OPPORTUNITY BANKA A.D.
NOVI SAD

Financial Statements
For the year ended 31 December 2008
Prepared in accordance with
International Financial Reporting Standards

Belgrade, 13 March 2009

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

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KPMG d.o.o. Beograd
Kraljice Natalije 11
11000 Belgrade
Serbia

Telephone: +381 11 20 50 500
Fax: +381 11 20 50 550
E-mail: info@kpmg.co.yu
Internet: www.kpmg.co.yu

Agencija za privredne registre
BD 7113
Matični broj 17148656
Račun 265-1100310000190-61
Raiffeisen banka a.d. Beograd
PIB 100058593

TO THE SHAREHOLDERS OF THE
OPPORTUNITY BANKA A.D. NOVI SAD

Independent Auditors' Report

We have audited the accompanying financial statements of Opportunity banka a.d. Novi Sad ("the Bank"), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Belgrade, 13 March 2009

(L.S.)

KPMG d.o.o. Beograd

KPMG d.o.o. Beograd

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

In thousands of RSD	Note	2008	2007
Interest and similar income	3(c), 7	444,465	215,916
Interest and similar expense	3(c), 7	(141,414)	(32,124)
Net interest income		303,051	183,792
Fees and commission income	3(d), 8	39,223	23,777
Fees and commission expense	3(d), 8	(3,687)	(2,554)
Net fee and commission income		35,536	21,223
Net trading income/(expenses)	3(b), 3(e), 9	(7,045)	(7,049)
Other operating income	12	10,770	4,991
		3,725	(2,058)
Operating income		**342,312**	**202,957**
Impairment	3(h), 10	(38,528)	(21,355)
Personnel expenses	11	(149,515)	(94,881)
Administrative expenses	11	(102,162)	(82,682)
Depreciation	3(k)	(15,921)	(7,755)
Operating expenses	12	(30,521)	(17,350)
Profit/(Loss) before income tax		**5,665**	**(21,066)**
Income tax expense	3(g), 13	(1,283)	-
PROFIT/(LOSS) FOR THE PERIOD		**4,382**	**(21,066)**

The notes on pages 7 to 55 form an integral part of these Financial statements.
Independent Auditor's Report – pages 1 - 2.

BALANCE SHEET AS AT 31 DECEMBER 2008

In thousands of RSD	Note	2008	2007
Assets			
Cash and cash equivalents	3(i), 14	1,304,411	585,089
Loans and advances to banks	3(h), 3(j), 15	462,957	66,606
Loans and advances to customers	3(h), 3(j) 16	2,452,084	1,435,512
Property and equipment	3(k), 17	211,042	193,085
Intangible assets	3(l), 18	41,045	16,326
Deferred tax assets	3(g), 13	10,050	11,333
Other assets	19	39,709	17,670
Total assets		**4,521,298**	**2,325,621**
Liabilities			
Deposits and loans from banks	3(m), 20	787,462	103,339
Deposits and loans from customers	3(m), 21	1,982,174	1,052,043
Subordinated liabilities	3(m), 22	531,606	-
Provisions for liabilities and charges	3(n), 23	2,772	2,685
Other liabilities	24	81,069	35,721
Total liabilities		3,385,083	1,193,788
Shareholders' equity			
Share capital and share premium		1,120,730	1,120,730
Retained earnings		15,485	11,103
Total shareholders' equity	25	1,136,215	1,131,833
Total liabilities and shareholders' equity		**4,521,298**	**2,325,621**

Novi Sad, 13 March 2009

For and on behalf of the management
of Opportunity banka a.d. Novi Sad

Mr. Rodger Voorhies
Chief Executive Officer

Mr. Vitomir Stamenković
Chief Financial Officer

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STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

In thousands of RSD	Share capital	Subscribed unpaid share capital	Share premium	Retained result	Total
Balance as at 1 January 2007	708,180	-	-	32,169	740,349
Issuance of new shares	330,900	-	81,650	-	412,550
Loss for 2007	-	-	-	(21,066)	(21,066)
Balance as at 31 December 2007	**1,039,080**	**-**	**81,650**	**11,103**	**1,131,833**
Balance as at 1 January 2008	1,039,080	-	81,650	11,103	1,131,833
Issuance of new shares	-	-	-	-	-
Profit for 2008	-	-	-	4,382	4,382
Balance as at 31 December 2008	**1,039,080**	**-**	**81,650**	**15,485**	**1,136,215**

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

In thousands of RSD	2008	2007
Operating activities		
Result for the year	4,382	(21,066)
Adjustments for non cash items		
Depreciation	15,921	7,755
Impairment losses	38,528	21,355
Provision for liabilities and charges	87	1,051
Write-off of fixed asset	-	30
Other accruals	-	(888)
Deferred tax assets	1,283	-
Total	55,819	29,303
Changes in operating assets and liabilities		
Loans and advances to banks	(396,351)	(66,606)
Loans and advances to customers	(1,055,100)	(831,732)
Other assets	(22,007)	(8,821)
Deposits and loans from banks	255,558	20
Deposits from customers	17,737	709,208
Other liabilities	45,348	23,630
Cash (used in)/ generated from operating activities	(1,094,614)	(166,064)
Investing activities		
Acquisition of property and equipment	(58,597)	(116,121)
Cash used in investing activities	(58,597)	(116,121)
Financing activities		
Net increase/(decrease) in long term loans from banks	428,533	103,319
Net increase in long term loans from customers	1,444,000	287,319
Issuance of share capital	-	412,550
Cash used in/(generated from) from financing activities	1,872,533	803,188
Net increase in cash and cash equivalents	719,322	521,003
Cash and balances with banks as at 1 January	585,089	64,086
Cash and balances with banks as at 31 December	**1,304,411**	**585,089**

The notes on pages 7 to 55 form an integral part of these Financial statements.
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1 Activity

Opportunity banka a.d. Novi Sad (hereinafter: The Bank) was founded on 27 May 2002 as Opportunity International Stock Savings Bank a.d. Novi Sad, which commenced its operations based on the License of the National Bank of Yugoslavia dated 28 June 2002 and the Court registration dated 2 July 2002.

In accordance with the Law on Banks ("RS Official Gazette" No. 107/2005) and the Foundation Agreement of the Opportunity banka, signed on 4 December 2006 by Opportunity Transformation Investments Inc, European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and Oikocredit Ecumenical Development Cooperative Society U.A., the Opportunity International Stock Savings Bank a.d. Novi Sad was transformed into a bank. The change in name of the Bank from Opportunity International Stock Savings Bank a.d. Novi Sad to Opportunity banka a.d. Novi Sad, as well as the change in registered activities, have been registered with the register Serbian Business Registers Agency under registration number BD 24798/2007 as at 20 April 2007.

Opportunity banka a.d. Novi Sad formally started to operate as a bank on 7 February 2007 when the Operating License was issued by the National Bank of Serbia.

In accordance with the Law on Banks ("RS Official Gazette" No. 107/2005) the Bank performs following activities:

- Deposit activities (accepting and placing deposits);
- Credit activities (granting and taking credits);
- Foreign exchange, foreign exchange-currency transactions and exchange office operations;
- Payment operations;
- Credit card issuing;
- Activities regarding securities (issuing securities, custody bank activities etc.);
- Broker-dealer activities;
- Issuing guarantees, sureties and other types of warranties (guarantee operations);
- Purchasing, selling and collecting receivables (factoring, forfeiting etc.);
- Other activities, which are essentially similar or connected with the activities referred to above.

The Bank is primarily engaged in extending financial services to privately owned micro (retail), small and medium size enterprises and agricultural estates in Serbia.

As at 31 December 2008, the Bank has its Head Office in Novi Sad, four branches in Belgrade, Niš, Kragujevac and Subotica and nine loan offices in Sombor, Zrenjanin, Kruševac, Jagodina, Pirot, Vranje, Leskovac, Kraljevo and Čačak.

The Bank currently employs 96 staff (2007: 77).

2 Basis of preparation

(a) Statements of compliance

The accompanying financial statements are based upon the statutory accounting records, which are prepared under local Serbian GAAP that is broadly in accordance with the IFRS.

The statutory accounting records and associated financial statements have been restated to present these financial statements in accordance with International Financial Reporting Standards.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(d).

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB).

The IFRS accounting policies set below have been consistently applied by the Bank to all periods presented in these financial statements.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The financial statements are presented in thousands of Serbian Dinars ("RSD") which is the Bank's functional currency. All financial information is presented in Serbian Dinar rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 5.

A summary of the principal accounting policies applied in preparing the IFRS financial statements are set out within Note 3 to the financial statements.

/i/ Standards, amendments and interpretations to existing standards effective in 2008

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

IAS 39 *Financial Instruments: Recognition and measurement* and IFRS 7 *Financial Instrument*: *disclosures* have been published on October 2008, and are applied on or after 1 July 2008. These amendments enable reclassifications and appropriate disclosures of non-derivative financial instruments classified at fair value through profit or loss to financial assets available for sale, held to maturity or loans and receivables, under condition that they meet the definitions of these categories. Effects of changes in values of reclassified financial assets are recognized in equity.

IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007. The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent should be accounted for as cash-settled or equity-settled in the entity's financial statements. This interpretation does not have impact on the Bank's financial statements.

IFRIC 12 *Service Concession Arrangements* (effective for annual periods beginning 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. This interpretation does not have impact on the Bank's financial statements.

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions* (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses:

- when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19;
- how a MFR might affect the availability of reductions in future contributions; and
- when a MFR might give rise to a liability. No additional liability need be recognized by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company.

This interpretation does not have impact on the Bank's financial statements.

/ii/ New standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted by the Bank

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

IFRS 8 *Operating Segments* (effective for annual periods beginning 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This standard will have no effect on the Bank's reported total profit or loss or equity. The Bank is currently in the process of determining the potential effect of this standard on the Bank's segment reporting.

Revised IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Bank is currently evaluating whether to present a single statement of comprehensive income, or two separate statements

/iii/ New standards, amendments and interpretations to published standards that are not yet effective and are not relevant to the Bank

Below is a list of standards, amendments and interpretations that are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements, but also which are not relevant to the Bank:

Revised IFRS 2 *Share-based Payment* (effective for annual periods beginning on or after 1 January 2009). The revised Standard will clarify the definition of *vesting* conditions and *non-vesting* conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. The amendments to IFRS 2 are not relevant to the Bank's operations as the Bank does not have any share-based compensation plans.

Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognized and measured at fair value as of the acquisition date, including contingent consideration.
- Transaction costs are not included in the acquisition accounting.
- The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree.

Revised IFRS 3 is not relevant to the Bank's operations as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

Revised IAS 23 *Borrowing Costs* (effective for annual periods beginning 1 January 2009). The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Revised IAS 23 is not relevant to the Bank's operations as the Bank does not have any qualifying assets for which borrowing costs would be capitalized.

IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognize these proceeds as revenue only when they have fulfilled their obligations. The Bank management does not expect the Interpretation to have any impact on the Bank's financial statements.

Amended IAS 27 *Consolidated and Separate Financial Statements* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognized as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for the Bank's 2010 financial statements, are not expected to have a significant impact on the financial statements.

Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is not relevant to the Bank's operations as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

Amendments to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for annual periods beginning on or after 1 January 2009) require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 financial statements with retrospective application required, are not expected to have any significant impact on the financial statements, since the Bank did not have in the past issued puttable instruments that would be affected by the amendments.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 July 2009) clarify the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements, with retrospective application required. The amendments to IAS 39 are not relevant to the Bank's operations as the Bank does not apply hedge accounting.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarifies that:

- Net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation.
- The hedging instrument may be held by any entity within the group except the foreign operation that is being hedged.
- On disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

IFRIC 16 is not relevant to the Bank's operations as the Bank does not have any investments in a foreign operation.

IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009) clarifies that revenue arising from agreements for the construction of real estate is recognized by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with IAS 11.3;
- the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognized when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Bank's operations as the Bank does not provide real estate construction services or develop real estate for sale.

IFRIC 17 *Distribution of Non-cash assets to owners* (effective for annual periods beginning on or after 15 July 2009) applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognized in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognized in profit or loss. As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The improvements introduce 35 amendments to 24 standards. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 financial statements. The Bank does not expect these amendments to have any significant impact on the financial statements.

(e) Consolidation

The Bank does not have control over any other entity.

3 Summary of significant accounting policies

(a) Going concern

The financial statements are prepared in accordance with the going concern concept, which assumes that the Bank will continue in operation for the foreseeable future.

(b) Foreign currency

Transactions in foreign currencies are translated into dinars at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets denominated in foreign currency are translated at the rate ruling at the historic date.

Exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

In RSD	2008	2007
USD	62.9000	53.7267
EUR	88.6010	79.2362

(c) Interest and similar income/expense

Interest and similar income and expense are recognized in the income statement on an accruals basis, taking into account the effective yield of the asset or an applicable floating rate.

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest is calculated in accordance with statutory legislation based on contractual terms between lenders and borrowers.

(d) Fee and commission income/expense

Fee and commission income/expenses arising upon financial services provided by/to the Bank include transfer payments in foreign currency, domestic payments transactions, loan administration, guarantee, letter of credit business and other banking services.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission expenses are generally charged to income when the associated services are performed/consumed and are recognized in the income statement on an accrual basis.

(e) Net trading income/expenses

Net trading income includes foreign currency exchange gains and losses, both realized and unrealized.

(f) Leases

The Bank is involved into lease arrangements as the lessee. The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(g) Tax

/i/ Current income tax

Tax on profit represents an amount calculated and payable under the Serbian Tax Law. The income tax rate for 2008 is 10% (2007: 10%). Taxable profit includes the profit shown in the statutory Statement of income and adjustments for permanent differences, as defined by the Serbian Tax Law. Such adjustments comprise mainly adding back certain disallowed expenses and deducting certain capital expenditure and investments incurred during the year.

The Serbian Tax Law does not allow tax losses of the current period to be used to recover tax previously paid. However, current year losses may be used to decrease taxable profits for future periods of no longer than ten years.

Calculated income tax can be reduced by up to 50% for investments in fixed assets up to 20% of that investment.

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as property tax, service tax, tax on investments in equity and contributions on salaries and wages. These are included under “Other administrative expenses”.

/ii/ Deferred income tax

Deferred income tax is provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses available for carry forward, to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and tax losses carry forward can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences.

/iii/ Other taxes and contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as service tax, tax on investments in equity and contributions on salaries and wages. These are included under “Other operating expenses”.

(h) Financial assets and liabilities

/i/ Classification

The Bank classified its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and advances.

Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or upon initial recognition are designated by the Bank as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that the Bank acquired or incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or derivatives.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and the ability to hold them to maturity.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. If there is no local active market for financial assets of this nature and that those are financial assets with fixed maturity, available for sale assets were measured at amortized cost using the effective interest rate method.

Equity investments are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in equity prices. If there is no local active market for investments of this nature, equity investments are included in the balance sheet at cost.

As at 31 December 2008 the Bank does not have: financial assets at fair value through profit or loss, held to maturity financial assets, available for sale financial assets and equity investments.

/ii/ Recognition

Settlement date accounting has been adopted to record transactions.

/iii/ Measurement

Financial instruments are initially recognized at fair value, plus transactions costs for all financial assets or financial liabilities not carried at fair value through profit and loss.

Subsequent to initial recognition all available-for-sale financial assets, excluding equity investments which are not publicly traded, and financial assets at fair value through profit and loss are carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit and loss.

/iv/ Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

/v/ Impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(i) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise cash and balances with banks and the Central Bank and present highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

(j) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

All loans are initially recognized at cost. After initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issuance costs and any discount or premium on settlement.

(k) Property and equipment

/i/ Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

/ii/ Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

/iii/ Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Depreciation is provided on a straight-line basis at the following prescribed rates designed to write-off costs over their estimated useful lives.

The estimated depreciation rates for the current and comparative periods are as follows:

Description	%
Buildings	2.5
Computers	20
Furniture and other equipment	10 – 33.33
Investments in other's property	10

Maintenance and repairs are charged to the profit and loss account when incurred.

(l) Intangible assets

Intangible assets are stated at cost decreased for accumulated depreciation and impairment provision

Depreciation is provided on a straight-line basis designed to write off cost or valuation of assets over their estimated useful lives. Depreciation rate used is 10%.

Intangible assets represent computer software license and other intangible assets.

(m) Deposits, loans from customers and subordinated liabilities

Deposits, loans from customers and subordinated liabilities are the Bank's source of debt funding.

Deposits, loans from customers and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs and subsequently measured at their amortized costs using the effective interest method.

(n) Employment benefits

The Bank does not have defined benefits plans or share-based remuneration options as of 31 December 2008.

For services rendered by employees during the accounting period, the Bank recognizes the undiscounted amount of short-term employee benefits, expected to be paid in exchange for these services, as expense. The Bank recognizes the discounted amount of benefits, expected to be paid in exchange for services rendered by employees. Short-term benefits regarding compensation for unused vacation were not recognized as at 31 December 2008.

(o) Fair value

The fair values stated for financial instruments as defined in IAS 32 are the amount for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values are calculated using the market information available at the reporting date and individual Bank's valuation methods.

The fair values of certain financial instruments stated with their nominal values are approximately equivalent to their carrying amounts. These include cash as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, expected future cash flows are discounted to their present value using current interest rates. The directors are of the opinion that as a result of Bank's nature of operations and general policies there is no material difference between the book value and fair value of the Bank's financial assets and liabilities.

4 Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks:

- credit risk,
- liquidity risk,
- market risks,
- operational risks and
- country risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's capital management.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board established Risk Management Committee to evaluate risk management reporting by the line management, and advises the Executive Board on remedial or further action to reduce negative risk exposure levels.

Responsibility for implementation and effectiveness of risk management rests with the Risk Management Committee. Responsibility for identifying risk and the day-to-day management of risk lies with line management. In addition to the Risk Management Committee, certain risk indicators are reviewed by the Assets & Liabilities Committee (ALCO) and Credit Committee. Where necessary the chairman of each committee will report data and issues to the Risk management committee.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Committee also amends or introduces new risk management procedures. The Executive Board decides upon the necessary course of action and passes on its recommendations to the Board of Directors for approval. Where existing policy has been amended or new policy introduced then this is approved by the Board or Directors prior to its introduction.

Mitigating actions or control processes either in place or due to be completed for all incident reports will also be discussed and approved by the Risk Management Committee. The Risk Management Committee has the authority to request from line management any additional information or action relating to any area of risk.

The Bank's Internal Audit monitors compliance with the Bank's risks management policies and procedures and undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss occurring as a result of counterpart default regarding its contractual obligations to the Bank and arises principally from the Bank's loans and advances.

Accountability for adherence to the Bank's credit policies and implementation of agreed credit risk procedures rests with the Executive Board and its Chairman. All members of staff operating within the provision of credit function are aware of the policies and procedures covering their area of responsibility.

The Bank's Board of Directors is responsible for setting the credit policies and strategic direction. The Risk Manager is responsible for maintaining the credit policies, procedures, and loan administration as a part of overall credit risk management framework and, where appropriate, seeks Board approval for amendments to existing policy and the introduction of new credit policy. It is the responsibility of the Chief Operations Officer, supported by Branch Managers and Risk Manager for adherence to agreed policies and procedures. The Internal Auditor independently audits and assesses the credit operation and adherence to policies and procedures.

Monthly Credit Risk Reports contain:
- Delinquency report by Client Adviser's, branch and the overall Bank,
- Balance of loan portfolio at the end of the month by product, gender, sector, geographic location, maturity analysis, disbursals by loan size, job impact to data and total loans to date,
- Delinquency by product,
- Delinquency trend.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet.

The Risk Committee, headed by the Risk Manager, is responsible for the credit risk management and bringing decisions in order to prevent and minimize the influence of this type of risk on Bank's results.

To manage the level of credit risk, the Bank:
- reviews the creditworthiness of customers applying for loans, guarantees and other credit products,
- establishes credit limits on the basis of the risk assessment,
- deals with counterparties of good credit standing and takes appropriate collateral.

Customers are monitored continually and risk limits are adjusted if necessary. Risk limits also take into account various collateral types.

The Bank's primary exposure to credit risk arises through its loans granted to small and medium sized companies and individuals. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet.

In order to identify, monitor and assess them and, above all, to prevent such risk from originating, the Bank has brought and adopted the following official documents:

- Credit Policy Manual,
- Security Procedure,
- Delinquency Procedure and
- Internal loan classification policy and procedures.

All these documents were all brought to the effect of preventive actions regarding credit risk, through defining the following:

- Approval of a loan, including risk assessment of a customer;
- Monitoring;
- Loan portfolio analysis;
- Loss prevention and collection procedures and
- Classification of given loans and creation of allowance for impairment for estimated loan losses.

The core of risk management activities and mitigation of credit risk is detail analysis of the creditworthiness of customers applying for loans and advances and performs evaluation of collateral. Credit analysis considers qualitative and quantitative analysis. Ownership structure, history of the company, market position, management competence, competitions, cooperation with main buyers and suppliers, prospective of the business, customer's timeliness in loan repayment are the main factors that qualitative analysis consists of. It also considers industry comparison. Quantitative analysis is based on customer's solvency and profitability based on analyze of its financial statements.

The Bank calculates a loan loss provision at the individual and group level. Client's gross exposures which are less a RSD 1,500 thousand relate to the small loan portfolio and they are collectively assessed at the group level. Client's gross exposures bigger than the above mentioned amount are individually assessed and they are considered to be significant exposures.

I Classification and calculation of loan loss provision at group level

Depending on estimated risk, the Bank classifies its customers in the following three groups:

Group A

A1 and A2 **-** these loans are estimated as loans that will be collected in total. The Bank does not expect any problems from the debtor regarding collection. Clients in this group settle their liabilities up to 30 days and the Bank believe that the liabilities will be primarily repaid in accordance with the agreement from the debtor's cash flow and only exceptionally from secondary sources for which there is an estimate that through their realization one can refund total book value of the receivables increased for the cost of all expenses which the Bank could have in case of collection from secondary sources. Loans from these subgroups demand only regular monitoring.

Group B

B1 subgroup – Debtors from this subgroup are those whose material status is still satisfactory but the debtor is not strong enough to with-stand bigger disturbances in his/her business. They settle their liabilities with a delinquency not longer than 60 days. This subgroup of loans requires additional supervision and monitoring of debtor's balance, changes and developments in his/her business activities.

The Bank estimates that there is a possibility for it to collect the total value of placements from this subgroup regardless the possibility that he will have to use some of the security instruments i.e. to realize the granted collateral.

Subgroup B2 – Debtors from this subgroup are those whose material status is still satisfactory, but there are certain difficulties in debtor's business which is being reflected on occasional delays in settling the liabilities. They settle their liabilities with delinquency which does not exceed 90 days. This subgroup of loans requires intensified monitoring and supervision of debtor's balance, changes and developments in his/her business activities as well as reasons which brought to a slowdown in regular repayment and the projection of the future balance of client's business.

There is a great possibility that for loans from these subgroups, the Bank will try to collect its claims from secondary sources, by activating one of the received security instruments, after the monitoring results which indicate that problems with the collection from primary sources will also continue in the future.

Subgroups B3 and B4 – Loans from these subgroups belong to debtors who do not settle their liabilities and are significantly delinquent in repaying their installments (up to 180 days).

Monitoring of these loans indicates serious problems in business with a worsening trend and decrease in client's capability to start again to settle his liabilities on time from his primary repayment sources. After monitoring results, for clients from this group it is typical that Bank tries to collect its claims by activating the received collaterals and/or by enforcement.

There is still certain possibility that the loan or part of the loan will be collected, but that timeframe usually extends significantly.

Group C

Loans from the C risk group show weaknesses to such an extent that the collection is questionable in most cases, with a possibility of larger losses.

Probability for the loan to be repaid is remote that it is not advisable to keep those loans as Bank assets. The collectibility of such loans completely depends on debt enforcement measures.

100% provisions for the group C was established because there is a high probability that the loan will not be collected.

II Classification and calculation of loan loss provision at an individual level

For all claims which do not belong to the portfolio of small claims (where the amount of total claims from debtors, before reduction for the amount of the value adjustment regarding balance sheet assets and provisioning against losses on off balance sheet items as of the account day, exceeds 1,500,000 RSD, the provision account will be performed individually.

Depending on possibility to collect i.e. expected future cash flows, all placements with individually important exposures can be classified into three broad categories:

Group A - placements for which there is no objective evidence on decrease of their value

Placements can be classified into risk group A if the following conditions were met:

- if present debtor's financial situation and estimated future cash flows do not question the debtor's business in the future and settling his/her current and future liabilities towards the Bank;
- if debtor settles his liabilities towards the Bank within agreed deadlines and only exceptionally and occasionally after the due date expired, and with delays not longer than 30 days.

In exceptional case, if the debtor is not tidy in settling his/her liabilities, but on the basis of available documentation one can estimate that the collection will be realized to the agreed amount, the Bank can classify such placement into risk group A.

Group B - placements for which there are objective evidence of a decrease of their value

If a placement has been classified into one of B Category subgroups, primarily because of delinquency and untimeliness in settling the liabilities (and not as a result of initial classification) there would be an estimate through decrease (discounting) of value as a difference between the book value of total claims as of the day of the estimate and present value of expected cash flows in the future. Delinquency and untidiness in settling the liabilities occurs when a debtor is delinquent for more than 30 days from the maturity date.

If, during the subsequent classification, (classification after approval, during repayment) it was not stated that the client was delinquent over 30 days and in the initial classification he/she was classified into Group A or B, he/she will remain in the group and collective impairment will be applied.

Group C - placements for which there are objective evidences on decrease of value equal to their nominal book value

This group of risks included loans which are not expected to be collected. Receivables classified as C are awaiting legal proceedings based on loan agreement or the subsequent estimation of secondary repayment sources led to the conclusion that the loan will not be entirely recovered. Client's creditworthiness is unacceptable, and the estimated loss is 100 %.

Risk Exposure by sectors, products and client

Bank policy is to mitigate risks by diversifying its portfolio to different business.

The Risk Management Committee assesses the risk of loan approvals for certain sectors. In order to control the credit risk exposure regarding various business sectors and to provide a risk diversification, the Bank Board of Directors passed a Decision on investment limitations in individual sectors up to 35%. Through monthly Portfolio report, in the part Active portfolio by Sectors**,** credit exposure by sectors is being monitored for following sectors: agriculture, production, trade and services.

The Bank also monitors the credit risk exposure regarding certain types of loans through monthly reports called Active Portfolio by Loan types and Delinquency Report by Products. The exposure is being monitored in relation to all 11 types of loans which are being granted by the Bank at the moment. The Report shows delinquency by products separately for Dinar and for Euro linked loans. The Report shows delinquency by the number of loans and portfolio at risk and portfolio in arrears in following ranges 1-30 days, 30-60, 60-90, 90-120, 120-180 days, over 180 days. This Report is prepared on a weekly basis by the Loan Administrators and monitored by Branch Managers and Head Office Credit Committee.

In addition, the National Bank of Serbia introduced some restrictions regarding total amount of loans and placements to one client or the group or related clients, as well as to loans and placements to related parties of the Bank:

- The total amount of loans and advances, including off-balance sheet items, that relate to one client or the group of related clients should not exceed 25% of the Bank's capital. The bank has established this index up to 20%.
- The total amount of loans and advances, including off-balance sheet items, that relate to one client, related party of the Bank, should not exceed 5% of the Bank's capital and total exposure of the Bank to related parties should not exceed 20% of the Bank's capital.
- Exposure to one client or the group of related clients that exceeds 10% of tier 1 capital is considered as large exposure. It is prescribed by National Bank of Serbia that sum of large exposures and exposures to related parties can not exceed 400% of the Bank's capital.
- Equity investment in legal entity outside of finance sector should not exceed 10% of the Bank's capital and total equity investments in legal entities outside of finance sector should not exceed 60% of the Bank's capital.

For certain types of loans authorizations limits are delegated to:

- Branch Credit Committee – approval of loans with EUR currency clause amounting to EUR 500 – 18,000, and Dinar loans amounting to RSD 50,000 -1,500,000.
- Head Office Credit Committee – approval of loans with EUR currency clause amounting to EUR 18,000 – 100,000 and loans in dinars amounting to RSD 1,500,000 – 8,000,000.
- Board of Directors – approval of loans over EUR 100,000.

The Risk Committee continuously monitors and measures the level of credit risk. The Risk Manager prepares quarterly reports on the level of credit risk, called Credit Risk Report, and report it to the Risk Committee and the Board of Directors. The Report shows:

- loan portfolio structure and increase by currency and products and total increase portfolio;
- large exposure and exposure to 10 largest loans;
- exposure to related parties;
- analysis of delinquency by product for the last quarter;
- analysis of written off loans and recovered loans;
- exposure by sectors;

- portfolio diversification and
- portfolio quality including analysis of allowance for impairment.

The sector for legal and loan administration is responsible for the collection of bad loans and regularly report to Board of Directors.

Exposure to credit risk

The table below shows gross placements by customers and banks, but also classification for group portfolio and classification on a case-by-case basis.

		Loans and advances to customers		Loans and advances to banks	
In thousands of RSD	Note	2008	2007	2008	2007
Carrying amount	15, 16	2,452,084	1,435,512	462,957	66,606
Individually impaired					
Category A1-A2: Low risk		571,564	402,177	-	-
Category B1-B2: "Medium risk"		188,911	131,364	-	-
Category B3-B4: "Watch list"		7,275	-	-	
Category C		-	1,114	-	-
Carrying amount, gross		767,750	534,655	-	-
Less Impairment		(22,286)	(14,649)	-	-
Carrying amount, net		745,464	520,006	-	-
Portfolio based impairment					
Category A1-A2: Low risk		1,664,911	850,066	-	-
Category B1-B2: "Medium risk"		31,152	77,404	-	-
Category B3-B4: "Watch list"		7,621	-	-	
Category C		9	3,893	-	-
Carrying amount, gross		1,703,693	931,363	-	-
Less Impairment		(29,764)	(21,536)	-	-
Carrying amount, net		1,673,929	909,827	-	-
Past due but not impaired					
Category A1-A2: Low risk		-	-	-	-
Category B1-B2: "Medium risk"		-	-	-	-
Category B3-B4: "Watch list"		-	-	-	-
Category C		-	-	-	-
Carrying amount		-	-	-	-
Past due but not impaired					
From 30- to 60 days		-	-	-	-
From 60 to 90 days		-	-	-	-
From 90 to 180 days		-	-	-	-
More than 180 days		-	-	-	-
Carrying amount, gross		-	-	-	-
Neither past due nor impaired					
Category A1-A2: Low risk		-	-	462,957	66,606
Category B1-B2: "Medium risk"		-	-	-	-
Category B3-B4: "Watch list"		-	-	-	-
Category C		-	-	-	-
Carrying amount, gross		-	-	462,957	66,606
Less Impairment		-	-	-	-
Carrying amount, net		-	-	462,957	66,606

Loans with renegotiated terms					
Category A1-A2: Low risk		-	-	-	-
Category B1-B2: "Middle risk"		33,191	6,300	-	-
Category B3-B4: "Watch list"		2,423	-	-	-
Category C		-	-	-	-
Carrying amount, gross		35,614	6,300	-	-
Less Impairment		(2,923)	(621)	-	-
Carrying amount, net		32,691	5,679	-	-
Total carrying amount	15, 16	**2,452,084**	**1,435,512**	**462,957**	**66,606**

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and securities agreement. These loans are graded C in the Bank's internal credit risk grading system.

Past due but not impaired loans

This group includes loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans that have matured and have not been impaired are classified in class A or B.

Loans classified as A are considered to be collected in total. Although the Bank's clients might settle their liabilities with delay up to 30 days the Bank believe that liabilities will be primarily repaid in accordance with the agreement from the debtor's cash flow and only exceptionally from secondary sources for which there is an estimate that through their realization one can refund total book value of the receivables increased for the cost of all expenses which the Bank could have in case of collection from secondary sources

Loans with delay in repayment from 30 to 180 days are classified into risk group B. The Bank estimates that there is a possibility of loan collection from this group by using some of collaterals. Since the clients repay their loans in monthly installments, it happens that clients classified in risk group B repay their installments partially. If the mature and unpaid debt exceeds RSD 800, the Bank considers the entire loan risky, and places the loan in the risk group according to the initial maturity date.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. These loans cannot be classified into risk group A.

If the Bank's analysis of debtor's financial standing can show that the alteration of significant elements of the agreement was not caused by deterioration of debtor's financial standing nor debtor's untimeliness in settling his/her liabilities but is caused by usual current needs for financing his/her business activities, for such receivables the change of the classification is not necessary.

During 2008 the Bank changed initial terms and conditions for 14 loans.

Impairment

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

Write-off policy

The Bank writes off a loans and advances (and any related impairment for impairment losses) when the Bank Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. These loans are graded C in the Bank's internal credit risk grading system, before they are directly written off (when the loan repayment is 180 days behind.

The table below shows gross and net placements to customers for non-performing loans. Non-performing loans are loans with significant delinquency (delay more than 90 days) or receivables from debtors who are not very delinquent but whose financial dealings are worsening. The sector for legal and loan administration is responsible for the collection of these kind of loans.

	Loans and advances to customers		Loans and advances to banks	
In thousand of RSD	Gross	Net	Gross	Net
Risk group B3 and B4	17,318	7,501	-	-
Risk group C	9	-	-	-
Total as at 31 December 2008	**17,327**	**7,501**	**-**	**-**
Risk group C	5,007	-	-	-
Total as at 31 December 2007	**5,007**	**-**	**-**	**-**

Collateral

Collateral is used in the cases when client does not meet his obligation to repay the loan.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, pledge, guarantors, and bill of exchange. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	Loans and advances to customers		Loans and advances to banks	
In thousand of RSD	2008	2007	2008	2007
Against individually impaired				
Property				
Retail	108,727	78,761	-	-
Corporate	680,810	398,839	-	-
Cash deposits	2,222	-	-	-
Against collectively impaired				
Property				
Retail	228,417	210,607	-	-
Corporate	260,044	77,187	-	-
Cash deposits				
Retail	385	255	-	-
Corporate	354	-	-	-
Against past due but not impaired	-	-	-	-
Against neither past due nor impaired	-	-	-	-
Total	**1,280,959**	**765,649**	**-**	**-**

Types of collateral accepted by the Bank are presented as follows:

- One or more personal guarantors who signed the bill of exchange and have submitted the withdrawals on their salary or pension.
- Blank bills of exchange and the authorization given by the loan beneficiary or by another liquid debtor – entrepreneur or enterprise.
- Pledge on movable property. The loan amount is typically no more than 33% of the officially appraised value of the property.
- Mortgage on real estate. The loan amount is typically no more than 66% of the officially appraised value of the property.
- Cash deposit for the purpose of securing debt with the date of maturity which corresponds to the maturity date from the loan agreement. The loan amount is no higher than the deposit amount.

Monitoring of repayments from the activated collateral is performed through a Report on activated collaterals and collected payments through collateral activation, produced on a weekly basis. This report is monitored by Risk Manager and presented to the members of the Head Office Credit Committee.

(c) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of its liquidity position. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Responsibility for the effective monitoring and control of the Bank’s Liquidity rests with the Assets Liability Management Committee (ALCO). The Risk Management Committee chairman is a member of this committee. Assets Liability Management Committee monitors financial data and ratios and report to the Executive Board as appropriate.

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank's strategy. The liquidity risk is monitored by Liquidity gap report for which preparation and accuracy is responsible the Treasury department.

Ratio of liquid assets to short term liabilities at the reporting date and during the reporting period was as follows:

In %	2008	2007
As at 31 December	3.95	9.92
Average for the period	9.37	43.43
Maximum for the period	16.08	96.13
Minimum for the period	3.36	8.17

The following table provides an analysis of the financial liabilities of the Bank into relevant maturity groupings:

In thousands of RSD	Note	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
NON-DERIVATING LIABILITIES						
Deposits and loans from banks	20	262,255	19,995	505,212	-	787,462
Deposits and loans from customers	21	420,010	334,684	632,587	594,893	1,982,174
Subordinated liabilities	22	-	-	-	531,606	531,606
Other liabilities	23, 24	47,285	19,685	13,763	3,108	83,841
Total as at 31 December 2008		**729,550**	**374,364**	**1,151,562**	**1,129,607**	**3,385,083**
Deposits and loans from banks	20	5,960	17,882	79,497	-	103,339
Deposits and loans from customers	21	264,097	366,704	421,242	-	1,052,043
Other liabilities	23, 24	8,021	10,225	17,475	-	35,721
Total as at 31 December 2007		**278,078**	**394,811**	**518,214**	**-**	**1,191,103**

(d) Market risks

Market risk is the risk that the value of the Bank's balance sheet position will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, securities prices resulting in a loss of earnings and capital.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return of risk.

/i/ Interest rate risk

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can pose a significant threat to the Bank's earnings and capital base.

Simple maturity / re-pricing schedules or Gap Analysis is used to generate simple indicators of the interest rate risk sensitivity of both earnings and economic value to changing interest rates. The Gap Analysis is completed on a quarterly basis.

These figures, and their trends, are prepared and monitored on a monthly basis in line with the above by the Controller in the Finance department which is then reported to the Chief Finance Officer.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies. The following table provides an analysis of the Bank's exposure to interest rate movements:

Exposure to interest rate movements

In thousands of RSD	Note	Carrying amount	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Non interest bearing	Impairment
Cash and cash equivalents	14	1,304,411	750,208	-	-	-	554,203	-
Loans and advances to banks	15	462,957	417,836	-	44,301	-	820	-
Loans and advances to customers	16	2,452,084	273,882	672,665	1,498,320	62,190	-	(54,973)
Other assets	17, 18, 19	301,846	-	-	-	-	301,846	-
Total		4,521,298	1,441,926	672,665	1,542,621	62,190	856,869	(54,973)
Deposits and loans from banks	20	787,462	262,255	19,995	505,212	-	-	-
Deposits and loans from customers	21	1,982,174	420,010	334,684	632,587	594,893	-	-
Subordinated liabilities	22	531,606	-	-	-	531,606	-	-
Other liabilities	23, 24	83,841	-	-	-	-	83,841	-
Total		3,385,083	682,265	354,679	1,137,799	1,126,499	83,841	-
As at 31 December 2008		**1,136,215**	**759,661**	**317,986**	**404,822**	**(1,064,309)**	**773,028**	**(54,973)**
Cash and balances with the Central Bank	14	585,089	67,759	-	-	-	517,330	-
Loans and advances to banks	15	66,606	10,000	-	-	-	56,606	-
Loans and advances to customers	16	1,435,512	156,193	408,660	870,119	21,119	16,227	(36,806)
Other assets	19	17,670	-	-	-	-	17,670	-
Total		2,104,877	233,952	408,660	870,119	21,119	607,833	(36,806)
Deposits and loans from banks	21	103,339	103,316	-	-	-	23	-
Deposits and loans from customers	22	1,052,043	264,097	366,704	421,242	-	-	-
Other liabilities	24	35,721	-	-	-	-	35,721	-
Total		1,191,103	367,413	366,704	421,242	-	35,744	-
As at 31 December 2007		**913,774**	**(133,461)**	**41,956**	**448,877**	**21,119**	**572,089**	**(36,806)**

The Bank prepares reports for measuring interest rate risk for all positions of assets, liability and off-balance items, as well as for all other compensations or expenditures that are exposed to interest rate risk. These reports are used to measure risk to Net Interest Income (NII) arising from the re-pricing of assets and liabilities over time. The risk is measured upon the size and duration potential movements in interest rates. The Bank is aware that maintaining a balanced position for all time periods in a gap reports does not ensure immunity from Interest Rate Risk (IRR). The Bank is aware of the following gap reporting limitations:

- Risk may be hidden in the re-pricing frames.
- Interest rates on assets and liabilities do not always move together.
- Exposure arising from new business.

To avoid this kind of limitations the Bank use simulations (assumptions) with purpose to projecting the future composition of the balance sheet and applying different interest rate scenarios. Impact of loan prepayments and early withdrawing of deposits is also taken into account.

Additionally, the Bank is focused on interest rate spreads. Bank is aware that volatility of IRR spread is potential interest rate risk indicator. This spread is managed by loan pricing, deposit pricing, and investing. The Bank strives to have neither the lowest nor the highest loan or deposit rates in the market. Loans are priced in order to achieve a fair return on shareholder investment. Deposits are priced to provide fair treatment for the Bank's customers and to be reasonably competitive without increasing the Bank's cost of funds.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100, 200 and 300 basis point (bp) parallel fall or rise in all yield curves in Serbia. Analysis of the Bank's sensitivity to an increase or decrease in market interest rates as at 31 December 2008 is as follows:

In thousands of EUR	100 bp parallel increase	100 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease	300 bp parallel increase	300 bp parallel decrease
As at 31 December 2008						
Interest rate change on						
Assets	3.64%	-3.64%	7.29%	-7.29%	10.93%	-10.93%
On liabilities	-5.42%	5.42%	-10.83%	10.83%	-16.25%	16.25%
Cumulative	-1.78%	1.78%	-3.54%	3.54%	-5.32%	5.32%
Limit	-10.00%	10.00%	15.00%	-15.00%	-20.00%	20.00%
As at 31 December 2007						
Interest rate change on						
Assets	2.06%	-2.06%	4.12%	-4.12%	6.19%	-6.19%
On liabilities	-2.26%	2.26%	-4.52%	-4.52%	-6.78%	6.78%
Cumulative	-0.20%	0.20%	-0.40%	0.40%	-0.60%	0.60%
Limit	-10%	-10%	-15%	-15%	-20%	-20%

/ii/ Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies.

Foreign currency risk arises in cases of mismatch in assets and liabilities denominated in foreign currencies. The Bank is potentially at risk through its foreign currency position by granting and taking loans with foreign currency clauses, maintaining funds with correspondent banks, undertaking international payment orders, offering foreign currency accounts, and operating an exchange till.

The Bank's foreign exchange risk ratio (Open Foreign Currency Position) at the end of each business day is determined by National Bank of Serbia regulations.

The Bank maintains the foreign currency position by granting loans with foreign currency clauses.

Exposure to currency risk

In thousands of RSD	USD	EUR	Other	RSD	Total
Cash and cash equivalents	7,424	963,001	2,405	331,581	1,304,411
Loans and advances to banks	-	462,668	-	289	462,957
Loans and advances to customers	-	1,629,183	-	822,901	2,452,084
Other assets	-	13,712	-	25,997	39,709
Total	7,424	3,068,564	2,405	1,180,768	4,259,161
Deposits and loans from banks	-	531,901	-	255,561	787,462
Deposits and loans from customers	2,536	1,955,515	-	24,123	1,982,174
Subordinated liabilities	-	531,606	-	-	531,606
Other liabilities	1,651	48,498	-	33,692	83,841
Total	4,187	3,067,520	-	313,376	3,385,083
Net currency gap as at 31 December 2008	**3,237**	**1,044**	**2,405**	**867,392**	**874,078**
Cash and cash equivalents	679	495,644	670	88,096	585,089
Loans and advances to banks	-	56,331	-	10,275	66,606
Loans and advances to customers	-	579,934	-	855,578	1,435,512
Other assets	-	-	-	17,670	17,670
Total	679	1,131,909	670	971,619	2,104,877
Deposits and loans from banks	-	103,339	-	-	103,339
Deposits and loans from customers	-	1,009,024	-	43,019	1,052,043
Other liabilities	-	17,712	-	18,009	35,721
Total	-	1,130,075	-	61,028	1,191,103
Net currency gap as at 31 December 2007	**679**	**1,834**	**670**	**910,591**	**913,774**

(e) Country risk

Country risk is the probability of incurring losses to the Bank due to the inability of persons or companies outside of Serbia to repay obligations due to political, social and economic environment of the country of the debtor. Risks include:

- Political-economic risk, where loss is probably due to political restrictions created by the acts of the country, state bodies or other bodies in the country of the debtor, and/or because of the general economic condition in the country.
- Transfer risk, where probability of loss due to currency restrictions created by the acts of the country, state bodies or other bodies in the country of the debtor, and/or because of the general economic condition in the country.

The Bank has established limits of exposure per debtor's country of origin. In case of identified risk concentration the limits have been established per geographical regions.

The Treasury Department monitors risk on daily basis.

The Risk Department submits to the Board quarterly reports about country risk exposure.

The Board of Directors reviews the adequacy of the system used to manage country risk and approve any policy changes that are needed.

(f) Operational risks

Operational Risk is the risk caused by failures in operational processes or the systems that support them. This includes errors, omissions, systems breakdown, natural disasters, terrorist attack and fraudulent activity, causing an impact in terms of unavailability of services, financial loss, increased costs, loss of reputation or failure to make anticipated income or profit.

The goal of operational risk management is to balance cost and risk within the constraints of the risk appetite of Opportunity Bank but be consistent with the prudent management required of a financial organization

Accountability for Operational Risk Management rests with the Executive Board and its Chairman. Responsibility for implementation and effectiveness of Operational Risk Management rests with the Risk Department. Responsibility for identifying and managing Operational Risk lies with line management.

The Bank has grouped main sources of operational risks as follows:

- Human factor,
- Processes,
- Systems and
- External factors.

Operational risk management consists of the following phases:

- Identification – Identification (mapping) of types of operational risks where the Bank may be exposed to in performing its operation.
- Measuring – Measuring through self – assessment of operational risks by organizational units of the Bank and registering events into loss database which uses for statistical analysis.

- Control - On the basis of conducted measurement, Risk Management Department makes quarterly analysis and reports to the Risk Management Committee and Executive Board containing data on major exposure to operational risks, by business lines and organizational units, by type of events and by cause. Reports also include proposals of the measures for mitigation/neutralization of the highest operational risks. Risk Management Committee passes decision on whether and to what extent the proposed measures shall be implemented, and/or whether the exposure to specific risks is acceptable.
- Monitoring – Implementation of adopted measures of Risk management Committee.

(g) Capital management

The Bank's regulator, the National Bank of Serbia ("NBS"), sets and monitors capital requirements for the Bank. In implementing current capital requirements NBS requires the Bank to maintain a prescribed capital adequacy ratio of 12%. The capital adequacy ratio of the Bank shall equal the ratio between the Bank's capital and the sum of credit risk-weighted assets plus capital requirement relating to foreign exchange risk multiplied by the reciprocal value of the capital adequacy ratio plus capital requirements relating to other market risks multiplied by the reciprocal value of the capital adequacy ratio.

The capital of the Bank is classified as:

- Core capital,
- Supplementary capital 1 and
- Supplementary capital 2.

Core capital consists of:

- The paid up ordinary and preference share capital, excluding cumulative preferential shares.
- Premiums realized on issuance of ordinary and preference shares, excluding cumulative preference shares (share premium accounts).
- All types of the Bank's reserves allocated from earnings after deduction of taxes, excluding reserves from earnings against general banking risks.
- Retained earnings from previous years, as well as from the current year if the bank's Shareholder assembly decided to allocate within core capital.
- Capital gains arising from the acquisition and alienation of the Bank's own shares.

When calculating core capital, the Bank is obliged to reduce sum of core capital elements for the following categories:

- losses from previous years,
- current year's losses,
- capital losses arising from the acquisition and alienation of own shares,
- intangible assets and
- acquired Bank own shares, excluding cumulative preference shares.

The Bank's core capital shall equal at least 50% of its capital.

Supplementary capital consists of:

- The paid up cumulative preference shares.
- Premiums realized on issuance of cumulative preference shares.
- Asset revaluation reserves and share in the Bank's capital.

- Reserves from earnings against general banking risks – not more than 1.25% of total credit risk-weighted assets.
- Instruments that display both characteristics of both capital and liabilities of the Bank (hybrid instruments which are: fully paid-up; not backed by any security instruments issued by the Bank; eligible for mandatory settlement in the event of bankruptcy or liquidation of the Bank only after the settlement of all non-subordinated obligations of the Bank and subordinated obligations; sufficient to cover losses from current operations, and losses arising in the event of liquidation of the Bank; bearing original maturity of at least five years; not payable prior to maturity; payable upon maturity only if the bank ensures that its capital and capital adequacy are within prescribed limits).
- Subordinated obligation (with following characteristics: obligation which is fully paid-up; obligation in respect of which the Bank issued no security instruments; obligation contracted for settlement in the event of bankruptcy or liquidation of the Bank only after the settlement of all other non-subordinated obligations of the Bank; obligation suitable for covering losses only in the event of liquidation of the Bank; obligation with the original maturity of at least five years; obligation of the Bank's creditor who is not at the same time the Bank's borrower in respect of its subordinated claim; obligation against which no payment to creditors or purchase by the Bank itself prior to its maturity is permitted, except in cases where these obligations are transformed into the Bank's shares other than cumulative preference shares).

During the last four years to maturity of, a discount factor of 20% per year is applied to subordinated obligations eligible for inclusion in the bank's supplementary capital, whereas upon maturity, such subordinated obligations shall no longer be eligible for inclusion in the Bank's supplementary capital.

The Bank's supplementary capital 2 consists of subordinated obligations having the same characteristics which are mentioned above, with the original maturity of at least two years and not payable prior to maturity. The Bank may use supplementary capital 2 only to cover market risks. Supplementary capital 2 of the Bank may not exceed 250% of the portion of its core capital used to cover market risks but not other risks.

The capital of the Bank shall be the sum total of its core capital, supplementary capital 1 and supplementary capital 2 minus following deductions:

- direct and indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entities;
- direct and indirect investment in banks and other financial sector entities up to 10% of the capital of such shareholdings exceed 10% of the capital of the Bank as calculated before deduction specified in preceding paragraph;
- all claims and potential liabilities of entities related to the Bank that were contracted on more favorable terms and conditions than those contracted with entities that are not related with the Bank and
- shortfall amount of special provisions against potential losses.

In the course of its operations, the Bank shall ensure that its capital never declines below the Dinar equivalent value of EUR 10,000,000 at the official middle exchange rate.

The Policy of the Bank is to maintain strong base of capital in order to maintain confidence of the market, investors and creditors and for future development.

The following table shows the capital as at 31 December 2008:

In thousands of RSD	Note	2008	2007
TIER 1 CAPITAL			
Share capital	25	1,039,080	1,039,080
Share premium	25	81,650	81,650
Reservers		23,957	-
Retained earnings from the previous year		(12,855)	-
Minus: Deducted items on Tier 1 capital			
Current year losses		-	(12,855)
Intangible assets	18	(7,947)	(6,540)
TOTAL TIER 1 CAPITAL		1,123,885	1,101,335
TIER 2 CAPITAL		-	-
Subordinated liabilities		531,606	-
TOTAL TIER 2 CAPITAL		531,606	-
Minus: Deducted items on capital			
Shortfall of special provisions against potential losses		(134,409)	(18,384)
TOTAL DEDUCTED ITEMS		(134,409)	(18,384)
Total risk- based capital		**1,521,082**	**1,082,951**
Risk Weighted Assets		**3,377,883**	**1,619,392**
Foreign currency risk exposure		**7,101**	**-**
Capital Adequacy Ratio		**44.94%**	**66.87%**

(h) Judgments on the Effects of the Global Financial Crisis

The current crises in the international financial market started to become felt in Serbia by affecting the whole business environment. Regardless of the fact that the financial sector in Serbia suffered no losses due to inadequate investments, the effects of the crises started to become felt in Serbia in the last quarter of 2008. The effects of the global financial crisis on the Serbian economic system are presented as follows:

- A decrease in funds available to Serbia due to the developed markets' illiquidity are already evident through significant reducing of borrowings from abroad. Furthermore, the inflow of direct foreign investments has been significantly slowed down, with foreign investors being more cautious when deciding on investments.
- A decrease in available funds from abroad and decrease of direct foreign investments resulted in reductions of banking loans and, together with increasing liquidity problems of legal entities, significantly increased cost of new loans i.e. interest rates on borrowings.
- The decline in foreign funds raise the question of sources of financing of balance of payment deficit which lead to the pressure on foreign currency reserves and Dinar exchange rate and caused significant devaluation of national currency.

- Capital market movements, mostly influenced by a global loss of trust in the financial system, resulted in significant decrease in price of debt and equity securities. In the Belgrade stock Exchange, the value of blue-chip shares as measured by the Belex15 index dropped by more then 23% returning to their January 2007 level. Prices of shares comprising the Belex line index basket declined comparatively less (by app. 19%), as these are mostly non-liquid shares, whose price changes less frequently. Similarly to share prices, prices of frozen foreign currency savings funds were on a decline, too.

It is practically impossible to foresee the future course of the crisis and all its effects. In addition, it is not possible to introduce measures which should eliminate all impacts of the crisis on the financial position and the results of the Bank's operations. However, the Bank's management anticipates that general effects of the crisis to the economic environment in the country shall affect the current volume of economic activities, prices, degree of collection of receivables, as well as the possibility of securing new loans or refinancing the existing ones. Also, the following key issues that could have material effect on the Bank's economic situation were identified:

- Existing substantial devaluation of local currency (Dinar or RSD) will be felt by the Bank mostly through increased credit risk. This affects the majority of retail customers, who have Dinar denominated loans due to the fact that effective financing cost will be higher with more expensive loan installments in Dinar terms.
- Poor credit quality of the Bank's customers could reduce loans and placements collectability and finally, through increase of impairment provision, could significantly effect the Bank's financial position and financial performance. The Bank's management believes that it is not highly likely that significant losses will arise due to poor credit quality of the customers, having in mind that the Bank did not experience significant problems with collection of receivables during the period of crisis.
- In respect of actual financial crisis the Bank did not has the extraordinary outflow of term deposits from customers. Until now the Bank was fully in compliance with all the National bank of Serbia liquidity requirements and there was no need for starting any action plan in order to mitigate liquidity problems. Also, the Bank's management believes that it is not highly likely that this problem could arise, having in mind that, despite reducing volume on borrowings on the financial market, the Bank did not have problem to raise new funds in 2008, nor to meet its obligation as they come due.
- The Bank's management monitors all kind of risk exposures on a regular basis and takes appropriate actions for the purpose of reducing negative risk exposure levels.

Despite the fact that it is not possible reliably estimated all impacts of the crisis on the financial position and the results of the Bank's operations, it is management opinion that the financial crisis will not affect the Bank's ability to continue as a going concern.

5 Use of estimates and judgments

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

These disclosures supplement the commentary on financial risk management (Note 4).

/i/ Impairment credit losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy 3(h), 3(j).

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

/ii/ Fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(o). For financial instruments that trade infrequently, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

6 Financial assets and liabilities - Accounting classification and fair values

/i/ The table bellow sets out the Bank's classification of each class of financial assets and liabilities, and their fair values:

In thousands of RSD	Note	Held to maturity	Loans and receivables	Available for sale	Other amortized costs	Total carrying amount	Fair value
As at 31 December 2008							
Cash and cash equivalents	14	-	1,304,411	-	-	1,304,411	1,304,411
Loans and advances to banks	15	-	462,957	-	-	462,957	462,957
Loans and advances to customers	16	-	2,452,084	-	-	2,452,084	2,452,084
Total		**-**	**4,219,452**	**-**	**-**	**4,219,452**	**4,219,452**
Deposits and loans from banks	20	-	-	-	787,462	787,462	787,462
Deposits and loans from customers	21	-	-	-	1,982,174	1,982,174	1,982,148
Subordinated liabilities	22	-	-	-	531,606	531,606	531,606
Total		**-**	**-**	**-**	**3,301,242**	**3,301,242**	**3,301,242**
As at 31 December 2007							
Cash and cash equivalents	14	-	585,089	-	-	585,089	585,089
Loans and advances to banks	15	-	66,606	-	-	66,606	66,606
Loans and advances to customers	16	-	1,435,512	-	-	1,435,512	1,435,512
Total		**-**	**2,087,207**	**-**	**-**	**2,087,207**	**2,087,207**
Deposits and loans from banks	20	-	-	-	103,339	103,339	103,339
Deposits and loans from customers	21	-	-	-	1,052,043	1,052,043	1,052,043
Total		**-**	**-**	**-**	**1,155,382**	**1,155,382**	**1,155,382**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

/ii/ Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than one year) it is assumed that the carrying amount approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and variable rate financial instruments.

/iii/ Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

7 Net interest income

Net interest income includes:

In thousands of RSD	2008	2007
Cash and cash equivalents	5,343	3,736
Loans and advances to banks	6,629	12,930
Loans and advances to corporate customers	351,659	137,298
Loans and advances to retail customers	80,834	61,952
Interest and similar income	444,465	215,916
Loans from banks	(10,179)	(6,173)
Loans from customers	(72,571)	(5,636)
Deposits from corporate customers	(13,435)	(2,861)
Deposits from retail customers	(45,229)	(17,454)
Interest and similar expenses	(141,414)	(32,124)
Net interest income	**303,051**	**183,792**

8 Net fee and commission income

Net fee and commission income includes:

In thousands of RSD	2008	2007
Loan administration business	35,203	22,927
Payments transfer business	2,897	346
Other banking services	1,123	504
Fees and commission income	39,223	23,777
Payments transfer business in the country	(982)	(1,088)
Payments transfer business abroad	(562)	(823)
Borrowings	(1,878)	(527)
Other banking services	(265)	(116)
Fees and commission expenses	(3,687)	(2,554)
Net fee and commission income	**35,536**	**21,223**

9 Net trading income/expenses

Net trading income/expenses include:

In thousands of RSD	2008	2007
Foreign exchange gains		
Foreign exchange gains	276,707	624,040
Foreign exchange rate losses	(283,752)	(631,089)
Net trading income	**(7,045)**	**(7,049)**

10 Impairment

Impairments include:

In thousands of RSD	2008	2007
Individual and portfolio loan impairment	82,953	21,475
Reversals of impairment	(44,425)	(120)
Net impairment	**38,528**	**21,355**

11 Personnel and administrative expenses

11.1 Personnel expenses include:

In thousands of RSD	2008	2007
Wages and salaries	91,446	56,005
Social security costs and staff related taxes	57,474	35,969
Other personal expenses	595	2,907
Total	**149,515**	**94,881**

11.2 Administrative expenses include:

In thousands of RSD	2008	2007
Premises maintenance and security	19,486	7,860
Advertising, public relation and representation expenses	18,442	11,994
Professional services expenses	11,276	15,486
Management fees	11,508	2,004
Building and office space expenses	9,239	15,650
Office supplies	8,451	5,894
Communication expenses	6,429	6,821
Insurance fees	5,305	1,936
Fuel and other transport expenses	1,206	4,585
Staff training expenses	713	1,897
Board expenses	570	842
Other	9,537	7,713
Total	**102,162**	**82,682**

12 Other operating income and expenses

12.1 Other operating income includes:

In thousands of RSD	2008	2007
Rental income from real estate	3,010	3,083
Recovered written-off claims	5,818	1,858
Other income	1,942	50
Total	**10,770**	**4,991**

12.2 Other operating expenses include:

In thousands of RSD	2008	2007
Other taxes and contributions	15,738	10,927
Write offs	14,470	6,152
Other	313	271
Total	**30,521**	**17,350**

13 Income Tax

13.1 Major components of income tax expenses as at 31 December are as follows:

In thousands of RSD	2008	2007
Current tax expense	-	-
Deferred tax expense	(1,283)	-
Total	**(1,283)**	**-**

13.2 Change in deferred tax assets/(liabilities) as at 31 December is as follows:

In thousands of RSD	2008	2007
Balance as at 1 January	11,333	11,333
Origination of temporary timing differences	(1,283)	-
Balance as at 31 December	**10,050**	**11,333**

13.3 Deferred tax assets and liabilities are attributable to the following:

	2008			2007		
In thousands of RSD	Assets	Liabilities	Net	Assets	Liabilities	Net
Depreciation of fixed assets	-	(1,283)	(1,283)	-	(11,132)	(11,132)
Impairment of loans	-	-	-	-	-	-
Potentially usable tax loss carry forward	3,381	-	3,381	3,390	-	3,390
Potentially usable tax credits	7,952	-	7,952	19,075	-	19,075
Net tax assets/(liabilities)	**11,333**	**(1,283)**	**10,050**	**22,465**	**(11,132)**	**11,333**

Deferred tax was calculated by applying tax rate of 10%. Potentially usable tax credits relate to tax credits for investments in fixed assets.

14 Cash and cash equivalents

Cash and cash equivalents include:

In thousands of RSD	2008	2007
Cash in hand	102,641	45,683
Giro account	299,215	7,843
Deposited surpluses of liquid funds with the Central Bank	11,000	64,000
Foreign currency accounts	442,197	171,450
Foreign currency obligatory reserve with the Central Bank	449,358	296,113
Balance as at 31 December	**1,304,411**	**585,089**

The obligatory reserves represent a deposit required by the National Bank of Serbia (“NBS”), which is calculated and deposited with the NBS in accordance with the Decision on Obligatory Reserves of Banks with the NBS. Pursuant to this decision the obligatory reserve Banks shall calculate required Dinar reserves by applying the ratio of 10% on the Dinar reserving base representing average daily book value of deposits in dinars, borrowings, securities and other liabilities in dinars within one month.

Of the calculated foreign currency reserve the Bank earmarks 40% in dinars and is under obligation to maintain the average daily balance of the obligatory Dinar reserve on its it giro account in the amount which is equal to the sum of the calculated obligatory Dinar reserve and the percentage portion of the obligatory foreign currency reserve, earmarked in dinars.

The NBS pays interest on obligatory reserves in dinars at an interest rate of 2.5% p.a.

15 Loans and advances to banks

In thousands of RSD	2008	2007
Short-term deposits with banks	417,836	66,331
Long-term deposits with banks	44,301	-
Other placements	820	275
Balance as at 31 December	**462,957**	**66,606**

Short term deposits relate to deposits in the amount of RSD 258,354 thousand with maturity up to 15 days and interest rate in range from 3.5% to 4% p.a. and a deposits in the amount of RSD 159,482 thousand with maturity up to 30 days and an interest rate of 5.3% p.a.

Long term deposits relate to Opportunity bank a.d. Podgorica. The deposit matures on 5 February 2010 with interest rate at 8.5% p.a.

16 Loans and advances to customers

16.1 Loans and advances to customers include:

In thousands of RSD	2008	2007
Short term loans		
To corporate customers	81,845	84,226
To retail customer	14,645	18,745
Total short term loans	96,490	102,971
Long term loans		
To corporate customers	1,587,973	972,741
To retail customer	822,594	396,606
Total long term loans	2,410,567	1,369,347
Less: impairment	(54,973)	(36,806)
Net loans and advances to customers as at 31 December	**2,452,084**	**1,435,512**

16.2 Movements in loan impairment, during the year, were as follows:

	2008		2007	
In thousands of RSD	Individual assessment	Portfolio assessment	Individual assessment	Portfolio assessment
Balance as at 1 January	15,270	21,536	17,605	-
Additional allowances	9,137	73,817	6,242	15,233
Releases	(4,921)	(39,505)	(120)	-
Write-offs	(6,014)	(15,410)	(2,675)	-
Reallocation	(5,294)	5,294	(6,303)	6,303
Foreign exchange gains	424	639	521	-
Balance as at 31 December	**8,602**	**46,371**	**15,270**	**21,536**

16.3 Loans to customers represent loans granted to individuals, small and medium size enterprises and agricultural customers.

Loans to individuals are granted only in dinars with the maturity from 3 months up to 24 months and an annual interest rate of 30%.

Loans to small and medium size enterprises granted up to EUR 10,000 have the maturity from 3 months up to 36 months and annual interest rate in the range from 18.5% to 26%. Loans to small and medium size enterprises granted over EUR 10,000 have a maturity from 3 months up to 96 months and annual interest rate in the range from 12% to 24%.

Agricultural loans granted up to EUR 10,000 have the maturity from 3 months up to 36 months and annual interest rate in the range from 20% to 24%. Agricultural loans granted over EUR 10,000 have the maturity from 3 months up to 60 months and annual interest rate in the range from 16% to 24%.

16.4 All impaired loans and advances have been written down to their recoverable amount. The allowance is apportioned as a reduction of loans and advances to customers.

16.5 Industry concentration of loans was as follows:

In thousands of RSD	2008	2007
Trade	702,541	412,859
Manufacturing	473,558	244,144
Agriculture	23,654	15,409
Construction	20,414	37,390
Other	449,651	347,165
Corporate customers	1,669,818	1,056,967
Retail customers	837,239	415,351
Impairment losses	(54,973)	(36,806)
Balance as at 31 December	**2,452,084**	**1,435,512**

The Bank manages its exposure to credit risk by applying a range of control measures including: regular assessments using defined internal credit criteria and diversification of sector risk to avoid undue concentration in any particular type of business or geographic location. The Bank obtains collateral in the form of mortgages, guarantees and pledges in order to reduce the level of credit risk.

As at 31 December 2008, there were no loans secured by guarantees issued by other banks.

17 Property and equipment

17.1 Property and equipment includes:

In thousands of RSD	2008	2007
Buildings	167,899	66,135
Equipment	25,317	20,247
Other property and equipment	17,826	10,464
Advance payments	-	96,239
Balance as at 31 December	**211,042**	**193,085**

17.2 The movements in property and equipment for the year were as follows:

In thousands of RSD	Buildings	Equipment	Other tangible assets	Advance payments	Total
Cost of valuation					
Balance as at 1 January 2008	71,820	33,311	10,635	96,239	212,005
Additions	105,539	12,201	8,979	31,097	157,816
Disposals	-	(144)	-	(127,336)	(127,480)
Balance as at 31 December 2008	177,359	45,368	19,614	-	242,341
Accumulated Depreciation					
Balance as at 1 January 2008	5,685	13,064	171	-	18,920
Depreciation	3,775	7,127	1,617	-	12,519
Disposals	-	(140)	-	-	(140)
Balance as at 31 December 2008	9,460	20,051	1,788	-	31,299
Net book value as at 31 December 2008	**167,899**	**25,317**	**17,826**	**-**	**211,042**
Net book value as at 31 December 2007	**66,135**	**20,247**	**10,464**	**96,239**	**193,085**

The buildings carrying amount of RSD 167,899 thousand relates to the Bank's headquarters in Novi Sad. The acquisition of the building was started in 2004 and was finished in 2008. The building is pledged as security for the loan granted by Banca Intesa a.d. Beograd in April 2007 in the total amount of EUR 1.5 million (Note 20).

18 Intangible assets

18.1 Intangible assets include:

In thousands of RSD	2008	2007
Purchased licenses	7,948	6,540
Other rights	32,535	4,216
Advance payments for intangible assets	562	5,570
Balance as at 31 December	**41,045**	**16,326**

18.2 The movements in intangible assets for the year were as follows:

In thousands of RSD	Purchased licenses	Other rights	Advance payments	Total
Cost of valuation				
Balance as at 1 January 2008	8,442	5,610	5,570	19,622
Additions	2,391	30,738	29,675	62,804
Disposals	-	-	(34,683)	(34,683)
Balance as at 31 December 2008	10,833	36,348	562	47,743
Accumulated Depreciation				
Balance as at 1 January 2008	1,902	1,394	-	3,296
Depreciation	983	2,419	-	3,402
Disposals	-	-	-	-
Balance as at 31 December 2008	2,885	3,813	-	6,698
Net book value as at 31 December 2008	**7,948**	**32,535**	**562**	**41,045**
Net book value as at 31 December 2007	**6,540**	**4,216**	**5,570**	**16,326**

19 Other assets

Other assets relate to:

In thousands of RSD	2008	2007
Prepaid rental expenses	178	9,433
Prepaid fees	13,933	5,023
Accrued tax receivables	8	1,018
Other accruals	19,211	961
Other assets	6,379	1,235
Balance as at 31 December	**39,709**	**17,670**

20 Deposits and loans from banks

20.1 The structure of deposits and loans from banks is presented as follows:

In thousands of RSD	2008	2007
Short term deposits	255,558	-
Long term loans	531,872	103,339
Other	32	-
Balance as at 31 December	**787,462**	**103,339**

Short term deposits are from Banca Intesa ad Beograd in the amount of RSD 120,000 thousand and from Erste bank ad Novi Sad in the amount of RSD 135,558 thousand. The maturity of the deposits is up to 15 days, and the interest rate is 18.8% p.a. and 18.4% p.a. respectively.

20.2 Long term loans relate to:

In thousands of RSD	2008	2007
Banca Intesa ad Beograd	88,867	103,339
European Bank for Reconstruction and Development (EBRD)	443,005	-
Balance as at 31 December	**531,872**	**103,339**

Long term loans are borrowed at following terms:

In thousands of RSD	Loan amount	Disbursement date	Maturity	Interest rate
Banca Intesa ad Beograd	88,867	April 2007	5 years	3mEuribor+3.5% p.a.
EBRD	443,005	December 2007	5 years	6mEuribor+5.5% p.a.
Balance as at 31 December	**531,872**			

21 Deposits and loans from customers

21.1 Deposits and loans from customers include:

In thousands of RSD	2008	2007
Short-term		
Demand deposits		
Corporate customers	33,453	19,604
Retail customers	38,505	54,117
Short–term deposits		
Corporate customers	126,102	142,633
Retail customers	408,851	404,441
Total short-term	606,911	620,795
Long-term		
Long-term deposits – corporate customers	2,388	-
Long-term deposits – retail customers	143,536	114,303
Long term loans	1,229,339	316,945
Total long-term	1,375,263	431,248
Balance as at 31 December	**1,982,174**	**1,052,043**

The Bank pays annual interest rate on demand deposits in dinars in the range from 2.5% to 12.5% and for demand deposits in foreign currency in the range from 1% up to 5%.

Dinar term deposits, depending on the term, have annual interest rate in the range from 10.5% to 11.5%. Foreign currency term deposits have annual interest rate in the range from 6.6% to 8.16% depending on the term and amount.

Term deposits in dinars with foreign currency clause have an annual interest rate in the range of 2.6%-5.6%.

21.2 Long term loans relate to:

In thousands of RSD	2008	2007
Cordaid Finance	11,075	19,809
Oikocredit	243,653	59,427
European Fund for Southeast Europe (EFSE)	443,005	237,709
Instituto de Credito Oficial Spain (ICO)	531,606	-
Balance as at 31 December	**1,229,339**	**316,945**

Long term loans are borrowed at following terms:

In thousands of RSD	Loan amount	Disbursement date	Maturity	Interest rate
Cordaid Finance	11,075	August 2004	5 years	6% p.a.
Oikocredit loan 1	66,451	July 2007	4 years	8.3% p.a.
Oikocredit loan 2	177,202	January 2008	5 years	7.7% p.a.
EFSE	443,005	August 2007	4 years	7.7% p.a.
ICO	531,606	March 2008	12 years	5.5% p.a.
Balance as at 31 December	**1,229,339**			

22 Subordinated liabilities

Subordinated liabilities relate to loans granted by the European Fund for Southeast Europe in the amount of RSD 531,606 thousand. The loans were disbursed in the second half of 2008 with 10 years maturity and with the interest rate of 8.78% until the year of 2014 and 12.68% after the year of 2014. The loans are repayable in the whole amount at the maturity date.

23 Provisions for liabilities and charges

Provisions for liabilities and charges in the amount of RSD 2,772 thousand (2007: RSD 2,685 thousand) relate to provisions for pension and similar obligations and short-term employees benefits.

Movements in provisions during the year were as follows:

In thousands of RSD	2008	2007
Balance at 1 January	2,685	1,634
Charge for the year	87	1,051
Balance as at 31 December	**2,772**	**2,685**

24 Other liabilities

Other liabilities include:

In thousands of RSD	2008	2007
Liabilities for tax and contributions	279	481
Suppliers	5,122	2,698
Accrued interest expenses	47,065	14,208
Deferred fees income	20,477	12,643
Other accruals	-	1,601
Sundry liabilities	8,126	4,090
Balance as at 31 December	**81,069**	**35,721**

25 Shareholders' equity

25.1 Shareholders' equity comprises of the following:

In thousands of RSD	2008	2007
Ordinary shares	1,039,080	1,039,080
Share premium	81,650	81,650
Share capital	1,120,730	1,120,730
Retained earnings	15,485	11,103
Balance as at 31 December	**1,136,215**	**1,131,833**

25.2 The shareholders structure as at 31 December 2008 was as follows:

	2008			2007		
In thousands of RSD	Number of shares	Share capital	%	Number of shares	Share capital	%
Shareholder						
OTI Illinois, USA	10,999	659,940	63.51	10,999	659,940	63.51
EBRD	3,309	198,540	19.11	3,309	198,540	19.11
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., Netherlands (FMO)	2,206	132,360	12.74	2,206	132,360	12.74
Oikocredit Ecumenical Development Cooperative U.A., Netherlands	804	48,240	4.64	804	48,240	4.64
Balance as at 31 December	**17,318**	**1,039,080**	**100.00**	**17,318**	**1,039,080**	**100.00**

The Bank's share capital in the total amount of RSD 1,039,080 thousand is divided into 17,318 shares. All shares are ordinary shares, with nominal value of RSD 60,000 per share.

Holders of ordinary shares are entitled to receive dividends as declared by the Board of the Bank and are entitled to one vote per share at General Meetings of the Bank. There was no dividend payout in 2008 and 2007.

26 Contingent liabilities and commitments

26.1 Legal proceedings

There are 2 litigations against the Bank in total amount of RSD 786 thousand as at 31 December 2008.

There are 41 on-going legal litigations where the Bank is claimant as at 31 December 2008. In all 41 cases, defendants are individuals and enterprises and all claims relate to loan arrears. The total value of the claims is RSD 31,513 thousand. The Management believes that it is unlikely that the Bank will loose these cases.

26.2 Commitments for operating leases of business premises

In thousands of RSD	2008	2007
Commitments due within one year	11,640	3,026
Commitments due within 1 to 5 years	44,706	15,059
Commitments due after more than 5 years	47,624	18,646
Total	**103,970**	**36,731**

26.3 The Bank gave its bill of exchange as collateral for a loan granted by Oikocredit in the amount of EUR 2 million in November 2007 (Note 21).

27 Adjustments in accordance with International Financial Reporting Standards (IFRS)

The table below presents the reconciliation between results presented by Serbian Accounting Standards and results presented for reporting requirements in compliance with International Financial Reporting Standards:

In thousands of RSD	2008	2007
Profit/(Loss) in accordance with Serbian accounting standards	(4,382)	(12,855)
Impairment on loans - recognized in 2006 in IFRS statements	-	3,718
Deferred tax assets – recognized in 2006 in IFRS statements	-	(11,929)
Profit/(Loss) in accordance with IFRS	**(4,382)**	**(21,066)**

28 Related party transactions

28.1 Outstanding balances with related parties at the year end, along with any related income and expenses for the year are as follows:

In thousands of RSD	2008	2007
BALANCE SHEET		
Deposits and loans to banks		
Opportunity bank a.d. Podgorica	44,301	-
Deposits and loans from customers		
Oikocredit Netherland	243,653	59,427
EBRD	443,005	-
INCOME STATEMENT		
Interest income		
Opportunity bank a.d. Podgorica	590	-
Interest expense		
Oikocredit Netherland	(5,312)	(1,386)

28.2 In 2008 the Bank paid a gross compensation (in form of a short-term employee benefits) to the Executive Board of Directors in the amount of RSD 21,001 thousand (2007: RSD 7,943 thousand).

The Bank did not grant any loan to the members of the Executive Board of Directors.

29 Financial performance disclosed in the statutory financial statements

All prescribed statutory requirements as at 31 December 2008 are fulfilled, as presented in the table below:

	Prescribed ratios by NBS	Achieved by the Bank 2008	Achieved by the Bank 2007
Capital adequacy ratio	min 12%	44.93%	66.87%
Capital asset ratio	max 60%	16.57%	18.73%
Indicator of exposure to related parties	max 20%	0.00%	0.00%
Indicator of large and the largest individual exposures in relation to capital	max 400%	0.00%	0.00%
Liquidity ratio			
In first months of reporting period	min 1.0	3.46	24.68
In second month of reporting period	min 1.0	14.98	17.73
Of third month of reporting period	min 1.0	3.36	8.17
Foreign currency risk	max 10%*	0.47%	0.65%

** 2007: 30%*