	49,449,630	5,946,244
Expenses arising from change in values of assets and liabilities	15	(43,010,367)	(5,816,926)
Profit before tax		**4,194,170**	**1,426,249**
Income tax	16	(217,060)	(10,807)
Profit/(loss) from creation/reduction in deferred tax assets	16	95,499	(96,746)
Profit after tax		**4,072,609**	**1,318,696**
Earnings per share			
Basic earnings (expressed in RSD per share)	17	16.62	8.31

All amounts are expressed in 000 RSD unless otherwise stated

	Note	2008	Reclassified 2007
Assets			
Cash and cash equivalents	18	15,345,227	6,603,153
Callable deposits and credits	19	9,860,633	20,084,883
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	20	344,940	141,819
Loans, advances and deposits	21	92,075,597	51,887,418
Securities (excluding own shares)	22	141,070	73,620
Equity investments	23	20,479	20,479
Other lending	24	30,700	5,761
Intangible assets	25	1,107,393	965,780
Property, plant end equipment	26	4,070,235	3,760,160
Deferred tax assets	27	167,803	72,304
Other assets, prepayments and accrued income	28	865,189	494,312
Total assets		**124,029,266**	**84,109,689**
Liabilities			
Transaction deposits	29	8,012,520	9,683,529
Other deposits	30	77,168,271	49,961,806
Borrowings	31	23,120	10,152
Interest, fees and commissions payable and change in fair value of derivatives	32	6,706	16,452
Tax liabilities	33	47,728	32,553
Provisions	34	217,062	96,079
Liabilities from profit	35	207,854	6,938
Other liabilities, accruals and deferred income	36	2,649,151	1,737,689
Total liabilities		**88,332,412**	**61,545,198**
Shareholders' equity			
Share capital and other capital	37	31,481,926	22,422,172
Reserves	37	568,083	568,083
Accumulated gains	37	28,556	28,556
Accumulated losses	37	(454,320)	(1,773,016)
Current year profit	37	4,072,609	1,318,696
Total shareholders' equity		**35,696,854**	**22,564,491**
Total liabilities and shareholders' equity		**124,029,266**	**84,109,689**
Off Balance Sheet items			
Funds managed on behalf of third parties	38	2,603,269	2,737,809
Guaranties, sureties, assets pledged as collateral and irrevocable commitments	38	46,176,531	25,444,138
Guaranties, sureties and collaterals received	38	15,704,922	9,640,549
Derivatives	38	69,863,421	39,116,127
Other off-balance sheet items	38	287,074,416	215,071,236
		421,422,559	**292,009,859**

Belgrade, 27 February 2009

On behalf of the Bank:

Philippos Karamanolis, President of the Executive Board

Slavica Pavlovic, Chief Financial Officer

All amounts are expressed in 000 RSD unless otherwise stated

	2008	Reclassified 2007
Cash inflow from operating activities		
Inflow from interest	11,567,484	6,778,390
Inflow from fees and commissions	1,908,278	1,478,059
Inflow from other operating income	2,983,898	750,162
	16,459,660	**9,006,611**
Cash outflow from operating activities		
Outflow from interests	(3,199,692)	(2,119,782)
Outflow from fees and commissions	(158,664)	(254,703)
Outflow from gross salaries, benefits and other personal expenses	(1,923,387)	(1,314,277)
Outflow from taxes, contributions and other duties charged to income	(65,559)	(313,406)
Outflow from other operating expenses	(2,565,083)	(2,419,099)
	(7,912,385)	**(6,421,267)**
Net cash inflow for operating activities before increase or decrease in loans investments and deposits	**8,547,275**	**2,585,344**
Decrease in loans and investments, and increase in deposits		
Decrease in securities	-	7,029,022
Increase in deposits	25,504,711	14,144,563
	25,504,711	**21,173,585**
Increase in loans and investments, and decrease in deposits		
Increase in loans and placements with banks and other financial organizations	(33,817,992)	(27,169,268)
Increase in securities	(23,175)	-
	(33,841,167)	**(27,169,268)**
Net cash inflow for operating activities before profit tax		
Profit tax paid	(16,144)	-
Dividends paid	-	-
Net cash inflow for operating activities	**194,675**	**(3,410,339)**
Cash flow from investing activities		
Cash inflow from investing activities		
Inflow from selling of long term investments	-	5,418,410
Inflow from selling of intangible assets and fixed assets	6,966	22,598
	6,966	**5,441,008**
Cash outflow from investing activities		
Outflow for obtaining equity instruments	-	(16,200)
Outflow for purchase of intangible assets and fixed assets	(1,035,036)	(2,783,132)
	(1,035,036)	**(2,799,332)**
Net cash flow from investing activities	**(1,028,070)**	**2,641,676**
Cash flow from financing activities		
Inflow from share issue	9,059,754	6,055,947
Net cash inflow from financing activities	**9,059,754**	**6,055,947**
Cash inflow	**51,031,091**	**41,677,151**
Cash outflow	**(42,804,732)**	**(36,389,867)**
Net cash inflow/(outflow)	**8,226,359**	**5,287,284**
Cash at the beginning of the year	**6,603,153**	**1,471,226**
Foreign exchange gains	21,093,583	11,403,896
Foreign exchange losses	(20,577,868)	(11,559,253)
Cash at the end of the reporting period	**15,345,227**	**6,603,153**

All amounts are expressed in 000 RSD unless otherwise stated

	Share and other capital	Share premium	Other reserves	AFS revaluation reserves	Retained earnings/ Accumulated loss	Total shareholder's equity
As at 1 January 2007	15,020,927	1,345,299	568,083	249,057	(1,744,460)	15,438,906
Disposal of AFS securities	-	-	-	(249,057)	-	(249,057)
14th issue of shares	1,484,400	671,600	-	-	-	2,156,000
15th issue of shares	2,685,100	1,214,846	-	-	-	3,899,946
Current period profit	-	-	-	-	1,318,696	1,318,696
As at 31 December 2007	**19,190,427**	**3,231,745**	**568,083**	**-**	**(425,764)**	**22,564,491**
16th issue of shares	5,165,200	2,334,670	-	-	-	7,499,870
17th issue of shares	1,074,300	485,584	-	-	-	1,559,884
Current period profit	-	-	-	-	4,072,609	4,072,609
As at 31 December 2008	**25,429,927**	**6,051,999**	**568,083**	**-**	**3,646,845**	**35,696,854**

1. General information

Eurobank EFG A.D. Beograd has been established by merger of Eurobank EFG a.d. Beograd and Nacionalna Štedionica Banka a.d. that was completed on 20 October 2006.

The Shareholders' Assembly of the Nacionalna Štedionica Banka a.d. Beograd and the Shareholders' Assembly of the EFG Eurobank a.d. Beograd that were held on 28th July 2006 have adopted the Decision on Merger of the Nacionalna Štedionica Banka a.d. Beograd with EFG Eurobank a.d. Beograd.

On 20th October 2006, the Business Register Agency issued the Decision on merger with acquisition of the Nacionalna Štedionica Banka a.d. Beograd with EFG Eurobank a.d. Beograd by which the process of merger with acquisition has been effected.

On the same date the Business Registers Agency issued the decision regarding the change of the Bank's name to Eurobank EFG Štedionica a.d. Beograd.

The Bank is registered in Serbia for carrying out payment, credit and deposit operations in the country and abroad. The bank operates in accordance with Law on Banks and other Financial Institutions based on principles of liquidity, safety and profitability.

As at 31 March 2007 the Bank has changed registered office to Kolarceva 3 in Belgrade. Previous registered office of the Bank was in Durmitorska 20 in Belgrade.

As at 31 December 2008, the Bank has changed business name to "Eurobank EFG A.D. Beograd". Previous business name of the Bank was "Eurobank EFG Štedionica A.D. Beograd"

As at 31 December 2008 the Bank had 1,535 employees (31 December 2007: 1,369 employees). The Bank's network comprises of 123 branches (31 December 2007: 103 branches)

The Bank's Registration number is 17171178. The Bank's Tax identification number is 100002532.

The Financial statements have been approved by Board of Directors on 26th February 2009.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The financial statements have been prepared in accordance with Accounting and Auditing Law which requires full compliance with IFRS, as well as in accordance with regulations of the National bank of Serbia. These regulations are as follows: Rules on the Forms and Content of Items in Financial Statement Forms to be Completed by Banks (Official gazette of RS no. 74/2008 and 3/2009), Rules on the Chart of Accounts and Content of Accounts within the Chart for Banks (Official gazette of RS no. 98/2007, 57/2008 and 3/2009), Accounting and Auditing Law (Official gazette of RS no. 46/2006)

The applied accounting policies differ from the IFRS requirements in the following materially significant areas:

1. The Bank has not made certain disclosures in accordance with IAS 1 – Presentation of financial statements since the presentation of the financial statements is defined by the National Bank of Serbia.

2. "Off balance sheet assets and liabilities" are disclosed in the balance sheet form (Note 38). In accordance with IFRS, off balance sheet items do not represent either assets or liabilities.

In accordance with the regulations of the National bank of Serbia, presentation of Financial Statements for year ended 31 December 2008 has been changed. Comparative figures for 2007 have been reclassified to reflect these changes.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

a) Amended and new standards and interpretations effective after 1 January 2008

The amended and new standards and interpretations effective from 1 January 2008 listed below are not relevant for the Bank's operations therefore they did not result in changes to the Bank's accounting policies:

- IFRIC 16-Hedges of a net investment in a foreign operation
- IFRIC 13 -Customer loyalty programmes
- IFRIC 12- Service Concession Arrangements
- IFRIC Interpretation 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,

The application of the changes in the Reclassification of Financial Assets: Amendments to IAS 39-Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, effective from 1 July 2008, did not have material effect on the Bank's Financial Statements.

b) Standards and Interpretations issued but not yet effective

The following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2008 have not been early adopted:

- IAS 27 (Revised) - Consolidated and separate financial statements (effective from 1 July 2009)
- IFRS 2 (Amendment) - Share-based Payment-Vesting Conditions and Cancellations (effective from 1 January 2009)
- IFRS 5 (Amendment) - Non-current assets held for sale and discontinued operations and consequential amendment to IFRS 1 -First-time adoption (effective from 1 July 2009)
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).
- IFRS 8, 'Operating segments' (effective from 1 January 2009).
- IAS 23 (Amendment) - Borrowing costs (effective from 1 January 2009)
- IAS 28 (Amendment) - Investments in associates and consequential amendments to IAS 32 - Financial Instruments: Presentation and IFRS 7 - Financial instruments: Disclosures (effective from 1 January 2009)
- IAS 36 (Amendment) - Impairment of assets (effective from 1 January 2009)
- IAS 38 (Amendment) - Intangible assets (effective from 1 January 2009)
- IAS 19 (Amendment) - Employee benefits (effective from 1 January 2009)
- IAS 37 - Provisions, contingent liabilities and contingent assets
- IAS 39 (Amendment) - Financial instruments: Recognition and measurement (effective from 1 January 2009)
- IAS 1 (Amendment) - Presentation of financial statements (effective from 1 January 2009)
- There are a number of minor amendments to IFRS 7 - Financial instruments: Disclosures, IAS 8 - Accounting policies, changes in accounting estimates and errors, IAS 10 - Events after the reporting period, IAS 18 - Revenue and IAS 34 - Interim financial reporting, which are part of the IASB’s annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Bank’s accounts and have therefore not been analyzed in detail.
- IAS 16 (Amendment) - Property, plant and equipment and consequential amendment to IAS 7 - Statement of cash flows (effective from 1 January 2009)
- IAS 27 (Amendment) - Consolidated and separate financial statements (effective from 1 January 2009)
- IAS 28 (Amendment) - Investments in associates and consequential amendments to IAS 32- Financial Instruments: Presentation and IFRS 7 - Financial instruments: Disclosures (effective from 1 January 2009)
- IAS 29 (Amendment) - Financial reporting in hyperinflationary economies (effective from 1 January 2009)
- IAS 31 (Amendment) - Interests in joint ventures and consequential amendments to IAS 32 and IFRS 7 (effective from 1 January 2009)
- IAS 38 (Amendment) - Intangible assets (effective from 1 January 2009)
- IAS 40 (Amendment) - Investment property and consequential amendments to IAS 16 (effective from 1 January 2009)
- IAS 41 (Amendment) - Agriculture (effective from 1 January 2009)
- IAS 20 (Amendment) - Accounting for government grants and disclosure of government assistance (effective from 1 January 2009)
- IFRIC 15 - Agreements for construction of real estates (effective from 1 January 2009)
- IFRIC 17 – Distribution of non cash assets to owners (effective from 1 July 2009),
- IFRIC 18 - Transfers of Assets from Customers (effective from 1 July 2009)

The application of these new standards and interpretations which are relevant for the Bank’s operations will not have a material impact on the Bank’s financial statements in the period of initial application.

These financial statements do not comply with all requirements of IFRS. Therefore, these financial statements are not prepared to present financial position of the Bank, result and cash flows in accordance with accounting principles accepted outside of Republic of Serbia.

c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivate financial instruments are measured at the fair value,
- financial instruments at fair value through profit or loss are measured at fair value and
- liabilities from trading activities are measured at the fair value.

2.2. Comparatives

Comparatives for the year ended as at 31 December 2007 have been reclassified in accordance with changes of the presentation of Financial Statements issued by the National Bank of Serbia.

The financial statements for the year ended 31 December 2007, have been prepared in accordance with Rules on Forms and Content of Individual Items in Financial Statement Forms to be Completed by Banks and Other Financial Organizations (Official gazette of RS no. 18/2007), Rules on the Chart of Accounts and Content of Accounts within the Chart for Banks and Other Financial Organizations (Official gazette of RS no. 133/2003 and 4/2004) and Accounting and Auditing Law (Official gazette of RS no. 46/2006)

The financial statements for the year ended 31 December 2008, have been prepared in accordance with Rules on the forms and content of items in financial statement forms to be completed by banks (Official gazette of RS no. 74/2008 and 3/2009), Rules on the Chart of Accounts and Content of Accounts within the Chart for Banks (Official gazette of RS no. 98/2007, 57/2008 and 3/2009) and Accounting and Auditing Law (Official gazette of RS no. 46/2006).

2.3. Foreign currency translation

a) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Assets and liabilities denominated in foreign currencies have been translated into the functional currency at the market rates of exchange ruling at the balance sheet date and exchange differences are accounted for in the income statement.

b) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in RSD (Republic Serbia Dinar), which is the Bank's functional and presentation currency.

2.4. Derivatives

The Bank uses derivative financial instruments such as foreign currency derivative contracts to hedge its risks associated with interest rate and foreign currency fluctuations.

Derivative financial instruments, including foreign exchange contracts, forward currency agreements, currency swaps, and other derivative financial instruments, are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Embedded derivatives

The Bank negotiates a currency or general price-index clause with the beneficiaries of the loans. General price-indexed loans are embedded derivatives that are not closely related to host contract and are accounted for separately from the host. Embedded derivatives are measured at market value, while the change of their value is stated in the current period profit and loss. The value of embedded derivatives is determined on the basis of official consumer price-index which is applied to the outstanding liability.

Foreign-currency clause is an embedded derivative that is not accounted for separately from the host contract since the economic characteristics and risks of the embedded derivative are closely related to the host contract. Gains/losses arising on this basis are recorded in the income statement as foreign exchange gains/losses.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable 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.

2.5. Income statement

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading 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.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b) Fee and commission income

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 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 interest rate method. Loan origination fees are presented within Interest income (Note 6).

2.6. Property and equipment

All property and equipment are stated at cost less accumulated depreciation and impairment. Historical 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.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	75
Computer equipment	2-4
Furniture and other equipment	6-9
Motor vehicles	5

The assets' residual value represents the estimated amount that the Bank might obtain at present through the sale of the asset, decreased by the estimated cost of sale. If the Bank expects to utilize the asset until the expiration of its useful life, then the residual value amounts to zero. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

2.7. Intangible assets

Licenses

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 to allocate their cost to their residual values over their estimated useful lives (from 3 to 10 years).

Software

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 5 to 10 years).

Costs associated with developing or maintaining computer software programs 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.

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding 10 years).

2.8. Financial assets

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 determines the classification of its investments at initial recognition.

a) Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated for at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost
- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows.

b) Loans and receivables

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

c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative 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. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Held-to-maturity investments are stated at amortized cost using effective interest method. The amortized cost is calculated taking into consideration all discount and premiums received at the date of purchase.

d) Available-for-sale financial assets

Available-for-sale investments are those 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.

e) Investment in associates

Associated entities are those legal entities in which the Bank has a significant influence, and which are neither dependant entities nor joint investments.

The Bank's investment in its associates is initially recognized at cost. At the balance sheet data, investment in an associate is stated at cost.

f) Accounting treatment and calculation

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognized at fair value increased for transactions costs for all financial assets not held at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the income statement. Dividends on equity instruments are recognized in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.9. Impairment of financial assets

a) Assets carried at cost and amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and.

The estimated period between a loss occurring and its identification is determined by the local management for each identified portfolio type. In general, the periods used vary between three and twelve moths; in exceptional cases longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the 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.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current interest rate determined under the contract.

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 the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in impairment charge for credit losses.

b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

c) Renegotiated loans

Loans and advances renegotiated activities include extended payment arrangements, modification and deferral of payments. Provided that the customer account is performing for a period of one year following the renegotiation date, a previously overdue customer account is reset to a normal status.

2.10. Provision for potential loses in accordance with the requirements of the National Bank of Serbia

In accordance with the Decision of the Central Bank of Serbia, the Bank is obliged to classify loans, other placements, guarantees and other on balance sheet and off balance sheet exposures into the categories A, B, C, D and E, based on evaluation of their collectability and associated risk exposures, which depends upon the number of days the payments are in arrears, the financial position of the counterparty, and the quality of the collaterals obtained on the exposure. An estimate of the provision for potential losses is calculated by applying the percentages of 1%-2% for A category, 5%-15% for B category, 20%-35% for C category, 40%-70% for D category and 100% for E category.

The difference in provision calculated in accordance with the requirements of the Central bank and impairment losses calculated in accordance with policy described in the Note 2.9 is charged to the retained earnings and disclosed within special reserves account which is part of the shareholder's equity. Banks operating with losses do not charge those provisions to the accumulated losses. In this situation the Bank is obliged to disclose amount of uncovered provisions for potential losses (Note 37).

2.11. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as callable deposits and credits (Note 19). The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.13. 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.

2.14. Leases

The Bank is the lessee
The leases entered into by the Bank are primarily operating leases. With operating lease a significant part of both risk and benefits remains with the lessor. 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.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.15. Income tax and deferred income tax

Income tax presents the amount calculated and paid to the tax authorities based on legislations of Republic of Serbia. Estimated monthly instalments are calculated by the Tax authority and paid in advance on a monthly basis.

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. Tax return is submitted to tax authorities 10 days after submission of the financial statements, i.e. until the 10 March of the following year.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences between the tax basis of assets and liabilities at the balance sheet date, and their amounts disclosed for reporting purposes, which will result in taxable amounts for future periods. Deferred tax assets are recognized for all deductible temporary differences, unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be sufficient to enable realization (utilization) of deductible temporary differences, unused tax assets and unused tax liabilities.

Current and deferred income tax is recognized in the current year income statement.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future

2.16. Employee benefits

a) *Employee's benefits*

Short term benefits to employees include salaries and social contributions. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to make payments to the pension fund of Republic of Serbia in accordance with the defined contribution plan. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

b) Other employee's benefits

The Bank provides other benefits for the retirement. An employee is usually entitled to these benefits if they were employees of the Bank until reaching the prescribed age for retirement and the minimum required years of employment. The above mentioned benefits are accumulated during the service. The defined retirement obligations are estimated annually by an independent certified actuary through the projected credit unit valuation method. The present value of benefit obligations is determined by discounting the expected future cash payments by reference to the interest rates of the high quality bonds expressed in the same currency, which mature approximately at the same period when retirement obligations are due.

c) Termination benefits

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. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.17. Repossessed properties

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in "Other Assets". Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value. Any gains or losses on liquidation are included in "Other operating income".

2.18. Related party transactions

Related parties include associates, fellow subsidiaries, directors, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature are disclosed on an aggregate basis. All banking transactions entered into with related parties are in the normal course of business and on an arm's length basis.

2.19. Provisions

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

2.20. Share capital

a) Share issue costs

Share issue costs directly attributable to the issue of new shares are shown in equity as a deduction.

b) Dividends on ordinary shares

Dividends are recognized as liabilities for the period in which the decision of their payment has been reached. Dividends approved for the year after the balance sheet date are dealt with in the subsequent events note.

2.21. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement.

2.22. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central Bank, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2.23. Assets managed on behalf of third parties

Assets and income arising from administrated business operations, where the Bank acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from the financial statements.

The bank manages foreign currency frozen bonds issued by Republic of Serbia on behalf of the state and acts as an agent in this business.

3. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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.

a) Impairment losses on loans and advances

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

All amounts are expressed in 000 RSD unless otherwise stated

b) Income tax

The Bank is subject to income taxes in Serbia. Certain estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Fair value of financial assets and liabilities

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Measures taken by the Bank

The Bank has taken all necessary measures in order to mitigate the adverse effects of the crisis on both day to day operations and strategic - long term business perspective.

4. Financial assets per categories and classes

Financial assets per categories and classes are as follows:

	2008	2007
Loans and receivables	92,075,597	51,887,418
Financial assets at fair value through profit or loss	141,070	73,620
Held-to-maturity investments	1,525,220	4,299,570
Total	**93,741,887**	**56,260,608**

5. Risk management policies

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Risk management is done through specialized Risk management department. The Bank has defined procedures for risk identification, measurement and risk management in accordance with regulations and best practices.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Bank is exposed to the following most important risks:

5.1. Credit risk
5.2. Market risk
5.3. Liquidity risk
5.4. Operational risks

Market risk includes:

- foreign currency risk
- interest rate risk
- other price risks

5.1. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, sector risk, repayment risk, etc.).

5.1.1. Management of credit risk

The Bank approves loans in accordance with business policy and by adjusting maturity dates of loans approved and interest rates with the purpose of loans, type of the loan or client and creditworthiness of its clients.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

The Board of Directors has delegated responsibility for the approval of credit exposures to several different levels in accordance with the limits set forth by the Board. The underlying foundation of the credit processes is the application of the "four-eye principle" on one side from the Business Units and on the other side from Risk Management for all exposures above the business unit level of approval. In case of exposures approved within the business unit level of approval, the "four-eye principle" is ensured within that business unit.

Business Units, under the Corporate Banking Division, incorporate the following:

- Large Corporate (LC) Department
- Small & Medium Enterprises (SME) Department

Business Units, responsible for retail lending operations, incorporate the following:

- Consumer lending unit
- Mortgage lending unit
- Small Business lending unit

The Risk Management Division (RMD) incorporates the following units handling credit risk:

- Credit Risk Department (CRD)
- Credit Control Department (CCD)
- Non-Performing Loans Department (NPL)

Credit Control Department and Credit Risk Department are responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. This task is performed by Credit Control Department

- Credit Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned, and provides independent credit opinion. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, countries and industries (for loans and advances), and by issuer, credit rating band and market liquidity (for investment securities).

- Developing and maintaining the Bank's risk grading policy in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is maintained by Credit Control Department. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework for wholesale placements consists of eleven grades and for retail exposures of fourteen grades (delinquency based) reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types is the responsibility of Credit Control Department. Regular reports are provided to various Bank bodies on the credit quality of portfolios and appropriate corrective action is taken. One of its main tasks is providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

The bank has developed and adopted a credit policy for each lending business unit. Each credit policy of Eurobank EFG a.d. (hereafter: the Credit Policy) defines basic concepts, guidelines and rules that ensure the proper management of the process of approving, disbursing, monitoring and collecting of loans and other exposures.

Credit Policy defines:

- the goals of the credit policy,
- the basic concepts of credit policy,
- lending principles,
- the organization of credit operations,
- responsibilities and decision making,
- the procedure for granting loans and other placements,
- credit risk,
- collateral instruments,
- procedures for collecting outstanding amounts,

For the purposes of implementing the relevant Credit Policy, the Bank has also passed other necessary acts, decisions, rules, procedures, etc.

When assuming credit risk, the Bank applies the following fundamental rules:

A prerequisite for every financing transaction is the understanding of the economic background of the transaction.

A loan is granted only when the Bank has sufficient information on the borrower's creditworthiness. The Bank will not grant a loan (or increase an existing one) to a borrower who is unwilling or unable to provide sufficient information.

Collateral is accepted only to support an exposure. It cannot serve as a substitute for the borrower's ability to meet obligations (exception: Lombard loans, cash collateralized loans, etc.).

The large and largest exposures towards any borrower (or group of connected borrowers), exposures towards connected persons as well as the total exposure of the Bank (both on and off-balance sheet), is kept within limits prescribed by the Law on Banks and relevant decisions of the National bank of Serbia.

The Bank approves new loans or decides to extend or not to extend the existing ones based on the customer rating of the borrower and its development, as well as details and characteristics of the transaction.

All Bank credit facilities are based on relevant approvals, which lay down the terms and other conditions for their implementation. The approval levels and limits are defined by the relevant Board of Directors Decision on approval levels.

For wholesale placements, there are 5 approval authority levels with the highest one being Board of Directors (or other nominated authority) in case of large exposures and exposures to related parties.

For retail placements, there are also different approval levels depending on the type of business (consumer lending, mortgage lending or SBB lending), with the highest authority being specific Credit Commission for each business type.

In each committee/commission, risk management has the right of vote. All decisions must be unanimous with the exception of very specific and limited (amount wise) wholesale lending cases which are regulated in details by the relevant procedures.

In addition to the client's creditworthiness, risk limits are also determined taking into account various collateral instruments. Risk exposure to individual borrower, including banks, is limited and includes both balance and off balance sheet risk exposures. The total risk exposure per individual client (or group of related parties) with regards to the limits, is considered and analyzed prior to completion of the transaction.

In order to ensure the safety of the business operations, and based on the estimated risks of potential losses, the Bank calculates provisions, which arise from loans and off balance sheet exposures. Levels of provision are related to the risk grade of the placement.

Risk grading system for wholesale clients

The 11 grade system derives the rating of the borrower (and not the credit facility) is based on the weighted average of the following risk parameters:

- Financials
- Sector
- Management
- Operations

In addition, other factors such as debt servicing, change in the borrower's ownership, etc., may affect the final rating of a customer.

The credit rating is based on a profound analysis of qualitative and quantitative factors:

Qualitative factors: are those that deal with the borrower's management, industry, operating conditions, etc.

Quantitative factors: are those that refer to a set of various ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to financial statements etc.)

Credit related commitments
The primary purpose of undrawn credit commitments is to ensure that funds are available to a customer in accordance with the agreement.

Guarantees and letter of credits carry the same credit risk as loans.

5.1.2. Impairment and provisioning policy

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). Individually impaired assets are those which have been individually assessed for impairment and for which an impairment loss has been recognized. For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. Accounts in portfolios of homogeneous loans are treated as impaired once facilities are 90 days or more overdue for consumer and SBB placements, and 180 days or more overdue for mortgage placements.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank. The term 'past due financial asset' is defined as 'day-1 delay'. That is when a counterparty has failed to make a payment when contractually due. The buckets used by the Bank for the purpose of this disclosure are:

- Consumer Lending: 1 – 89 days past due
- Mortgage: 1 – 179 days past due
- SBB: 1– 89 days past due (loans for which specific provisions have been recognized are excluded).
- Corporate Lending: 1 – 359 days past due and internal grading score below eight (loans which have been recognized as individually impaired are excluded).

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured are no longer considered to be past due but are treated as new loans. In subsequent years, if the asset becomes past due, it is disclosed under past due but not impaired or impaired as appropriate.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Impairment of wholesale placements

For exposures to borrowers with a rating of 7 or worse, NPV charge is calculated in accordance with IAS 39 requirements. This charge is added up to the amount of provisions calculated in accordance with the appropriate provisioning rate and the sum represents total provisions.

Impairment of retail placements

The classification of retail clients is based on the full delinquency analysis. The required provisions are computed by applying the appropriate provisioning rate to the net exposure per each product group and per each delinquency bucket. In case of individually impaired loans, future expected cash-flows are discounted in accordance with IAS 39 requirements, in order to obtain the appropriate impairment charge.

Special reserves

For both wholesale and retail placements, 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, and other relevant regulations of the National Bank of Serbia.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when it is determined that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status. Any write-off is approved by the relevant body in accordance with the decision of Board of Directors.

5.1.3. Collaterals

For a majority of placements granted to borrowers, the Bank will require collateral instrument. Collateral generally is not held over loans and advances to banks. Most often the collateral consists of one or more of the following collateral instruments (or instruments for credit support):

- cash deposits in dinars and foreign currencies,
- guarantees from the government, government funds or first class banks,
- guarantees from parent companies, other legal entities and individual persons,
- letters of comfort from parent companies,
- mortgage over real estate,
- pledge over movable property,
- own blank bills of exchange,
- pledge over shares or ownership stakes
- a pledge over other securities (e.g. bonds) or precious metals,

All amounts are expressed in 000 RSD unless otherwise stated

- assignment of receivables (with or without notification) etc.,
- assignment of insurance policies.

The Bank reserves the right to request any other type of instruments (or variation of the above instruments) which it may deem necessary.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated periodically in accordance with the relevant credit policy except when a loan is individually assessed as impaired in which case a new appraisal is performed if deemed necessary.

5.1.4. Credit monitoring

The Bank constantly monitors the state of the borrower's business and any change in its creditworthiness. To this end, besides the regular evaluation of financial statements, the responsible business units carry out regular checks of the borrower's business operations.

The monitoring of the borrower is institutionalized through regular credit reviews. Credit reviews are prepared by the relevant business unit and approved by the relevant approval authority. In case of wholesale customers, the review frequency depends on their risk grade.

5.1.5. Maximum exposure to credit risk before collateral held or other credit enhancements:

	2008	Reclassified 2007
On-balance sheet assets		
Interest, fees and commission receivable	344,940	141,819
Loans and advances to banks	29,126,676	3,270,873
Loans and advances to customers:		
- Corporate lending	5,418,568	8,124,980
- Consumer lending (including credit cards)	21,525,390	20,136,421
- Mortgages	17,024,654	10,875,387
- Small business lending	18,980,309	9,479,757
Securities (excluding own shares)	141,070	73,620
Equity investments	20,479	20,479
Other lending	30,700	5,761
Other assets, prepayments and accrued income	865,189	494,312
	93,477,975	**52,623,409**
Off-balance sheet items		
Payment guarantees and performance bonds	32,199,838	16,958,132
Loan commitments and other credit related liabilities	12,386,143	47,632,114
	44,585,981	**64,590,246**
As at 31 December	**138,063,956**	**117,213,655**

All amounts are expressed in 000 RSD unless otherwise stated

5.1.6. Loans and advances

Loans and advances are summarized as follows:

	31 December 2008		Reclassified 31 December 2007	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	50,077,478	29,126,676	38,952,511	3,270,873
Past due but not impaired	12,353,180	-	9,550,543	-
Impaired	2,470,895	-	1,407,200	-
Total gross amount	**64,901,553**	**29,126,676**	**49,910,254**	**3,270,873**

a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2008 can be assessed by reference to the Bank's standard grading system. The following information is based on that system:

	31 December 2008		Reclassified 31 December 2007	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired - grades:				
Satisfactory risk (wholesale grades 1 to 6)	16,680,990	29,126,676	7,885,491	3,270,873
Watch list and special mention (wholesale grade 7)	5,242	-	9,466	-
Total retail	33,391,246	-	31,057,554	-
Total gross amount	**50,077,478**	**29,126,676**	**38,952,511**	**3,270,873**

b) Loans and advances past due but not impaired

Loans and advances past due but not impaired as at 31 December 2008 are as follows:

	Retail customers			Wholesale	
31 December 2008	**Mortgages**	**Consumer lending**	**Small Business lending**	**Corporate lending**	**Total**
Past due up to 29 days	458,473	2,479,799	1,438,766	3,024,265	7,401,303
Past due 30 - 89 days	906,217	2,330,807	1,673,031	11,761	4,921,816
Past due 90 - less than 1 year	29,765	-	-	296	30,061
Total gross amount	**1,394,455**	**4,810,606**	**3,111,797**	**3,036,322**	**12,353,180**
Fair value of collateral	1,333,974	837,859	1,680,081	2,877,072	6,728,986

All amounts are expressed in 000 RSD unless otherwise stated

Loans and advances past due but not impaired as at 31 December 2007 are as follows:

	Retail customers			Wholesale	
31 December 2007	**Mortgages**	**Consumer lending**	**Small Business lending**	**Corporate lending**	**Total**
Past due up to 29 days	2,327,526	4,159,099	685,049	86,770	7,258,444
Past due 30 - 89 days	438,053	1,601,890	234,054	3,483	2,277,480
Past due 90 - less than 1 year	13,097	-	-	1,522	14,619
Total gross amount	**2,778,676**	**5,760,989**	**919,103**	**91,775**	**9,550,543**
Fair value of collateral	2,602,669	1,078,230	550,078	50,412	4,281,389

c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, as at 31 December 2008 are as follows:

	Retail		Wholesale	
31 December 2008	**Mortgages**	**SBB**	**Corporate lending**	**Total**
Individually impaired loans - gross	24,433	900,325	512,027	1,436,786
Fair value of collateral	21,887	420,005	26,042	467,934

The breakdown as at 31 December 2007 is as follows:

	Retail		Wholesale	
31 December 2007	**Mortgages**	**SBB**	**Corporate lending**	**Total**
Individually impaired loans - gross	6,513	210,624	419,552	636,689
Fair value of collateral	6,513	78,671	124,583	209,767

d) Loans and advances renegotiated

Loans and advances renegotiated are as follows:

	2008	**Reclassified 2007**
Consumer lending	2,470	-
Small business lending	3,473	32,421
Corporate lending	-	51,026
Total gross amount	**5,943**	**83,447**

All amounts are expressed in 000 RSD unless otherwise stated

5.1.7. Securities, treasury bills and other eligible bills

As at 31 December 2008, the Bank has treasury bills of the Central Bank in the amount of RSD 1,525,220 thousand and trading securities of Republic of Serbia (frozen savings bonds) in the amount of RSD 141,070. The above mentioned bills and trading securities are not rated. The rating of country is *BB-* based on Standard and Poor's rating.

5.1.8. Repossessed collateral

As at 31 December 2008 Bank had the following assets that were obtained by taking possession of collateral held as security:

Nature of assets	Carrying amount	
		Reclassified
	2008	2007
Residential property	12,415	12,415

5.1.9. Concentration of risks of financial assets with credit risk exposure

a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the geographical sectors of our counterparties:

	Serbia	Greece	Western Europe	Total
Interest, fees and commission receivable	336,140	8,800	-	**344,940**
Loans and advances to banks	2,464,714	26,661,962	-	**29,126,676**
Loans and advances to customers:				
- Corporate lending	5,418,568	-	-	**5,418,568**
- Consumer lending	21,525,390	-	-	**21,525,390**
- Mortgages	17,024,654	-	-	**17,024,654**
- Small business lending	18,980,309	-	-	**18,980,309**
Securities (excluding own shares)	141,070	-	-	**141,070**
Equity investments	20,479	-	-	**20,479**
Other lending	30,700	-	-	**30,700**
Other assets, prepayments and accrued income	845,295	1,642	18,252	**865,189**
As at 31 December 2008	**66,787,319**	**26,672,404**	**18,252**	**93,477,975**
	-	-	-	-
As at 31 December 2007	**51,774,057**	**799,362**	**49,990**	**52,623,409**

All amounts are expressed in 000 RSD unless otherwise stated

b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of our counterparties:

	Commerce and services	**Construction**	**Financial services**	**Manufacturing**	**Private individuals**	**Other**	**Total**
Interest, fees and commission receivable	98,907	9,974	16,051	24,199	180,731	15,078	**344,940**
Loans and advances to banks	-	-	29,126,676	-	-	-	**29,126,676**
Loans and advances to customers:							
- Corporate lending	4,000,184	548,677	60,549	600,964	-	208,194	**5,418,568**
- Consumer lending	-	-	-	-	21,525,390	-	**21,525,390**
- Mortgages	-	-	-	-	17,024,654	-	**17,024,654**
- Small business lending	6,153,072	784,905	22,593	3,061,223	8,600,849	357,667	**18,980,309**
Securities (excluding own shares)	-	-	-	-	-	141,070	**141,070**
Equity investments	-	-	20,479	-	-	-	**20,479**
Other lending	-	-	-	-	-	30,700	**30,700**
Other assets, prepayments and accrued income	65,212	7,968	87,316	-	424,738	279,955	**865,189**
As at 31 December 2008	**10,317,375**	**1,351,524**	**29,333,664**	**3,686,386**	**47,756,362**	**1,032,664**	**93,477,975**
As at 31 December 2007	**8,583,723**	**234,476**	**4,350,996**	**1,029,318**	**35,737,879**	**2,687,017**	**52,623,409**

5.2. Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

5.2.1. Foreign exchange risk

Exposure to foreign currency risk is monitored on regular basis by complying with the requirements of the National Bank of Serbia. The Bank hedges its foreign currency position by granting loans that are indexed to foreign currency. The Bank also actively manages the foreign currency risk by careful estimation of the open foreign currency positions and compliance with the risk ratios prescribed by the National Bank of Serbia as well as the limits prescribed in the internal acts enacted by the Bank’s management and risk management commission.

5.2.2. Interest rate risk

Interest rate risk is the exposure of bank’s financial condition to adverse movements in interest rates. Generally, there are two ways on which the bank could be affected by changes in interest rates. Firstly, changes in interest rates are affecting the value of banks assets, liabilities and off-balance sheet items, and secondly, it impacts banks future cash flows that the bank will obtain. Interest rate risk could come in the variety of forms, including reprising risk, yield curve risk and basis risk. The Bank’s interest rates are set taking into account the market interest rates and other factors (such as cost of risk, reserve requirement, etc.) and the Bank regularly adjusts them.

The purpose of the interest rate management activities is to optimize the net interest income, and to maintain the interest margins on a consistent level in accordance to the Bank’s business strategy. The management is based on maturities matching of the assets and liabilities’ on the basis of: macro and micro economic estimations, estimations of the conditions for achieving liquidity, and the estimation of the interest rates’ trends.

The Bank's exposure to interest rate risk is shown in the table on the next page. The table includes assets and liabilities classified according to the earlier of the date of re-pricing or the maturity date.

5.2.3. Sensitivity analysis

The management of interest rate risk and currency risk against gap limits is supplemented by monitoring the sensitivity of the Bank’s income statements to various interest rate and foreign currency rate scenarios. The sensitivity of the income statement is the effect of the assumed changes in interest rates and FX rate on the net interest income for one year.

An analysis of the Bank’s sensitivity to an increase or decrease in market interest rates and FX rates (assuming no asymmetrical movements in yield curves and constant balance sheet position) is as follows:

	Sensitivity of income statement	
		Reclassified
Interest rate sensitivity	**2008**	**2007**
Increase in basis points		
+100 bps parallel shift	1,912	10,820
Foreign exchange sensitivity		
10% depreciation of RSD	5,513	19,124

5.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations which can have a negative result on the Bank's financial results and equity. The Bank manages liquidity risk by obtaining different funding sources that include:

- customer's deposits with different maturities
- deposits from the money market and available lines with financial institutions
- Available lines form the majority shareholder
- share capital

Sources of liquidity are regularly reviewed so as to maintain a wide diversification by currency, geography, provider, product and term.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

All amounts are expressed in 000 RSD unless otherwise stated

Non – derivative cash flow

The amounts disclosed in the table below are the contractual undiscounted cash flows for the years 2008 and 2007.

As at 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Transaction and other deposits	43,220,675	12,960,461	27,347,934	2,630,199	988,783	87,148,052
Borrowings	23,120	-	-	-	-	23,120
Subordinated liabilities	-	-	-	443,005	-	443,005
Other liabilities	338,021	138,634	-	-	-	476,655
Total	**43,581,816**	**13,099,095**	**27,347,934**	**3,073,204**	**988,783**	**88,090,832**

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Transaction and other deposits	25,881,181	8,241,922	22,816,480	4,228,584	-	61,168,167
Borrowings	10,152	-	-	-	-	10,152
Subordinated liabilities	-	-	-	462,232	-	462,232
Other liabilities	265,533	-	-	-	-	265,533
Total	**26,156,866**	**8,241,922**	**22,816,480**	**4,690,816**	**-**	**61,906,084**

As at 31 December 2008	No later than 1 year	1-5 years	Over 5 years	Total
Loan commitments	7,657,997	4,097,959	630,187	12,386,143
Guarantees and acceptances	703,298	21,405,280	10,091,260	32,199,838
Other irrevocable commitments	280,708	1,309,842	-	1,590,550
Operating lease	97,171	-	-	97,171
Capital commitments	167,128	-	-	167,128
Total	**8,906,302**	**26,813,081**	**10,721,447**	**46,440,830**
As at 31 December 2007				
Loan commitments	2,847,829	4,001,268	30,619	6,879,716
Guarantees and acceptances	6,539,885	5,438,180	4,980,066	16,958,131
Other irrevocable commitments	1,606,291			1,606,291
Operating lease	70,255	-	-	70,255
Total	**11,064,260**	**9,439,448**	**5,010,685**	**25,514,393**

All amounts are expressed in 000 RSD unless otherwise stated

Derivative cash flow

Derivatives settled on a net basis

The Bank's derivatives that will be settled on a net basis include foreign exchange swaps over-the-counter (OTC)

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Financial liabilities as of 31 December 2008	Less than 1 month	Between 1 and 3 months	Between 3 and 12 month	Between 1 and 5 years	Over 5 year	Balance sheet amounts
Currency swaps (Note 32)	6,862	-	-	-		3,100
Total	**6,862**	**-**	**-**	**-**	**-**	**3,100**

5.4. Operational risk

Operational risk is the risk of negative effects on the financial result and capital of the bank caused by human error, inadequate internal procedures and processes, inadequate management of the information system and other systems in the bank, as well as by unforeseeable external events (economic environment, changes in the banking system, technological development etc.). Part of this risk is ***legal risk***, arising from bank's failure to comply with the legal or contractual provisions, negatively affecting the operations or status of the Bank

They are monitored per business lines and per operational loss event types, and regularly reviewed in order to take corrective actions where necessary

5.5. Capital management

The Bank's objectives, when managing capital, which is a broader concept than "equity" on the face of the balance sheet, are:

- To comply with the capital requirements set by the National Bank of Serbia
- To provide an adequate level of capital so as to enable the Bank to continue its operations as a going concern
- To maintain a strong capital base to support the development of its business.

Capital adequacy, as well as the use of the Bank's capital is monitored on a 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%
- Gross dinar placements to the citizens in the amount of 150% of the tier 1

All amounts are expressed in 000 RSD unless otherwise stated

The Bank’s total capital comprises of tier 1 and tier 2 capital and deductible items.

Tier 1 capital: share capital from ordinary shares, share premium, statutory reserves, cumulative loss or gain, capital gain and loss from purchased own shares, intangible investments and purchased own actions as tier 1 deductible items.

Tier 2 capital: share capital from preference shares, share premium from preference shares, revaluation reserves related to fixed assets and share in capital, retained earnings for general banking risks up to 1.25% of risk-weighted assets, subordinated liabilities up to 50% of tier 1 capital, and purchased own preference shares as Tier 2 capital deductible items.

Deductible items: collective impairment allowances, share in capital of banks or other financial institutions exceeding 10% of capital of the organisation 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.

The risk weighted balance and off-balance assets are determined in accordance with the prescribed risk ratios for all types of assets. When calculating the capital adequacy ratio, and in accordance with the regulations of the National Bank of Serbia, the overall risk-weighted balance and off-balance assets are increased for the calculated foreign currency and price risk.

The table below summarizes the structure of the Bank’s capital as at 31 December 2008, as well as the capital adequacy ratio:

	2008	Reclassified 2007
TIER 1 capital	30,549,535	20,264,072
TIER II capital	270,603	321,745
Deductible items		
Shortfall amount of provisions against potential losses	(14,640,639)	(7,147,817)
Investments in shares over 10%	(20,479)	(20,479)
Total regulatory capital	**16,159,020**	**13,417,521**
Risk weighted assets:		
Balance sheet	70,704,500	31,918,707
Off balance sheet	29,843,621	18,346,921
FX risk	72,111	93,231
Price risk	216,966	-
Total risk weighted assets	**100,837,198**	**50,358,859**
Capital adequacy	**16.0%**	**26.6%**

5.6. Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognized stock exchange) exists, is the best evidence of the fair value of a financial instrument. However market prices are not available for a significant number of financial assets and liabilities held by the Bank. Therefore, for financial instruments where no market price is available, the fair values of financial assets and liabilities are estimated using present value or other estimation and valuation techniques based on current prevailing market conditions.

The values derived using these techniques are significantly affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rates used. The following methods and assumptions indicate that the fair values of financial assets and liabilities approximate their carrying amounts:

a) trading assets, derivatives and other transactions undertaken for trading purposes as well as treasury bills, available-for-sale securities and assets and liabilities designated at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then the fair values are estimated using valuation techniques based on observable market data.

b) substantially all of the Bank's other financial assets and liabilities are at floating rates of interest, which re-price at frequent intervals. Therefore the Group has no significant exposure to fair value fluctuations and the carrying value of the financial assets and liabilities is substantially equivalent to their fair values, unless otherwise stated.

5.7. Financial crisis

Recent volatility in global and Serbian financial markets
The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets.

The first signs of financial crisis in Serbia became apparent at the beginning of October 2008, primarily in the area of retail savings where the market has recorded significant decline since October 2008. Decrease in retail savings has resulted in slowing down lending activities of the banks. Local currency has started depreciating as foreign investors partially pulled away from the Serbian market and FDIs decreased. At the beginning of 2009 the Serbian government has introduced various measures which will lessen the impact of crisis.

Impact on liquidity
As mentioned above, retail savings has decreased significantly since beginning of October 2008. It is estimated that the 15% of total retail savings has been withdrawn from the system. In the same time liquidity of interbank market has also decreased significantly. Such circumstances have affected the ability of banks to obtain new retail deposits and retain existing deposits at terms and conditions similar to those applied to earlier transactions. Therefore the bank has undertaken various steps in order to increase its deposit base and restore the confidence of the clients.

Impact on borrowers
Borrowers of the Bank may be affected by the lower liquidity situation and depreciation of the local currency which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

Impact on collateral (especially real estate)
The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Serbia for many types of collateral, especially real estate, has not yet been affected by the recent volatility in global financial markets. However, it is expected that real estate prices will decrease somewhat and as a result, the actual realizable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

All amounts are expressed in 000 RSD unless otherwise stated

6. Interest income and expense

	2008	Reclassified 2007
Interest income		
Interest income from dinar assets		
Loans	9,703,339	5,350,383
Deposits	33,873	73,535
Securities	282,424	647,627
Other placements	1,843,672	753,878
Interest income from foreign currency assets		
Loans	21,011	2,508
Deposits	186,923	64,073
Securities	86,908	118,257
Other placements	4,111	5,066
	12,162,261	**7,015,327**
Interest expense		
Interest expense from dinar liabilities		
Loans	-	(38)
Deposits	(700,273)	(432,733)
Securities	(47,550)	(105,050)
Interest expense from foreign currency liabilities		
Loans	(27,104)	(307,159)
Deposits	(2,918,772)	(1,486,585)
Securities	-	-
	(3,693,699)	**(2,331,565)**
Net interest income	**8,468,562**	**4,683,762**

7. Fee and commission income and expense

	2008	Reclassified 2007
Fees and commissions income		
Fees for banking services	1,146,234	834,573
Commissions from issued guarantees and other sureties	351,039	179,577
Other fees and commissions	245,467	130,272
	1,742,740	**1,144,422**
	-	-
Fees and commissions expense	-	-
Fees for domestic payment transactions	(25,924)	(24,939)
Fees for payment transactions abroad	(15,833)	(16,206)
Commissions for received guarantees and sureties	(11,637)	(8,832)
Other fees and commissions	(126,461)	(139,431)
	(179,855)	**(189,408)**
	-	-
Net fees and commissions income	**1,562,885**	**955,014**

All amounts are expressed in 000 RSD unless otherwise stated

8. Net gains/(losses) from sale of securities at fair value through profit and loss

	2008	Reclassified 2007
Gain from securities	45,472	35,952
Loss from securities	(1,197)	(5,069)
Net (losses)/gains	**44,275**	**30,883**

9. Net foreign exchange gains/ (losses)

	2008	Reclassified 2007
Foreign exchange gains	59,960,467	22,727,523
Foreign exchange losses	(65,780,471)	(22,353,881)
Net foreign exchange rate gains/(losses)	**(5,820,004)**	**373,642**

In accordance with the regulations of the National bank of Serbia, chart of accounts and presentation of Financial Statements for year ended 31 December 2008 have been changed. Consequently, in 2008, exchange rate gains and losses arising from RSD loans and deposits indexed in foreign currency have been reclassified from net foreign exchange gains/losses in 2007 to income and expenses arising from revaluation of assets and liabilities in 2008 (Note 15).

10. Operating and other income

	2008	Reclassified 2007
Sale of receivables	50,544	-
Collected written-off claims	814	20,041
Maintenance of dormant accounts	180,507	279,224
Gains from sale of fixed and intangible assets	1,292	3,814
Lease of safe boxes	379	2,711
Collected damages and lawsuits	97	1,127
Other income	4,336	5,935
Total	**237,969**	**312,852**

As of 31 December 2008 income from maintenance of the dormant accounts in the amount of RSD 180,507 thousand (31 December 2007: RSD 279,224 thousand) relates to the fee charged for maintenance of dormant accounts. Dormant accounts are accounts without turnover from 2002 and individual balances are less than EUR 30. Since the Bank has maintained database of dormant accounts and it did not close those accounts, the management of the bank has decided to charge a fee for maintenance of dormant accounts, in accordance with internal procedures. Fee is charged by debiting dormant accounts.

All amounts are expressed in 000 RSD unless otherwise stated

11. Net provisions and impairment losses on loans and advances

	2008	2007
Income from releases of provisions and reversal of impairment losses on loans and advances		
Reversal of impairment for balance sheet items		
Interest, fees and commission receivables (Note 20)	784	10,361
Loans, advances and deposits (Note 21)	52,317	138,241
Other assets (Note 28)	11	1,530
	53,112	150,132
Release of provisions for retirement (Note 34)	1,507	-
Release of provisions for court proceedings (Note 34)	7,474	-
Release of provisions for off-balance sheet positions (Note 34)	-	8,231
Total	**62,093**	**158,363**
Expenses for provisions and impairment losses on loans and advances		
Impairment for balance sheet items		
Interest, fees and commission receivables (Note 20)	(75,400)	(37,791)
Loans, advances and deposits (Note 21)	(1,180,422)	(668,692)
Other assets (Note 28)	(7,965)	(9,414)
	(1,263,787)	(715,897)
Provisions for off-balance sheet items (Note 34)	(65,580)	(28,131)
Provisions for legal cases (Note 34)	(36,823)	(31,139)
Provision for retirement (Note 34)	-	(11,527)
Other provisions (Note 34)	(12,948)	-
Total	**(1,379,138)**	**(786,694)**
Net income/(expense) from indirect write-off of lending and provisioning	**(1,317,045)**	**(628,331)**

12. Salaries, benefits and other personal expenses

	2008	Reclassified 2007
Salaries	1,269,602	943,301
Tax on salaries and benefits	189,126	145,418
Contributions on salaries and benefits	278,749	216,995
Fees for temporary and occasional assignments	2,279	-
Other personal expenses	41,270	5,279
Total	**1,781,026**	**1,310,993**

13. Depreciation and amortization expenses

	2008	Reclassified 2007
Intangible assets (Note 25)	196,988	137,296
Property, plant and equipment (Note 26)	407,116	356,362
Total	**604,104**	**493,658**

All amounts are expressed in 000 RSD unless otherwise stated

14. Operating and other expenses

	2008	Reclassified 2007
Administrative expenses	1,525,197	1,323,413
Non-material expenses (excluding taxes and contributions)	924,195	763,726
Contributions	286,659	223,427
Materials	190,420	169,098
Taxes	80,736	57,197
Write off of receivables	7,151	15,314
Disposals and write-offs of intangible assets and PPE	10,745	27,233
Other expenses	11,502	46,832
Total	**3,036,605**	**2,626,240**

Detailed breakdown of administrative expenses is presented in the table below:

	2008	Reclassified 2007
Transportation services	48,584	28,599
Communication services	130,665	89,909
Telephone	71,317	92,878
Software maintenance	299,792	217,997
Hardware maintenance	40,063	31,398
Maintenance of fixed assets	35,260	39,786
ATM maintenance	10,126	6,162
Marketing and advertising	346,489	325,520
Donations	36,607	76,950
Rent	489,195	400,002
Other services	17,099	14,212
Total	**1,525,197**	**1,323,413**

As of 31 December 2008, non-material expenses in the amount of RSD 924,195 thousand comprise of the following expenses: expenses for services of EFG Retail Services in the amount of RSD 321,652 thousand, deposit insurance expenses in the amount of RSD 167,131 thousand, security and safeguarding expenses in the amount of RSD 73,545 thousand, intellectual services in the amount of RSD 40,931 thousand, cleaning services in the amount of RSD 35,851 thousand, information system services in the amount of RSD 20,195 thousand, and other expense.

All amounts are expressed in 000 RSD unless otherwise stated

15. Income and expenses arising from revaluation of assets and liabilities

	2008	Reclassified 2007
Income arising from change in value of assets and liabilities		
Placements and receivables - exchange rate gains	49,383,167	5,942,239
Loans revalued with retail price index	655	4,005
Liabilities	65,807	-
Increase of market value of derivatives	1	-
	49,449,630	**5,946,244**
Expenses arising from change in value of assets and liabilities		
Placements and receivables - exchange rate losses	(42,924,612)	(5,816,926)
Liabilities	(82,655)	-
Decrease of market value of derivatives	(3,100)	-
	(43,010,367)	**(5,816,926)**
Net income/(expense) from change in value of assets and liabilities	**6,439,263**	**129,318**

As of 31 December 2008 income from revaluation of assets and liabilities in the amount of RSD 654 thousand relates to revaluation of dinar loans with agreed indexation for increase in retail prices (2007: RSD 4,004 thousand).

In accordance with the regulations of the National bank of Serbia, chart of accounts and presentation of Financial Statements for year ended 31 December 2008 have been changed. Consequently, in 2008, exchange rate gains and losses arising from RSD loans and deposits indexed in foreign currency have been reclassified from net foreign exchange gains/losses in 2007 to income and expenses arising from revaluation of assets and liabilities in 2008 (Note 9).

16. Income tax

Income tax is composed of the following taxes:

	2008	Reclassified 2007
Current income tax	(217,060)	(10,807)
Deferred tax	95,499	(96,746)
Total	**(121,561)**	**(107,553)**

All amounts are expressed in 000 RSD unless otherwise stated

The tax on the Bank's profit or loss before tax differs from the theoretical amount that would arise using the average tax rate:

	2008	**Reclassified 2007**
Profit/ (Loss) before tax	4,194,170	1,426,249
Tax calculated at the rate of 10%	(419,417)	(142,625)
Tax effect of non deductible expenses	(14,702)	(19,041)
Tax effect from the current year result	**(434,119)**	**(161,666)**
Tax effect of losses carried forward and tax credits	-	(197)
Tax effect of temporary differences	3,594	(7,102)
Tax effect of recognized deferred tax on tax credits	91,905	50,606
Utilized unrecognized tax credits	217,060	10,806
Income tax income	**(121,560)**	**(107,553)**

As at 31 December 2008, corporate tax payable amounts to RSD 207,154 and comprise of corporate tax liability in the amount of RSD 217,060 thousand for the profit realized in 2008 which is off set with prepaid corporate tax in previous years in the amount of RSD 9,906 thousand. Breakdown is provided below:

	2008	**Reclassified 2007**
Current tax liability for the profit realized	217,060	10,807
Prepaid corporate tax	(9,906)	(4,569)
Total tax payable	**207,154**	**6,238**

17. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2008	**Reclassified 2007**
Profit attributable to equity holders of the Company	4,072,609	1,318,696
Weighted average number of ordinary shares in issue	244,982	158,608
Basic earnings per share (expressed in RSD per share)	**16.62**	**8.31**

All amounts are expressed in 000 RSD unless otherwise stated

18. Cash and cash equivalents

	2008	Reclassified 2007
In dinars		
Current account	11,054,885	676,412
Cash in hand	774,835	463,373
Cash equivalents	1,525,220	4,299,570
Other cash and cash equivalents	46,967	13,868
In foreign currency		
Foreign currency accounts	156,836	175,576
Cash in hand	1,775,055	960,803
Other cash and cash equivalents	11,429	13,551
Total	**15,345,227**	**6,603,153**

In accordance with the Decision of the National bank of Serbia (Official Gazette of Republic of Serbia no. 116/2006, 3/2007, 31/2007, 93/2007, 35/2008, 94/2008, 100/2008, 107/2008, 110/2008, 112/2008), mandatory reserves in local currency are included in the balance of the current account, therefore it is not presented separately. As at 31 December 2008 calculated mandatory reserves in local currency amounted to RSD 7,239,166 thousand. The Bank can use mandatory reserves to maintain its liquidity.

19. Callable deposits and loans

	2008	Reclassified 2007
REPO with the Central bank	-	6,215,374
Mandatory reserves in foreign currency	9,860,633	13,869,509
Total	**9,860,633**	**20,084,883**

Pursuant to NBS Decision on mandatory reserves (Official Gazette of Republic of Serbia no. 116/2006, 3/2007, 31/2007, 93/2007, 35/2008, 94/2008, 100/2008, 107/2008, 110/2008, 112/2008), the Bank is obligated to set aside funds for mandatory reserves in foreign currency on the separate account with NBS which is calculated as a percentage of an average monthly balance of foreign currency deposits. Mandatory reserve is calculated by applying rate ranking from 40% - 45% to the average balance of foreign currency deposits and indexed deposits. The amount of calculated mandatory reserve is decreased by the amount of long term loans insured with the National Corporation.40% of the calculated mandatory reserves in foreign currency has to be maintained in local currency. Mandatory reserve at the rate of 100% is calculated on the deposits of the leasing companies, at rate of 20% on the subordinated liabilities.

All amounts are expressed in 000 RSD unless otherwise stated

20. Interest, fees and commission receivables, change in fair value of derivatives and other receivables

	2008	Reclassified 2007
Receivables in dinars		
Interest	349,751	193,576
Fees	54,086	8,949
Sales	7,941	7,068
Fair value of derivatives	1	-
Receivables in foreign currency		
Interest	2,362	2,181
Fees	4,419	618
Sales	474	821
Interest, fees and commission receivable, gross	**419,034**	**213,213**
Less: Provision for impairment	(74,094)	(71,394)
Interest, fees and commission receivable, net	**344,940**	**141,819**

Movements in provision for impairment are presented below:

	2008	Reclassified 2007
Opening balance	71,394	40,204
New provisions (Note 11)	75,400	37,791
Release of provision (Note 11)	(784)	(10,361)
Net foreign exchange	(9,847)	140
Write off	(62,069)	(3,434)
Other – reclassification (Note 29)	-	7,054
Closing balance	**74,094**	**71,394**

All amounts are expressed in 000 RSD unless otherwise stated

21. Loans, advances and deposits

	2008							Reclassified 2007
	Banking sector	**Financial institutions**	**Companies**	**Entrepreneurs**	**Individuals**	**Foreign entities**	**Total**	**Total**
Deposits in dinars								
Other deposits	1,180,000	-	-	-	-	-	1,180,000	1,050,000
Deposits in foreign currency								
Other deposits	1,284,715	-	-	-	-	17,861,962	19,146,677	3,014,937
Other special purpose deposits	-	-	-	-	-	88,268	88,268	33,791
Placements in dinars								
Investment loans	-	-	1,330,147	901,980	-	-	2,232,127	1,246,592
Overdrafts	-	12,789	763,493	768,306	588,778	-	2,133,366	1,807,340
Working capital loans	-	-	8,596,305	7,031,437	-	-	15,627,742	7,244,234
Mortgage loans	-	-	-	-	16,867,310	-	16,867,310	10,734,876
Other loans	-	-	5,571,984	180,617	22,142,432	8,800,000	36,695,033	27,789,560
Placements in foreign currency								258,982
Other placements	-	-	57,706	-	-	-	57,706	-
Loans and placements, gross	2,464,715	12,789	16,319,635	8,882,340	39,598,520	26,750,230	94,028,229	53,180,312
Less: Provisions	-	-	(671,073)	(233,081)	(1,048,477)	-	(1,952,631)	(1,292,894)
Loans and placements, net	**2,464,715**	**12,789**	**15,648,562**	**8,649,259**	**38,550,042**	**26,750,230**	**92,075,597**	**51,887,418**

All amounts are expressed in 000 RSD unless otherwise stated

Interest rates for indexed loans to legal entities range between 4% and 36% per annum and for RSD loans between 16% and 25.5%.

The Bank approves foreign currency indexed RSD loans to retail customers, where the interest rate ranges from 7% - 26% per annum and RSD loans with interest rates between 17.5% and 33.5%.

Movements in provisions for loans and advances to customers are presented below:

	Corporate	Consumer	Mortgage	SBB	Total
Opening balance 2007	**271,706**	**430,955**	**23,494**	**46,306**	**772,461**
New provisions (Note 11)	87,115	404,517	16,792	160,268	668,692
Release of provision (Note 11)	(79,020)	(55,732)	-	(3,489)	(138,241)
Net foreign exchange	(2,075)	3,707	(5)	(589)	1,038
Write off	-	-	-	(11,056)	(11,056)
Opening balance 2008	**277,726**	**783,447**	**40,281**	**191,440**	**1,292,894**
New provisions (Note 11)	19,794	581,505	-	579,123	1,180,422
Release of provision (Note 11)	(31,277)	(195)	(20,845)	-	(52,317)
Net foreign exchange	55,851	179,399	8,484	(133,238)	110,496
Write off	-	(526,199)	-	(52,665)	(578,864)
Closing balance 2008	**322,094**	**1,017,957**	**27,920**	**584,660**	**1,952,631**

22. Securities (excluding own shares)

	2008	**Reclassified 2007**
Foreign currency frozen bonds	141,070	73,620
	141,070	**73,620**

Foreign currency frozen bonds are bonds issued by Republic of Serbia based on the Law on Settlement of Public Debt of the Federal Republic of Yugoslavia arising from the Citizens' Foreign Exchange Savings (Official Gazette of Republic of Serbia no. 36/2002). Bonds are zero-coupon bonds and they are transferable. Bonds are denominated in EUR and payable either in EUR or in RSD and are registered in the Central register. Bonds are actively traded in the Belgrade Stock Exchange.

23. Equity investments

	2008	**Reclassified 2007**
Equity shares	20,479	20,479
	20,479	**20,479**

As at 31 December 2008 the Bank is holding 25.56% of the voting rights of the EFG Leasing a.d. Beograd (31 December 2007: 25.56%).

All amounts are expressed in 000 RSD unless otherwise stated

24. Other lending

	2008	Reclassified 2007
Other placements in dinars		
Payments claimed under issued guarantees	7,680	2,439
Other placements	1,545	-
Other placements in foreign currency		
Other mandatory deposits	3,544	3,169
Other placements	21,240	1,369
Other lending, gross	**34,009**	**6,977**
Less: Provisions	(3,309)	(1,216)
Other lending, net	**30,700**	**5,761**

25. Intangible assets

	Licenses and software	In course of construction	Total
At 1 January 2007			
Cost	676,358	256,955	933,313
Accumulated amortization	(216,148)	-	(216,148)
Net book value	**460,210**	**256,955**	**717,165**
Year ended 31 December 2007			
Opening net book value	**460,210**	**256,955**	**717,165**
Additions	59,466	324,007	383,473
Transfers	522,635	(522,635)	-
Transfers to/PPE (Note 26)	5,265	(658)	4,607
Other	1,218	(3,387)	(2,169)
Amortization (Note 13)	(137,296)	-	(137,296)
Closing net book value	**911,498**	**54,282**	**965,780**
At 31 December 2007			
Cost	1,259,676	54,282	1,313,958
Accumulated amortization	(348,178)	-	(348,178)
Net book value	**911,498**	**54,282**	**965,780**
Year ended 31 December 2008			
Opening net book value	**911,498**	**54,282**	**965,780**
Additions	-	338,601	338,601
Transfers	289,975	(289,975)	-
Amortization (Note 13)	(196,988)	-	(196,988)
Closing net book value	**1,004,485**	**102,908**	**1,107,393**
At 31 December 2008			
Cost	1,549,651	102,908	1,652,559
Accumulated amortization	(545,166)	-	(545,166)
Net book amount	**1,004,485**	**102,908**	**1,107,393**

Book value of intangible assets does not materially differ from fair value.

All amounts are expressed in 000 RSD unless otherwise stated

26. Property and equipment

	Land and buildings	Equipment and other assets	In course of construction and advances	Total
At 1 January 2007				
Cost	893,077	1,180,629	162,548	2,236,254
Accumulated depreciation	(194,843)	(376,190)	-	(571,033)
Net book value	**698,234**	**804,439**	**162,548**	**1,665,221**
Year ended 31 December 2007				
Opening net book amount	698,234	804,439	162,548	1,665,221
Additions	5,852	84,568	2,409,658	2,500,078
Transfers	188,966	228,817	(417,783)	-
Transfers to/from intangible assets (Note 25)	(4,607)	-	-	(4,607)
Reclassification to intangible assets (Note 25)	(1,048)	1,048	-	-
Reclassification to other assets	(10,171)	(6,873)	-	(17,044)
Disposals	(19,166)	(7,960)	-	(27,126)
Other	-	-	-	-
Depreciation (Note 13)	(105,925)	(250,437)	-	(356,362)
Closing net book value	**752,135**	**853,602**	**2,154,423**	**3,760,160**
At 31 December 2007				
Cost	1,031,153	1,453,097	2,154,423	4,638,673
Accumulated depreciation and impairment	(279,018)	(599,495)	-	(878,513)
Net book value	**752,135**	**853,602**	**2,154,423**	**3,760,160**
Year ended 31 December 2008				
Opening net book amount	752,135	853,602	2,154,423	3,760,161
Additions	-	-	706,727	706,727
Transfers	271,087	344,386	(615,473)	-
Transfers from advances included in the Other assets	-	27,369	-	27,369
Disposals	-	(5,137)	-	(5,137)
Write off	(4,517)	(6,983)	-	(11,501)
Other	-	(282)	14	(268)
Depreciation (Note 13)	(142,362)	(264,754)	-	(407,116)
Closing net book value	**876,343**	**948,201**	**2,245,691**	**4,070,235**
At 31 December 2008				
Cost	1,294,135	1,737,974	2,245,691	5,277,801
Accumulated depreciation and impairment	(417,792)	(789,773)		(1,207,566)
Net book value	**876,343**	**948,201**	**2,245,691**	**4,070,235**

All amounts are expressed in 000 RSD unless otherwise stated

Book value of property and equipment does not materially differ from fair value.

Rental expenses in the amount of RSD 489,195 thousand (2007: RSD 400,002 thousand) in relation to the rental of property are included in the operating expenses (Note 14).

As at 31 December 2008 there are no charges over the Bank's fixed assets.

27. Deferred tax assets

Deferred tax assets are recognized on temporary differences, losses carried forward and unused tax credits.

	2008	Reclassified 2007
Deferred tax assets on unused tax credits		
- from 2007	160,499	45,018
- from 2006	-	5,588
- from 2004	-	9,815
- from 2003	-	8,173
Deferred tax assets on temporary differences	7,304	3,710
	167,803	**72,304**

Movements in deferred tax assets

	2008	Reclassified 2007
Opening balance of deferred tax (assets)	72,304	169,050
Changes during the year:		
Decrease/(increase) of deferred tax liabilities and (decrease)/ increase of deferred tax assets related to temporary differences	3,594	(7,102)
Deferred tax assets on losses carried forward	-	(139,310)
Reversal of tax assets on expired tax credits	-	(940)
Deferred tax assets on tax credits	91,905	50,606
Total deferred tax (expense)/income for the year	**95,499**	**(96,746)**
Deferred tax assets	**167,803**	**72,304**

Deferred income tax income relates to the following items:

	2008	Reclassified 2007
Depreciation	3,594	(7,102)
Losses carried forward	-	(139,310)
Tax credits	91,905	49,666
	95,499	**(96,746)**

As at 31 December 2008 the Bank has unrecognized deferred tax assets on the tax credits in the amount of RSD 409,276 thousand. Tax credits are from the year 2003 to 2006 and will expire 10 years from date of origination. Management believes it is not certain that the future profits will enable utilization of these tax credits.

All amounts are expressed in 000 RSD unless otherwise stated

28. Other assets, prepayments and accrued income

	2008	Reclassified 2007
Prepayments and accrued income in dinars		
Accrued interest	526,102	213,001
Other accrued income	9,637	6,006
Prepayments	78,995	101,720
Other prepayments and accrued income	31,361	35,965
Prepayments and accrued income in foreign currency		
Accrued interest	2,009	2,926
Other accrued income	-	99
Interest prepayments	-	447
Other prepayments and accrued income	2,668	2,534
	650,772	**362,698**
Other receivables in dinars		
Employees	603	755
Advances for current assets	32,138	26,219
Advances for property, plant and equipment	51,089	9,836
For prepaid taxes and contributions	1,682	4,297
Cards receivables	18,111	31,316
Suspense and temporary accounts	(4,342)	(16,353)
Other receivables in dinars	100,424	51,274
Other receivables in foreign currency		
Employees	1	32
Advances for current assets	2,987	2,362
Suspense and temporary accounts	1,483	2,924
Other receivables	25,386	21,932
	229,562	**134,594**
Inventory		
Consumables	13,343	13,343
Assets received in collection of claims	13,490	13,500
Material	1,094	1,607
	27,927	**28,450**
Other assets, gross	**908,261**	**525,742**
Less: Impairment	(28,654)	(17,596)
Less: Write off of stock	(14,418)	(13,834)
Other assets, net	**865,189**	**494,312**

All amounts are expressed in 000 RSD unless otherwise stated

Movements in provision for impairment are presented below:

	2008	Reclassified 2007
Opening balance	17,596	22,554
New provisions (Note 11)	7,965	9,414
Release of provision (Note 11)	(11)	(1,530)
Net foreign exchange	3,103	(166)
Write off	-	(5,622)
Other – reclassification (Note 20)	-	(7,054)
Closing balance	**28,653**	**17,596**

29. Transaction deposits

	2008	Reclassified 2007
Transaction deposits in dinars		
Banks and other financial organizations	1,654	22,362
Companies	1,338,024	1,635,278
Entrepreneurs	547,561	380,255
Private individuals	796,613	900,466
Foreign entities	89,199	5,911
Other clients	222,054	246,000
Transaction deposits in foreign currency		
Banks and other financial organizations	185,870	309,450
Companies	2,014,828	2,181,742
Entrepreneurs	23,252	32,095
Private individuals	2,527,457	3,693,985
Foreign entities	234,621	274,516
Other clients	31,387	1,469
Total	**8,012,520**	**9,683,529**

All amounts are expressed in 000 RSD unless otherwise stated

30. Other deposits

	2008								Reclassified 2007
	Domestic banks	**Public sector**	**Companies**	**Entrepreneurs**	**Private individuals**	**Foreign entities**	**Other clients**	**Total**	**Total**
Other deposits in dinars									
Savings deposits	-	-	-	-	51,941	-	-	51,941	60,810
Special purpose deposits	-	-	18,542	-	25,401	21,947	-	65,890	144,864
Deposits pledged as collateral	-	22,324	23,400	-	9,769	-	-	55,493	35,353
Other deposits	1,213,555	565,001	2,224,455	16,158	-	-	63,300	4,082,469	2,471,448
Other deposits in foreign currency									
Savings deposits	-	-	-		40,984,861	1,127,401	-	42,112,262	17,337,438
Special purpose deposits	-	-	385,959	-	209,769	299,774	8,175	903,677	11,344,195
Deposits pledged as collateral	-	-	95,220	17,058	3,166,879	363	-	3,279,520	3,207,135
Other deposits	1,291,870	-	1,785,864	-	4,266	23,379,240	155,779	26,617,019	15,360,563
Total	**2,505,425**	**587,325**	**4,533,440**	**33,216**	**44,452,886**	**24,828,725**	**227,254**	**77,168,271**	**49,961,806**

The interest rate ranging from 3% to 6% per annum is calculated on demand corporate deposits in local currency, while interest rate on foreign currency deposits varies from 1.5% to 2.25%. Term deposits carry interest rate of 16% to 18%.

The interest rate on the demand deposits of citizens ranged from 0.75% to 9.5% per annum, depending on the currency and maturity while interest rate on term deposits varied from 2.5% to 10.6%. The lowest interest rate is paid for CHF deposits. The interest rate on RSD term deposits of citizens ranged from 9% to 15.77% per annum.

All amounts are expressed in 000 RSD unless otherwise stated

31. Borrowings and other financial liabilities

	2008	Reclassified 2007
Other financial liabilities in dinars	1,197	4,468
Other financial liabilities in foreign currency	21,923	5,684
Total	**23,120**	**10,152**

32. Interest, fees and commissions payable and change in fair value of derivatives

	2008	Reclassified 2007
Liabilities in dinars		
Interest	9	4,646
Fees and commissions	3,021	1,818
Fair value of derivatives (Note 5.3.)	3,100	-
Liabilities in foreign currency		
Interest	559	6,996
Fees and commissions	17	2,992
	6,706	**16,452**

Derivative liabilities:

	2008			**Reclassified 2007**		
		Fair values			**Fair values**	
Derivatives held for trading	**Contract/ notional amount**	**Assets**	**Liabilities**	**Contract/ notional amount**	**Assets**	**Liabilities**
OTC currency derivatives						
Currency swaps	11,402,949	1	3,100	-	-	-
Total	**11,402,949**	**1**	**3,100**	**-**	**-**	**-**

33. Tax liabilities

	2008	Reclassified 2007
Withholding tax	19,115	15,917
Value added tax	7,286	9,159
Other taxes and contributions	21,327	7,477
Total	**47,728**	**32,553**

34. Provisions

	2008	Reclassified 2007
Provisions for off balance sheet exposures	104,258	26,288
Provisions for legal cases (Note 39 b)	75,441	42,494
Provision for retirement indemnities	24,415	27,297
Other provisions	12,948	-
Total	**217,062**	**96,079**

All amounts are expressed in 000 RSD unless otherwise stated

As at 31 December 2008 other provisions in the amount of RSD 12,948 thousand relate to the provision made in relation to potential unauthorised withdrawal of money related to frozen bonds.

Movements in total provisions:

	Retirement indemnities	Legal cases	Other provisions	Off balance sheet	Total
Opening balance 2007	16,250	11,322	-	7,147	34,719
New provisions (Note 11)	11,527	31,139	-	28,131	70,797
Release of provisions (Note 11)	-	-	-	(8,231)	(8,231)
Indemnities paid	(480)	-	-	-	(480)
Net exchange gain/loss	-	33	-	(759)	(726)
Closing balance 2007	**27,297**	**42,494**	**-**	**26,288**	**96,079**
	-	-	-	-	-
New provisions	-	36,823	12,948	65,580	115,351
Release of provisions (Note 11)	(1,507)	(7,474)	-	-	(8,981)
Indemnities paid	(1,375)	-	-	-	(1,375)
Net exchange gain/loss	-	3,598	-	12,390	15,988
Closing balance 2008	**24,415**	**75,441**	**12,948**	**104,258**	**217,062**

Principal actuarial assumptions used for retirement indemnities (expressed as weighted averages):

	2008	**Reclassified 2007**
	%	%
Discount rate	6.5%	5.5%
National average salary increase	4.0%	4.5%
Inflation rate	3.0%	3.0%

35. Liabilities from profit

	2008	**Reclassified 2007**
Liabilities from profit	700	700
Income tax	207,154	6,238
Total	**207,854**	**6,938**

All amounts are expressed in 000 RSD unless otherwise stated

36. Other liabilities, accruals and deferred income

	2008	Reclassified 2007
Liabilities for salaries and benefits		
Net salaries	111,020	7
Tax on salaries and benefits	10,548	(3)
Contributions on salaries and benefits	16,915	-
Temporary and occasional assignments	-	69
Other liabilities towards employees	151	509
	138,634	**582**
Other liabilities in dinars		
Operations managed on behalf of third parties	5,260	3,579
Advances received	462	594
Suppliers	153,797	98,813
Temporary and suspense accounts	39,589	28,108
Other liabilities	27,671	17,124
Other obligations in foreign currency		
Advances received	4,279	27,259
Suppliers	51,343	32,009
Temporary and suspense accounts	-	1,084
Other liabilities	486	438
	282,887	**209,008**
Accruals and deferred income in dinars		
Accrued interest expense	37,676	4,612
Other accrued expenses	91,507	60,986
Deferred income from fees	658,202	581,558
Deferred interest income	19,305	4,174
Other accruals and deferred income	41,651	59,406
Accruals and deferred income in foreign currency		
Accrued interest expense	865,031	393,461
Other accrued expenses	7,879	3,200
Other accruals and deferred income	63,374	24,519
	1,784,625	**1,131,916**
Subordinated liabilities in foreign currency		
Subordinated liabilities	443,005	396,183
Total	**2,649,151**	**1,737,689**

During 2005, the Bank received subordinated loan from the majority shareholder EFG Eurobank Ergasias, Athens in the amount of EUR 5,000 thousand (as at 31 December 2008: RSD 443,005 thousand). The loan was granted for a period of six years at variable interest rate.

All amounts are expressed in 000 RSD unless otherwise stated

37. Shareholder's equity

Capital of the bank comprises of share capital, share premium, statutory reserves, revaluation reserves and accumulated losses:

	2008	Reclassified 2007
Share capital and other capital		
Share capital common shares	25,422,400	19,182,900
Share capital preference shares	4,800	4,800
Share premium	6,051,999	3,231,745
Other capital	2,727	2,727
	31,481,926	**22,422,172**
Statutory reserves	303,549	303,549
Reserves for potential losses	34,142	34,142
Other reserves	230,392	230,392
	568,083	**568,083**
Accumulated gains	28,556	28,556
Accumulated losses	(454,320)	(1,773,016)
Current year profit	4,072,609	1,318,696
	3,646,845	**(425,764)**
Total shareholder's equity	**35,696,854**	**22,564,491**
Number of issued shares	**254,272**	**191,877**

Nominal value of the shares amounts to RSD 100,000 per share.

All amounts are expressed in 000 RSD unless otherwise stated

The shareholders structure of the Bank as at 31 December 2008 is presented in the table below:

Shareholder	Ordinary shares	%	Preference shares	%	Total shares	%
EFG Eurobank Ergasias	140,366	55.21%	17	35.42%	140,383	55.21%
Berberis Investments Limited	3,690	1.45%	-	0.00%	3,690	1.45%
EFG N.E. BV Holding Company Holland	108,666	42.74%	-	0.00%	108,666	42.74%
Republika Srbija, Vlada	1,502	0.59%	-	0.00%	1,502	0.59%
Agromerkantilija zemljoradnicka zadruga	-	0.00%	3	6.25%	3	0.00%
AKT	-	0.00%	1	2.08%	1	0.00%
Bambi Banat	-	0.00%	3	6.25%	3	0.00%
Buducnost	-	0.00%	2	4.17%	2	0.00%
Dunav AD	-	0.00%	1	2.08%	1	0.00%
Habit pharm	-	0.00%	5	10.42%	5	0.00%
Kopaonicanka ZP	-	0.00%	2	4.17%	2	0.00%
Saobracajni institut CIP	-	0.00%	3	6.25%	3	0.00%
Siemens IT solutions and service	-	0.00%	2	4.17%	2	0.00%
Stem	-	0.00%	1	2.08%	1	0.00%
TP Beogradelektro	-	0.00%	6	12.50%	6	0.00%
Trustex	-	0.00%	1	2.08%	1	0.00%
ZZ Bajina Basta	-	0.00%	1	2.08%	1	0.00%
Total	**254,224**	**100.00%**	**48**	**100.00%**	**254,272**	**100.00%**

The reconciliation of the movements in number of common and preference shares is as follows:

	Common shares	Preference shares
Opening balance 2007	150,134	48
14th share capital issue	14,844	-
15th share capital issue	26,851	-
Closing balance 2007	**191,829**	**48**
16th share capital issue	51,652	-
17th share capital issue	10,743	-
Closing balance 2008	**254,224**	**48**

Share issues and the changes in the Eurobank EFG's share capital structure

During 2008 the bank has realized two capital issues. Based on the Decision of the Shareholders' Assembly, from November 2007, on the share capital increase without public offer, the 16th share capital issue took place in the amount of RSD 7,499,870 thousand. 51,652 shares were issued with nominal value of RSD 100 thousand per share. Shares were sold at price of RSD 145,200 per share resulting in a share premium in the amount of 2,334,670 thousand. The share issue was completed in January 2008. The share issue in its entirety was acquired by the existing shareholder of the Bank, EFG New Europe Holding Company Holland.

All amounts are expressed in 000 RSD unless otherwise stated

The 17th share capital issue took place in the amount of RSD 1,599,884 thousand. 10,743 shares were issued with nominal value of RSD 100 thousand per share. Shares were sold at price of RSD 145,200 thousand per share resulting in a share premium in the amount of RSD 485,584 thousand. The share issue was completed in June 2008. The share issue in its entirety was acquired by the existing shareholder of the Bank, EFG New Europe Holding Company Holland.

Donation of the shares to the Republic of Serbia

In accordance with the Sales and purchase agreement for the acquisition of Nacionalna štedionica banka a.d. Beograd, signed between the Republic of Serbia and EFG Eurobank Ergasias Athens, the EFG Eurobank Ergasias has to donate to the Republic of Serbia 1% of the ordinary shares of the Bank determined at the date of completion of the merger between Eurobank EFG a.d. Beograd and Nacionalna štedionica banka a.d. Beograd. Donation of shares was completed in March 2008. The number of shares donated to the Republic of Serbia amounted to 1,502 shares.

Share premium

Share premium represents the difference between the market price and nominal value of the shares. As at 31.12.2008 the Bank's share premium was RSD 6,051,999 thousand (31 December 2007: RSD 3,231,745).

Statutory reserves

Statutory reserves in the amount of RSD 533,941 thousand are formed in accordance with the law regulations and the Statute of the Bank, whereas the reserves in the amount of RSD 34,142 thousand represent the reserves from previous years for unidentified losses within loan portfolio.

Shortfall amount of provisions against potential losses

As at 31 December 2008, the uncovered provisions for the potential credit losses for balance sheet and off balance sheet exposures classified according to the Decision of the National Bank of Serbia amounted to RSD 14,640,639 thousand (31 December 2007: RSD 7,147,817 thousand).

Accumulated loss

As at 31 December 2008 the Bank had accumulated losses from previous years in the amount of RSD 454,320 thousand and accumulated gains from previous years in the amount of RSD 28,556 thousand (31 December 2007: accumulated losses from previous years in the amount of RSD 1,773,016 thousand and accumulated gains from previous years in the amount of RSD 28,556 thousand). Loss is covered in accordance with local legislation and Statue of the Bank.

38. Off balance sheet

a) *Funds managed on behalf of third parties*

	2008	**Reclassified 2007**
Funds managed on behalf of public sector - agriculture		
- Short-term	1,407,363	1,510,035
- Long-term	1,051,636	1,127,210
Long-term loans - young couples program	144,270	100,564
Total	**2,603,269**	**2,737,809**

All amounts are expressed in 000 RSD unless otherwise stated

b) Guarantees, sureties, assets pledged as collateral and irrevocable commitments

	2008	Reclassified 2007
In dinars		
Issued guarantees and other sureties	643,805	418,600
Loan commitments	7,547,580	6,796,280
Other irrevocable commitments	1,374,352	1,362,891
In foreign currency		
Issued guarantees and other sureties	31,556,033	16,539,532
Loan commitments	4,838,563	83,435
Other irrevocable commitments	216,198	243,400
Total	**46,176,531**	**25,444,138**

c) Guaranties, sureties and collaterals received

	2008	Reclassified 2007
Mortgage loans insured with National Mortgage Insurance Corporation	15,704,922	9,640,549
Total	**15,704,922**	**9,640,549**

d) Derivatives

	2008	Reclassified 2007
Derivatives	69,863,421	39,116,127
Total	**69,863,421**	**39,116,127**

e) Other off balance sheet items

	2008	Reclassified 2007
Collaterals received	65,541,942	36,286,989
Received guarantees and letters of credit	11,946,469	16,575,246
Foreign currency frozen bonds in Central register	137,930,528	115,025,950
Securities from repo transactions with NBS	1,593,700	10,595,000
Other off-balance assets	70,061,777	36,588,051
Total	**287,074,416**	**215,071,236**

All amounts are expressed in 000 RSD unless otherwise stated

39. Contingent liabilities and commitments

a) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2008	Reclassified 2007
Not later than one year	97,171	70,255
Later than one year but no later than five years	-	-
Later than five years	-	-
	97,171	**70,255**

b) Litigations

As at 31 December 2008, there are three legal claims filed against the Bank in respect of payments of frozen bonds made to unauthorized persons based on forged documents. Although, the Bank acts as an Agent of the Government of the Republic of Serbia, servicing "old foreign currency savings bonds" the Bank has made provision for claims related to the frozen bonds payments in the amount of RSD 64,711 thousand (31 December 2007: RSD 30,208 thousand) .

As at 31 December 2008, the provision for other legal cases amounted to RSD 10,730 thousand (31 December 2007: RSD 12,286 thousand) – Note 34.

40. Compliance with regulatory requirements

The Bank is obliged to comply with ratios defined by the Law on Banks and Other financial institutions. As at 31 December 2008 the Bank's ratios were in compliance with the prescribed levels:

Business indicators	**Determined level**	**2008**
Capital adequacy	min 12%	16.00%
Long term investments indicator	max 60%	25.19%
Exposure to related parties	max 20%	8.18%
Large exposures indicator	max 400%	39.97%
Liquidity indicator:		
first month of reporting period	min 1	1.92
second month of reporting period	min 1	3.76
last month of reporting period	min 1	2.28
Currency risk	max 30%	0.37%

Effective from 30th September 2008, the National bank of Serbia has introduced a new method of calculation of capital adequacy ratio. The major changes relate to the following:

- Different treatment of mortgage loans and commercial loans
- Introduction of risk weight of 125% for indexed loans related to the borrowers that have open FX position and no collaterals and risk weight of 75% if loans are secured with collateral on the residential property
- Inclusion of market risks in the calculation of CAD

If the methodology for calculation of CAD had not been changed, as at 31 December 2008, the Bank's capital adequacy ratio would have been higher by approximately 8% i.e. at the level of 24%.

As at 31 December 2008, the Bank was in compliance with all regulatory requirements.

All amounts are expressed in 000 RSD unless otherwise stated

41. Related parties transactions

Eurobank EFG is subsidiary of EFG Eurobank Ergasias listed in the Athens Stock Exchange. EFG Eurobank Ergasias is a member of the EFG Group, the ultimate parent company of which is EFG Bank European Financial Group, a bank incorporated in Switzerland, which owns 43.7% of the ordinary shares. The remaining 56.3% of the shares are widely held. All the voting rights in EFG Bank European Financial Group are held by the Latsis family, the ultimate controlling party of the Group.

The Bank enters daily into transactions with major shareholders and other related parties in the ordinary course of business. Transactions with related parties at 31 December 2008 are presented in the table below:

	Eurobank Ergasias	EFG Retail Services	EFG property services	EFG Leasing	EFG Asset Fin	Business exchange	Romania IT Shared Services	RECO Real Property	EFG New Europe Funding BV	EFG Securities Serbia	EFG Business Services
Assets											
Foreign currency account	129,492	-	-	-	-	-	-	-	-	-	
Interest and fee receivables	10,437	397	385	-	-	-	-	-	-	-	
Loans to customers and deposits	26,661,962	47,744	12,739	-	-	-	-	-	-	12,805	
Equity shares	-	-	-	20,479	-	-	-	-	-	-	
Other receivables	-	-	-	-	-	-	-	-	-	-	
Total assets	**26,801,891**	**48,141**	**13,124**	**20,479**	**-**	**-**	**-**	**-**	**-**	**12,805**	**-**
Liabilities											
Due to customers	-	12,764	32,351	1,052,831	57,142	-	-	109,811	-	-	17,857
Borrowings	23,220,094	-	-	-	-	-	-	-	-	-	-
Subordinated liabilities	443,005	-	-	-	-	-	-	-	-	-	-
Interest payable	71,764	-	324	2,845	-	-	-	-	-	-	517
Other liabilities	-		-	-	-	-	-	-	-	-	-
Total liabilities	**23,734,863**	**12,764**	**32,675**	**1,055,676**	**57,142**	**-**	**-**	**109,811**	**-**	**-**	**18,374**
Income											
Interest income	772,656	6,178	1,554	493	1,195	-	-	4,751	-	276	-
Interest income from derivatives	80,970	-	-	-	-	-	-	-	-	-	-
Net gains from securities	36,526	-	-	-	-	-	-	-	-	-	-
Fee income	-	157	100	819	363	-	-	61	4,218	-	-
Total income	**890,152**	**6,335**	**1,654**	**1,312**	**1,558**	**-**	**-**	**4,812**	**4,218**	**276**	**-**
Expenses											
Interest expense	331,336	-	324	11,114	1,682	-	-	-	-	-	517
Rent expense	-	-	-	-	2,196	-	-	-	-	-	-
Services	-	293,357	10,132	-	-	6,657	179,041	-	-	-	-
Total expenses	**331,336**	**293,357**	**10,456**	**11,114**	**3,878**	**6,657**	**179,041**	**-**	**-**	**-**	**517**
Off balance sheet											
Letter of guarantees	11,525,292	-	-	143,358	60,600	-	-	-	-	-	-
Derivatives	11,402,949	-	-	-	-	-	-	-	-	-	-
Other off balance sheet	-	-	41	-	-	-	-	-	-	3,622	-

All amounts are expressed in 000 RSD unless otherwise stated

As at 31 December 2008, loans to employees amounted to RSD 1,237,050 (31 December 2007: RSD 884,516). All loans are given under terms defined in the Bank's lending policy and interest rates vary from 9.5% to 18% for mortgage loans, while for consumer loans interest rates vary from 7% to 9%.

a) *Payments to directors and key management personnel*

	2008	Reclassified 2007
Salaries and other contributions	61,141	77,342
	61,141	**77,342**

42. Foreign Exchange rates

The official exchange rates of major currencies which were used for translation of balance sheet items as at 31 December were as follow:

	31 December 2008	Reclassified 2007
USD	62.9000	53.7267
EUR	88.6010	79.2362
CHF	59.4040	47.8422

43. Reconciliation of loans, deposits and other liabilities with clients

As required by the Accounting and Auditing Law, the Bank has performed reconciliation of loans, deposits and other liabilities with clients as at 30 November 2008.

44. Board of directors

Members of the Board of directors of Eurobank EFG as at 31 December 2008 are listed below:

Chairman	Members
David Watson	Piergiorgio Pradelli
	Stavros Ioannou
	Nikolaos Aliprantis
	Evagelos Kavvalos
	Angelos Tsichrintzis
	Slobodan Slovic
	Georgios Michelis
	Karakasis Theodoros

45. Post balance Sheet Events

There were no significant events after balance sheet date that would require disclosure in the Financial Statements.