

VOJVODANSKA BANKA A.D., NOVI SAD

**Financial Statements
For the Year Ended December 31, 2008
and Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Vojvodanska banka A.D., Novi Sad

We have audited the accompanying financial statements (page 3 to 63) of Vojvodanska banka A.D., Novi Sad (the "Bank"), which comprise the balance sheet as of December 31, 2008 and the related income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' 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 and the Law on Accounting and Auditing of the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Vojvodanska banka A.D., Novi Sad (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Vojvodanska banka A.D., Novi Sad as of December 31, 2008, and its financial performance, changes in equity and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia, regulations of the National Bank of Serbia governing financial reporting of banks and basis for the preparation and presentation of the financial statements disclosed in the Note 2 to the financial statements.

Belgrade, February 28, 2009

Nada Sudić
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2008
(Thousands of RSD)

	<u>Notes</u>	<u>2008</u>	<u>2007</u> <i>(Adjusted)</i>
Interest income	5(a)	6,485,669	5,439,149
Interest expense	5(b)	<u>(2,675,625)</u>	<u>(2,291,113)</u>
Net interest income		3,810,044	3,148,036
Fee and commission income	6(a)	1,643,968	1,703,315
Fee and commission expense	6(b)	<u>(115,442)</u>	<u>(146,303)</u>
Net fee and commission income		1,528,526	1,557,012
Net gains on the sale of securities		46,220	2,207,169
Foreign exchange (losses)/gains, net		(969,769)	301,012
Dividends and other income from equity investments		26,752	56,118
Other operating income	7	162,716	145,532
Other operating expenses	8	(5,991,298)	(5,403,075)
Net impairment losses and provisions	9	(456,329)	(600,219)
Gains on the valuation of assets and liabilities, net	10	<u>2,458,870</u>	<u>668,497</u>
PROFIT BEFORE TAXATION		615,732	2,080,082
Current income taxes	11	(3,348)	(151,075)
Deferred tax benefit, net	11	<u>6,553</u>	<u>5,466</u>
PROFIT		<u>618,937</u>	<u>1,934,473</u>
Earnings per share			
Basic earnings per share (in RSD)		<u>378.85</u>	<u>1,184.07</u>

The accompanying notes form
an integral part of these financial statements.

These financial statements were approved by the Executive Board of Vojvodanska banka A.D., Novi Sad and submitted to the National Bank of Serbia, Center for Credit Worthiness Assessment on February 28, 2009.

Signed on behalf of Vojvodanska banka A.D., Novi Sad:

Marinis
Stratopoulos
President of the
Executive Board

Efstratia
Fountoukou
Member of the
Executive Board

Valentina
Dragojlović
Head of Accounting

BALANCE SHEET
As of December 31, 2008
(Thousands of RSD)

	<u>Notes</u>	<u>2008</u>	<u>2007</u> <i>(Adjusted)</i>
ASSETS			
Cash and cash equivalents	12	17,596,902	6,008,324
Revocable loans and deposits	13	11,143,210	28,132,746
Interest, fee and commission receivable	14	470,661	316,981
Loans and deposits	15	46,840,868	42,606,091
Securities	16	818,839	2,275,780
Equity investments and other placements	17	1,898,236	1,887,115
Intangible assets	18	202,213	120,779
Property, equipment and investment property	18	5,010,923	4,959,111
Other assets and prepayments	19	2,621,360	1,515,851
Deferred tax assets	11	108,490	108,814
Total assets		<u>86,711,702</u>	<u>87,931,592</u>
LIABILITIES AND EQUITY			
Liabilities			
Transaction and other deposits	20	55,291,025	59,086,004
Borrowings	21	4,072,353	2,791,923
Liabilities arising from securities		268	239
Interest, fee and commission payables and change in the value of derivatives	22	629,530	132,043
Current income taxes payable		-	148,924
Other liabilities and accruals	23	3,884,682	3,225,010
Provisions	24	863,676	1,154,128
Deferred tax liabilities	11	145,760	152,637
Total Liabilities		64,887,294	66,690,908
Equity	25		
Share and other capital		16,337,550	16,366,276
Reserves		3,188,768	14
Revaluation reserves		1,581,889	1,685,646
Retained earnings		716,201	3,346,593
Accumulated loss		-	(157,845)
Total Equity		<u>21,824,408</u>	<u>21,240,684</u>
Total Liabilities and Equity		<u>86,711,702</u>	<u>87,931,592</u>
OFF-BALANCE-SHEET ITEMS	26	<u>113,892,414</u>	<u>66,668,312</u>

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an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2008
(Thousands of RSD)

	Share Capital	Other Capital	Share Premium	Reserves	Special reserve for Potential Losses	Revaluation Reserves	Retained Earnings	Accumulated Losses	Total
Balance, January 1, 2007 (<i>Adjusted</i>)	9,728,648	28,721	-	14	-	1,681,027	1,509,462	(318,229)	12,629,643
Effects of remeasurement of available-for-sale securities to their fair value	-	-	-	-	-	67,661	-	-	67,661
Decrease in revaluation reserves based on the transfer of portion of depreciation effects to retained earnings	-	-	-	-	-	(63,042)	63,042	-	-
Share issuance	6,608,787	-	120	-	-	-	-	-	6,608,907
Profit for the year	-	-	-	-	-	-	1,934,473	-	1,934,473
Reserves for potential losses per balance and off-balance sheet items	-	-	-	-	2,619,708	-	-	-	2,619,708
Additional provision for potential losses to be set aside as appropriation of retained earnings	-	-	-	-	(2,619,708)	-	-	-	(2,619,708)
Absorption of accumulated losses	-	-	-	-	-	-	(160,384)	160,384	-
Balance, December 31, 2007 (<i>adjusted</i>)	16,337,435	28,721	120	14	-	1,685,646	3,346,593	(157,845)	21,240,684
Effects of remeasurement of available-for-sale securities to their fair value	-	-	-	-	-	(35,213)	-	-	(35,213)
Decrease in revaluation reserves based on the transfer of portion of depreciation effects to retained earnings	-	-	-	-	-	(68,544)	68,544	-	-
Effect of rounding of shares number	(5)	-	-	5	-	-	-	-	-
Transfer of other capital to retained earnings	-	(28,721)	-	-	-	-	28,721	-	-
Transfer of retained earnings to reserve for potential losses	-	-	-	3,188,749	-	-	(3,188,749)	-	-
Reserves for potential losses per balance and off-balance sheet items	-	-	-	-	4,085,986	-	-	-	4,085,986
Additional provision for potential losses to be set aside as appropriation of retained earnings	-	-	-	-	(4,085,986)	-	-	-	(4,085,986)
Absorption of accumulated losses	-	-	-	-	-	-	(157,845)	157,845	-
Profit for the year	-	-	-	-	-	-	618,937	-	618,937
Balance, December 31, 2008	16,337,430	-	120	3,188,768	-	1,581,889	716,201	-	21,824,408

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an integral part of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2008
(Thousands of RSD)

	<u>2008</u>	<u>2007</u>
Cash receipts from operating activities	9,152,617	7,436,976
Interest receipts	6,384,977	5,516,751
Fee and commission receipts	1,647,565	1,699,328
Receipts of other operating income	1,093,551	164,779
Receipts from dividends and equity investments	26,524	56,118
Cash payments from operating activities	(9,178,140)	(8,261,352)
Interest payments	(2,520,690)	(2,267,322)
Fee and commission payments	(112,201)	(145,731)
Payments to, and on behalf of employees	(2,822,936)	(2,525,567)
Taxes, contributions and other duties paid	(815,550)	(647,200)
Payments of other operating expenses	(2,906,763)	(2,675,532)
Net cash used in operating activities		
prior to changes in placements and deposits	<u>(25,523)</u>	<u>(824,376)</u>
(Increases) in placements and increases in deposits, net	12,713,612	(5,952,948)
Increase/(decrease) in placements with banks and other customers	15,316,688	(8,799,766)
Increase in securities and other trading placements and short-term securities held-to-maturity	1,017,287	842,458
(Decrease)/increase in deposits from banks and customers	(3,620,363)	2,004,360
Net cash provided by/(used in) operating activities before income tax	<u>12,688,089</u>	<u>(6,777,324)</u>
Income tax paid	(377,356)	-
Net cash provided by/(used in) operating activities	12,310,733	(6,777,324)
Cash used in investing activity	<u>(834,016)</u>	<u>(112)</u>
Proceeds from the sale of equity investments (interests)	2,586	35,570
Proceeds from the sale of intangible and fixed assets	37,662	180,223
Cash used for the purchase of intangible and fixed assets	(868,491)	(190,739)
Purchase of equity interests and investments	(5,773)	(25,166)
Net cash provided by financing activities	<u>1,081,631</u>	<u>8,086,615</u>
Inflows from increase in capital	-	6,608,787
Net cash from borrowings	1,081,631	1,818,468
Proceeds from the sale of treasury shares	-	20
Net cash used to repay borrowings	-	(340,660)
Total cash inflows	26,608,471	18,926,862
Total cash outflows	<u>(14,050,123)</u>	<u>(17,617,683)</u>
Net increase in cash and cash equivalents	<u>12,558,348</u>	<u>1,309,179</u>
Cash and cash equivalents, beginning of year	6,008,324	5,163,824
Foreign exchange losses, net	(969,770)	(464,679)
Cash and cash equivalents, end of year	<u>17,596,902</u>	<u>6,008,324</u>

The accompanying notes form
an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***1. BANK'S ESTABLISHMENT AND OPERATING POLICY**

Vojvodanska banka A.D., Novi Sad (the "Bank") was established on January 1, 1990 by the transformation of Vojvodanska banka - Associated Bank, Novi Sad.

On December 30, 2001, based on its Articles of Incorporation and the Decision of the Bank's General Assembly, the Bank consummated a merger with Srpska razvojna banka A.D., Belgrade and Užička banka A.D., Užice.

In December 2006, in accordance with the terms of the Agreement on the Purchase and Sale of Share Capital, the National Bank of Greece became the majority owner of the Bank's share capital, by acquiring an equity interest of 99.43%. The aforementioned acquisition was duly registered with the Central Securities Depository and Clearing House, as of December 12, 2006. On October 25, 2007, the National Bank of Greece, Athens acquired the remaining 1,727 shares and became the owner of 100% of Bank's share capital.

Based on the Decision on Amendment of the Articles of Incorporation, numbered 1.0-10340/2, and Decision on the increase in capital, numbered 1.0-10340/3 as of November 29, 2007, the Bank's share capital increased through a new share issuance comprised of 410,000 ordinary shares having the individual par value of RSD 10,000 thousand. The entire share issue was purchased by the National Bank of Greece, Athens. On December 7, 2007, Vojvodanska banka A.D., Novi Sad was excluded from Belex list, on its own request.

The Bank is registered in the Republic of Serbia to provide a wide range of banking services associated with payment transfers, credit and deposit activities in the country and abroad, and is to operate in accordance with the Republic of Serbia Law on Banks.

In accordance with the Decision issued by the Bank's Assembly on January 3, 2008, the merger of Vojvodanska banka a.d., Novi Sad with the National Bank of Greece a.d., Beograd was consummated, in effects from December 31, 2007. The aforementioned status change of merger was inscribed in the registry maintained by the Serbian Business Registers Agency on February 14, 2008 under the number BD 6190/2008 (removal of the business entity – the National Bank of Greece a.d., Beograd as the acquiree) and the change in equity structure of Vojvodanska banka a.d., Novi Sad was inscribed (Decision number BD 6210/2008). The National Bank of Greece a.d., Beograd was entirely in the ownership of the National Bank of Greece a.d., Athens, Greece.

The Bank continued its operations under the name of Vojvodanska banka a.d., Novi Sad.

At December 31, 2008, the Bank comprised of the Head Office located in Novi Sad, 47 affiliates, including the inactive affiliates in Priština and Podgorica, 58 branch offices (four inactive ones), 63 counters and 24 points-of-sale (December 31, 2007: 24 affiliates, 62 branch offices and 82 counters).

The Bank is headquartered in Novi Sad, at the street address of Trg Slobode number 7.

As of December 31, 2008, the Bank had 2,621 employees (2007: 2,337 employees). The Bank's tax identification number is 101694252.

At December 31, 2008, the Bank had control over the following enterprises that are not consolidated in the accompanying financial statements:

	<u>% of Ownership</u>
Vobex d.o.o., Novi Sad	100.00%
Imos A.D., Šid	51.55%
Novobanis, Thessaloniki	68.00%

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS****2.1. Basis of Preparation and Presentation of Financial Statements**

Pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46 of June 2, 2006), legal entities and enterprises incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards.

Pursuant to its Decision numbered 011-00-738-2003-01 of December 30, 2003, the Republic of Serbia Ministry of Finance determined and issued the Framework and IAS that were applied as of December 31, 2002, and upon which both the previous and the Law on Accounting and Auditing from 2006 were based.

The amendments to the IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), upon the aforementioned date, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia with reference to the issuance of International Financial Reporting Standards (number 401-00-11/2008-16) as published in the Official Gazette of the Republic of Serbia number 16 of February 12, 2008.

Based on the Decision number 401-00-1456/2008- 16, the Ministry also issued the translation of the amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" in the RS Official Gazette number 116 as of December 17, 2008.

However, until the preparation date of the accompanying financial statements, not all amendments to Standards and Interpretations had been translated (especially after the aforesaid Decision of the Ministry). The Interpretations in application for the accounting periods commencing January 1, 2008, which were not officially translated and adopted by the Ministry are disclosed in Note 2.2.

The accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Institutions" (Official Gazette of the Republic of Serbia numbers 74/2008 and 3/2009). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, "Presentation of Financial Statements" and IAS 7, "Cash Flow Statements," and differ in some respects, from the presentation of certain amounts as required under the aforementioned standards.

With regards to the potentially material effects which the departures of the accounting regulations of the Republic of Serbia in effect as of December 31, 2008 (officially published and whose application was legally prescribed in the Republic of Serbia) from IFRS and IAS may have on the fairness of the presentations in the Bank's financial statements, the accompanying financial statements cannot be described as having been prepared in accordance with IFRS and IAS.

The financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)****2.1. Basis of Preparation and Presentation of Financial Statement (Continued)**

In the preparation of the accompanying financial statements, the Bank has adhered to the accounting policies described in Note 3. These accounting policies have been consistently applied to all presented reporting periods.

The Bank's financial statements are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia.

These financial statements include only the receivables, payables, results of operations, changes in equity and cash flows of the Bank, without those of its subsidiaries. Pursuant to the Law on Accounting and Auditing (See Official Gazette of the Republic of Serbia no. 46 of June 2, 2006), the Bank is obligated to prepare consolidated financial statements and to submit them to the National Bank of Serbia, Center for Credit Worthiness Assessment up to the end of April 2009.

In consideration of the fact that related parties are immaterial for the Bank's financial statements as of the aforementioned date, the Bank will not prepare consolidated financial statements as of and for the year ended December 31, 2008.

2.2. Standards and Interpretations Issued, but not yet in Effect

As of the financial statements issuance date, the following standards, amendments and interpretations were issued by the Board and Committee, but were neither in effect nor officially adopted and translated in the Republic of Serbia for the accounting periods commencing on or after January 1, 2008:

- IAS 1 Presentation of Financial Statements (effective for financial periods starting January 1, 2009);
- IAS 23 (Amended) Borrowing costs (effective for financial periods starting January 1, 2009);
- IFRS 8 Operating Segments (effective for financial periods starting January 1, 2009);
- IFRS 3 (Amended) Business Combinations and IAS 27 (Amended) Consolidated and Separate Financial Statements (effective for financial periods starting July 1, 2009);
- Amendments to IFRS 2 Share-Based Payment - Vesting Conditions and Cancellations (effective for financial periods starting January 1, 2009);
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for financial periods starting January 1, 2009);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial periods starting July 1, 2009);
- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial periods starting January 1, 2009);
- Improvements to International Financial Reporting Standards 2008 (most changes are effective for financial periods starting January 1, 2009);
- IFRIC 15 Agreements for the Construction of Real Estate (effective for financial periods starting January 1, 2009);
- Improvements to IFRS 1 First-time Adoption of International Financial Reporting Standards (in effect from July 1, 2009);
- IFRIC 17 Distributions of Non-cash Assets to Owners (in effect from July 1, 2009).

Also, as of the financial statements preparation date, the following interpretations were not officially adopted by the Ministry:

- IFRIC 13 Customer Loyalty programs (effective for financial periods starting July 1, 2008);

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)****2.2. Standards and Interpretations Issued, but not yet in Effect (Continued)**

- IFRIC 14 Interpretation on IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for the accounting periods starting January 1, 2008);
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for financial periods starting October 1, 2008).

2.3. Comparative Information

Comparative information is comprised of the Bank's financial statements prepared as of and for the year ended December 31, 2007 as adjusted for the effects of merger with the National Bank of Greece a.d., Beograd. The merger effects on the Bank's financial statements are presented in Note 4.

Also, in order to conform the presentation of figures to the current reporting period, certain reclassifications have been made to the amounts reported in the financial statements for the year ended December 31, 2007.

2.4. Use of Estimates

The presentation of the financial statements requires from the Bank's management to make best estimates and reasonable assumptions that effect the: assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us, as of the date of preparation of the financial statements. However, actual results may vary from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**3.1. Interest, Fee and Commission Income and Expenses**

Interest income and interest expense, including penalty interest and other operating income and expenses arising on the interest-bearing assets and/or interest-bearing liabilities, are recorded in the income statement on an accrual basis. Fee and commission income and expense arising on banking services are recognized in full when earned.

Fee and commission income from loan origination fees, guarantees and letters of credit approved to corporate and retail customers, are deferred and recognized in the income statement on a proportional basis throughout the repayment period of the loan, guarantees and letters of credit. Loan origination fees are presented within fee and commission income.

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official exchange rates at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates that are prevailing at the balance sheet date. Net foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.2. Foreign Exchange Translation (Continued)**

Commitments and contingent liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates that are prevailing at the balance sheet date.

Receivables and payables arising from exchange operations with domestic and foreign banks are recorded as of the trading date and are presented under the headings of placements with domestic banks, other assets, other operating liabilities and other liabilities and accruals.

3.3. Property, Equipment and Intangible Assets

Buildings are stated at their revalued costs at December 31, 2008, as determined by certified appraisers in 2005, and are subsequently decreased by the accumulated depreciation, and any possible impairment loss. The appraisal of the buildings was performed by an independent appraiser based on the respective asset's market value for existing use. The frequency of revaluations depends upon the changes in fair values of the items of building being revalued. If an asset's carrying value is increased as a result of a revaluation, the increase is to be credited directly to equity under the heading of revaluation surplus. If an asset's carrying value is decreased as a result of an appraisal, the decrease is recognized in the income statement as an expense, under losses on the valuation of assets and liabilities.

Equipment at December 31, 2008 is stated at cost less accumulated depreciation. Cost represents the prices billed by suppliers together with all costs incurred in bringing the asset to the location and condition necessary for its intended use.

Construction in progress is stated at cost.

Intangible assets are comprised of investments in software, licenses and similar rights, as well as investments in business premises under long-term lease.

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

Buildings	2% - 4%
Computers and IT equipment	20.0%
Furniture and other equipment	6.7% - 14.3%
Motor vehicles	14.3% - 15.5%
Other	6.7% - 20%
Intangible assets	20.0%

Depreciation and amortization of property, equipment and intangible assets commence when an asset is placed into use.

3.4. Investment Property

The Bank's investment property relates to the building property received in lieu of debt settlement, if such property was not disposed of in the period of one year from the acquisition date. Such property is initially stated at market value and is treated as investment property. Following the initial recognition, it is recorded at cost net of accumulated depreciation and impairment losses, if any.

Depreciation is provided for on a straight-line basis to the cost of investment property in order to write them off over their useful lives by applying the annual depreciation rates from 2% to 4%.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Loans**

Loans and advances originated by the Bank are stated at the amount of principal outstanding, less allowance for impairment, which are based on the evaluation of specifically-identified exposures and also cover losses that are inherent in the Bank's loan portfolio. The Bank's management applies internally adopted methodology, disclosed in Note 3.6., in its evaluation of the risks and resulting estimations of the allowances.

The effects of non-application of effective interest rate in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", requiring that loans be measured at amortized cost by applying the effective interest rate method, in the management's opinion, are not material for loans and advances to customers and the financial statements on the whole, as the Bank places its assets at variable interest rates, while the one-off compensations collected in advance are deferred throughout the loan repayment period (Note 3.1.).

Loans, which are disbursed in dinars and index-linked to the EUR exchange rate or to the retail price growth, are revalued in accordance with the provisions stated under the individual loan agreements. The effects of such revaluation are included under gains and losses on the valuation of financial assets.

3.6. Allowances for Impairment and Provisions for Contingent Liabilities

In 2008, allowances for loan impairment are determined as the difference between the carrying amount and the present value of the future cash flows as discounted at the effective interest rate in accordance with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement," for the corporate customers which meet the criteria prescribed by the internal methodology, whereas, for all other placements, the allowance for impairment is estimated on portfolio basis. The difference between the stated amounts of receivables and their recoverable amounts is charged to the income statement in the period to which it relates.

Special reserve for potential losses is determined in accordance with the requirements of the relevant NBS Regulation. Loans, placements and other balance sheet and off-balance-sheet exposures are classified into the categories A, B, V, G and D, in accordance with the evaluation of their collectability and associated risk exposures, which depends upon the number of days the payments are in arrears, the financial standing of the counterparty, and the quality of the collateral obtained on the exposures. An estimate of the allowances for impairment and the provision for contingent liabilities is calculated by applying the percentages of 1%, 5%, 25%, 50% and 100% on the amounts of the particular exposures classified into categories A, B, V, G and D, respectively.

Difference between the amount of special reserve for potential losses calculated in accordance with the National Bank of Serbia Decision on the Classification of Balance Sheet and Off-Balance Sheet Exposures, and the amount of allowances for impairment and provision for contingent liabilities estimated in accordance with the internally adopted methodology, is presented as reserve within the equity and is charged to retained earnings.

Special reserve for potential losses is set aside as appropriation of retained earnings. If current year profit and retained earnings from prior years' are not sufficient to cover estimated amount of special reserve, the difference is recognized as additionally required provision.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.6. Allowances for Impairment and Provisions for Contingent Liabilities (Continued)**

The write-off of uncollected receivables is performed either pursuant to a court order, or based on a settlement agreed between the parties involved, or otherwise, on the basis of a resolution of the Bank's Board of Directors, further approved by the Shareholders' Assembly.

3.7. Repurchase Transactions

Securities purchased from the National Bank of Serbia under agreements to resell, pursuant to the provisions of the NBS Agreement on the Sale of Securities with an Obligation to Repurchase, have been stated at amortized cost at the balance sheet date.

3.8. Trading Securities

Trading securities and other placements held for trading comprise of securities which the Bank acquired or incurred principally for the purpose of selling or repurchasing them in the near term. Trading securities include shares of banks and enterprises, as well as other securities issued by banks and corporate entities.

Changes in fair value of securities are credited or charged to the income statement within "Gains/(losses) on the valuation of financial assets and liabilities."

3.9. Securities Held-to-Maturity

Securities held-to-maturity are comprised of discounted bills of exchange initially recorded at cost and whereas as of the balance sheet date have been stated at amortized cost.

3.10. Securities Available-for-Sale

Securities available-for-sale are comprised of investments in the equity of other legal entities, related parties, shares of corporate entities and banks, in dinars and in foreign currencies. Equity investments for which an active market and reliable market values do not exist are stated at cost less allowances for impairment. Equity investments that relate to the listed securities of other legal entities are adjusted to fair value monthly. Gains and losses arising on changes in fair value of equity investments and securities available-for-sale are recorded under revaluation reserves. All realized gains and losses arising on the sale are shown under "Gains/(losses) on the sale of securities." Besides, impairment losses on security available for sale that can not be treated as temporary are recorded in the income statement.

3.11. Cash and Cash Equivalents

For purposes of the cash flow statement, "Cash and cash equivalents" include cash, cheques in the course of collection, balances on current accounts held with other banks, giro account balances and other cash equivalents.

3.12. Revaluation Reserves

The appraisal surplus resulting from the independent appraisal of property is credited to revaluation reserves (Note 3.3). The revaluation surplus is transferred directly to retained earnings difference between the depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. The revaluation surplus included under equity is transferred directly to retained earnings when the assets are derecognized, retired or disposed of.

Gains and losses arising on changes in fair values of securities available-for sale are also recorded under revaluation reserves (Note 3.10).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.13. Taxes and Contributions****Current Income Tax**

Current income tax represents the amount calculated in accordance with the Income Tax Law effective in the Republic of Serbia. The annual corporate income tax is payable at the rate of 10% on the tax base reported in the annual income tax return, as reduced by any applicable tax credits. The taxable base includes the profit stated in the statutory statement of income, as adjusted for permanent differences that are specifically defined under local tax rules.

The effective tax regulations in the Republic of Serbia do not allow any tax losses of the current period to be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than ten ensuing years.

Deferred Income Taxes

Deferred income tax is determined using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities components, and their carrying values in the consolidated financial statements. The currently-enacted tax rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes and other taxes and contributions include property taxes, taxes and contributions paid by employer to or on behalf of employees, as well as other taxes and contributions paid pursuant to republic and municipal regulations, presented within Other operating expenses.

3.14. Managed Funds and Non-Operating Assets and Funds

The Bank manages funds on behalf of, and for the account of third parties, and charges fees for these services. These items are not included in the Bank's balance sheet.

3.15. Employee Benefits

In accordance with regulatory requirements, the Bank is obliged to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.15. Employee Benefits (Continued)**

The Bank does not have defined benefit plans or share-based remuneration options and there are no identified liabilities thereof as of December 31, 2008. As of the aforementioned date, the Bank made provisions with reference to retirement benefits (as adjusted by the amount of retirement benefits paid to employees who accepted early retirement pursuant to the restructuring program) based on the following assumptions:

Average salary growth for the period	7.50% p.a.
Discount rate	7%
Long term retail price growth index	4.50% p.a.

3.16. Financial Derivatives

The Bank uses financial instruments such as currency forward contracts, swop and spot contracts as hedging instruments against currency risks. The Bank chooses to apply settlement date accounting to these transactions.

Upon closing forward contracts, the Bank records spot transactions from the contract when they have occurred, recognizing concurrently financial assets and liabilities arising from forward transactions which will be realized in the ensuing period. As of the balance sheet date, the Bank measures unrealized forward transactions of forward contracts by crediting/charging them to prepayments/accruals and Income Statement.

In the course of 2008, the most common financial derivatives in the Bank included currency swaps used to bridge short-term gaps in the Bank's currency positions and provide the necessary currency structure on the accounts held abroad. Except for currency swaps relating to intercompany transactions, the Bank did not participate in forward transactions at customer request.

3.17. Fair Value

The accompanying financial statements are prepared on an historical cost basis, including adjustments and provisions made to reduce assets to their estimated recoverable amounts.

It is the policy of the Bank to disclose the fair value information of those financial assets and financial liabilities for which published market information is readily available or can be determined by means of alternative valuation techniques, and whose fair value is materially different from their recorded amounts. In the opinion of management, the reported recoverable amounts represent the most valid and useful reporting values in accordance with the Law on Accounting and Auditing of the Republic of Serbia and the regulations of the National Bank of Serbia which govern the financial reporting of banks.

3.18. Contingent Liabilities and Assets

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

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.18. Contingent Liabilities and Assets (Continued)**

Contingent liability is disclosed in notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

An entity shall not recognize a contingent asset within balance sheet and income statement, as contingent asset are to be disclosed in Notes to the financial statements, unless the possibility of an inflow of resources embodying economic benefits is remote.

3.19. Business Combinations

As disclosed in Note 1 to the accompanying financial statements, pursuant to the February 14, 2008 Decision of the Serbian Business Registers Agency number BD 6190/2008, the status change of merger and acquisition was registered, involving the legal entities of Vojvodanska banka a.d., Novi Sad as the Acquirer, and the National Bank of Greece a.d., Beograd, as the bank whose operations are discontinued by this merger (Acquiree). Before the merger and acquisition, the sole owner of the aforementioned bank was National Bank of Greece a.d., Athens, Greece.

International Accounting Standards do not provide the accounting treatment for business combinations that include legal entities under joint control, i.e. business combinations involving legal entities controlled by the same legal entity before and after the combination.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", in the absence of a Standard or an Interpretation specifically applying to a certain transaction, management is allowed to develop and apply an accounting policy by considering, among other guidance, pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. Pursuant to the aforementioned, the Company's management adopted the accounting policy which is in accordance with the United States Generally Accepted Accounting Policies.

In accordance with the previously mentioned interpretation, the applied method of pooling interests whereby all items from the Acquiree's financial statements prepared for the period in which the status change occurs and for all prior comparative periods, are included in the financial statements of the acquirer as if the status change took place at the beginning of the earliest period presented, at carrying value and upon elimination of internal relations.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of RSD, unless otherwise stated.***4. ADJUSTMENTS OF COMPARATIVE DATA PREVIOUSLY DISCLOSED IN THE FINANCIAL STATEMENTS**

Due to the merger of the National Bank of Greece a.d., Beograd, the comparative financial statements of the Bank for the year ended December 31, 2007 were adjusted as follows:

BALANCE SHEET

	Previously Stated December 31, 2007	Adjustment	Adjusted December 31, 2007
ASSETS			
Cash and cash equivalents	3,851,242	2,157,082	6,008,324
Revocable loans and deposits	19,627,685	8,505,061	28,132,746
Interest, fee and commission receivable	92,406	224,575	316,981
Loans and advances to customers	25,685,223	16,920,868	42,606,091
Securities	2,207,974	67,806	2,275,780
Equity investments and other placements	1,887,115	-	1,887,115
Intangible assets	120,779	-	120,779
Property, equipment and investment property	4,959,111	-	4,959,111
Other assets and prepayments	1,141,235	374,616	1,515,851
Deferred tax assets	86,074	22,740	108,814
Total assets	59,658,844	28,272,748	87,931,592
LIABILITIES AND EQUITY			
Liabilities			
Transaction and other deposits	38,727,154	20,358,850	59,086,004
Borrowings	2,658,406	133,517	2,791,923
Liabilities arising from securities	239	-	239
Interest, fee and commission payables and change in the value of derivatives	57,176	74,867	132,043
Current income taxes payable	141,602	7,322	148,924
Other operating liabilities	2,852,599	372,411	3,225,010
Provisions	1,149,905	4,223	1,154,128
Deferred tax liabilities	152,637	-	152,637
Total Liabilities	45,739,718	20,951,190	66,690,908
Equity			
Share and other capital	8,946,741	7,419,535	16,366,276
Reserves	14	-	14
Revaluation reserves	1,665,864	19,782	1,685,646
Retained earnings	3,306,507	40,086	3,346,593
Accumulated losses	-	(157,845)	(157,845)
Total Equity	13,919,126	7,321,558	21,240,684
Total Liabilities and Equity	59,658,844	28,272,748	87,931,592
OFF-BALANCE-SHEET ITEMS	64,656,984	2,011,328	66,668,312

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

4. ADJUSTMENTS OF COMPARATIVE DATA PREVIOUSLY DISCLOSED IN THE FINANCIAL STATEMENTS (Continued)

INCOME STATEMENT

	Year Ended December 31, 2007		
	Previously Stated	Adjustment	Adjusted
Interest income	3,702,784	1,736,365	5,439,149
Interest expense	(1,592,936)	(698,177)	(2,291,113)
Net interest income	2,109,848	1,038,188	3,148,036
Fee and commission income	1,590,207	113,108	1,703,315
Fee and commission expense	(108,950)	(37,353)	(146,303)
Net fee and commission income	1,481,257	75,755	1,557,012
.			
Net gains on the sale of securities	2,205,240	1,929	2,207,169
Foreign exchange gains, net	163,784	137,228	301,012
Dividends and other income from equity investments	56,118	-	56,118
Other operating income	1,066,081	(920,549)	145,532
Net impairment losses and provisions	(1,537,513)	937,294	(600,219)
Other operating expenses	(4,093,089)	(1,309,986)	(5,403,075)
Gains on the valuation of assets and liabilities, net	601,367	67,130	668,497
.			
PROFIT BEFORE TAXATION	2,053,093	26,989	2,080,082
Current income taxes	(143,753)	(7,322)	(151,075)
Deferred tax benefit, net	(14,953)	20,419	5,466
.			
PROFIT	1,894,387	40,086	1,934,473

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

4. ADJUSTMENTS OF COMPARATIVE DATA PREVIOUSLY DISCLOSED IN THE FINANCIAL STATEMENTS (Continued)

CASH FLOW STATEMENT

	Year Ended December 31, 2008		
	Previously Stated	Adjustment	Adjusted
Cash receipts from operating activities	5,518,383	1,918,593	7,436,976
Interest receipts	3,723,903	1,792,848	5,516,751
Fee and commission receipts	1,587,864	111,464	1,699,328
Receipts of other operating income	150,498	14,281	164,779
Receipts from dividends and equity investments	56,118	-	56,118
Cash payments from operating activities	(6,346,385)	(1,914,967)	(8,261,352)
Interest payments	(1,587,441)	(679,881)	(2,267,322)
Fee and commission payments	(108,177)	(37,554)	(145,731)
Payments to, and on behalf of employees	(2,082,179)	(443,388)	(2,525,567)
Taxes, contributions and other duties paid	(568,492)	(78,708)	(647,200)
Payment of other operating expenses	(2,000,096)	(675,436)	(2,675,532)
Net cash used in operating activities prior to changes in placements and deposits	(828,002)	3,626	(824,376)
(Increases) in placements and increases in deposits received, net	(5,697,503)	(255,445)	(5,952,948)
(Increase) in placements with banks and other customers	(8,101,837)	(697,929)	(8,799,766)
(Increase)/decrease in securities and other trading placements and short-term securities held-to-maturity	(1,133,264)	3,980,082	2,846,818
(Decrease)/increase in deposits from banks and customers	3,537,598	(3,537,598)	-
Net cash used in operating activities before income tax	(6,525,505)	(251,819)	(6,777,324)
Cash used in investing activity	(7,961)	7,849	(112)
Proceeds from the sale of equity investments (interests)	-	35,570	35,570
Proceeds from the sale of intangible and fixed assets	180,223	-	180,223
Cash used for the purchase of intangible and fixed assets	(163,018)	(27,721)	(190,739)
Purchase of equity interests and investments	(25,166)	-	(25,166)
Net cash provided by financing activities	5,577,828	2,508,787	8,086,615
Inflows from increase in capital	4,100,000	2,508,787	6,608,787
Net cash from borrowings	1,818,770	(302)	1,818,468
Proceeds from the sale of treasury shares	20	-	20
Net cash used to repay borrowings	(340,962)	302	(340,660)
Total cash inflows	15,154,994	3,771,868	18,926,862
Total cash outflows	(16,110,632)	(1,507,051)	(17,617,683)
Net (decrease)/increase in cash and cash equivalents	(955,638)	2,264,817	1,309,179
Cash and cash equivalents, beginning of year	3,933,637	1,230,187	5,163,824
Foreign exchange losses, net	(601,909)	137,230	(464,679)
Cash and cash equivalents, end of year	2,376,090	3,632,234	6,008,324

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

5. INTEREST INCOME AND EXPENSE

a) Interest Income

	Year Ended December 31,	
	2008	2007
Interest income from loans in dinars	4,271,459	2,701,946
Interest income from deposits in dinars	41,591	28,037
Interest income from securities in dinars	279,229	175,196
Interest income from other placements	1,646,139	1,002,052
Interest income from loans in foreign currency	239,568	1,511,405
Interest income from deposits in foreign currency	7,683	16,355
Interest income from securities in foreign currency	-	4,158
	<u>6,485,669</u>	<u>5,439,149</u>

b) Interest Expense

	Year Ended December 31,	
	2008	2007
Interest expense from borrowings in dinars	56,469	34,661
Interest expense from deposits in dinars	2,010,040	1,455,540
Interest expense from other liabilities	3,232	71,103
Interest expense from borrowings in foreign currency	20,701	42,414
Interest expense from deposits in foreign currency	585,183	687,395
	<u>2,675,625</u>	<u>2,291,113</u>

6. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	Year Ended December 31,	
	2008	2007
Fee and commission income from domestic and foreign payment transfers	974,350	1,036,305
Loan origination fees	50,614	199,263
Fees for the rental of safety-deposit boxes	18,051	15,876
Fee and commission for other banking services	309,374	110,562
Cheques processing	9,194	11,812
Commissions earned on the purchase and sale of foreign currencies	21,215	9,715
Fees arising from card operations	81,587	70,133
Fees on issued guarantees and other contingent liabilities	66,686	76,303
Brokerage fees	-	60,224
Other fee and commission income	112,897	113,122
	<u>1,643,968</u>	<u>1,703,315</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of RSD, unless otherwise stated.***6. FEE AND COMMISSION INCOME AND EXPENSE (Continued)****b) Fee and Commission Expense**

	Year Ended December 31,	
	2008	2007
Fee and commission expense arising from domestic payment transfers	82,063	72,394
Fee and commission expense arising from international payment transfers	9,042	6,533
Cheques processing	9,978	10,768
Commissions arising from foreign currency purchases	6,219	4,181
Other fee and commission expense	8,140	52,427
	<u>115,442</u>	<u>146,303</u>

7. OTHER OPERATING INCOME

	Year Ended December 31,	
	2008	2007
Other income from regular operations	69,284	76,941
Recovery of receivables previously written-off	32,798	8,790
Gains on the disposal of property, equipment and intangible assets	27,109	42,623
Write-off of liabilities	6,578	1,827
Surpluses	2,133	1,011
Other income	24,814	14,340
	<u>162,716</u>	<u>145,532</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

8. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2008	2007
Materials	204,523	176,704
Transportation services	21,476	15,512
Telecommunications and leased lines	210,897	156,844
Maintenance	89,109	52,457
Rentals	357,445	93,367
Marketing, sponsorships and donations	222,050	252,153
Advertizing	26,890	2,574
Cost of other production services	38,248	369,377
Depreciation and amortization charge	409,113	408,137
Property insurance	202,908	77,073
Entertainment	12,592	13,785
Transportation of employees	43,013	34,873
Perdiems	68,312	31,838
Lawyer fees	20,694	12,150
Securing property	273,723	191,391
Taxes paid	345,508	228,331
Contributions paid	487,001	433,256
Write-off of bad receivables	10,369	136,426
Net salaries and benefits	2,022,148	1,804,771
Taxes and contributions on salaries	781,729	696,209
Other staff costs	26,356	34,451
Losses on the sale of fixed and intangible assets	-	390
Losses on disposal and write-off of fixed and intangible assets	54	1,524
Shortages and damages	81	1,099
Other expenses	117,059	178,383
	<u>5,991,298</u>	<u>5,403,075</u>

9. IMPAIRMENT LOSSES AND PROVISIONS, Net

a) Charge for the Year

	Year Ended December 31,	
	2008	2007
Reversal of allowance for impairment and provisions:		
- on placements included in the balance sheet (Note 9b)	1,275,375	1,142,020
- provisions against off-balance sheet items (Note 24)	433,235	-
- provisions for liabilities (Note 24)	24,606	15,942
- collected suspended interest	100,489	-
	<u>1,833,705</u>	<u>1,157,962</u>
Expenses related to impairment losses and provisions:		
- on placements included in the balance sheet (Note 9b)	(2,120,365)	(1,364,139)
- provisions against off-balance sheet items (Note 24)	(37,885)	-
- provisions for liabilities (Note 24)	(4,298)	(389,819)
- other provisions (Note 24)	(127,486)	(4,223)
	<u>(2,290,034)</u>	<u>(1,758,181)</u>
	<u>(456,329)</u>	<u>(600,219)</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

9. IMPAIRMENT LOSSES AND PROVISIONS, Net (Continued)

b) Movements on Accounts of Allowance for Impairment (Continued)

					2008
	Loans and Deposits (Note 15)	Interest, Fee and Commission Receivables (Note 14)	Securities and Equity Investments (Note 16, 17)	Other Assets (Note 19)	Total
Balance, beginning of year	14,863,747	725,787	528,399	1,634,676	17,752,609
Charge for the year (Note 9a)	2,021,490	85,134	5,893	7,848	2,120,365
Foreign exchange fluctuations	2,259,075	41,505	6,542	3,010	2,310,132
Hedge effects	33,213	674	-	-	33,887
Fair value adjustment	-	-	547,536	-	547,536
Release of allowance for impairment (Note 9a)	(1,197,256)	(67,146)	(501)	(10,472)	(1,275,375)
Transfers/other	(4,456,080)*	4,444	-	(101,505)	(4,553,141)
Balance, end of year	<u>13,524,189</u>	<u>790,398</u>	<u>1,087,869</u>	<u>1,533,557</u>	<u>16,936,013</u>

* *Transfer of deposits during 2008 in the aggregate amount of RSD 4,456,080 thousand is entirely associated with receivables arising from borrowings from the entity Azotara stečajna masa a.d., Subotica.*

c) Special Reserve for Potential Losses

As of December 31, 2008, the Bank has determined special reserve for potential losses in accordance with the National Bank of Serbia requirements, and performed classification of risk-weighted balance sheet and off-balance sheet items into prescribed categories.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

9. IMPAIRMENT LOSSES AND PROVISIONS, Net (Continued)

c) Special Reserve for Potential Losses (Continued)

In accordance with the National Bank of Serbia Decision on the classification of balance sheet and off-balance sheet exposures, difference between the amount of special reserve for potential losses calculated in accordance with the National Bank of Serbia requirements, and the amount of allowance for impairments and provision for contingent liabilities estimated in accordance with the internally adopted methodology, is presented as reserve within the equity and is charged to retained earnings.

	Year Ended December 31,	
	2008	2007
Special reserve for potential losses determined as per the National Bank of Serbia requirements with respect to:		
- balance sheet exposures	19,462,286	19,778,990
- off-balance sheet exposures	395,642	608,108
	<u>19,857,928</u>	<u>20,387,098</u>
Allowances for impairment and provisions determined in accordance with the internally adopted methodology (IAS 39):		
- allowance for impairment of balance sheet items*	(16,562,832)	(17,907,164)
- provision for losses contingent on off-balance sheet items	(123,685)	(519,036)
	<u>(16,686,517)</u>	<u>(18,426,200)</u>
Provisions determined in accordance with IAS 39 exceeding the amount of provision as per the NBS Decision	914,575	658,810
Provisions for potential losses contingent on balance sheet assets and off-balance sheet items	<u>4,085,986</u>	<u>2,619,708</u>
Additional provision for potential losses to be set aside as appropriation of retained earnings	<u>4,085,986</u>	<u>2,619,708</u>

* *Difference as compared with the total allowance for impairment relates to the balance sheet items classified in the trading book and are not included in the calculation of the Bank's exposures to risks.*

Additional provision for potential losses to be set aside as appropriation of retained earnings in the amount of RSD 4,085,986 thousand (December 31, 2007: RSD 2,619,708 thousand), will be allocated from the Bank's profit earned in the current (618,937 thousand) and future periods, following the relevant Decision of the Bank's Assembly.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of RSD, unless otherwise stated.***10. GAINS ON THE VALUATION OF FINANCIAL ASSETS AND LIABILITIES, NET**

	Year Ended December 31,	
	2008	2007
Gains on the change in value of:		
- placements and receivables	3,908,751	1,110,596
- securities	92,539	429,209
- liabilities	27,638	6,146
- derivatives	2,966,255	68,974
	<u>6,995,183</u>	<u>1,614,925</u>
Losses on the change in value of:		
- placements and receivables	(1,220,642)	(925,584)
- securities	(578,415)	(9,274)
- liabilities	(51,850)	(11,570)
- derivatives	(2,685,406)	-
	<u>(4,536,313)</u>	<u>(946,428)</u>
	<u>2,458,870</u>	<u>668,497</u>

11. INCOME TAXES**a) Components of income tax**

	2008	2007
Current income tax	3,348	151,075
Deferred income tax	(6,553)	(5,466)
	<u>(3,205)</u>	<u>145,609</u>

b) Numerical reconciliation between tax expense and the product of the accounting results multiplied by the applicable tax rate

	2008	2007
Profit before tax	<u>615,732</u>	<u>2,080,082</u>
Income tax at the statutory tax rate of 10%	61,573	208,008
Tax effect of non-deductible expenses	14,890	46,798
Recognized tax credits for capital expenditures	(3,348)	(109,091)
Tax loss carryforwards used	(79,547)	(14,527)
Untaxable dividend income	(1,147)	(2,382)
Other	4,374	16,803
	<u>(3,205)</u>	<u>145,609</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

11. INCOME TAXES (Continued)

c) Components of deferred tax assets/(liabilities)

	<u>2008</u>	<u>2007</u>
Deferred tax assets		
Taxable temporary differences on property, equipment and intangible assets	45,984	108,814
Recognized tax credits for capital expenditures	62,506	-
	<u>108,490</u>	<u>108,814</u>
Deferred tax liabilities		
Taxable temporary differences on property, equipment and intangible assets	(145,760)	(152,637)
Net	<u>(37,270)</u>	<u>(43,823)</u>

d) Movements in Deferred Tax Assets/ (Liabilities)

	<u>2008</u>	<u>2007</u>
Deferred tax assets		
Opening balance	108,814	107,331
Decrease/increase in temporary difference in the year	(62,830)	1,483
Tax credit recognized	62,506	-
	<u>108,490</u>	<u>108,814</u>
Deferred tax liabilities		
Opening balance	(152,637)	(158,941)
Decrease in temporary difference in the year	6,877	6,304
	<u>(145,760)</u>	<u>(152,637)</u>
Net	<u>(37,270)</u>	<u>(43,823)</u>

g) Tax Losses/Credits Carryforwards (Available) as of December 31, 2008

The summary of tax loss carried forward and tax credit carried forward for which the Bank has not recognized deferred tax assets as of December 31, 2008 was as follows:

<u>Origination Year</u>	<u>Expiration Year</u>	<u>Tax Losses</u>	<u>Tax Credits</u>
2004	2014	5,328,679	-
2008	2018	-	59,420
		<u>5,328,679</u>	<u>59,420</u>

In 2008, the Bank did not recognize deferred tax assets due to the uncertainty whether sufficient taxable profit will be available in the future against which the unused tax losses may be utilized by the Bank.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

12. CASH AND CASH EQUIVALENTS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Cash in hand:		
- in dinars	1,397,981	846,460
- in foreign currencies	2,503,919	814,360
Giro account	11,859,595	620,039
Other cash and cash equivalents in dinars	-	2,892,179
Other cash and cash equivalents in foreign currency	50,084	43,495
Gold and other precious metals	6,019	5,360
Treasury bills, net	1,389,480	428,758
Accounts in foreign currencies with:		
- foreign banks	389,824	357,673
	<u>17,596,902</u>	<u>6,008,324</u>

The Bank's obligatory dinar reserves represent the minimum deposits set aside in dinars in accordance with the NBS Decision on Obligatory Reserves of Banks with the National Bank of Serbia and based on decisions published in the RS Official Gazette numbers 116/2006, 3/2007, 31/2007, 93/2007, 35/2008, 94/2008, 100/2008, 107/2008, 110/2008 and 112/2008. The Bank is under obligation to calculate and allocate obligatory reserve at the rate of 10% to the average amount of dinar deposits, borrowings and other related liabilities in effect during the previous calendar month. The obligatory reserve in dinars is allocated on the Bank's giro account. The Bank maintains the average daily balance of the allocated obligatory reserve in dinars in the amount of the calculated obligatory dinar reserve. In 2008, the annual interest rate earned on the Bank's obligatory reserve account amounted to 2.5%.

Exceptionally, banks are under obligation to calculate the obligatory reserve as follows:

- 5% – on the portion of dinar reserving base comprised of dinar obligations arising from savings deposits termed for a period over one month;
- 45% – on the portion of dinar reserving base comprised of foreign currency clause indexed dinar obligations;
- 45% – on the portion of dinar reserving base comprised of dinar obligations in respect of foreign deposits and credits, up to the level of such base as in September 2008;
- 0% – on the amount of positive difference between the portion of dinar base comprised of dinar obligations in respect of foreign deposits and credits from the previous calendar month and the same portion of dinar base from September 2008.

The calculated obligatory dinar reserve for December 2008 amounted to RSD 9,073,015 thousand. At December 31, 2008, the funds held on the Bank's giro account were above the amount of calculated obligatory dinar reserve.

13. REVOCABLE DEPOSITS AND LOANS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Obligatory reserve in foreign currency held with the National Bank of Serbia	11,143,210	15,532,746
Liquidity surpluses deposited	-	2,900,000
Placements with NBS arising from repurchase transactions	-	9,700,000
	<u>11,143,210</u>	<u>28,132,746</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of RSD, unless otherwise stated.***13. REVOCABLE DEPOSITS AND LOANS (Continued)**

In accordance with the Decision on Obligatory Reserves of Banks with the National Bank of Serbia and based on decision published in the RS Official Gazette numbers 116/2006, 3/2007, 31/2007, 93/2007, 35/2008, 94/2008, 100/2008, 107/2008, 110/2008 and 112/2008, the Bank calculates and allocates the required reserve held with the National Bank of Serbia based on the average amount of foreign currency deposits, loans, securities, subordinated liabilities and other liabilities denominated in foreign currency, including deposits, loans and other foreign currency funds received from abroad in operations which the Bank performs in the name and for the account of third parties. The Bank calculates the required reserve at the rate of 45% to the amount of average daily balance of foreign currency funds registered in the previous calendar month:

Exceptionally, banks shall calculate required reserves by applying the following ratios:

- 40% – on the portion of foreign currency reserving base comprised of obligations arising from foreign currency savings deposited with banks;
- 20% – on the portion of foreign currency reserving base comprised of subordinated obligations, up to the level of such base as in September 2008;
- 100% – on the portion of foreign currency reserving base comprised of foreign currency assets kept by leasing companies on special accounts opened with banks;
- 0% – on the amount of positive difference between the portion of foreign currency reserve base comprised of foreign currency obligations in respect of foreign deposits and credits from the previous calendar month and the same portion of foreign currency base from September 2008, while the ratio of 45% will be applied for calculating foreign currency required reserves on the portion of foreign currency reserve base comprised of foreign currency obligations in respect of foreign deposits and credits up to the level of such portion of foreign currency reserve base from September 2008;
- 0% - on the amount of positive difference between the portion of foreign currency reserve base comprised of subordinated obligations from the previous calendar month and the same portion of foreign currency reserve base from September 2008.

In accordance with the Addendum and Amendments to the NBS Decision on Interest Rates (Official Gazette numbered 46/2005) of June 10, 2005, deposits placed in foreign currencies with the National Bank of Serbia are non-interest bearing ones.

14. INTEREST, FEES AND COMMISSIONS RECEIVABLE

	December 31, 2008	December 31, 2007
Interest receivables:		
- in dinars	747,107	585,951
- in foreign currencies	379,017	352,234
	<u>1,126,124</u>	<u>938,185</u>
Fee and commission receivable:		
- in dinars	66,324	65,509
- in foreign currencies	2,117	6,498
	<u>68,441</u>	<u>72,007</u>
Receivables based on the change in the fair value of derivatives	66,004	31,229
Other receivables	490	1,347
Less: Allowance for impairment (Note 9)	<u>(790,398)</u>	<u>(725,787)</u>
	<u>470,661</u>	<u>316,981</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

15. LOANS AND DEPOSITS

	December 31, 2008	December 31, 2007
Loans in dinars:		
- loans per transaction accounts	1,434,938	1,361,002
- overnight loans	-	830,000
- consumer loans	2,703,864	8,659,376
- loans for working assets	15,357,919	9,364,457
- export loans	202,176	52,578
- investment loans	2,662,126	2,165,570
- housing loans	6,441,278	2,347,561
- other loans	17,877,995	13,372,622
Loans in foreign currency:		
- loans for imported goods and services in foreign currency	1,321,624	1,345,565
- loans for the purchase of immovables extended to a foreign person in foreign currency	-	2,381
- overnight loans	42,461	34,922
- other loans	12,320,561	14,439,405
Deposits placed in dinars:		
- other deposits	115	3,290,238
Deposits placed in foreign currency:		
- other deposits	-	204,161
	<u>60,365,057</u>	<u>57,469,838</u>
Less: Allowance for impairment (Note 9)	<u>(13,524,189)</u>	<u>(14,863,747)</u>
	<u>46,840,868</u>	<u>42,606,091</u>
	December 31, 2008	December 31, 2007
Short-term loans:		
- in dinars	14,027,965	26,093,708
- in foreign currency	9,682,373	6,434,591
Long-term loans:		
- in dinars	32,651,883	12,059,458
- in foreign currency	4,002,721	9,387,682
Deposits:		
- in dinars	115	3,290,238
- in foreign currency	-	204,161
	<u>60,365,057</u>	<u>57,469,838</u>
Less: Allowance for impairment	<u>(13,524,189)</u>	<u>(14,863,747)</u>
	<u>46,840,868</u>	<u>42,606,091</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of RSD, unless otherwise stated.***15. LOANS AND DEPOSITS (Continued)**

As of December 31, 2008, loans to corporate clients are primarily extended for purposes of financing the following: daily liquidity requirements, the acquisition of current assets, imports, investments, agricultural production, and the rescheduling of previously-approved loans. Loans with up to one year maturity were approved for the period ranging from 30 days to one year, whereas the loans with over one year maturity were approved for periods from 1 to 30 years. The interest on foreign currency loans with up to one year maturities is accrued at rates from 4.2% to 9.95% annually. Loans of up to one year maturities in dinars accrue interest ranging from 9% to 25.9% annually. The interest on over-one year loans with currency clause is charged from 3.5% to 9.25% annually, whereas loans with over one year maturities denominated in foreign currency accrued interest from 3.56% to 9.25% per annum.

At December 31, 2008, loans and advances to retail customers were mostly extended as: cash loans, overdraft loans, loans based on the use of credit cards, car loans, as well as housing loans. Cash loans with over one year maturities were approved upon the placement of a deposit in the amount of 20%, at annual interest rates ranging from 10% to 12.5%, the overdrafts on current accounts are approved at monthly interest rates ranging from 1.53% to 2.0%, while based on the use of VISA credit cards, the interest on overdrafts ranged from 1.5% to 1.8% monthly, i.e., 16.77% to 23.87% annually for overdrafts against the DINA credit card. Housing long-term loans were extended at annual interest rates from 5.95% to 6.50%.

Loan Concentration

The economic sector risk concentration within the customer loan portfolio, in the net amount is as follows:

	December 31, 2008	December 31, 2007
Mining and processing industry	6,805,045	6,274,622
Energy production	3,490,808	4,383,454
Trade	4,484,526	3,716,576
Agriculture, hunting and forestry	1,750,589	1,785,386
Civil engineering	1,737,608	1,551,692
Finance	262,998	1,488,501
Governmental and public institutions	1,116,331	272,056
Services, tourism, accommodation, traffic and communications	1,015,925	877,725
Retail customers	24,926,365	19,811,687
Other	1,250,673	2,444,392
	<u>46,840,868</u>	<u>42,606,091</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

16. SECURITIES

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
In dinars:		
Shares of banks:		
- AIK banka a.d., Niš	327,717	324,478
- Agrobanka a.d., Beograd	14,267	14,267
- JUBMES banka a.d., Beograd	103,137	99,935
- Panonska banka a.d., Novi Sad	-	-
- Metals banka a.d., Novi Sad	380	-
- Komercijalna banka a.d., Beograd	5,982	5,982
Shares of corporate entities	34,335	33,266
Corporate bonds	196	
Corporate bills of exchange	94,647	1,110,811
In foreign currency:		
- Republic of Serbia bonds based on foreign currency public savings	33,920	29,322
- Bonds for Economic Recovery of Serbia	-	38,484
- Shares of banks:		
- NLB Razvojna banka a.d., Banja Luka	737,970	634,811
- Other securities	119	106
	<u>1,352,670</u>	<u>2,291,462</u>
Less: Allowance for impairment (Note 9)	<u>(533,831)</u>	<u>(15,682)</u>
	<u>818,839</u>	<u>2,275,780</u>

17. EQUITY INVESTMENTS AND OTHER PLACEMENTS

	<u>December 31, 2007</u>	<u>December 31, 2006.</u>
Equity investments in dinars:		
- subsidiaries	37,541	57,395
- related parties	21,954	21,954
- other corporate entities	362,690	351,716
- other banks and financial institutions	199,410	199,218
Equity investment in foreign currency:		
- subsidiaries	8,840	7,906
- foreign banks and financial institutions	211,505	224,618
Other placements in dinars	118,399	321,830
Placements based on payments executed upon guarantees	742,612	833,223
Placements in foreign currency based on trading in foreign currency on the Interbank market	<u>2,168,427</u>	<u>1,799,907</u>
Less: Allowance for impairment of equity investments (Note 9)	<u>(554,038)</u>	<u>(512,717)</u>
Less: Allowance for impairment of other placements (Note 9)	<u>(1,419,104)</u>	<u>(1,417,935)</u>
	<u>1,898,236</u>	<u>1,887,115</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

17. EQUITY INVESTMENTS AND OTHER PLACEMENTS (Continued)

As of December 31, 2008, the Bank has gross equity investments in dinars in the following related parties: Vobex, Novi Sad (RSD 326 thousand, equity share of 100%), and Imos, Šid (RSD 37,215 thousand, equity share of 51.5%). Equity investment in Vobex, Novi Sad was completely provided for in the earlier years.

As of December 31, 2008, the Bank had equity investment in the related party Metalprogres, Zrenjanin in the amount of RSD 21,954 thousand (equity share of 30.34%). In addition, as of December 31, 2008, the Bank's equity investment in the related party in foreign currency related to the investment in Novobanis, Thesaloniki totaling of RSD 8,840 thousand, gross (equity share of 68%).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

18. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY

	Land	Buildings	Investment Property	Equipment	Leasehold Improvements	Construction in Progress	Total PP&E	Softwares and Licenses	Intangible Assets under Construction	Leasehold Improvements	Total Intangible Assets
Cost											
Balance, December 31, 2007	517	6,382,363	434,855	1,599,882	378,226	61,412	8,857,255	190,129	28,847	322,811	541,787
Additions	-	141,528	1,255	46,713	128,609	344,492	662,597	32,717	102,784	-	135,501
Transfer from assets acquired in lieu of cash	-	-	190	-	-	-	190	-	-	-	-
Reclassification to assets acquired in lieu of cash	-	-	(298,589)	-	-	-	(298,589)	-	-	-	-
Transfer from construction in progress	-	8,376	-	238,412	-	(246,788)	-	25,450	(25,450)	-	-
Reclassifications according to the amended chart of accounts	-	-	-	-	322,811	-	322,811	-	-	(322,811)	(322,811)
Transfer from investment property	-	(130,655)	130,655	-	-	-	-	-	-	-	-
Sale	-	(14,054)	-	-	-	-	(14,054)	-	-	-	-
Surpluses	-	2,063	-	210	-	-	2,273	-	-	-	-
Shortages and disposals	-	-	-	(81,148)	-	-	(81,148)	-	-	-	-
Balance, December 31, 2008	<u>517</u>	<u>6,389,621</u>	<u>268,366</u>	<u>1,804,069</u>	<u>829,646</u>	<u>159,116</u>	<u>9,451,335</u>	<u>248,296</u>	<u>106,181</u>	<u>-</u>	<u>354,477</u>
Accumulated Depreciation and Amortization											
Balance, December 31, 2007	-	2,419,550	61,950	1,200,048	216,596	-	3,898,144	112,352	-	308,656	421,008
Charge for the year	-	128,869	10,546	159,907	69,879	-	369,201	39,912	-	-	39,912
Reclassification to assets acquired in lieu of debt settlement	-	-	(49,174)	-	-	-	(49,174)	-	-	-	-
Reclassifications according to the amended chart of accounts	-	-	-	-	308,656	-	308,656	-	-	(308,656)	(308,656)
Transfer to construction in progress	-	(74,464)	74,464	-	-	-	-	-	-	-	-
Sale	-	(5,553)	-	-	-	-	(5,553)	-	-	-	-
Surpluses	-	-	-	132	-	-	132	-	-	-	-
Shortages and disposals	-	-	-	(80,994)	-	-	(80,994)	-	-	-	-
Balance, December 31, 2008	<u>-</u>	<u>2,468,402</u>	<u>97,786</u>	<u>1,279,093</u>	<u>595,131</u>	<u>-</u>	<u>4,440,412</u>	<u>152,264</u>	<u>-</u>	<u>-</u>	<u>152,264</u>
Net Book Value:											
- as of December 31, 2008	<u>517</u>	<u>3,921,219</u>	<u>170,580</u>	<u>524,976</u>	<u>234,515</u>	<u>159,116</u>	<u>5,010,923</u>	<u>96,032</u>	<u>106,181</u>	<u>-</u>	<u>202,213</u>
- as of December 31, 2007	<u>517</u>	<u>3,962,813</u>	<u>372,905</u>	<u>399,834</u>	<u>161,630</u>	<u>61,412</u>	<u>4,959,111</u>	<u>77,777</u>	<u>28,847</u>	<u>14,155</u>	<u>120,779</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of RSD, unless otherwise stated.***18. PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT
PROPERTY (Continued)**

As a result of incomplete cadastral books, the Bank's property stated in the amount of RSD 159,182 thousand as of December 31, 2008 has not been duly recorded in the land registry (December 31, 2007: RSD 235,260 thousand). The Bank's management is taking steps to obtain the appropriate title deeds.

19. OTHER ASSETS AND PREPAYMENTS

	December 31, 2008	December 31, 2007
Advances, deposits and retainers:		
- in dinars	31,501	14,326
- in foreign currencies	1,764	2,315
Prepaid taxes and contributions	228,886	2,602
Receivables from employees:		
- in dinars	93,977	43,697
- in foreign currencies	3,974	12,559
Other receivables from operations:		
- in dinars	252,400	165,994
- in foreign currencies	28,471	17,102
Suspense and temporary accounts	(54,881)	(28,548)
Receivables from foreign currency purchases and sales	872,457	18,446
Assets acquired in lieu of receivables	428,747	154,668
Inventories of small tools and office material	25,774	32,041
Accrued interest:		
- in dinars	93,425	80,989
- in foreign currencies	22,907	26,678
Accrued other expenses	74,784	69,773
Other prepayments	803,474	1,288,747
	<u>2,908,660</u>	<u>1,901,389</u>
Less: Allowance for impairment of other receivables (Note 9)	(114,453)	(215,572)
Less: Allowance for impairment of inventories (Note 9)	(171,847)	(169,966)
	<u><u>2,621,360</u></u>	<u><u>1,515,851</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

20. TRANSACTION AND OTHER DEPOSITS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Demand deposits:		
- in dinars	10,065,116	10,847,398
- in foreign currencies	4,445,373	3,018,519
Short-term deposits:		
- in dinars	7,198,710	24,689,064
- in foreign currencies	28,993,482	18,323,779
Long-term deposits:		
- in dinars	149,736	140,614
- in foreign currencies	4,438,608	2,066,630
	<u>55,291,025</u>	<u>59,086,004</u>

Demand deposits in dinars of corporate entities and retail customers are mainly comprised of current account balances. Demand deposits of corporate entities in dinars and in foreign currencies are ordinarily non-interest bearing ones, except as contractually arranged under specifically defined terms.

Current accounts of retail customers are non-interest bearing ones. The demand deposits of retail customers in foreign currencies carry annual interest rates ranging from 0.1% to 1%, depending upon the currency deposited.

Short-term deposits of corporate customers in dinars bear annual interest rates ranging from 7.5% to 14.0%.

Short-term deposits from domestic banks in dinars are deposited for the period from thirty to ninety days at an interest rate ranging between 8.5% and 14.6% annually.

Long-term deposits of corporate customers denominated in foreign currency are placed at an interest rate ranging from 3.1% to 4.6% annually depending on the currency.

Short-term retail deposits in foreign currency are placed at an interest rate ranging from 2% to 9.5% ("Savings week") per annum depending on the currency. Long-term retail deposits denominated in foreign currency are placed at an interest rate ranging from 2% to 10% annually.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

20. TRANSACTION AND OTHER DEPOSITS (Continued)

	December 31, 2008	December 31, 2007
Demand deposits:		
- in dinars	10,065,116	10,847,398
- in foreign currencies	4,445,372	3,018,519
Savings deposits:		
- in dinars	563,827	653,831
- in foreign currencies	20,630,580	12,164,230
Deposits based on loans to customers:		
- in dinars	35,639	31,297
- in foreign currencies	3,604,091	3,468,300
Special purpose deposits:		
- in dinars	285,800	408,019
- in foreign currencies	1,058,813	3,420,582
Other deposits:		
- in dinars	6,464,939	9,817,047
- in foreign currencies	8,136,848	15,256,781
	<u>55,291,025</u>	<u>59,086,004</u>

A breakdown of liabilities by customer type is provided in the table below:

	December 31, 2008	December 31, 2007
Public sector	450,760	2,387,093
Corporate entities	14,363,550	12,496,408
Foreign entities	6,485,480	14,702,596
Retail customers	29,137,414	25,380,426
Banks	2,408,898	848,343
Other customers	2,444,923	3,271,138
	<u>55,291,025</u>	<u>59,086,004</u>

21. BORROWINGS

	December 31, 2008	December 31, 2007
Short-term borrowings:		
- in dinars	1,045,764	1,860,000
- in foreign currencies	2,367,308	312,382
Long-term borrowings:		
- in dinars	-	61,482
- in foreign currencies	194,237	291,814
Other financial liabilities:		
- in dinars	11,007	7,132
- in foreign currencies	454,037	259,113
	<u>4,072,353</u>	<u>2,791,923</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

*All amounts expressed in thousands of RSD, unless otherwise stated.***21. BORROWINGS (Continued)**

Overnight loans in dinars totaling RSD 3,362,362 thousand at December 31, 2008 are associated with loans obtained from other banks for the needs of daily liquidity. The Bank obtained loans for the period from 1 to 3 days at an interest rate, which depending on the bank, ranged from 7.80% to 19.30% on annual level.

Long-term borrowings aggregating to RSD 194,237 thousand at December 31, 2008 comprise the following items:

- the long-term borrowing in the amount of RSD 154,763 thousand (2007: RSD 184,540 thousand), was approved by the Reintegration Fund. The original contract between the Bank and Reintegration Fund was concluded on August 24, 1990. During 2002, the Bank has reprogrammed the terms of the contract and according to the new terms, repayment period is 9 years with the interest rate of 3.558% per annum.
- long-term borrowings in foreign currencies in the amount of RSD 3,972 thousand (2007: RSD 7,105 thousand) represent liabilities from a loan approved by Banca Agricola Mantovana for a period of 6.5 years at an interest rate equal to six-month EURIBOR as increased by 0.75% per annum.
- long-term borrowings in foreign currencies in the amount of RSD 35,502 thousand (2007: RSD 63,499 thousand) represent liabilities for loans approved by Westdeutsche Landesbank AG Düsseldorf for a period of 6 years and 10 months, at interest rate equal to six-month EURIBOR as increased by 2.1875% per annum.

Other financial liabilities of the Bank totaling RSD 454,037 thousand as of December 31, 2008 relate to liabilities arising from the sale and purchase of foreign exchange on the spot and forward interbank market.

At December 31, 2008 and 2007 the breakdown of borrowings can be presented in the following way:

	December 31, 2008	December 31, 2007
Overnight loans:		
- in dinars	998,000	1,860,000
- in foreign currencies	2,364,362	-
Borrowings:		
- in dinars	47,764	61,482
- in foreign currencies	197,183	604,196
Other financial liabilities:		
- in dinars	11,007	7,133
- in foreign currencies	454,037	259,112
	<u>4,072,353</u>	<u>2,791,923</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

21. BORROWINGS (Continued)

Amounts owed to customers breakdown as follows:

	December 31, 2008	December 31, 2007
Public sector	100,946	-
Corporate entities	529	133,467
Foreign entities	737,958	-
Retail customers	963	-
Banks	3,229,311	2,658,456
Other customers	2,646	-
	<u>4,072,353</u>	<u>2,791,923</u>

22. INTEREST, FEE AND COMMISSION PAYABLE AND CHANGE IN THE VALUE OF DERIVATIVES

	December 31, 2008	December 31, 2007
Liabilities based on the change in the fair value of derivatives:		
- in dinars	472,384	1,812
Interest payable:		
- in dinars	49,688	53,782
- in foreign currencies	98,699	70,931
	<u>148,387</u>	<u>124,713</u>
Fee and commission payables:		
- in dinars	8,759	5,518
	<u>629,530</u>	<u>132,043</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

23. OTHER LIABILITIES AND ACCRUALS

	December 31, 2008	December 31, 2007
Net salaries and benefits	99,825	70,917
Taxes and contributions payable	37,672	35,023
Liabilities arising from advances, deposits and retainers:		
- in dinars	7,492	9,793
- in foreign currencies	12,354	40,796
Accounts payable:		
- in dinars	89,024	173,030
- in foreign currencies	143,260	39,534
Finance lease liabilities	28,563	2,976
Tax payables	67,852	49,694
Other liabilities:		
- in dinars	198,393	263,316
- in foreign currencies	666,211	1,070,836
Accrued interest:		
- in dinars	38,933	48,543
- in foreign currencies	233,713	92,842
Accrued expenses:		
- in dinars	8,039	25,098
- in foreign currencies	-	2,764
Deferred interest income:		
- in dinars	130	4,102
- in foreign currencies	807	1,237
Deferred fee and commission income from loans, guarantees and letters of credit	275,324	249,570
Deferred income from foreign exchange transactions:		
- in dinars	1,965,000	1,042,705
Other accruals:		
- in dinars	9,909	371
- in foreign currencies	2,181	1,863
	<u>3,884,682</u>	<u>3,225,010</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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24. PROVISIONS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
<i>a) Provisions for off-balance sheet items</i>		
Balance, beginning of year	519,037	510,893
Charged during the year (Note 9a)	37,885	47,227
Reversal of provision (Note 9a)	(433,235)	(39,083)
	<u>123,687</u>	<u>519,037</u>
<i>b) Provisions for retirement benefits</i>		
Balance, beginning of year	115,746	123,650
Release of provisions based on early retirements	-	(401,946)
Charged during the year (Note 9a)	127,486	394,042
	<u>243,232</u>	<u>115,746</u>
<i>c) Provisions for litigations</i>		
Balance, beginning of year	436,133	467,397
Reversal of provision (Note 9a)	(24,606)	(15,942)
Payments	(2,276)	(15,322)
Charged during the year (Note 9a)	4,298	-
	<u>413,545</u>	<u>436,133</u>
<i>d) Other contingent liabilities</i>		
Balance, beginning of year	83,212	83,212
	<u>83,212</u>	<u>83,212</u>
	<u>863,676</u>	<u>1,154,128</u>

25. SHARE CAPITAL

As of December 31, 2008, the Bank's share capital comprised of 1,633,743 ordinary shares with the individual par value of RSD 10,000 (as of December 31, 2007: 891,790 ordinary shares, before the merger with the National Bank of Greece a.d., Beograd, i.e. 1,633,743 ordinary shares subsequent to the merger).

The Bank's shareholders are entitled to take part in the Bank's decision-making commensurately with their interest in the total amount of the Bank's ordinary shares, in the distribution of profit, priority purchase rights of shares from subsequent issuances, priority collection rights in the event of the Bank's bankruptcy or liquidation.

In December 2006, in accordance with the terms of the Agreement on the Purchase and Sale of Share Capital, the National Bank of Greece became the majority owner of the Bank's share capital through the acquisition of an equity interest of 99.43%. The aforementioned acquisition is duly registered with the Central Securities Depository and Clearing House on December 12, 2006.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***25. SHARE CAPITAL (Continued)**

Pursuant to the November 29, 2007 Articles of Incorporation number 1.0-10340/2 and Decision on Increase in Capital, the share capital of the Bank increased through the issuance of 410,000 ordinary shares having the individual par value of RSD 10,000. The National Bank of Greece, Athens purchased the entire share issue, and thereby became its sole owner.

In accordance with the Decision issued by the Bank's Assembly dated January 3, 2008, the Bank enacted a Decision on the Merger of Vojvodanska banka a.d., Novi Sad with the National Bank of Greece a.d., Beograd, in effect from December 31, 2007. The aforementioned merger was registered with the Serbian Business Registers Agency on February 14, 2008 under the registry number BD 6190/2008 (removal of the business entity "the National Bank of Greece a.d., Beograd" due to a merger) and the changes in core capital of Vojvodanska banka a.d., Novi Sad was inscribed based on the Decision numbered BD 6210/2008. The National Bank of Greece a.d., Beograd was fully owned by the National Bank of Greece a.d., Athens, Greece.

Pursuant to the aforesaid January 3, 2008 Decision enacted by the Bank's Assembly, the Bank's capital increased through the issuance of shares without public offering for the amount of RSD 7,419,535 thousand (741,953 ordinary shares with the individual par value of RSD 10,000), i.e. in the amount equal to the share capital of the National Bank of Greece a.d., Beograd. These shares were transferred to the shareholder of the entity which discontinued its operations, i.e. the National Bank of Greece, Athens, Greece.

Vojvodanaska banka a.d., Novi Sad is the legal successor of all rights and liabilities of the National Bank of Greece a.d., Beograd existing before the merger date, December 31, 2007.

The Bank's other capital in the amount of RSD 28,721 thousand transferred to retained earnings during 2008, relates to the conversion of non-business funds in the Bank's capital, upon first time adoption of International Financial Reporting Standards as of December 31, 2003.

The earnings per share for 2008 amounted to RSD 378.85 (2007: RSD 1,184.07).

Capital Adequacy and Other Ratios Prescribed by the Law on Banks

The Bank is required to maintain a minimum capital adequacy ratio of 12 percent, as established by the NBS. As of December 31, 2008, the Bank's capital adequacy ratio was higher than the prescribed minimum.

The Bank is also required to maintain certain ratios related to the volume of its activities and composition of risk assets in compliance with the Law on Banks and with the NBS Requirements. At December 31, 2008, all ratios related to the volume of activities composition of risk assets complied with the ratios prescribed by the National Bank of Serbia.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

26. OFF-BALANCE SHEET ITEMS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
a) Managed funds		
- in dinars	2,228,693	2,323,610
- in foreign currencies	76,515	94,625
	<u>2,305,208</u>	<u>2,418,235</u>
b) Guarantees, other contingent liabilities and commitments		
Guarantees and sureties issued:		
- in dinars	2,517,203	2,806,043
- in foreign currencies	2,202,516	1,389,808
Payment guarantees:		
- in dinars	38,351,505	34,697,755
- in foreign currencies	6,450,339	8,306
Property standing collateral for liabilities	10,477	49,926
Irrevocable commitments for undrawn loans and placements:		
- in dinars	6,161,117	4,929,609
- in foreign currencies	6,304	452
Other irrevocable commitments:		
- in dinars	7,812	6,316
- in foreign currencies	140,795	171,836
	<u>55,848,068</u>	<u>44,060,051</u>
c) Derivatives		
Receivables for derivatives	36,903,984	11,740,416
d) Other off-balance sheet items		
Receivables arising from suspended interest	6,019,994	65,497
Securities obtained as a pledge	17,526	1,635,722
Other off-balance sheet items	12,797,634	6,748,391
	<u>18,835,154</u>	<u>8,449,611</u>
Total off-balance-sheet items	<u><u>113,892,414</u></u>	<u><u>66,668,312</u></u>

a) Managed Funds

At December 31, 2008, the funds managed on behalf of third parties mainly relate to funds received from the public sector customers and entrusted to the Bank's management. The funds managed on behalf of third parties primarily include loans for the Economic Recovery of Serbia, loans of the Development Fund of the Republic of Serbia for loans to registered agricultural farms, loans placed from the funds of the Ministry for Agriculture, Forestry and Water and loans which companies extend its employees or other companies through the Bank as an agent. The Bank charges fees for the services provided.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***26. OFF-BALANCE SHEET ITEMS (Continued)****b) Litigations**

As of December 31, 2008, according to the Bank's Legal Department's estimation, the value of legal proceedings filed against the Bank totaled RSD 2,345,621 thousand (December 31, 2007: the total amount sought in litigations amounted to RSD 2,654,146 thousand). The management recognized a provision for potential losses on litigations in the amount of RSD 413,545 thousand (Note 24c). The aforementioned amount does not include the potential amount of penalty interest which could be determined upon the conclusion of such legal proceedings, or costs of litigations calculated as of December 31, 2008. The Bank's management does not anticipate any significant further negative effects on the Bank's financial statements as a result of other pending litigations.

c) Taxation Risks

The Republic of Serbia tax legislation is subject to varying interpretations, and legislative changes that occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not concur with the views of the Company's management. Consequently, transactions may be challenged by the relevant tax authorities and the Company could be assessed additional taxes, penalties and interest, which can be significant. The fiscal periods remain open for review by the tax and customs' authorities with regard to the tax-paying entity's tax liabilities for a period of five years.

27. RISK MANAGEMENT POLICIES

The Risk Management Division is engaged in the activities which are organized into the Sector of credit risk management for corporate, Sector of credit risk management for retail, Sector of market risk management, Sector of operational risk management and Sector of Basel II and integration of risks.

On October 2, 2006, the Board of Directors reached the Decision on defining of the procedures for identification, measuring, evaluation and management of credit risk which established the following procedures:

1. Procedure for identification, measuring, evaluation and management of liquidity risk,
2. Procedure for identification, measuring, evaluation and management of credit risk.
3. Procedure for identification, measuring, evaluation and management of market risk (interest risk, FX risk)
4. Procedure for identification, measuring, evaluation and management of risk exposure to one entity or group of related entities.
5. Procedure for identification, measuring, evaluation and management of investment risk to other legal entities and fixed assets.
6. Procedure for identification, measuring, evaluation and management of country risk.
7. Procedure for identification, measuring, evaluation and management of operating risk with the Methodology for documenting and monitoring of operating risk.
8. Procedure for identification and management of non-performing assets.

In December 2007, taking off in July 2008, the National Bank of Serbia was regulated Decisions related with Risk management and Adequacy of capital according to rule of Basel II. According to the requirements of the National Bank of Serbia and Standards of NBG group associated with market risk, the Bank has applied the Policies which ensure compliance with all local and international regulations.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***27. RISK MANAGEMENT POLICIES (Continued)**

Operating risk management policies are implemented through the Operating Risk Management and Implementation of Internal Control. This unit prepares and proposes the policies related to the operating risk management and implementation of internal controls. The unit sets limits for operating risk control, analyzes the existing and possible operating risks, and reports to the President of the Executive Board and Committee for Monitoring Business Activities. The unit defines the control activities referring to: implementation of regulations, the Bank's general enactments, business policies, assumed operating risks, employee compliance with defined authorizations, compliance with legal regulations and the Bank's internal regulations, compliance in accounting for business transactions, presentation in the Bank's financial statements, and implementation of the Law on the Prevention of Money Laundering.

Policies referring to the market risk management are implemented through the Market Risk Management unit that identifies, analyses, evaluates and monitors market risks, country risks, manages market risks such as interest rate risk, exchange risk, sets limits for trading risk control and ALM risks, proposes policies referring to the prevention against and influence of trading risk, analyses trading risk and prepares reports for the Bank's competent bodies. Credit risk policies are implemented by Credit Portfolio and Credit Rating Departments. These units monitor the performance of loan portfolio, manage the loan provisions, and deal with non-performing loans.

Credit Rating sets limits for clients and evaluates client's internal rating, and submits the proposed limits to the Credit Committee. Having in mind the strictly defined procedures referring to granting loans and placements, while granting the loan to the client, in addition to the client's credit rating evaluation, the Bank also takes the following collaterals: registration of pledge on real-estate (1st rank mortgage) for loans in proportion of at least 2:1 and for sureties at least 1:1 (excluding placements to public utilities owned by the Republic of Serbia); pledge on movables, as additional collateral; payment instruments such as bills of exchange issued by loan user or applicant for surety amounting to the sum of principal and interest, or provided surety; payment order issued by the loan user or applicant for surety amounting to the sum of principal and interest, i.e. provided surety.

One of risk management policies is EUR currency clause or retail prices index. The Bank also introduced protection against foreign exchange risk, by preparing various financial instruments with protection clauses: currency, gold, etc. and thus gradually introduces hedging operations (futures, swaps, options).

Under the support of the NBG Group Risk Management Authorities, the Bank established a strong Risk Management function, in line with the Group principles, with the following overall objectives to:

- Establish a set of fundamental standards for risk management across the Bank in order to maximize earnings potential and exploit opportunities leading to shareholder value creation.
- Support Bank's business strategy by ensuring that business objectives are pursued in a risk-controlled manner in order to preserve earnings stability by protecting against unforeseen losses.
- Improve the use and allocation of capital and enhance risk adjusted return on capital by incorporating risk into business performance measures.
- Support decision making processes by providing the necessary risk related perspective.
- Ensure consistency with best practices and compliance with local regulatory, quantitative and qualitative requirements.
- Ensure the cost-effectiveness of risk management by reducing overlaps and avoiding inappropriate, excessive or obsolete policies, processes, methodologies, models, controls and systems.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

27. RISK MANAGEMENT POLICIES (Continued)

According to the above definition, the Bank distinguishes between two types of loss:

- Expected loss – is the amount expected to be lost on average within a given period of time (e.g. one year) and is considered as a standard cost of doing business which is provisioned for and taken into account in the pricing of products.
- Unexpected loss – is the statistically estimated loss at a given confidence level (e.g. 99.9%) associated with adverse events and is considered as a risk of doing business. Capital typically serves as a buffer absorbing such losses.

The Bank acknowledges the following major types of banking risks arising from its activities:

Credit Risk

Credit risk – the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or otherwise fail to perform as agreed. It also includes:

Pre-settlement risk - the current or prospective risk to earnings and capital arising from a counterparty's default on off-balance sheet products, where the credit equivalent exposure reflects both the current replacement cost (marked to market) of the product plus an estimate of the Bank's potential future credit exposure from the product as a result of prevailing market prices.

Settlement risk - the current or prospective risk to earnings and capital arising from a counterparty's default on transactions in the process of being settled and where the sold asset or cash has been delivered to the counterparty but the purchased asset or cash has not yet been received in return as expected.

Residual risk - the current or prospective risk to earnings and capital arising from the fact that recognized risk measurement and mitigation techniques (e.g. collaterals, guarantees, netting agreements) used prove less effective than expected.

Market Risk

Market risk – the current or prospective risk to earnings and capital arising from adverse movements in bond, equity, commodity, currency and derivative prices in the trading book. This risk arises in market making, dealing, and position taking activities. This risk comprises:

Equity risk - the current or prospective risk to earnings and capital arising from the change in the direction or volatility of equity/equity derivatives prices indices or changes in the relationship between different equity/equity derivatives prices indices.

Foreign exchange risk - the current or prospective risk to earnings and capital arising from adverse movements in spot and forward currency exchange rates in the banking and trading books.

Interest rate risk - the current or prospective risk to earnings and capital arising from the change in the direction or volatility of interest rates/interest rate derivatives, the shape of the yield curve and the spread between different interest rates that affect trading book positions.

Commodity risk - the current or prospective risk to earnings and capital arising from the change in the direction or volatility of commodity/commodity derivatives prices, the spread between spot and forward commodity prices and the relationship between different commodity/commodity derivatives prices.

NOTES TO THE FINANCIAL STATEMENTS

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27. RISK MANAGEMENT POLICIES (Continued)

Market Risk (Continued)

Furthermore, market risk includes:

Underwriting risk – the current or prospective risk to earnings and capital arising from underwriting commitments in the trading book on bonds, equities or other securities.

Market liquidity risk – refers to market positions, which cannot be sold within a desired time period or only at a discount. Such are the cases of securities/derivatives in illiquid markets, or when large positions, that cannot be sold easily, are held.

Operational risk

Operational risk – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition specifies the broad categories of operational risk sources and in particular:

- Processes – refers to losses that have been incurred due to a deficiency in an existing procedure, or the absence of procedure documentation. Losses in this category can result from human error or failure to follow an existing procedure. Process-related losses are unintentional.
- People – refers to losses associated with intentional violation of internal policies by current or former employees. In some specific cases, the risk extends to people who are being considered for employment.
- Systems – reflects losses that are caused by breakdowns in existing systems or technology (IT risk fall in this category). Losses in this category are unintentional. If intentional technology-related losses occur, they would be categorized in either the People or External category.
- External events – reflects losses occurring as a result of natural or man-made forces, or the direct result of a third party action.

IT risk is considered as a subcategory of operational risk, defined as the current or prospective risk to earnings and capital arising from inadequate information technology and processing in terms of manageability, exclusivity, integrity, controllability and continuity, or arising from an inadequate IT strategy and policy or from inadequate use of the institution's information technology.

Legal and compliance risk is considered as a subcategory of operational risk, defined as the current or prospective risk to earnings and capital arising from violations or non compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards. It includes suitability risk which results from legal/regulatory procedures or damage in the reputation of the Bank when complex products are sold to non-sophisticated clients without proper explanation or without taking into account the stated objectives and risk appetite of the client.

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All amounts expressed in thousands of RSD, unless otherwise stated.

27. RISK MANAGEMENT POLICIES (Continued)

Liquidity risk

Liquidity risk - the current or prospective risk to earnings and capital arising from the institution's inability to meet its liabilities when due without incurring unacceptable losses. The definition of liquidity risk includes:

Term liquidity and withdrawal/call risk – reflects the potential mismatch of payment obligations to incoming payments, taking into account unexpected delays in repayments (term liquidity risk) or unexpectedly high payment outflows (withdrawal/call risk).

Structural liquidity risk (funding liquidity risks) – refers to the cost of liquidity for the purpose of closing liquidity gaps, which would change if refinancing becomes more expensive due to a decline in the Bank's creditworthiness, or adverse market conditions.

Concentration risk – It is acknowledged that the key source of concentration risk is credit concentration risk, which is the current or prospective risk to earnings and capital arising from excessive exposure places with one counterparty or group of related counterparties whose likelihood of default is driven by common underlying factors, e.g. economic sector, industry, geographical location, instrument type. Concentration risk refers both to banking and trading book exposures. Concentration risk can also arise in other risk types. For example, such risks may be:

Liquidity concentration risk – related to funding liquidity risk and arising from the existence of a limited number of funding sources.

Market concentration risk – arising from excessive exposure to specific market risk factors (stock prices/indices, foreign exchange and interest rates).

Country risk - the current or prospective risk to earnings and capital, caused by events in a particular country which are at least to some extent under the control of the government but definitely not under the control of a private enterprise or individual. Possible events include deterioration of economic conditions, political and social upheaval, nationalization and expropriation of assets and disruptive currency depreciation or devaluation. This definition includes all forms of cross-border lending in a country whether to the government, a bank, a private enterprise or an individual. It also includes:

Sovereign risk - where the government cannot service its own debt because it does not have the required amount of foreign exchange or is unwilling to service its debts or enters in renegotiation and rescheduling schemes or any other form of technical default. Country risk assessment does not only involve an assessment of willingness of the state to fulfill its obligations, as other factors can also cause losses. In practice, sovereign risk and country risk are highly correlated, however, as the government is the major factor in sovereign and country risk affairs.

Transfer risk - defined as the inability of private agents to fulfill their obligations due to government actions. One example of transfer risk is when the government has imposed prohibitive exchange restrictions, which may make it impossible for private agents to transfer payments.

Convertibility risk - defined as the inability of private agents to fulfill their obligations due to government/central bank actions. One example of convertibility risk is when the central bank has imposed prohibitive foreign exchange controls, which may make it impossible for private agents to convert local to foreign currency payments and vice versa.

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27. RISK MANAGEMENT POLICIES (Continued)

Finally, the Bank further acknowledges:

Strategic risk - relates to the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Bank treats strategic risk within the processes related to strategic planning at the Group level.

Reputation risk - relates to the current or prospective risk to earnings and capital arising from adverse perception of the Bank's image on the part of customers, counterparties, shareholders, investors or regulators.

The Bank's financial assets and liabilities at December 31, 2008 are presented in the following table:

	Total net
ASSETS	
Cash and cash equivalents	17,596,902
Revocable deposits and loans	11,143,209
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	470,661
Loans and advances to customers	46,840,868
Other placements	1,580,172
Securities (excluding treasury shares)	818,839
Other assets	1,742,312
Total assets	80,192,963
LIABILITIES	
Transaction deposits	14,510,489
Other deposits	40,780,534
Borrowings	4,072,353
Liabilities arising from securities	268
Interest, fee and commission payables and change in the value of derivatives	629,530
Other liabilities	3,090,414
Total liabilities	63,083,588

Credit Risk

The Bank's credit granting processes include:

- Sound, well-defined credit granting criteria based on the particular target market, the borrower or counterparty and the transaction, as well as the purpose and structure of the credit and its source of repayment.
- Credit limits that aggregate in a comparable and meaningful manner different types of exposures, at various levels:
 - Individual borrowers and counterparties
 - Groups of connected borrowers and counterparties
 - Industry/Sector limits
 - Product limits (loans, bonds, derivatives, etc)
- Clearly established procedures for approving new loans as well as the amendment, renewal, and re-financing of existing loans, while any exceptions shall be monitored with particular care taking appropriate steps to control or mitigate the relevant risks.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

27. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

- The Bank maintains appropriate on-going credit administration, measurement and monitoring processes, including in particular:
 - Sufficient and fully documented credit risk policies shall be in place (Corporate Lending Policy and Retail Policies), ensuring consistency across the Bank and acknowledging key regulatory (NBS) requirements, including the definition of default and credit portfolio segmentation according to regulatory rules (National Bank of Serbia, Basel II).
 - Consistent credit grading/scoring tools to standardize and enhance credit risk assessment and portfolio management (RM3 corporate credit risk rating system, introduced within 2008 and Scorecards for the Retail Lending) to support a robust credit assessment process.
 - Information systems and analytical techniques that enable measurement of credit risk inherent in all relevant activities, providing adequate information on the composition of the credit portfolio, including identification of any concentration of risk.
 - The monitoring process will cover the condition of individual credits, including determining the adequacy of provisions and reserves, as well as the overall composition and quality of the credit portfolio, taking into consideration potential future changes in economic conditions and allowing the assessment of credit risk exposures under stressful conditions.
- The Bank ensures adequate internal controls over the credit risk related processes, including:
 - Proper management of the credit-granting functions ensuring that credit exposures are within set limits, while exceptions to policies, procedures and limits are appropriately reported.
 - Periodical early remedial actions on deteriorating credits, managing problem credits and similar workout situations.
 - Independent, ongoing assessment of the credit risk management processes by Internal Audit, covering in particular the credit risk systems/models employed by the Bank. The result of such reviews shall be communicated to the Board of Directors and the Senior Management.
- For the rating of the corporate risks, the Bank has implemented in 2008 the rating model RM3, which was post-closing calibrated (March 2009). The model has 10 notches with defined obligor limits per Corporate Lending Policy, and which correspond to estimated Probabilities of Default (PD) as follows:

RATING	RISK	PD%	OL in EUR
A1	Fair	0,4	325,000
A2	Fair	0,7	200,000
B1	Fair	1,8	90,000
B2	Moderate	3,3	50,000
C1	Moderate	4,3	30,000
C2	Moderate	6,6	25,000
D1	Significant	9,6	15,000
D2	Significant	14,5	6,000
E1	High	22,9	2,000
E2	High	28,9	2,000

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December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

27. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

- In accordance with the NBS regulations, the Bank regularly examines and classifies its corporate and retail portfolio (A to E scale). For the purposes of this report, A and B rated credit risks may be considered as “Satisfactory”, C as “Special Mention” and D and E as “Unsatisfactory.”
- The Bank uses as credit mitigations different types of collaterals, on which it calculates a Securing value with the use of conservative coefficients, which reflect the time needed for the liquidation of the collateral and the uncertainty about the market prices at the time of liquidation. For the calculation of the necessary provisions as per the NBS regulations, the Bank recognizes as prime and adequate the collaterals described in the relevant Decision, when the conditions for their recognition are met.
- The Bank recognizes committed and uncommitted credit limits and that the unused committed credit limits bear the same credit risk with its used part. Other off-balance sheet items, which bear counterparty credit risk (Letters of Guarantee, Letters of Credit etc.) are also accepted as bearing credit risk, the height of which varies depending on the applicant’s creditworthiness and the purpose of the off-balance sheet item.

Maximum Credit Risk Exposure before Obtaining Collaterals and other Credit Rating Enhancements

The following table sets out the worst case scenario for the Bank’s exposure to credit risk as of December 31, 2008 and 2007 regardless of collaterals or any other securitization provided against credit risk.

	Maximum Exposure	
	December 31, 2008	December 31, 2007
Maximum exposure per balance sheet items	<u>62,978,786</u>	<u>60,804,068</u>
Loans and advances to banks	545,267	4,612,498
Loans and advances to customers	59,819,790	52,857,340
Fees and commissions	1,261,059	1,042,768
Securities	1,352,670	2,291,462
Maximum exposure per off-balance sheet items	<u>11,759,134</u>	<u>11,390,304</u>
Finance guarantees	4,719,719	4,203,692
Uncovered letters of credit	140,795	171,836
Undrawn credit facilities	<u>6,898,620</u>	<u>7,014,776</u>
Total exposure	<u><u>74,737,920</u></u>	<u><u>72,194,372</u></u>

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December 31, 2008

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27. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

The structure of the loan portfolio according to credit rating at December 31, 2008 is presented in the following table (including placements with banks, with customers and other placements, fees and commissions):

	Not Matured and not Provided for Receivables 2008					Not Matured and not Provided for Receivables 2007				
	High Rating	Standard rating	Sub-Standard Rating	Matured and not Provided for Receivables	Total	High Rating	Standard rating	Sub-Standard Rating	Matured and not Provided for Receivables	Total
Amounts due from banks	42,497	-	-	502,770	545,267	4,161,500	-	-	451,388	4,612,948
Loans to customers	6,368,376	329,283	78,657	26,596,517	33,372,833	13,489,279	1,193,626	512,366	16,669,052	31,864,323
Loans to entrepreneurs	631,930	9,843	6,479	1,239,996	1,888,248	-	-	-	-	-
Loans to retail customers	22,718,270	256,759	476,645	2,368,094	25,819,768	17,332,089	1,343,868	12,585	3,346,854	22,035,395
Quoted securities – other securities	-	-	-	-	-	1,310,450	-	-	-	1,310,450
Not quoted – equity and debt instruments	-	-	-	-	-	690,085	-	-	-	690,085
	<u>29,761,073</u>	<u>595,885</u>	<u>561,781</u>	<u>30,707,377</u>	<u>61,626,116</u>	<u>36,983,403</u>	<u>2,537,494</u>	<u>524,951</u>	<u>20,467,294</u>	<u>60,513,201</u>

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27. RISK MANAGEMENT POLICIES (Continued)

Credit Risk (Continued)

Provided for placements and placements in default at December 31, 2008 and 2007 are shown in the following tables (including placements with banks, with customers and other placements, fees and commissions) in thousands of dinars:

	Not matured and not Provided for	Matured and not Provided for	Provided for	Total Gross	Individual Allowance for Impairment	Collective Allowance for Impairment	Total Allowance for Impairment	Total Net
December 31, 2008								
Credit cards	1,976,875	454,049	-	2,430,924	-	10,764	10,764	2,420,160
Consumer loans	15,139,326	1,064,502	743,596	16,947,423	-	725,886	725,886	16,221,537
Housing loans	6,335,473	39,487	66,460	6,441,420	-	53,003	53,003	6,388,417
Loans to small entities	648,252	844,949	395,047	1,888,248	290,832	-	290,832	1,597,416
Loans to corporate customers	6,776,316	12,544,058	14,052,459	33,372,823	12,580,279	152,932	12,733,211	20,639,612
	<u>30,876,242</u>	<u>14,947,045</u>	<u>15,257,562</u>	<u>61,080,838</u>	<u>12,871,111</u>	<u>942,585</u>	<u>13,813,696</u>	<u>47,267,142</u>
Loans and advances to banks	42,498	1,708	501,062	545,268	500,881	-	500,881	44,387
December 31, 2007								
Credit cards	1,472,837	2,496	-	1,475,333	-	-	-	1,475,333
Consumer loans	15,243,328	2,401,165	634,795	18,279,288	595,956	-	595,956	17,683,332
Housing loans	1,972,377	277,936	30,462	2,280,775	11,932	-	11,932	2,268,843
Loans to corporate customers	15,195,271	897,450	15,771,603	31,056,619	14,283,121	653,404	14,936,525	16,927,799
	<u>33,883,813</u>	<u>3,579,047</u>	<u>16,436,860</u>	<u>53,899,05</u>	<u>14,891,009</u>	<u>653,404</u>	<u>15,544,413</u>	<u>38,355,307</u>
Loans and advances to banks	<u>4,161,500</u>	<u>-</u>	<u>451,388</u>	<u>4,612,888</u>	<u>451,210</u>	<u>-</u>	<u>451,210</u>	<u>4,161,678</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

27. RISK MANAGEMENT POLICIES (Continued)

Not Matured and not Provided for

	<u>Satisfactory</u>	<u>Special Mention</u>	<u>Unsatisfactory</u>	<u>Total</u>
December 31, 2008				
Credit cards	1,964,839	3,689	8,347	1,976,875
Consumer loans	14,441,433	241,263	456,630	15,139,326
Housing loans	6,311,998	11,806	11,669	6,335,473
Loans to small entities	631,930	9,843	6,479	648,252
Loans to corporate customers	<u>6,368,327</u>	<u>329,283</u>	<u>78,706</u>	<u>6,776,316</u>
	<u>29,718,527</u>	<u>595,884</u>	<u>561,831</u>	<u>30,876,242</u>
Loans and advances to banks	42,498	-	-	42,498
December 31, 2007				
Credit cards	1,201,813	266,716	4,309	1,472,837
Consumer loans	14,196,343	1,039,434	7,551	15,243,328
Housing loans	1,933,934	37,718	725	1,972,377
Loans to corporate customers	<u>13,489,279</u>	<u>1,193,626</u>	<u>512,366</u>	<u>15,195,271</u>
	<u>30,821,369</u>	<u>2,537,494</u>	<u>524,951</u>	<u>33,883,813</u>
Loans and advances to banks	4,161,500	-	-	4,161,500

Matured and not provided for

	<u>Up to 30 Days Past Due</u>	<u>From 31 to 60</u>	<u>From 60 to 90</u>	<u>From 91 to 180</u>	<u>From 180 to 365</u>	<u>From 1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
December 31, 2008								
Credit cards	201,220	151,921	96,360	2,401	1,045	1,102	-	454,049
Consumer loans	588,915	129,949	83,974	108,685	99,916	52,669	394	1,064,502
Housing loans	33,859	1,066	655	1,783	1,008	1,116	-	39,487
Loans to small entities	615,499	24,082	14,898	40,329	49,253	100,888	-	844,949
Loans to corporate customers	<u>10,911,197</u>	<u>949,782</u>	<u>288,879</u>	<u>132,490</u>	<u>107,836</u>	<u>153,875</u>	<u>-</u>	<u>12,544,058</u>
	<u>12,350,690</u>	<u>1,256,800</u>	<u>484,766</u>	<u>285,688</u>	<u>259,057</u>	<u>309,650</u>	<u>394</u>	<u>14,947,045</u>
Loans and advances to banks	1,301	85	49	62	198	14	-	1,708
December 31, 2007								
Credit cards	612	404	224	588	258	410	-	2,496
Consumer loans	1,638,410	348,917	145,760	213,689	37,928	16,461	-	2,401,165
Housing loans	158,225	29,393	35,477	32,373	22,294	174	-	277,936
Loans to corporate customers	<u>646,975</u>	<u>31,607</u>	<u>98,111</u>	<u>53,284</u>	<u>53,271</u>	<u>14,203</u>	<u>-</u>	<u>897,451</u>
	<u>2,444,222</u>	<u>410,321</u>	<u>279,572</u>	<u>299,934</u>	<u>113,751</u>	<u>31,248</u>	<u>-</u>	<u>3,579,047</u>

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27. RISK MANAGEMENT POLICIES (Continued)

Placements Provided for

	Up to 30 Days Past Due	From 31 to 60	From 60 to 90	From 91 to 180	From 180 to 365	From 1 to 5 Years	Over 5 Years	Total
December 31, 2008								
Consumer loans	64,558	7,403	8,782	8,486	605,409	48,958	-	743,596
Housing loans	-	-	582	7,555	58,323	-	-	66,460
Loans to small entities	85,458	-	-	-	2,433	224,898	82,258	395,047
Loans to corporate customers	913,558	98,867	66,869	385,908	384,516	10,808,624	1,394,117	14,052,459
	<u>1,063,574</u>	<u>106,270</u>	<u>76,233</u>	<u>401,949</u>	<u>1,050,681</u>	<u>11,082,480</u>	<u>1,476,375</u>	<u>15,257,562</u>
Loans and advances to banks	-	-	-	1	3,796	497,265	-	501,062
Fair value of collaterals								
December 31, 2007								
Consumer loans	44,828	-	16,862	98,026	475,079	-	-	634,795
Housing loans	-	-	-	2,480	27,982	-	-	30,462
Loans to corporate customers	872,333	146,395	14,421	234,280	800,589	12,456,821	1,246,764	15,771,603
	<u>917,161</u>	<u>146,395</u>	<u>31,283</u>	<u>334,786</u>	<u>1,303,650</u>	<u>12,456,821</u>	<u>1,246,764</u>	<u>16,436,860</u>
Loans and advances to banks	-	-	-	-	-	451,388	-	451,388
Fair value of collaterals								

Foreign Currency Risk

The Bank has established and maintains adequate FX risk measurement, monitoring and control functions, including an application to daily monitor the open position of the Bank in foreign currencies, which at December 31, 2008 was as follows:

	EUR	USD	Other Currencies	Total Foreign Currencies	RSD	Total
ASSETS						
Cash and cash equivalents and revocable deposits	13,441,318	184,778	460,941	14,087,037	14,653,074	28,740,111
Placements with banks	1,121,017	273,984	40,897	1,435,898	67,308	1,503,206
Loans and advances to customers	26,846,919	868,812	8,029,460	35,745,191	11,643,304	47,388,495
Securities (excluding treasury shares)	598,392	-	-	598,392	220,447	818,839
Other assets	890,524	-	-	890,524	851,788	1,742,312
Total assets	<u>42,898,170</u>	<u>1,327,574</u>	<u>8,531,298</u>	<u>52,757,042</u>	<u>27,435,921</u>	<u>80,192,963</u>
LIABILITIES						
Bank deposits	6,623,853	458,060	90,943	7,172,856	1,545,221	8,718,077
Customer deposits	32,663,816	803,200	436,263	33,903,279	16,547,783	50,451,062
Other borrowings	194,237	-	-	194,237	-	194,237
Liabilities from securities, interest and other payables	1,015,115	761	628	1,016,504	2,703,708	3,720,212
Total liabilities	<u>40,497,021</u>	<u>1,262,021</u>	<u>527,834</u>	<u>42,286,876</u>	<u>20,796,712</u>	<u>63,083,588</u>
Off-balance sheet items, net	<u>(1,937,832)</u>	<u>(34,857)</u>	<u>(7,855,627)</u>	<u>(9,828,316)</u>	<u>9,421,937</u>	<u>(406,379)</u>
Net open foreign currency position:						
- December 31, 2008	<u>463,317</u>	<u>30,696</u>	<u>147,837</u>	<u>641,850</u>	<u>16,061,146</u>	<u>16,702,996</u>
- December 31, 2007	<u>2,389,523</u>	<u>38,412</u>	<u>(143,634)</u>	<u>2,284,301</u>	<u>11,866,088</u>	<u>14,150,389</u>

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27. RISK MANAGEMENT POLICIES (Continued)

The sensitivity analysis provides for two scenarios prepared on the basis of the assumed potential movements in foreign exchange, where all other variables remain constant, and shows potential effects on the financial result.

- Proportionate fluctuations in foreign exchange of +10% (foreign exchange depreciation);
- Proportionate fluctuations in foreign exchange of -5 % (RSD depreciation).

	Foreign Exchange Fluctuations		
	2008 Total	10 %	-10%
ASSETS			
Cash and balances held with the			
Central Bank	14,087,037	1,565,226	(1,280,640)
Loans to banks	1,435,898	159,544	(130,536)
Loans to customers	35,745,191	3,971,688	(3,249,563)
Securities available-for-sale	598,392	66,488	(54,399)
Other assets	890,524	98,947	(80,957)
Total assets	52,757,042	5,861,894	(4,796,095)
LIABILITIES			
Owed to banks	7,172,856	796,984	(652,078)
Owed to customers	33,903,279	3,767,031	(3,082,116)
Borrowings	194,237	21,582	(17,658)
Other liabilities	1,016,504	112,945	(92,409)
Total liabilities	42,286,876	4,698,542	(3,844,261)
Net exposure to currency risk:			
December 31, 2008		1,163,352	(951,834)
December 31, 2007		932,764	(763,171)

Market Risk

- The Bank has established and maintains adequate market risk measurement, monitoring, and control functions, including:
 - Market risk measurement processes that capture all material sources of market risk and assess the effect of market risk factors' changed in ways that are consistent with the scope of Bank's activities. These measurement systems include VaR for the major foreign currencies and models where appropriate. The assumptions underlying the systems have been clearly understood by risk managers at the Bank level.
 - Operating limits and other practices that maintain exposures within levels consistent with internal policies, in terms of exposure to individual market risk types, position and loss limits.
 - Measurement of vulnerability to loss under stressful market conditions (including the breakdown of key assumptions) considering those results when establishing and reviewing policies and limits for market risks.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***27. RISK MANAGEMENT POLICIES (Continued)****Market Risk (Continued)**

- Adequate and effective processes and information systems for measuring, monitoring, controlling and reporting market risk exposures. Related IT systems must be sophisticated enough to cover the complexity of trading activities of Bank. Controls (limits) are embedded in these systems. Reports must be provided on a timely basis to the Board of Directors, Senior Management, and all other appropriate levels.
- A documented policy regarding the management of market risk exists (Trading Book Policy), describing in particular the measurement methodologies, processes and tools, risk limits, reporting and remedial action guidelines and responsibilities, as well as trading book definition, for both accounting and capital adequacy purposes.

Operational risk

- The Bank treats operational risks as a distinct risk category. Accountability and responsibilities for these risks reside locally, as close as possible to where the risks actually originate.
- The Bank has approved a firm-wide and high quality Operational Risk Management Framework in order to:
 - Promote a Bank wide operational risk awareness and management culture further contributing to process efficiency and control effectiveness.
 - Establish a set of fundamental standards for Operational Risk Management across the Bank leading to the avoidance of unexpected and catastrophic losses and the minimization of expected losses.
 - Ensure that business objectives are pursued in a risk-controlled manner.
 - Ensure the cost-effectiveness of operations by reducing overlaps and avoiding excessive or obsolete controls.
 - Ensure consistency with relevant best practices and compliance with regulatory (quantitative and qualitative) requirements.
 - Improve the use of capital and enhance return on capital, regarding operational risk.
- The Bank's Operational Risk Management Framework is business and process oriented aiming to be both proactive and reactive in the management of operational risks.
- The Bank's Operational Risk Management Framework includes:
 - Regular monitoring of operational risk exposure.
 - An operational risk methodology including risk and control self assessment, key risk indicators and loss data collection. The methodology shall be documented addressing the Bank and its business units.
 - The collection of material operational losses at the Bank level.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

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27. RISK MANAGEMENT POLICIES (Continued)

Operational risk (Continued)

- The Operational Risk Management Framework, including the applicable risk control and mitigation strategies shall be reviewed periodically and adjusted in accordance with the Bank's overall risk appetite and profile, as specified in respect of operational risk.

Interest Rate Risk in the Banking Book

The Bank has established and maintains adequate measurement, monitoring, and control functions for interest rate risk in the banking book, including:

- Interest rate risk in the banking book measurement systems that capture all material sources of interest rate risk and that assess the effect of interest rate changes in ways that are consistent with the scope of the Bank's activities.

Interest rate risk present in the Bank as of December 31, 2008 is included in the following table:

	<u>Interest Bearing</u>	<u>Non-Interest Bearing</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents and revocable deposits	13,351,846	15,388,265	28,740,111
Placements with banks	268,262	1,234,944	1,503,206
Loans and advances to customers	47,388,495	-	47,388,495
Securities (excluding treasury shares)	120,095	698,744	818,839
Other assets	-	1,742,312	1,742,312
Total assets	<u>61,128,698</u>	<u>19,064,265</u>	<u>80,192,963</u>
LIABILITIES			
Bank deposits	8,309,697	408,380	8,718,077
Customer deposits	38,743,494	11,707,568	50,451,062
Other borrowings	194,237	-	194,237
Liabilities from securities, interest and other payables	28,563	3,691,649	3,720,212
Total liabilities	<u>47,275,991</u>	<u>15,807,597</u>	<u>63,083,588</u>
Net open interest rate position:			
– December 31, 2008	<u>13,852,707</u>	<u>3,256,668</u>	<u>17,109,375</u>
– December 31, 2007	<u>13,942,858</u>	<u>2,659,743</u>	<u>16,602,601</u>

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***27. RISK MANAGEMENT POLICIES (Continued)****Liquidity Risk**

The Bank's framework for managing liquidity risk encompasses:

- Operating standards relating to liquidity risk, including appropriate policies, procedures and resources for controlling and limiting liquidity risk.
- Maintenance of a stock of liquid assets appropriate for the cash flow profile that can be readily converted into cash without incurring undue capital losses.
- Management of access to funding sources and measurement, control and scenario testing of funding requirements.
- Management information and other systems that identify, measure, monitor and control liquidity risk.
- Contingency plans for handling liquidity disruptions by means of the ability to fund some or all activities in a timely manner and at a reasonable cost.
- Liquidity risk limits (e.g. maturity mismatch ratio, liquid asset ratio) taking into account the existing regulatory limits.

The Bank has established and maintains adequate liquidity measurement, monitoring and control and reporting functions, addressing:

- The maturity profile of cash flows under varying scenarios, including scenarios for non-maturing assets and liabilities (e.g. savings, credit cards).
- The stock of liquid assets available to the institution and their market values.
- The ability of the Bank to execute assets sales in various markets (notably under adverse conditions) and to borrow in markets.
- Potential sources of volatility in assets and liabilities (including claims and obligations arising from off-balance sheet business).
- The impact of adverse trends in asset quality on future cash flows and market confidence at the Bank level.
- Creditworthiness and capacity of providers of standby facilities to meet their obligations.
- The impact of market disruptions on cash flows and customers.
- The type of new deposits being obtained, as well as its source, maturity and price.
- The regulatory reporting requirements.

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27. RISK MANAGEMENT POLICIES (Continued)

Liquidity risk present in the Bank as of December 31, 2008 is set out in the following table:

	Up to 1 Month	From 1 to 3 Months	From 3 Months to 1 Years	From 1 to 5 Years	Over 5 Years	Total
ASSETS						
Cash and cash equivalents and revocable deposits	27,350,632	1,389,479	-	-	-	28,740,111
Placements with banks	1,277,405	-	-	225,801	-	1,503,206
Loans and advances to customers	2,397,473	2,560,379	13,787,935	18,437,496	10,205,212	47,388,495
Securities (excluding treasury shares)	753,890	49,481	15,469	-	-	818,840
Other assets	1,742,312	-	-	-	-	1,742,312
Total assets	33,521,712	3,999,339	13,803,404	18,663,297	10,205,212	80,192,964
LIABILITIES						
Bank deposits	7,704,304	966,010	12,394	35,369	-	8,718,077
Customer deposits	29,914,604	9,623,117	7,456,543	2,518,729	938,069	50,451,062
Other borrowings	1,985	-	89,076	103,176	-	194,237
Liabilities from securities, interest and other payables	3,720,212	-	-	-	-	3,720,212
Total liabilities	41,341,105	10,589,127	7,558,013	2,657,274	938,069	63,083,588
Net open interest rate position:						
- December 31, 2008	(7,819,393)	(6,589,788)	6,245,391	16,006,023	9,267,143	17,109,376
- December 31, 2007	(1,257,620)	(4,122,237)	76,984	14,881,893	6,497,966	16,076,986

The Bank's management judges that the diversification of deposits by the type of deposit placed and the number of customers, as well as the historical experience of the Bank, provide adequate assurance that its deposits represent a stable and reliable source of finance.

The Bank's liquidity, as characterized by its ability to settle its liabilities as they fall due, depends upon the structure of the Bank's deposits and the compatibility of its cash flows as they relate to the receipts and payments of funds. The structure of the Bank's assets and liabilities components as classified into their relevant maturities at December 31, 2008 indicates the existence of significant liquidity gaps in the periods from one-to-three months and in the periods from three-to-twelve-months. The primary reason for these gaps lies in the fact that the short-term funding sources with maturities of up to one month have been committed for longer periods of time.

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27. RISK MANAGEMENT POLICIES (Continued)

Fair Value

The following table presents the amounts and fair values of financial asset and liabilities.

	Carrying Value		Fair Value	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Financial assets				
Revocable loans and deposits	11,143,210	28,132,746	11,143,209	28,132,746
Loans and deposits	46,840,868	42,606,091	46,301,350	42,041,910
Financial liabilities				
Transaction and other deposits	55,291,025	59,086,004	55,082,484	58,975,775
Borrowings	4,072,353	2,791,923	4,055,238	2,781,150

The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at December 31, 2008 and 2007:

Cash and Cash Equivalents: The carrying amount of cash and cash equivalents approximates their fair value.

Revocable Deposits: The fair value of revocable deposits with no defined maturity is determined to be the amount payable on demand at the reporting date. The fair value for fixed-maturity deposits is estimated using discounted cash flow models based on rates for similar remaining maturities.

Trading and Available-for-Sale Securities: Fair value of trading and available-for-sale assets, which is also the amount recognized in the balance sheet, is based on quoted market prices of the same or comparable instruments. For debt instruments, for which such quoted market prices are not available the fair value is estimated using discounted cash flow analysis based on contractual cash flows discounted at the corresponding market rates.

Derivative Financial Instruments: All derivatives are recognized on the balance sheet at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For non-exchange traded contracts, fair value is based on dealer quotes and discounted cash flow analysis.

Originated Loans and Deposits: The fair value of loans to customers is estimated using discounted cash flow models. The discount rates are based on current market interest rates offered for instruments with similar terms to borrowers of similar credit quality. The fair value for impaired loans is estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Transaction Deposits, Other Deposits and Received Loans: The fair value of other borrowed funds is estimated using discounted cash flow analysis based on the Bank's current incremental borrowing rates for similar types of borrowings arrangements.

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28. RELATED PARTY TRANSACTIONS

The table below summarizes the total balance sheet and off-balance-sheet exposures to related parties:

<u>Related Party</u>	<u>Type of Transaction</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
VOBEX, Novi Sad			
Equity investment of 100%	Loans	2,323	2,323
	Allowance for impairment	(2,323)	(2,323)
	Matured receivables	-	56,112
	Allowance for impairment of matured receivables	-	(54,308)
	Interest receivables	5,134	5,134
	Allowance for impairment of interest receivables	(857)	(2,283)
	Equity investments	326	326
	Allowance for impairment of equity investments	(326)	(326)
	Fixed assets	4,059	4,059
	Other receivables	11,887	11,887
	Allowance for impairment	(11,758)	-
	Deposits	(50)	(50)
	Accounts payable and other payables	(36,693)	(791)
		<u>(28,278)</u>	<u>19,760</u>
IMOS, ŠID			
Equity investment of 51.55%	Long-term loans	5,157	5,157
	Interest receivables	4	8
	Equity investments	37,215	31,984
	Deposits	(7,579)	(2,189)
	Interest payable	(103)	-
		<u>34,694</u>	<u>34,960</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RELATED PARTY TRANSACTIONS (Continued)

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
NBG leasing a.d., Beograd		
Equipment under finance lease	-	3,854
Loans	79,588	-
Other receivables	385	-
Transaction deposits	(4,003)	(3,097)
Other deposits	(705,299)	(312,501)
Finance lease liabilities	(28,563)	(2,976)
	<u>(657,892)</u>	<u>(314,720)</u>
NBG London, London		
Foreign currency account	4,795	65,093
Other receivables	105,738	29,595
Overnight loans	40,889	-
Short-term deposits	(1,873,414)	(11,587,552)
Interest accrued	-	(158)
	<u>(1,721,992)</u>	<u>(11,493,022)</u>
Net liabilities	<u><u>(2,373,468)</u></u>	<u><u>(11,753,022)</u></u>

The following table presents total realized income and expenses arising from related party transactions:

	<u>Year Ended December 31, 2008</u>	<u>2007</u>
Interest income	18,542	10,957
Interest expense	(299,746)	(491,147)
Deferred fees and commissions	-	268
Interest expenses	(419)	(952)
	<u>(281,623)</u>	<u>(480,874)</u>
Income from the sale of shares issued by AIK banka a.d., Nis	-	1,992,316
(Expenses)/income, net	<u><u>(281,623)</u></u>	<u><u>1,511,442</u></u>

As of December 31, 2008, the remunerations paid to the members of the Board of Directors and to the members of the Executive Board amounted to RSD 50,568 thousand (2007: RSD 33,901 thousand).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2008***All amounts expressed in thousands of RSD, unless otherwise stated.***29. FINANCIAL CRISIS AND ITS IMPACT ON THE BANK**

So far, the ongoing financial crisis has had a limited impact on the financial position and performance of the Bank, mainly due to the internal risk management policies and regulatory restrictions. The Bank has adopted new policies on credit approvals, collateral acceptance and evaluation policies and the treasury operations. The Bank monitors closely the credit, liquidity, interest rate and foreign exchange risks on a regular basis. The capital adequacy of the Bank is expected to remain at level required by National Bank of Serbia sufficient to continue the banking operations. Liquidity is also expected to be satisfactory.

The 2008 financial statements contain significant estimates with respect to impairment charges, collateral valuation and the fair value of assets. Actual results may differ from these estimates.

30. EXCHANGE RATES

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

	December 31, 2008	In RSD December 31, 2007
USD	62.9000	53.7267
EUR	88.6010	79.2362
GBP	90.8635	107.3080
CHF	59.4040	47.8422