ProCredit Bank

Serbia

Annual Report 2008

Key Figures

	EUR '000 2008	EUR '000 2007*	RSD '000 2008	RSD '000 2007	Change RSD
Balance Sheet Data					
Total Assets	749,499	778,786	66,406,354	61,708,013	7.6%
Gross Loan Portfolio**	450,132	414,872	39,882,154	32,872,913	21.3%
Business Loan Portfolio	263,041	251,762	23,305,719	19,948,704	16.8%
EUR < 10,000	97,883	94,386	8,672,503	7,478,803	16.0%
EUR > 10,000 < 50,000	89,610	81,272	7,939,577	6,439,655	23.3%
EUR > 50,000 < 150,000	39,480	38,550	3,497,938	3,054,517	14.5%
EUR > 150,000	36,068	37,555	3,195,701	2,975,727	7.4%
Agricultural Loan Portfolio	103,150	89,775	9,139,152	7,113,456	28.5%
Housing Improvement Loan Portfolio	38,693	31,201	3,428,253	2,472,239	38.7%
Other	45,248	42,134	4,009,030	3,338,515	20.1%
Allowance for Impairment on Loans	11,070	9,565	980,799	757,916	29.4%
Net Loan Portfolio	439,062	405,307	38,901,355	32,114,997	21.1%
Liabilities to Customers	343,368	391,179	30,422,765	30,995,538	-1.8%
Liabilities to Banks and Financial Institutions (excluding PCH)	302,498	298,591	26,801,656	23,659,216	13.3%
Shareholders' Equity	97,541	60,748	8,642,264	4,813,424	79.5%
Income Statement					
Operating Income	49,914	43,854	4,422,408	3,474,855	27.3%
Operating Expenses	43,942	37,297	3,893,332	2,955,262	31.7%
Operating Profit Before Tax	5,971	6,558	529,076	519,593	1.8%
Net Profit	6,953	6,916	616,031	548,016	12.4%
Key Ratios					
Cost/Income Ratio	78.04%	74.94%	78.04%	74.94%	
ROE	9.16%	13.35%	9.16%	13.35%	
Capital Ratio	18.41%	15.17%	18.41%	15.17%	
Operational Statistics					
Number of Loans Outstanding	113,854	101,999			11.6%
Number of Loans Disbursed within the Year	83,145	91,236			-8.9%
Number of Business and Agricultural Loans Outstanding	77,059	70,689			9.0%
Number of Deposit Accounts	478,745	434,183			10.3%
Number of Staff	1,860	1,528			21.7%
Number of Branches and Outlets	86	67			28.4%

* Some figures differ from those in the 2007 annual report because they have been adjusted to reflect new calculation methods.

** Total gross loan portfolio under management by ProCredit Bank Serbia including the securitised portfolio and cross-border loans as of 31 December 2008: EUR 478.7 million.

Exchange rate as of December 31:
2008: EUR 1 = RSD 88.601
2007: EUR 1 = RSD 79.2362

Mission Statement

ProCredit Bank Serbia is a development-oriented full-service bank. We offer excellent customer service and a wide range of banking products. In our credit operations, we focus on lending to very small, small and medium-sized enterprises, as we are convinced that these businesses create the largest number of jobs and make a vital contribution to the economies in which they operate.

Unlike other banks, our bank does not promote consumer loans. Instead we focus on responsible banking, by building a savings culture and long-term partnerships with our customers.

Our shareholders expect a sustainable return on investment, but are not primarily interested in short-term profit maximisation. We invest extensively in the training of our staff in order to create an enjoyable and efficient working atmosphere, and to provide the friendliest and most competent service possible for our customers.

Letter from the Board of Directors

ProCredit Bank Serbia continued on its growth path in 2008 despite the turbulence on global financial markets and the challenges facing the banking industry worldwide. This success can be attributed above all to our firm adherence to the principles of responsible banking, an approach whose wisdom has been underscored by events this year. Irresponsible lending with the aim of maximising short-term profit may appear lucrative, but a traditional focus on the core business of bankers – mobilising deposits and using them to fund lending to creditworthy clients – has proved to be the soundest strategy for the long term.

This approach – in short, responsible banking – is what guides ProCredit Bank. We know that behind every one of our loan or deposit contracts there is a real person, an individual with a unique life story. We understand that our relationships with business owners can affect the lives and futures of ordinary people, and we make the effort to get to know every one of our credit and savings clients personally. This is one of the most important reasons for the stability of our business, and it is this stability that provides a solid foundation for our future growth.

The year under review brought several challenges in addition to the impacts of the international financial crisis. Presidential and parliamentary elections extended through the first half of the year, creating uncertainty at the political level. At the same time, the central bank maintained a tight monetary policy in order to stabilise local market prices and the overall macroeconomic environment. As a general feeling of uncertainty spread, many people grew cautious about borrowing and began to have doubts as to whether banks were really a safe repository for their savings. Under these circumstances, we continued to conduct our business in exactly the same way as we had from the day ProCredit Bank opened. In doing so, we sent a clear message to all of our clients that their bank is a solid partner whom they can continue to rely on to serve all of their banking needs, and to support their efforts to improve their lives.

Demonstrating that it is possible to be successful in a challenging environment by respecting the principles of transparent and responsible banking, ProCredit Bank achieved an ROE of 9.16% for 2008. Furthermore, the bank made substantial investment in its infrastructure. It opened a new head office building, while nineteen new branches broadened its outreach both in cities and in rural areas where people previously only had limited access to banking services. To support this expansion and maintain our high service quality, we increased the size of our staff by over 300 people.

Reflecting their full confidence in the soundness of ProCredit Bank's business strategy and its ability to achieve continued growth, the shareholders carried out a capital increase of EUR 26 million in 2008, boosting the capital base by 56.1% to EUR 72.6 million. This provided additional assurance to our clients that ProCredit Bank's objective is not short-term profit maximisation but rather long-term, sustainable growth.

On behalf of the Board of Directors, I would like to extend my gratitude to our shareholders for their support of our mission. Our appreciation also goes to the employees and management of ProCredit Bank for their loyalty, enthusiasm and commitment to the institution. It is thanks to their dedication and hard work that we are able to present this report on another successful year, and we truly value their contribution to our bank and the development of its business.

Dr. Klaus Glaubitt
Chairman of the Board of Directors

Members of the Board of Directors:
Dr. Klaus Glaubitt
Claus-Peter Zeitinger
Gabriele Heber
Helen Alexander
Per Fischer
Goran Zivkov

Members of the Executive Board:
Dörte Weidig
Svetlana Tolmacheva
Mirjana Zakanji

The Bank and its Shareholders

ProCredit Bank Serbia is a member of the ProCredit group, which is led by its Frankfurt-based parent company, ProCredit Holding. ProCredit Holding is the majority owner of ProCredit Bank Serbia and now holds 83.3% of the shares.

ProCredit Bank Serbia was founded in April 2001 as Micro Finance Bank by an alliance of international development-oriented investors. Their goal was to establish a new kind of financial institution that would meet the demand of small and very small businesses in a socially responsible way. The primary aim was not short-term profit maximisation but rather to deepen the financial sector and contribute to long-term economic development while also achieving a sustainable return on investment.

The founding shareholders of ProCredit Bank Serbia were KfW, the European Bank for Reconstruction and Development (EBRD), Commerzbank, the Netherlands Development Finance Company (FMO), and ProCredit Holding. Over the years, ProCredit Holding, working closely with the consulting company IPC, has consolidated the ownership and management structure of all the ProCredit banks and financial institutions to create a truly global group with a clear shareholder structure and to bring to each ProCredit institution all the synergies and benefits that this implies.

Today's shareholder structure of ProCredit Bank Serbia is outlined below. Its current share capital is EUR 72.6 million.

Shareholder (as of Dec. 31, 2008)	Sector	Headquarters	Share	Paid-in Capital (in EUR million)
ProCredit Holding	Investment	Germany	83.33%	60.5
Commerzbank	Banking	Germany	16.67%	12.1
Total Capital			**100%**	**72.6**

ProCredit Holding is the parent company of a global group of 22 ProCredit banks. ProCredit Holding was founded as Internationale Micro Investitionen AG (IMI) in 1998 by the pioneering development finance consultancy company IPC.

ProCredit Holding is committed to expanding access to financial services in developing countries and transition economies by building a group of banks that are the leading providers of fair, transparent financial services for very small, small and medium-sized businesses as well as the general population in their countries of operation. In addition to meeting the equity needs of its subsidiaries, ProCredit Holding guides the development of the ProCredit banks, provides their senior management, and supports the banks in all key areas of activity, including banking operations, human resources and risk management. It ensures that ProCredit corporate values, best-practice banking operations and Basel II risk management principles are implemented group-wide.

IPC is the leading shareholder and strategic investor in ProCredit Holding. IPC has been the driving entrepreneurial force behind the ProCredit group since the foundation of the banks.

ProCredit Holding is a public-private partnership. In addition to IPC and IPC Invest (the investment vehicle of the staff of IPC and ProCredit), the other private shareholders of ProCredit Holding include the Dutch DOEN Foundation, the US pension fund TIAA-CREF, the US Omidyar-Tufts Microfinance Fund and the Swiss investment fund responsAbility. The public shareholders of ProCredit Holding include KfW (the German promotional bank), IFC (the private sector arm of the World Bank), FMO (the Dutch development bank) and BIO (the Belgian Investment Company for Developing Countries).

ProCredit Holding has an investment grade rating (BBB-) from Fitch Ratings Agency. As of the end of 2008, the equity base of the ProCredit group is EUR 387 million. The total assets of the ProCredit group are EUR 4.8 billion.

COMMERZBANK **Commerzbank AG**, established in 1870, is Germany's second-largest bank and one of the leading financial institutions in Europe. The bank is a competent provider of financial services, primarily for private customers and small- and medium-sized enterprises (SMEs). It also manages major corporate customers and institutions in Europe as well as multinational enterprises around the world. Commerzbank aims to enhance its market share among these core target groups and, in particular, to establish itself as the number one bank for Germany's SME market.

Commerzbank runs a nationwide banking network in its domestic market. Following the acquisition of Dresdner Bank, it is the leading bank for private and corporate banking with some 1,200 branches in Germany and a strong presence in Central and Eastern Europe. In Asia and the US, the bank is active in all major commercial centres.

Commerzbank AG is the parent company of a global financial services group. The group's operating business is organised into five segments providing each other with mutually beneficial synergies: Private Customers, Mittelstandsbank (SME bank), Central & Eastern Europe, Corporates & Markets and Commercial Real Estate / Shipping.

The ProCredit Group: Responsible Banks for Ordinary People

The ProCredit group comprises 22 financial institutions whose business focus is on providing responsible banking services in transition economies and developing countries. We aim to provide accessible, reliable services to small businesses and the ordinary people who live and work in the neighbourhoods in which we operate. Today our 21,400 employees, working in 814 branches, serve 2.9 million customers in Eastern Europe, Latin America and Africa.

The first ProCredit banks were founded more than a decade ago with the aim of making a significant development impact by promoting the growth of small businesses. We sought to achieve this by providing loans tailored to their requirements and offering attractive deposit facilities that would enable and encourage low-income individuals and families to save. The group has grown strongly over the years – today we are one of the leading providers of banking services to small business clients in most of the countries in which we operate.

Our development mission and socially responsible approach remain as relevant today as they have ever been. Indeed, their importance has been underscored by the global financial crisis and the challenges this has created for individual clients as well as for national economies. The impact of the "credit crunch" will differ from country to country and from region to region, but now more than ever our customers need a reliable banking partner. That is why we have consistently applied the principles that have defined the ProCredit group since its foundation.

Our mission is to provide credit in a responsible manner to very small, small and medium-sized enterprises, as we are convinced that these businesses create the largest number of jobs and make a vital contribution to the local economy. Unlike most other banks operating in our markets, we avoid aggressive consumer lending and all speculative lines of business. Instead, the ProCredit banks work in close contact with their clients to gain a profound understanding of the problems small businesses face and the opportunities that are available to them.

Our tailored credit technology reflects the realities of our clients' operating environment. Developed by the German consulting firm IPC, this technology combines careful individual analysis of all credit risks with a high degree of standardisation and efficiency. It enables ProCredit institutions to reach a large number of small businesses while maintaining high loan portfolio quality. By making the effort to know our clients well and build long-term working relationships based on trust and understanding, we are well positioned to support them not only when the economy is buoyant, but also during a downturn.

Furthermore, our targeted efforts to foster a savings culture in our countries of operation have enabled us to build a stable deposit base. ProCredit deposit facilities are appropriate for a broad range of customers, and for low-income groups in particular. We offer simple savings products with no minimum deposit requirement. ProCredit banks place great emphasis on children's savings products and on running financial literacy campaigns in the broader community. In addition to deposit facilities, we offer our clients a full range of standard non-credit banking services.

The ProCredit group has a simple business model: lending to a diverse range of enterprises and mobilising local deposits. As a result, our banks have a transparent, low-risk profile. We do not rely heavily on capital market funding and have no exposure to complex financial products. Furthermore, our well-trained staff are highly flexible and able to provide competent advice to clients, guiding them through difficult times. Despite the turmoil of the global financial markets, the performance of the ProCredit group has been remarkably stable: we ended 2008 with approximately 15.4% year-on-year growth in assets over the year and a comfortable level of profitability.

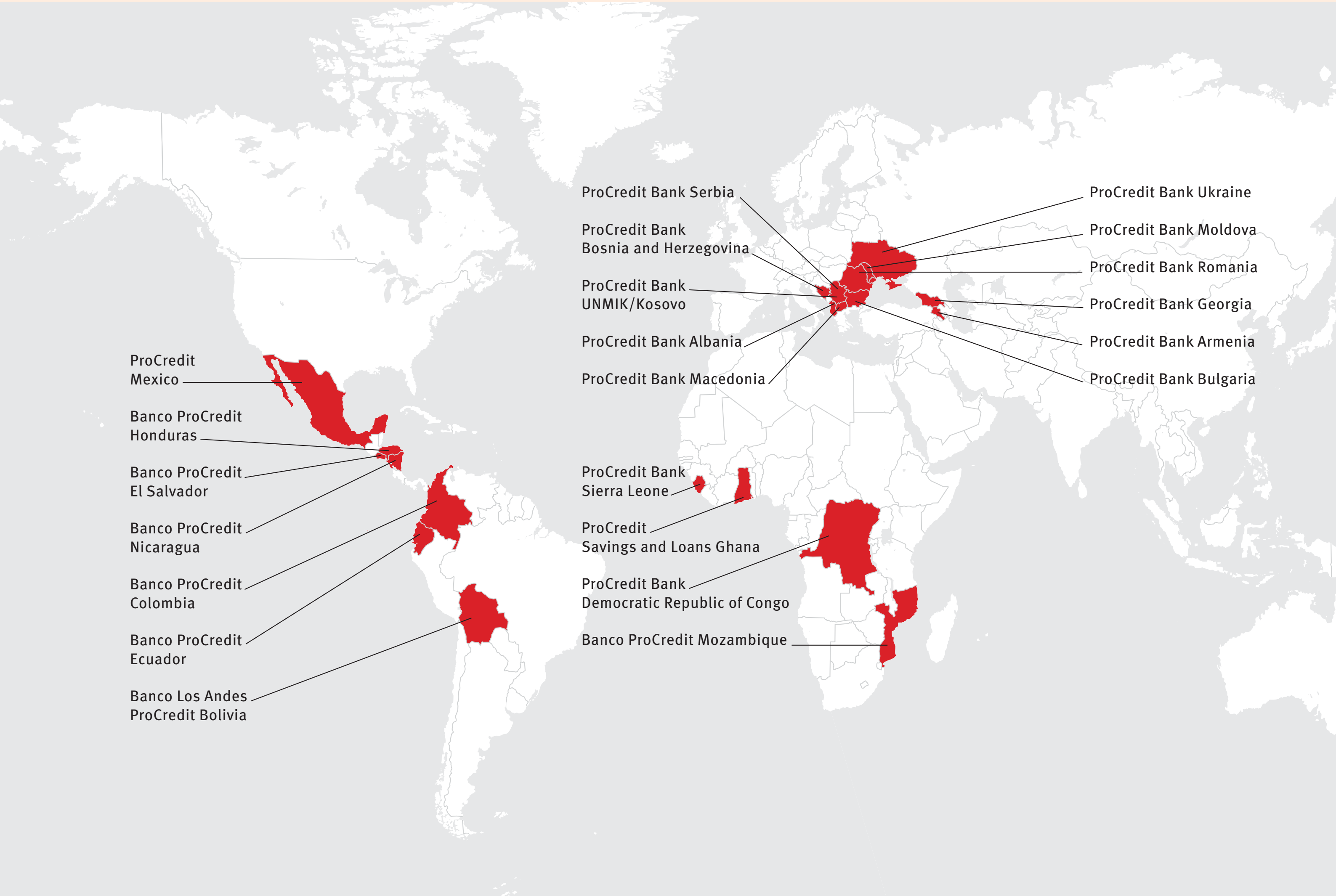
Our shareholders have always taken a conservative, long-term view of business development, aiming to strike the right balance between a shared developmental goal – reaching as many small enterprises and small savers as possible – and achieving commercial success.

Strong shareholders provide a solid foundation for the ProCredit group. It is led by ProCredit Holding AG, a German-based company that was founded by IPC in 1998. ProCredit Holding is a public-private partnership. The private shareholders include: IPC and IPC Invest, an investment vehicle set up by IPC and ProCredit staff members; the Dutch DOEN Foundation; the US pension fund TIAA-CREF; the US Omidyar-Tufts Microfinance Fund; and the Swiss investment fund responsAbility. The public shareholders include the German KfW Bankengruppe (KfW banking group); IFC, the private sector arm of the World Bank; the Dutch development bank FMO; and the Belgian Investment Company for Developing Counties (BIO). The group also receives strong support from the EBRD and Commerzbank, our minority shareholders in Eastern Europe, and from the IDB in Latin America.

ProCredit Holding is not only a source of equity for its subsidiaries, but also a guide for the development of the ProCredit banks, providing the personnel for their senior management and offering support in all key areas of activity. The holding company ensures the implementation of ProCredit corporate values, best practice banking operations and Basel II risk management principles across the group. The group's business is run in accordance with the rigorous regulatory standards imposed by the German banking supervisory authority (BaFin).

ProCredit Holding and the ProCredit group place strong emphasis on human resource management. Our neighbourhood banking concept is not limited to our target customers and how we reach them, it is also about our staff: how we work with one another and how we work with our customers. The strength of our relationships with our customers will be central to working with them effectively in 2009 and achieving steady

*The international group of ProCredit institutions; see also **www.procredit-holding.com***



business results. A responsible neighbourhood bank approach requires a decentralised decision-making process and a high level of judgment and creativity from all staff members, especially our branch managers. Our corporate values embed principles such as honest communication, transparency and professionalism into our day-to-day business. Key to our success is therefore the recruitment and training of a dedicated staff. We maintain a corporate culture which strengthens the professional development of our staff, while fostering their deep sense of personal and social responsibility. This entails not only intensive training in technical and management skills, but also a continuous exchange of personnel among our member institutions in order to take full advantage of the opportunities for staff development that are created by their participation in a truly international group.

A central plank in our approach to training is the group's ProCredit Academy in Germany, which provides a three-year, part-time "ProCredit Banker" training programme for high-potential personnel from each of the ProCredit institutions. The programme includes intensive technical training and also exposes participants to a very multicultural learning environment and to subjects such as anthropology, history, philosophy and ethics. The programme provides an opportunity for our future leaders to develop their views of the world, as well as their communication and staff management skills. The first year of ProCredit Academy participants graduated in September 2008. The professional development of local middle managers is further supported by three regional academies in Latin America, Africa and Eastern Europe, which provide similar off-site training for a larger number of people.

The group's strategy for 2009 will reflect the prevailing conditions of the countries in which we work. We plan to intensify our focus on loan portfolio quality and to offer personal support to our existing clients. We will continue to invest in our staff since it is their skills which enable us to work effectively with our clients under changing macroeconomic conditions. As responsible banks for ordinary people, with prudent policies and an excellent staff to ensure our steady performance, we look forward to consolidating our position in all our countries of operation.

ProCredit in Eastern Europe

ProCredit operates 11 banks across Eastern Europe. With more than 611,000 loans outstanding, it is the region's leading provider of banking services to very small, small and medium-sized businesses.

2008 proved to be a challenging year for the region. After several years of strong economic growth and rapid expansion of banking sector assets, the effects of the global financial crisis were felt in the latter half of the year as credit growth slowed and public trust wavered. Although the medium-term implications are not yet clear, the region will certainly be affected by both the worldwide economic downturn and, with the banking sector dominated by western European banks, the turmoil in the global financial sector. We anticipate lower economic growth and higher levels of market volatility in our countries of operation – conditions to which ProCredit and its clients must adapt.

Given our consistent, reliable approach, ProCredit institutions are well placed to succeed in the current economic environment. We have a stable, straightforward balance sheet and a highly diversified client base. Our expansion in the first half of the year continued to be strong. Growth levelled off during the final two quarters as we introduced more conservative lending policies in response to greater credit risk. Our staff focused on working closely with our debtors and retail clients to help them understand and respond to changing conditions.

Across the region, the focus of most other banks in recent years has been on corporate financing and consumer lending. In comparative terms, these institutions have neglected the provision of credit to small entrepreneurs and family businesses. At ProCredit, we consider such clients to be our core target group. We are their banking partner of choice, able to understand their needs and offer sound, professional advice. These businesses will remain the driving force behind economic growth and job creation across Eastern Europe, just as they have been since the collapse of Soviet influence and large, state-owned enterprises. As other banks provide fewer loans in the region, due to either domestic or international constraints, it will be more important than ever that we provide our clients with access to sufficient finance to support their operations.

ProCredit has always emphasised the fact that consumer lending, which has been so aggressively pursued by other banks in Eastern Europe, has never been a line of business in which we wish to engage. Such loans can easily lead to over-indebtedness when banks advertise and disburse them irresponsibly in a competition to gain market share. We fear that the widespread practice of approving loans with an inadequate analysis of customers' repayment capacity may now exacerbate the problems that individuals and families face in less prosperous times. This poses further potential difficulties for the banking sector as a whole.

Our approach is to provide primarily business loans following a careful, individual analysis of each client's ability to meet his or her obligations. We have decentralised decision-making systems in place and a body of highly qualified staff who are able to conduct an efficient and reliable risk assessment even in more volatile economic conditions. ProCredit is guided by a responsible, long-term attitude towards business development. We aim to build lasting relationships with our clients and do not forget that a loan is also a debt. These values will be particularly pertinent when managing potential arrears in cases where clients have to adapt to lower than anticipated sales.

Our lending activities include the provision of agricultural loans; we are keen to support a sector that has been particularly neglected by other banks and that is vital for employment and social cohesion outside the main urban areas. We also provide housing improvement loans to help low-income families renovate their homes and improve energy efficiency.

Alongside its credit operations, ProCredit has invested strongly over the years in creating a savings culture amongst clients and the broader public. We believe that setting money aside can help protect savers against the uncertainties of life. This is perhaps truer now than ever before. The ratio of deposits to GDP in Eastern European countries is well below Western European levels, typically at around 50%. Through promotional events and direct, personal communication, we encourage people – particularly those who do not yet have a bank account – to make use of banking services and to regularly save a portion of their earnings.

We offer simple and reliable retail banking services, including flexible savings and deposit accounts to accommodate depositors' long- and short-term needs. Our belief in transparent, direct communication is particularly important in fostering clients' trust in these difficult times. We understand that our clients want to know in simple language how to save safely; they also want to access their money when they need it without unexpected complications. Thanks to the trust that the public has placed in ProCredit, local deposits are the principal source of funding for our lending activities to local businesses. We have therefore not had to rely on unpredictable capital markets. All the ProCredit institutions in Eastern Europe ended the year with a comfortable liquidity position and a stable, indeed increasing, net interest margin.

In line with our mission to reach clients in their neighbourhoods wherever they are, the ProCredit group continued to expand in 2008: we opened 116 branches and recruited more than 2,500 people in Eastern Europe alone, bringing the regional total to over 13,500 employees in 557 branches. In the coming year we will focus on strengthening our business operations from this base. We place a strong emphasis on transparency and will continue to run information campaigns in 2009 to ensure that people understand the pricing of our products as well as those of our competitors.

Our staff is the key element in our approach to being a stable, down-to-earth and personal banking partner. The ProCredit group has a strong commitment to staff training, professional development and the cultivation of an open, honest communication culture. Staff exchanges, cross-border training programmes and regional workshops are an important part of our approach. In September 2008, construction was completed on the new Eastern European Academy, located near Skopje in Macedonia. Dedicated to the training of ProCredit middle managers, the Academy is an important channel for rapid and consistent communication region-wide and one that helps us adapt quickly to face new challenges: 210 managers have already graduated from the six-week intensive course since the facility was founded. A language centre at the Academy also provides residential English courses, maximising the potential for international exchange within the group. Like all prudent banks, we will continue to focus on efficient cost management in 2009 and beyond. Investment in our staff is however an ongoing commitment and will remain a central plank in the ProCredit Bank approach. A qualified, motivated and professional team lies at the root of our lasting success across Eastern Europe.

Name	Highlights*	Contact
ProCredit Bank Albania	Founded in October 1998 34 branches 40,619 loans / EUR 134.1 million in loans 177,630 deposit accounts / EUR 203.9 million 1,003 employees	Rruga Sami Frasheri Tirana Tel./Fax: +355 4 2 271 272 / 276 info@procreditbank.com.al www.procreditbank.com.al
ProCredit Bank Armenia	Founded in December 2007 4 branches 2,340 loans / EUR 16.7 million in loans 6,592 deposit accounts / EUR 6.7 million 203 employees	31, Moskovyan Str. Building 99 Yerevan 0002 Tel./Fax: + 374 10 514 860 / 853 info@procreditbank.am www.procreditbank.am
ProCredit Bank Bosnia and Herzegovina	Founded in October 1997 44 branches 65,277 loans / EUR 162.9 million in loans 113,096 deposit accounts / EUR 171.5 million 888 employees	Emerika Bluma 8 71000 Sarajevo Tel./Fax: +387 33 250 950 / 250 971 info@procreditbank.ba www.procreditbank.ba
ProCredit Bank Bulgaria	Founded in October 2001 87 branches 66,612 loans / EUR 578.9 million in loans 220,023 deposit accounts / EUR 341.9 million 1,955 employees	131, Hristo Botev Blvd. Sofia 1233 Tel./Fax: +359 2 813 51 00 / 51 10 contact@procreditbank.bg www.procreditbank.bg
ProCredit Bank Georgia	Founded in May 1999 58 branches 66,083 loans / EUR 221.8 million in loans 364,742 deposit accounts / EUR 126.1 million 1,815 employees	154 D. Agmashenebeli Ave. 0112 Tbilisi Tel./Fax: +995 32 20 2222 / 24 3753 info@procreditbank.ge www.procreditbank.ge
ProCredit Bank UNMIK/Kosovo	Founded in January 2000 60 branches 98,366 loans / EUR 439.6 million in loans 402,214 deposit accounts / EUR 570.0 million 1,158 employees	“Mother Tereze” Boulevard No. 16 10 000 Prishtina Tel./Fax: +381 38 555 777 / 248 777 info@procreditbank-kos.com www.procreditbank-kos.com
ProCredit Bank Macedonia	Founded in July 2003 40 branches 35,493 loans / EUR 129.1 million in loans 129,687 deposit accounts / EUR 127.6 million 791 employees	Bul. Jane Sandanski 109a 1000 Skopje Tel./Fax: +389 2 321 99 00 / 01 info@procreditbank.com.mk www.procreditbank.com.mk
ProCredit Moldova	Founded in December 1999 13 branches 13,221 loans / EUR 23.5 million in loans 175 employees	65, Stefan cel Mare Ave. office 900, Chisinau Tel./Fax: +373 22 836555 / 273488 office@procredit.md www.procredit.md
ProCredit Bank Moldova	Founded in December 2007 17 branches 2,973 loans / EUR 8.7 million in loans 9,226 deposit accounts / EUR 5.1 million 350 employees	65, Stefan cel Mare Ave. office 901, Chisinau Tel./Fax: +373 22 836555 / 273488 office@procreditbank.md www.procreditbank.md
ProCredit Bank Romania	Founded in May 2002 40 branches 41,948 loans / EUR 214.0 million in loans 142,379 deposit accounts / EUR 148.1 million 1,121 employees	62-64 Buzesti Str., Sector 1 011017 Bucharest Tel./Fax: +40 21 2016000 / 305 5663 headoffice@procreditbank.ro www.procreditbank.ro
ProCredit Bank Serbia	Founded in April 2001 86 branches 133,043 loans / EUR 453.3 million in loans 478,745 deposit accounts / EUR 332.3 million 2,058 employees	Milutina Milankovica 17 Belgrade Tel./Fax: +381 11 20 77 906/ 905 info@procreditbank.rs www.procreditbank.rs
ProCredit Bank Ukraine	Founded in January 2001 74 branches 45,858 loans / EUR 262.6 million in loans 105,656 deposit accounts / EUR 122.8 million 2,035 employees	107a Peremogy Ave. Kyiv 03115 Tel./Fax: +380 44 590 10 17 / 01 info@procreditbank.com.ua www.procreditbank.com.ua

* The figures in this section have been compiled on the basis of the financial and operational reporting performed in accordance with group-wide standards; they may differ from the figures reported in the bank's local GAAP statements.

Highlights in 2008

- ProCredit Bank expanded its loan portfolio by 21.3% to RSD 40 billion (EUR 450 million), with the number of loans outstanding rising by 11.6% to over 113,000. One third of all companies in Serbia were using loans from ProCredit at year-end, confirming its position as the leading banking partner for small businesses.[1]

- The bank opened a new head office building in New Belgrade, the financial and business centre of the capital. To mark the occasion, we launched our corporate slogan: “Ordinary people. Great achievements.” This emphasises the bank’s commitment to providing responsible banking services to its target groups.

- For the third consecutive year, ProCredit Bank presented businesses awards to the most successful enterprises in Serbia. Named after our range of tailored loans for clients in the agricultural sector, we introduced the “ProAgro Leader” category for outstanding rural producers. The farmers honoured won a trip to Slovenia to visit one of the most important agricultural fairs in the region, giving them an opportunity to meet and share experiences with producers in the EU.

- In line with our efforts to strengthen ProCredit Bank’s presence in smaller towns and rural areas and make it easier for clients to access our services, we opened 19 branches across the country.

- ProCredit Holding, the bank’s majority shareholder, further increased its stake in ProCredit Bank Serbia by acquiring the 16.67% share held by the European Bank for Reconstruction and Development.

- We continued to organise and participate in projects to improve the quality of life in the communities we serve. Our neighbourhood

[1] Serbian Business Registers Agency: www.apr.gov.rs

activities this year included blood donation drives, the renovation of playgrounds and children's day care centres, and various initiatives involving the donation of IT equipment to schools and medical practices in smaller towns.

- As a part of our ongoing management training activities, the institution's first group of participants graduated from the ProCredit Academy in Germany, having successfully completed its three-year part-time professional development programme.

- ProPlus, the company established to facilitate the purchase of shares in ProCredit Holding by staff members, carried out its second capital increase in 2008. Forty more bank employees joined ProPlus this year.

Management Business Review

Executive Board
from left to right:

Mirjana Zakanji
Member of the Executive Board

Dörte Weidig
Chairperson of the Executive Board

Svetlana Tolmacheva
Member of the Executive Board

Political and Economic Environment

Under the provisions of the new constitution adopted in 2007, presidential elections were held in January 2008. Due to irreconcilable divisions in the ruling coalition regarding the status of Kosovo and EU membership, the government collapsed in March. The prime minister resigned as a result and parliamentary elections were brought forward to May. This inevitably postponed the state budget, causing uncertainty among local businesses and delaying many contracts involving public companies.

The new coalition government, which was established in June, ratified the Stabilisation and Association Agreement with the EU Council in the same month, signalling a possible future for Serbia in the EU. The actual award of candidate status could be delayed until 2010, however, due to opposition among some EU member states which feel that Serbia is not co-operating fully with the International Criminal Tribunal for the former Yugoslavia. Nonetheless, the country's parliament and government have pledged to work to adopt and implement a new legal framework that should accelerate the process of complying with EU regulations.

After unsuccessful negotiations during 2007, Kosovo, which had been administered by the United Nations, proclaimed its independence from Serbia in February. This led to public discontent and a diplomatic reaction to the decisions of most EU countries and the United States to support Kosovo's independence. However, this controversy is not expected to affect Serbia's future application for EU membership.

Despite the constraints created by a sometimes difficult political situation, the Serbian economy continued to grow in 2008. Real GDP rose by 6.1%, which was similar to the growth rate in neighbouring countries. This increase was driven primarily by growth in the telecommunications, transport, banking and construction sectors. Imports continued to outpace exports, and the overall current account deficit stood at 17.3% of GDP at the close of 2008.[1]

Average annual consumer price based inflation remained high at 11.7%.[2] External factors, such as the increase in oil and natural gas prices, particularly during first three quarters, contributed to inflationary pressures, but so did an expansionary fiscal policy, growth in public spending and rising prices for agricultural products.

Although the financial sector was not greatly impacted by the U.S. subprime mortgage collapse and the ensuing global financial crisis, the downturn in developed countries will impact the local economy. GDP growth in 2009 will be lower than previously forecast and foreign direct investment is likely to decline. The latter effect was already evident during the second half of 2008, as the pace of privatisation slowed and the sales of large state-owned enterprises were postponed.

The Serbian government signed a contract with Gazprom at the end of the year to sell it a 51% stake in the Serbian Oil Industry (NIS), which is one of the largest state-owned companies with over 12,000 employees and an annual turnover of EUR 3.2 billion.[3] The conditions of the contract require investments geared towards modernising the company's production facilities, protecting the environment and improving conditions for employees.

Financial Sector Developments

The National Bank of Serbia (NBS) continued its tight monetary policy in an effort to control inflation and stabilise the overall macroeconomic environment. Minimum reserves for banks' foreign currency liabilities remained at a very high level, and equity requirements were significantly increased in an attempt to rein in consumer lending. These measures resulted in a high average capital adequacy ratio of 21.9%.[4] As it sought to achieve its inflation targets and boost the share of investments denominated in RSD, the NBS increased its reference interest rate six times in 2008: it had reached 17.75% by the end of December.[5]

---

[1] IMF, World Economic Outlook, April 2009
[2] Serbian Bureau of Statistics, www.webrzs.statserb.sr.gov.yu, Press release, January 2009
[3] Business Registers Agency, www.pretraga.apr.gov.rs
[4] NBS, http://www.nbs.yu/export/internet/latinica/55/55_4/kvartalni_izvestaj_IV_08.pdf, 31 December 2008
[5] NBS, Review on NBS Money Market Interest Rates, March 2009

Banks in Serbia remained focused on the local market in both lending and deposit mobilisation and suffered no direct losses from the financial crisis. Media coverage of the crisis, however, led to widespread public uncertainty and an outflow of foreign currency deposits during October and November. This put additional pressure on the local currency, which depreciated against the euro by 15.5% between October and December.[6] The measures taken by the NBS had ensured high minimum reserves and capital adequacy, however, and banks had sufficient liquidity to meet withdrawal requests during the bank run. Consequently, the deposit base showed signs of recovery towards the end of December.

A total of 34 banks were operating in Serbia at the end of 2008. Given the outflow of deposits and a contraction of credit operations in the fourth quarter as funding sources became more expensive, total assets in the banking sector showed year-on-year growth of 13.8%, reaching RSD 1.8 trillion (EUR 20.3 billion).[7] The five largest institutions controlled 46.2% of total sector assets.[8]

The aggregate loan portfolio increased by 35.0% over the year.[9] Even more significant was the increase in cross-border lending, which reached its peak in mid-2008: mainly through strong cross-border lending activities, local banks increased their off-balance sheet assets by 36.8%.[10] The relatively strong growth of the aggregate loan portfolio in the context of macroeconomic instability led to an increase in the rate of arrears. The portfolio at risk (over 15 days) for business loans at the level of the banking sector rose to 13.7%, while for loans to private individuals (over 60 days) it was 4.8%.[11]

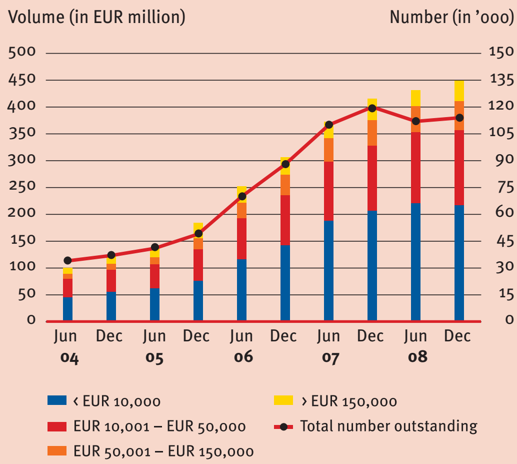
Following heavy withdrawals in the final quarter, total deposits from private individuals and non-financial institutions increased year-on-year by only 1.7%. The level of financial intermediation remained stable: private loans were equal to 33.0% of GDP, and deposits in the banking sector amounted to 33.3% of GDP.[12]

ProCredit Bank expanded in line with market trends. It ranked 11th in terms of total assets and 9th in terms of loan portfolio volume with a 3.9% market share in loans to customers. The bank ranked 8th in deposits with a market share of 3.9%.[13]

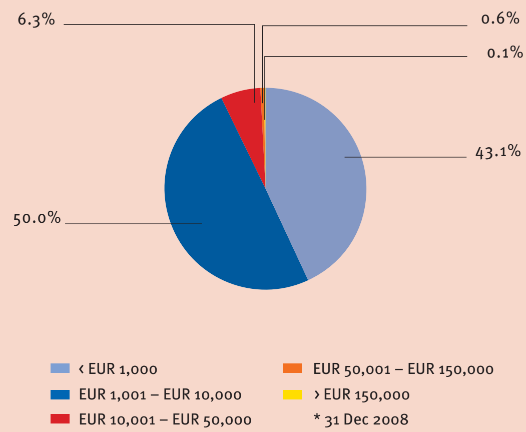
---

6 NBS, www.nbs.rs/internet/english/scripts/ondate.html 1.10.2008: 76.735; 31.12.2008: 88.601
7 NBS, Statistical Bulletin, February 2009
8 NBS, http://www.nbs.yu/export/internet/latinica/55/55_4/kvartalni_izvestaj_IV_08.pdf, 31 December 2008
9 NBS, Statistical Bulletin, February 2009
10 NBS, http://www.nbs.yu/export/internet/latinica/55/55_4/kvartalni_izvestaj_IV_08.pdf, 31 December 2008
11 ibid.
12 NBS, Financial Stability Report, Q.III 2008
13 NBS, www.nbs.rs/export/internet/english/50/50_5.html, 31 December 2008

Loan Portfolio Development



Number of Loans Outstanding – Breakdown by Loan Size*



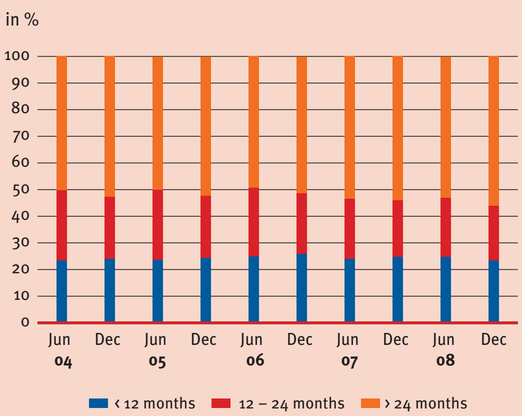
Lending Performance

ProCredit Bank expanded its loan portfolio in 2008 with a continued focus on its main target groups of small and medium-sized enterprises and agricultural producers. By year-end, the outstanding loan volume had increased by 21.3% to RSD 40 billion (EUR 450 million); the number of loans outstanding had increased by 11.6% to over 113,000. Reflecting our commitment to serving small-scale operations, the average loan size was RSD 350,300 (EUR 3,950).

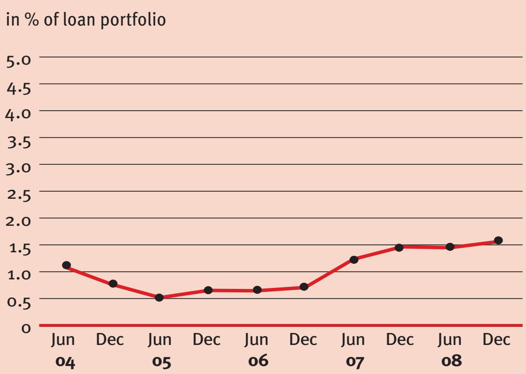
In the business lending segment, the portfolio grew by 16.8% to reach RSD 23 billion (EUR 263 million). Small loans of up to EUR 10,000 contributed for 21.7% of the portfolio volume; in terms of numbers, this segment received 21.3% of all loans disbursed in 2008. Thanks to our simple procedures and minimal documentation requirements, we were able to limit the processing time for very small loans to less than two days.

Outstanding loans to businesses in amounts between EUR 10,000 and EUR 50,000 totalled RSD 8 billion (EUR 90 million), representing a year-on-year increase of 23.3% in this segment. The SME portfolio (amounts over EUR 50,000) grew at a somewhat slower rate of 11.0% to reach RSD 7 billion (EUR 76 million). In line with our objective of providing products that are optimally suited to our borrowers' needs, we introduced local currency loans with maturities of up to 60 months for business clients.

Business Loan Portfolio – Breakdown by Maturity



Loan Portfolio Quality (arrears >30 days)



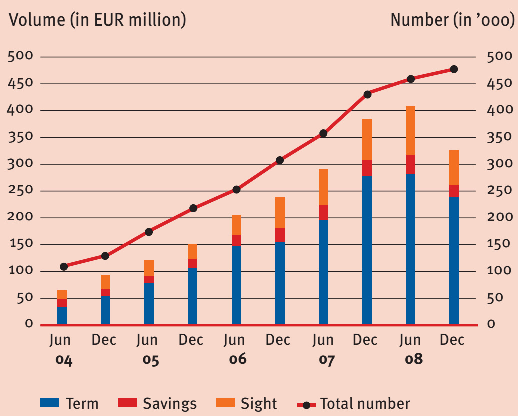
Net write-offs: in 2004: EUR 294,201; in 2005: EUR 612,741; in 2006: EUR 929,437; in 2007: EUR 2,169,502; in 2008: EUR 4,812,045

ProCredit Bank recognises that agricultural production is of great importance for the development of Serbia's rural areas. During 2008, we disbursed more than 18,900 agricultural loans totalling RSD 5.7 billion (EUR 65 million) for investments in working capital, machinery, livestock and land. The outstanding agricultural loan portfolio grew by 28.5% to RSD 9 billion (EUR 103 million). In August, the bank joined a national programme for subsidised agricultural lending which is being implemented in co-operation with the Ministry of Agriculture. It focuses on long-term investments in mechanisation, livestock, irrigation systems and the development of vineyards and orchards.

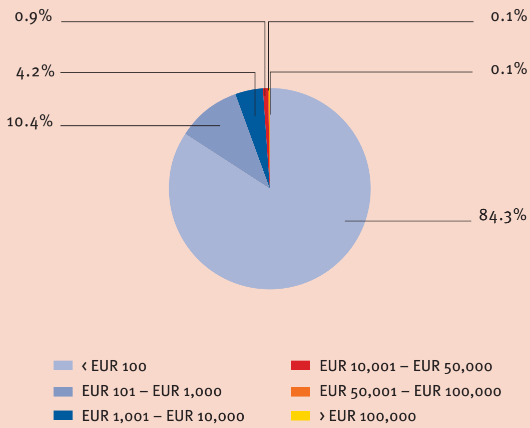
ProCredit Bank offers a range of housing improvement loans, with an emphasis in this segment on increasing borrowers' overall standard of living while promoting energy efficiency. We disbursed 5,120 such loans in 2008 to enable clients to purchase, build or improve their houses and business premises; this segment of the portfolio increased by 38.7% to RSD 3 billion (EUR 39 million), and represented 8.6% of the gross portfolio at year-end.

As a socially responsible financial institution, ProCredit Bank does not actively promote consumer lending. Upon request from clients with a salary, however, it does approve consumer loans following careful assessment of the applicant's debt capacity. The combined volume of consumer loans, overdrafts on private individual accounts and outstanding credit card debt stood at RSD 4 billion (EUR 45 million), representing 10.1% of the total loan portfolio.

Customer Deposits



Number of Customer Deposits – Breakdown by Size*



* 31 Dec 2008

Despite considerable expansion, loan portfolio quality remained high in 2008. Our portfolio at risk (PAR, loans in arrears over 30 days) was equal to 1.56% of the total portfolio at year-end, a marginal increase over the previous year (2007: 1.46%). At 172% of the PAR, loan loss provisions were sufficient to cover the bank's exposures. We attribute our success in keeping arrears at an acceptable level primarily to the effectiveness of our lending methodology – which includes an analysis of each applicant's ability to meet repayment obligations – and the dedicated efforts of our well-trained and motivated credit staff.

Deposits and Other Banking Services

ProCredit Bank continued to attract deposits from a diverse client base in 2008. Following media coverage of the turmoil in global financial markets, however, customers began to make large-scale withdrawals in October, and this trend continued well into the final quarter. Recognising the importance of trust, our employees invested a significant effort in informing clients about the soundness of ProCredit Bank, and thus of the security of their funds. Not only did we meet all deposit requests; the deposit base had begun to stabilise by the end of the year.

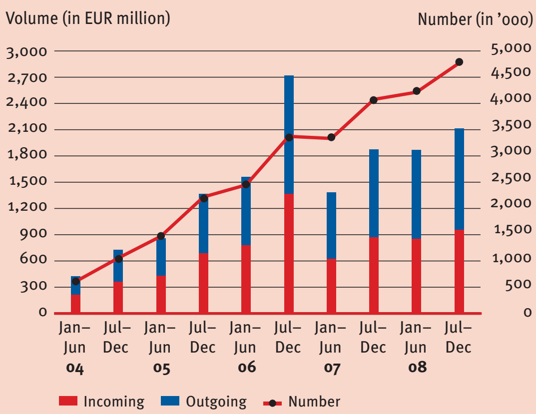
The total deposit volume amounted to RSD 30 billion (EUR 343 million) on December 31, a year-on-year decrease of 1.8%. Private individuals' deposits accounted for 60.1% of the deposit base, while legal entities and institutions contributed 36.9%. The bank maintains a total of 478,745 deposit accounts; underscoring our continued focus on serving lower-income households, the average balance at the end of 2008 was around RSD 63,500 (EUR 720).

As in previous years, the bank's strategy for attracting deposits was based on the cultivation of long-term relationships with our clients through personal contact. Branches organised direct promotions and financial education events to highlight the advantages of saving and to provide transparent information on various deposit options. Together with an excellent standard of customer care, these factors enabled us to bring the total number of deposit clients to over 208,000.

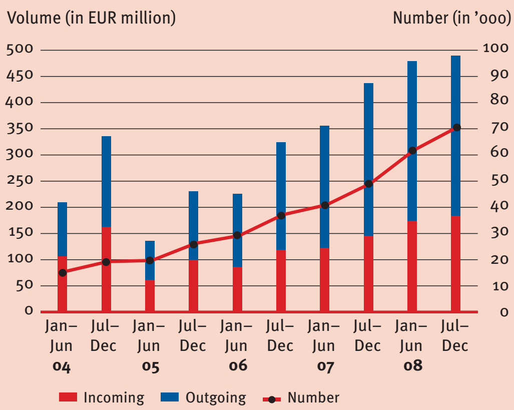
With our broad range of flexible savings products, we were well positioned to meet clients' specific needs, as was reflected in the increase in the total number of savings accounts to 110,300.

We made a concerted effort to boost the number of clients who have their salaries paid into their accounts at ProCredit Bank. The bank offered a special package of services, including lower loan interest rates and an overdraft facility, to customers who began using our electronic salary payment facility in 2008. As a result, the number of such clients increased to almost 40,000. We also promoted the prudent use of debit and credit

Domestic Money Transfers



International Money Transfers



cards, bringing the total number of cards in circulation to 107,000 – a year-on-year increase of 8.7%.

The average number of card transactions grew by 40.7% to almost 185,000 per month. We also installed an additional 37 ATMs throughout the country, bringing the total number to 141: over 1 in 20 ATMs in Serbia is now operated by ProCredit Bank.

ProCredit Bank endeavours to provide an excellent quality of service that meets the needs of all its customers: The bank's new call centre had received over 160,000 calls by December 31, demonstrating the high level of demand for this service. Moreover, with 40 teller cash recyclers installed in the branches, we were able to further increase efficiency, allowing branch staff to devote more time to building strong relationships with our clients.

Both domestic and international payments grew rapidly in 2008. Domestic money transfers rose by 22% to RSD 360 million (EUR 4 million), and by 51.9% in terms of numbers. 21.2% of all such payments, some 1.9 million transactions, were executed through the e-ProBanking service. International money transfers grew by 22% in volume terms and by 49% in numbers.

Financial Results

The banking environment in 2008 was characterised by intense competition in the local market and declining trust on the part of depositors after the international financial began to attract increasing media attention. in the mass media. The increase in competition both inflated the rates offered on deposits and brought down interest rates on loans. At the same time, the NBS adopted more restrictive policies on mandatory reserves and capital adequacy.

Against this background, ProCredit Bank expanded its loan and deposit portfolios in the first part of 2008, although the rate of year-on-year growth was somewhat slower than in 2007. From the beginning of October, however, operations became more challenging: in view of global developments, depositors made significant withdrawals nationwide. With a good communication strategy and a well-earned reputation for responsible banking, ProCredit Bank was able to reassure its savings clients and reduce the rate of withdrawals.

In the face of mounting uncertainty, loan customers became more cautious and hesitated to apply for loans even though their businesses were in need of capital. Most banks reduced their lending activities when it became more expensive to source funding. Some banks went so far as to halt credit operations, but ProCredit Bank was one of the few institutions that continued disbursing loans to eligible customers.

Despite the increasingly difficult conditions it faced in the market, the bank's total assets increased by 7.6% in 2008, reaching RSD 66.4 billion (EUR 749.5 million). This growth was mostly driven by strong portfolio expansion: the loan portfolio exceeded RSD 39.9 billion (EUR 450 million) at year-end.

The NBS required banks to hold the equivalent of their foreign currency reserves in local currency in December, which forced ProCredit Bank to borrow local currency funds from local banks. Although these funds were not used for lending activities, they altered the year-end funding structure. On December 31, 74.6% of the loan portfolio was funded by customer deposits, a decrease from 94.6% in 2007. Long-term financing from international financial institutions and bonds issued by the bank were ample to compensate for this decline.

Total operating income grew by 27.3% to reach RSD 4.4 billion (EUR 49.9 million). Net interest income generated 74.1% of this amount and showed a slight decrease from 75.9% in 2007, largely because of higher interest expenses in the second half of the year. The remaining 25.9% was generated by fees and commissions, which rose by 5.3% to RSD 1.1 billion (EUR 12.8 million).

To support our operational growth, we added 19 branches to our network in 2008 and hired a further 332 members of staff. This extensive institutional growth brought total operating costs to RSD 3.9 billion (EUR 43.9 million), and the cost-income ratio rose from 74.9% in 2007 to 78.0%. However, these outlays created the foundation for further development in the years to come, and demonstrate the long-term commitment of ProCredit Bank to serving its clients.

The bank carried out capital increases in March and June in the amounts of EUR 10 million and EUR 24 million respectively, boosting its total share capital by 79.5% to RSD 8.6 billion (EUR 97.5 million). ProCredit Bank closed the year 2008 with a capital adequacy ratio of 18.4% (2007: 15.2%). With excess liquidity in the first two quarters, the bank repaid EUR 25 million in debt securities it had issued during 2007.

In its financial statements, which are prepared in accordance with IFRS, the bank recorded a net profit of RSD 616 million (EUR 6.9 million), a slight increase of RSD 68 million (EUR 761,700) in comparison to 2007. This result reflects an annual depreciation of the local currency, which lost almost 25% of its value against the euro during 2008, and new minimum reserve regulations. Following a large capital injection during the year, the financial result translated to a return on equity of 9.2% (2007: 13.4%).

Outlook

The Serbian economy will continue to face many challenges in the coming years. At a political level, internal reforms are still necessary to comply with EU regulations, while in macroeconomic terms stability and development have been impacted by the global economic downturn. Many lending institutions therefore expect to reschedule a larger number of outstanding loans in 2009.

The rate of inflation is likely to be fuelled by high levels of domestic consumption. Additionally, in the absence of a clear strategy to increase exports, the current large trade deficit will remain an economic concern. Given the low level of export revenues and a lack of foreign direct investment, the continued depreciation of the local currency remains the greatest hazard for local producers. That said, a 15-month stand-by deal with the IMF has secured EUR 450 million to stabilise the economy should foreign investments suddenly dry up.

In an attempt to grow their assets, many banks are likely to adopt aggressive pricing strategies to attract deposits and disburse loans. Now that the housing market has become stagnant, some institutions may target the SME sector as an alternative source of business.

ProCredit Bank will continue to support its core target group of small and medium-sized businesses with the aim of promoting their sustainable development. As always, we will conduct a careful assessment of each client's financial situation in order to prevent them from becoming overly indebted. We are confident that our reputation as a sound financial institution that offers transparent services sets us apart from other commercial banks. Our emphasis on building long-term client relationships allows us to offer useful and reliable advice; we are also highly involved in the local community and will continue to undertake financial education initiatives and neighbourhood improvement projects in 2009.

With a large branch network already established, the bank will focus on customer care and staff efficiency in the coming year. Our managers will endeavour to integrate all new recruits into the ProCredit team, ensuring that they share the philosophy that underpins the bank's mission. By putting our corporate values into practice, our motivated staff will be the key to our sustainable growth in 2009 and beyond.

Special Feature

Promoting Agriculture, Recognising Hard Work and Dedication

ProCredit Bank has offered tailored credit services to the agricultural sector for over six years. To highlight the importance of rural production, the bank established a new category in its third annual business awards for Serbian enterprises in 2008. The “ProAgro Leader” is a prize awarded to farmers who invest wisely in the development of their operations and achieve the best yields. ProCredit Bank named the award after its own range of agricultural credit products: ProAgro loans.

The goal was to give outstanding farmers the public recognition they deserve for their hard work, dedication and entrepreneurial spirit, and for their contribution to local economic growth. Invitations to participate in the awards programme were sent both to clients of ProCredit Bank and to other agricultural households in the country via an extensive marketing campaign. More than 200 individual producers took part in the competition, which offered three prizes each in the categories of very small, small and medium-sized operations.

The jury was composed of representatives from the bank, the media, the Ministry of Agriculture and the European Agency for Reconstruction, the organisation responsible for managing the main EU assistance programmes in Serbia. They formed an overall impression of each entrant’s business based on its relative level of productivity and the soundness of its strategy. The top three candidates in each category were awarded the title of “ProAgro Leader”, recognising their position at the forefront of farming innovation in Serbia.

The prize for the nine winners was a five-day trip to Slovenia organised in co-operation with the Faculty of Agriculture at the University of Belgrade. Accompanied by two members of the bank's agricultural credit staff, they stayed at a rural guesthouse where they were able to meet local farmers and exchange ideas and experiences at one of the best-known agricultural events in Slovenia, the International Agricultural and Food Industry Fair in Gornja Radgona. The group also visited the Faculty of Agriculture and Life Sciences at the University of Maribor. *"I am extremely pleased that the bank took this extra step to support rural businesses like my own. It would be an excellent idea if this kind of educational trip became a tradition,"* commented Milomir Stojic, one of the participants. The importance of strong rural networks was a main focus of the fair, and all nine farmers have remained in close contact since the trip, meeting on occasion to discuss the scope for co-operation in their business activities.

Serbia is working towards joining the European Union, and visiting Slovenia provided the farmers with a preview of how the changes which EU membership could bring to the agricultural sector might improve their situation. With over 300,000 registered agricultural households and 4.2 million hectares of suitable farmland, Serbia has vast potential for rural development. Indeed, agriculture already accounts for approximately 10% of GDP. Recognising the importance of this sector, ProCredit Bank has been providing a full range of banking services to agricultural clients since 2002. At the end of 2008, the bank was serving more than 20,000 rural enterprises, and the outstanding agricultural loan portfolio consisted of 34,000 loans totalling RSD 9 billion (EUR 103 million). Over one hundred specialised agricultural lending officers are based at 49 branches in all parts of the country.

The "ProAgro Leader" award gives the bank an opportunity to acknowledge the contribution made by rural producers to economic development. By recognising outstanding farmers, ProCredit Bank hopes to promote increased public awareness and appreciation of that contribution, and of farmers as hard-working, valuable members of their communities.

Risk Management

As a rapidly growing institution, ProCredit Bank Serbia places a particularly high priority on implementing sound risk management practices. This includes well-documented processes, appropriate control mechanisms and extensive ongoing training to heighten employees' risk awareness. Our staff at all levels share a culture of internal and external transparency and are committed to the high ethical standards outlined in the bank's Code of Conduct.

The bank's low risk profile is determined to a large extent by the nature of its business operations, as defined in its corporate mission statement. We do not engage in speculative or proprietary trading activities, focusing instead on offering a broad range of straightforward, transparently priced products to a clientele consisting of thousands of small businesses and lower-income households throughout the country. This helps to ensure a high degree of diversification in both assets and liabilities.

The Board of Directors and the Executive Board have primary responsibility for the approval and application of all risk management policies at ProCredit Bank. Responsibility for monitoring the various types of risk is borne by four committees: the Credit Risk Committee, the Assets and Liabilities Committee (ALCO), the Operational Risk Committee and the Information Security Committee. The role of identifying, measuring and reporting risks is assigned to the Risk Department, which acts as an advisory body to the bank's management. It provides detailed analyses of risk exposures and recommendations for risk mitigation strategies.

The Internal Audit Department is an integral part of institutional risk management and ensures compliance with policies and internal control systems in all areas of operations, including branches. Independent in its activities, it reports directly to the Audit Committee, detailing all potential risks it identifies, including potential cases of fraud.

Credit Risk

ProCredit Bank has a prudent system in place for the management of credit risk covering all stages of the lending process. The bank individually analyses the creditworthiness of each loan applicant by means of a detailed credit analysis. This assessment includes financial data and performance indicators, the proposed application of the loan funds and the projected profitability of the applicant's business.

The bank disburses loans following credit committee approval. Loan officers then monitor their clients' repayment behaviour and the financial performance of their businesses. Credit staff also continuously observe macroeconomic trends and changes in relevant laws to identify potential adverse implications for clients' business activities, and thus for portfolio quality.

One of our key principles in credit risk management is to ensure that the portfolio is broadly diversified with regard to loan amounts and in terms of its sectoral and regional breakdown. At the close of 2008, 89.6% of all loans outstanding were for amounts of less than EUR 10,000. Reflecting our focus on small-scale businesses, the average outstanding loan amount was around RSD 350,300 (EUR 3,950).

ProCredit Bank's approach to credit risk management enabled it to maintain good loan portfolio quality: The portfolio at risk (volume of loans in arrears by more than 30 days) was 1.56% of the overall loan portfolio at year-end, up by 10 basis points from 2007. Net write-offs for 2008 amounted to 1.95% of the total portfolio, and the Legal Department is working to recover these loan losses. The bank takes a conservative approach to allowing for loan impairment which underscores its prudence in lending: year-end provisions were equal to 172% of the portfolio at risk.

We have always had a strong focus on portfolio quality at ProCredit Bank, but new measures are necessary to minimise the increased credit risk caused by recent macroeconomic instability. To this end, the bank has updated its lending procedures to support sustainable portfolio quality. Intensive training is provided to all credit staff to increase risk awareness, and the bank will continue to support its clients in a more challenging environment by adapting its product range. Portfolio monitoring activities are already being carried out on a more intensive scale.

Market Risk

Overall exposure to market risk is low since the bank does not engage on a large scale in high-risk operations such as consumer financing and lending to the real-estate sector; neither does it conduct proprietary trading or speculative transactions of any type. Management of market risk focuses on reducing the potential adverse effects of movements in interest and exchange rates on the bank's income and equity.

The bank manages risks arising from changes in market interest rates by achieving an appropriate balance between the maturity structure of its interest-bearing assets and liabilities. To measure interest rate risk exposure, the bank uses a modified duration gap analysis combined with scenario analysis. It also uses interest rate swaps to match the interest rate structure of its assets and liabilities.

Risks arising from exchange rate fluctuations are minimised by keeping open currency positions at low levels. As the bank operates in various currencies, a low open currency position reduces the possible negative effects of exchange rate fluctuations on its income and its equity, which is kept in RSD. The bank also uses currency swaps to further decrease the level of currency risk.

Liquidity Risk

The ALCO monitors all aspects of the institution's liquidity performance on a weekly and monthly basis. This involves analysing the maturity structure of the bank's balance sheet, reviewing loan repayments, preparing liquidity projections and conducting cash flow scenario analyses.

The bank maintained a high liquidity level throughout the year which consistently exceeded the regulatory requirement. The average ratio of total liquid assets to customer liabilities was 88.7%, and customer withdrawal requests were met without complication when public confidence in the banking system was shaken by media coverage of the international financial crisis during the final quarter.

At year-end, the bank had a loans-to-deposits ratio of 137.5%. Customer deposits made up 49.8% of total liabilities and were spread across over 478,700 accounts. Reflecting our focus on mobilising deposits from lower-income households, the average balance was around RSD 63,500 (EUR 720).

In addition to income from loan instalments, which are typically paid on a monthly basis, long-term financing from ProCredit Holding and international financial institutions provided a secure source of funding for the bank's lending operations. Capital increases totalling RSD 3 billon (EUR 34 million) were carried out in 2008 and were a further guarantee of the bank's stable liquidity position.

Operational Risk

ProCredit Bank is regularly exposed to new operational risks due to the continuing growth of its staff, its increasing use of information technology, and the fact that it often introduces new products and services.

We have established a framework for managing operational risk that includes the requirement that all major transactions must be approved by two authorised employees. All processes are well documented and are subject to review by the Internal Audit Department. Moreover, intensive staff training ensures that employees in all positions are properly qualified and understand the importance of a risk-aware approach in their respective duties.

During 2008, the bank upgraded its system for identifying and reporting on operational risk events with a new series of operational risk indicators. The updated central risk event database documents actual losses, near losses and expected causes of future revenue losses.

Capital Adequacy and Risk Bearing Capacity

A key principle of our risk management strategy is to ensure that we always have sufficient capital to adequately cover all risks. The ProCredit group requires maintenance of a capital adequacy ratio (calculated as regulatory capital divided by total assets weighted by credit and market risks) of at least 12%, which is also in line with the requirements of the National Bank of Serbia. At year-end, ProCredit Bank's capital adequacy ratio was 18.4%, compared to 15.2% at the end of 2007. This underscores our shareholders' commitment to ensuring that sufficient capital funding is available at all times to support the bank's operations and to sustain its continued growth.

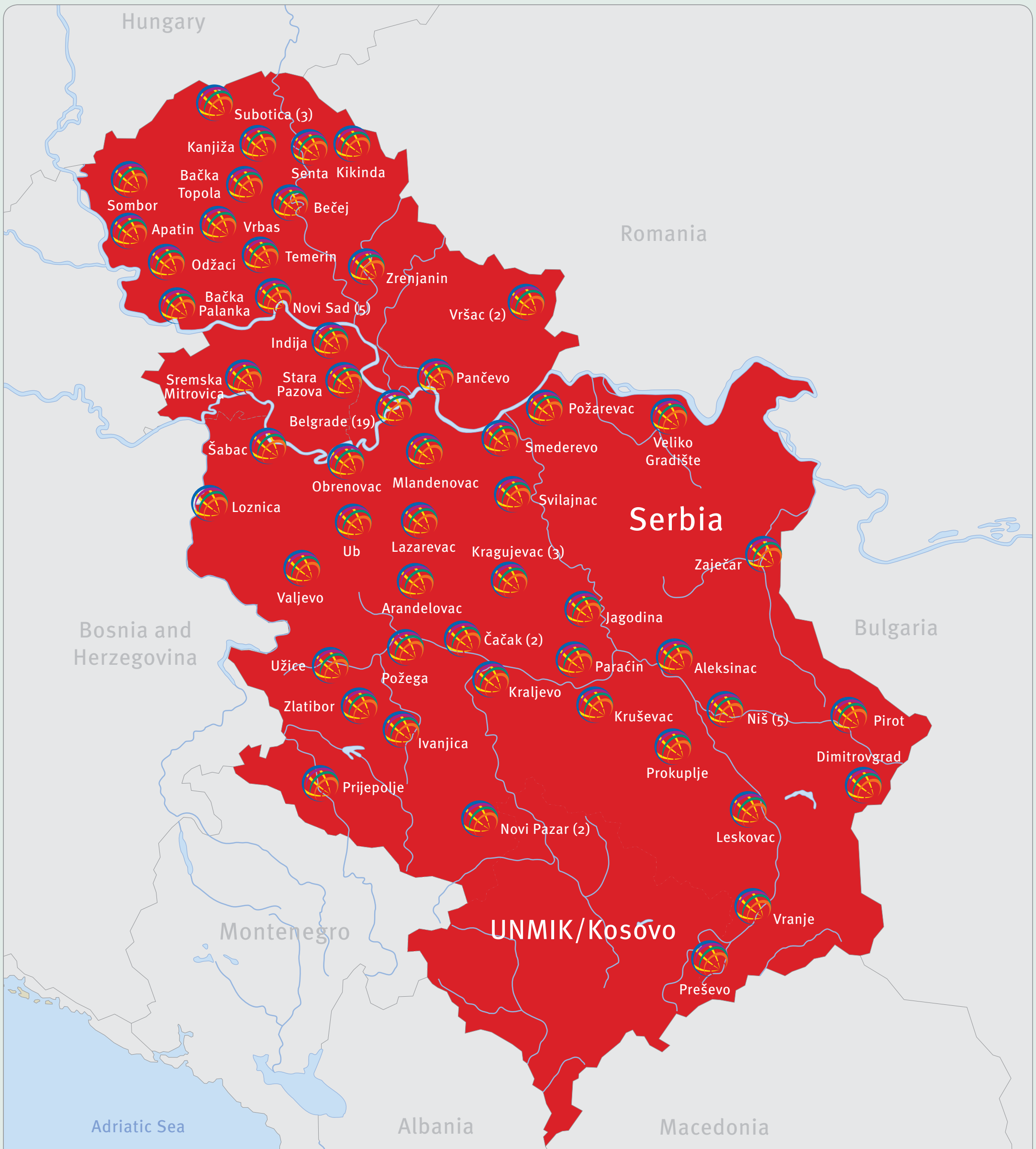
Branch Network

ProCredit Bank expanded its branch network during 2008 with the dual aim of bringing its services to new customers in areas it had not previously served and making it more convenient for existing clients to reach their local branch. To this end, we entered ten new markets and strengthened our presence in five cities. The total number of branches in the network rose from 67 to 86; the bank now has a presence in 53 cities and towns throughout Serbia.

In extending our outreach to new areas, we targeted northern Serbia, where the local economy is based primarily on agriculture. Branches in this region were opened in Apatin, Odžaci, Bačka Topola and Kanjiža. ProCredit Bank also expanded its network to cover Ub and Veliko Gradište in the Belgrade region; Paraćin and Dimitrovgrad in southern Serbia; and Požega and Zlatibor in the central part of the country.

We opened five new branches in Belgrade as well as additional branches in four cities where we recognised good growth potential. We also renovated 17 branches in towns throughout Serbia to provide a more attractive environment in which to serve our clients.

ProCredit Bank Serbia celebrated its seventh year of operations in 2008, a year which also saw the completion of our new head office building in New Belgrade, the financial and business centre of the capital. The new building is painted in our corporate colours and has large windows that un-



derscore our commitment to transparency. This design helps to convey the message that our approach to banking is different from that of conventional banks. The new head office not only enhances ProCredit Bank's image, it also improves the flow of information given that the headquarters staff are now all housed in a single building.

Our focus in the coming year will be on strengthening ProCredit Bank's presence in the Belgrade region in line with the overall business strategy to increase the scale of retail operations in urban areas. By maintaining an excellent level of customer care and offering attractive deposit options and other banking services without unnecessary restrictions, we aim to raise our profile as the neighbourhood bank in Serbia.

Organisation, Staff and Staff Development

ProCredit Bank grew significantly in 2008 and increased its staffing levels in line with the rapid pace of branch network expansion. We hired more than 330 people, bringing the total number of employees to 1,860. In order to fully integrate so many new recruits into our team and meet the professional development needs of existing staff, we conducted over 400 training events comprising 2,000 training days – more than double the number in 2007. An investment of over RSD 63 million (EUR 0.75 million) in this area reflects our firm belief that our success as an institution depends primarily on the skills and knowledge of our staff.

In our recruiting efforts, we faced the difficult challenge of finding people who, as well as being qualified, were motivated and quick to learn, and who could identify with our value-driven approach to business. Our proven strategy of providing intensive introductory training to the best candidates led to the successful integration of over 150 loan officers, 100 client advisers and 50 back-office support staff. Additionally, a sales and customer care training team was established within the Training and Development Department to enhance the skills of new and experienced front-office branch staff in these crucial areas.

The bank once again relied exclusively on internal training resources to carry out its extensive staff development programme in 2008, an approach that facilitates discussions of corporate values and the institution's distinctive philosophy as an integral part of all training activities. Seminars and forum meetings were led either by full-time trainers or by guest coaches from head office departments and branches.

Our long-term investments in higher level training continued throughout the year. Management personnel attended in-house events and also took part in the courses at the ProCredit Regional Academy for Eastern Europe in Macedonia and the ProCredit Academy in Germany. We were especially pleased to see the first group of managers from our bank graduate from the three-year programme in Germany: six managers earned their “ProCredit Banker” diplomas.

English is the working language within the ProCredit group, and it is becoming increasingly important for our higher-level staff to have a good command of this language. The bank offers regular local lessons and ProCredit Holding runs an English language in Germany for the benefit of middle managers. During 2008, eight members of our team attended its eight-week courses, which are geared to improving the participants’ command of both written and spoken English and fostering an exchange of ideas between staff in the group.

One of the many advantages our staff enjoy by working for an institution that is part of an international banking group is the opportunity to visit other countries; this allows them to get to know colleagues from different cultures and exchange experiences. In 2008, for example, a group of our best-performing loan officers spent two weeks visiting a number of ProCredit institutions in Latin America and Africa.

ProCredit Bank offers a range of benefits to its employees to enrich both their personal and professional lives. These benefits include private health insurance, sponsored recreational activities and gifts for employees’ children, including all newborn babies. Additionally, all staff members have access to tailored loans and non-credit banking services.

The positive atmosphere that is created because the entire team embraces the values and corporate culture makes daily work at ProCredit Bank more enjoyable and rewarding. Accordingly, branches and departments are given an opportunity to devote time each month to team-building activities. The bank’s traditional annual sports weekend was organised on a regional basis in 2008: separate events were held for the staff in each of the bank’s four regions. The head office employees joined in with events organised by the central region, which gave them an opportunity to become better acquainted with their colleagues in the area around the capital.

Loyalty, professionalism and respect characterise the attitude of ProCredit Bank’s entire staff. These values have always provided the foundation for our collaborative undertaking, and they will continue to define our approach as we work together to fulfil the bank’s mission in the years to come.

Business Ethics and Environmental Standards

Part of the overall mission of the ProCredit group is to set standards in the financial sectors in which we operate. We want to make a difference not only in terms of the target groups we serve and the quality of the financial services we provide, but also with regard to business ethics. Our strong **corporate values** play a key role in this respect. We have established six essential principles which guide the operations of ProCredit institutions:

- **Transparency:** We adhere to the principle of providing transparent information both to our customers and the general public and to our employees, and our conduct is straightforward and open;
- **A culture of open communication:** We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions;
- **Social responsibility and tolerance:** We give our clients sound advice; their economic and financial situation, their potential and their capacities are assessed so that they can benefit from appropriate "products"; promoting a culture of savings is important to us; we are committed to treating all customers and employees respectfully and fairly, regardless of their origin, colour, language, gender or religious or political beliefs;
- **Service orientation:** Every client is served in a friendly, competent and courteous manner. Our employees are committed to providing excellent service to all customers, regardless of their background or the size of their business;
- **High professional standards:** Every employee takes responsibility for the quality of his/her work and strives to do his/her job even better;
- **A high degree of personal commitment**: This goes hand-in-hand with personal integrity and honesty – traits which are required of all employees in all ProCredit institutions.

These ProCredit values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations. Moreover, they are reflected in the Code of Conduct, which transforms the ProCredit group's ethical principles into practical guidelines for all ProCredit staff. To make sure that new staff fully understand all of the principles that have been defined, the induction training for new employees includes dedicated sessions dealing exclusively with the Code of Conduct and its significance for all members of our team. And to ensure that employees remain committed to our high ethical standards and are made aware of new issues and developments which have an ethical dimension for our institution, refresher training sessions – at which case studies are presented and grey areas discussed – are regularly conducted for existing staff.

Another aspect of ensuring that our institution adheres to the highest ethical standards is our consistent application of international best-practice methods and procedures to protect ourselves from being used as a vehicle for money laundering or other illegal activities such as the financing of terrorist activities. The important focus here is to "know your customer", and, in line with this principle, to carry out sound reporting and comply with the applicable regulations. In 2009 we will implement updated anti-money laundering and fraud prevention policies to ensure compliance with German regulatory standards across the group.

We also set standards regarding the impact of our lending operations on the environment. ProCredit Bank Serbia has implemented an environmental management system based on continuous assessment of the loan portfolio according to environmental criteria, an in-depth analysis of all economic activities which potentially involve environmental risks, and the rejection of loan applications from enterprises engaged in activities which are deemed environmentally hazardous and appear on our institution's exclusion list. By incorporating environmental issues into the loan approval process, ProCredit Bank Serbia is also able to raise its clients' overall level of environmental awareness. We ensure that when loan applications are evaluated, compliance with ethical business practices is a key consideration. No loans are issued to enterprises or individuals if it is suspected that they are making use of unsafe or morally objectionable forms of labour, in particular child labour.

Our Clients

In 1984, Milomir Stojic, the owner of a transport business, felt it was time to take on a new challenge: he decided to grow raspberries on the land he inherited from his father. South western Serbia was already well-known for its raspberries, so Milomir knew he would be facing stiff competition when he planted his first crop on just under half a hectare of land in Zlatibor. His wife and two children helped him maintain the plot and, thanks to the entire family's hard work, it soon flourished. After four years, he had more than trebled the size of his farm to 1.5 hectares by acquiring an adjacent plot of land.

The business continued to prosper, developing well over the years. As the scale of its operations grew, Milomir's financing requirements also increased. Although it was difficult for small rural producers to obtain credit at that time, Milomir had heard about ProCredit Bank's new tailored products for the agricultural sector. In December 2002, he applied for a loan to invest in mechanisation.

"ProCredit Bank helped me a lot when I was finding it difficult to obtain funds to invest in my business. At first, I was surprised by the excellent level of service. Six years later, I am still a satisfied client, and I know that I can rely on the support of very professional and efficient staff," he says.

Milomir has since taken out a total of five loans from ProCredit Bank. Today, he holds the national record in raspberry production for high yields. Having seen first-hand how hard his family has worked to turn the small operation into a success, Milomir's loan officer invited him to enter the bank's business awards competition – a new category was established in 2008 to reward outstanding results in agricultural production. Not surprisingly, Milomir was recognised as one the most successful farmers in Serbia.

To keep up with rising demand and remain a leader in his field, Milomir has started to grow and sell seedlings; he has also expanded his area under cultivation to over 4 hectares, and he recently invested in a freezer to process a portion of his output. Looking ahead, he plans to expand even further. He is convinced that, with strong commitment and financial support from a reliable banking partner, the high quality of his output will continue to give him a competitive edge.

Marko Mitic and Aleksandar Stojanovic, Producers of Paving Blocks

In 2007, Marko Mitic and Aleksandar Stojanovic came up with the idea to offer a product in Serbia that was already being marketed in many other countries. The two men founded a company in Nis to produce a type of paving block that is much more durable, more attractive and less expensive than the standard concrete slabs manufactured locally. Their company, Arhibet, offers an economic and robust paving solution for surfacing projects such as park walkways, town squares and petrol station forecourts.

Marko had previously worked for his father's company, Profit, which is one of the oldest building material suppliers in Niš. This experience gave him useful knowledge of the market and also introduced him to ProCredit Bank: his father's company was one of the first businesses in the city to open an account when it established its branch in Niš in 2007.

Because Profit had already taken out several loans from the bank, Marko was already familiar with its approach to the lending business and its procedures. He and Aleksandar immediately turned to the staff at their local ProCredit Bank branch when they agreed that they would need external financing to launch their planned business.

In February 2008, they received a loan to supplement their savings in financing the purchase of new machinery and production equipment:

"We needed the loan in order to ensure the stability of the business at the beginning. Although we had some money of our own, we needed a long-term loan to purchase special machinery for production,"

says Marko.

Today, the company produces 150–200 square metres of paving blocks a day and employs seven people. Arhibet has established a very good reputation and a solid competitive position in the Serbian market. Given the large potential demand for their product, Marko and Aleksandar would like to expand and are counting on future financing support from ProCredit Bank. As they explain,

"What we value most in our relationship with the bank is the personal contact with staff. We know we can turn to them at any time for informed advice and speedy assistance. They even visit us on site to learn more about our company."

Mohamed Badawi, Doctor and Savings Client

Mohamed Badawi came to Serbia from Palestine in 1969 as a young medical student. In his very first class at medical school, he met his future wife, Marija, with whom he would establish one of the first private clinics in the city of Subotica 26 years later. Together with their children, Jaser and Katarina, they are now the proud owners of the Badawi Clinic, one of the most successful practices in town.

Mohamed first learnt about ProCredit Bank in 2002, when staff from the bank visited his clinic as part of a campaign to promote its range of savings options to local residents and business owners. He soon decided to open a term deposit account to earn a higher return on his savings.

"I have been a ProCredit Bank customer for a long time and I find the staff very pleasant and professional. It is a good bank that offers stability, and a safe place for my savings,"
says Mohamed.

His savings have continued to grow, and the Badawi family now make use of other banking services offered by ProCredit, including current accounts and payment cards, both privately and for business use. But the Badawis have a relationship with ProCredit that goes beyond banking. On September 9, 2008, the clinic provided free medical examinations to local residents in a marquee provided by the bank. People received a free check-up to monitor their blood pressure and glucose level, and the overall response was very positive. They were very pleased to learn that the bank and the clinic plan to continue such meaningful community projects in the future to promote health awareness.

Mohamed would like to help the people of Subotica obtain better medical services and plans to introduce new types of treatment and to increase the capacity of the clinic in the near future. Providing responsible banking services and operating a private medical clinic have something important in common: both are businesses, but they are also more than just a commercial operation. In each case, it is essential to foster trust and build long-term relationships both with the people you serve and with the community at large. It is therefore no surprise that ProCredit Bank and the Badawi Clinic share the same core values, and they count on maintaining a close relationship for many years to come.

Zorica Popov Cobanovic, Cobbler

Zorica Popov Cobanovic comes from a family of shoemakers. Having learnt the trade when she was young, she opened a small shoe repair shop in the outskirts of Belgrade twenty-seven years ago. Since then, she has faced many challenges to stay in business.

In 2004, it became clear that Zorica needed external financing to continue operating, but she was faced with an unpleasant reality: her business was very small and did not generate a high enough turnover to meet the eligibility requirements of most banks.

"I needed a loan urgently and was almost ready to turn to a moneylender,"
recalls Zorica.

Her situation began to improve when an acquaintance recommended ProCredit Bank. After talking to the staff at her local branch, she was relieved to have finally found a reliable institution that was willing to support small businesses such as hers. She applied for a loan to provide working capital for her shop, and to purchase tools and new materials, and the bank approved her application without delay.

"I was impressed by the treatment I received. The staff were very polite and efficient,"
says Zorica.

She repaid her first loan and, as her business began to develop, she applied for a second one, this time to have a machine repaired and invest in better quality materials. She is currently repaying a third loan, which she invested in a car to facilitate the transport of everything she needs to run the business.

Since becoming a client of ProCredit Bank, Zorica has begun using a range of retail banking services, including two current accounts – one private and one for the shop – that allow her to make money transfers with ease. Her business is now thriving thanks to the financial support of the bank. And it is crucially important to keep the family business going, as it is the main source of her household's income.

Looking ahead, Zorica would like to open a second cobbler's shop in a nearby residential area. Although it is difficult to find qualified staff, she is hopeful that, with a little luck and the support of ProCredit Bank, she will be able to expand and improve her business.

Financial Statements

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

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers d.o.o.
Omladinskih brigada 88a
11070 Belgrade
Republic of Serbia
Telephone +381 (11) 3302 100
Facsimile +381 (11) 3302 101

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of ProCredit Bank a.d. Belgrade

We have audited the accompanying consolidated financial statements of ProCredit Bank a.d. Belgrade and its subsidiary (together the "Group") which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 consolidated 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ProCredit Bank a.d. Belgrade and its subsidiary (together the "Group") as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers doo.

PricewaterhouseCoopers d.o.o.
Omladinskih brigada 88a
11070 Belgrade
Republic of Serbia

15 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

in thousand of Dinars	Notes	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Interest and similar income		7,379,093	5,861,031
Interest expense and similar charges		(3,583,004)	(2,781,087)
Net interest income	5	**3,796,089**	**3,079,944**
Fee and commission income		926,270	669,501
Fee and commission expense		(131,447)	(140,222)
Net fee and commission income	6	**794,823**	**529,279**
Net trading income	7	320,312	288,937
Other operating income	8	77,718	45,305
Impairment charge for credit losses	9	(566,534)	(468,610)
Other operating expenses	10	(3,893,332)	(2,955,262)
Profit before income tax		**529,076**	**519,593**
Income tax credit	11	86,955	28,423
Profit for the year		**616,031**	**548,016**

The accompanying notes on pages 46 to 70 form an integral part of these consolidated financial statements.

ProCredit Bank a.d. Belgrade
Consolidated Financial Statements for the year ended 31 December 2008
(All amounts expressed in thousand of Dinars unless otherwise stated)

Consolidated balance sheet

	Note	As of 31 December 2008	2007
ASSETS			
Cash and balances with the Central Bank	12	18,000,999	25,302,872
Loans and advances to banks	13	6,559,920	2,521,000
Loans and advances to customers	14	38,901,355	32,114,997
Derivative financial assets	15	-	15,391
Available-for-sale financial assets	16	6,882	-
Other financial investments	17	7,924	7,924
Intangible assets	18	33,346	17,537
Property and equipment	19	2,347,529	1,336,847
Deferred income tax assets	20	224,211	201,669
Other assets	21	324,188	189,776
Total assets		**66,406,354**	**61,708,013**
LIABILITIES			
Deposits from banks	22	3,204,000	268,830
Derivative financial liabilities	15	1,830	-
Due to customers	23	30,422,765	30,995,538
Other borrowed funds	24	23,597,656	25,133,582
Provisions	25	176,006	120,128
Other liabilities	26	361,833	376,511
Total liabilities		**57,764,090**	**56,894,589**
EQUITY			
Share capital	27	3,663,012	2,363,274
Share premium	27	2,776,745	1,325,813
Retained earnings		545,328	491,267
Revaluation reserve on property and equipment		580,993	-
Special banking risk reserves	28	1,076,186	633,070
Total equity		**8,642,264**	**4,813,424**
Total equity and liabilities		**66,406,354**	**61,708,013**

The accompanying notes on pages 6 to 57 form an integral part of these consolidated financial statements.

These consolidated financial statements have been approved by Executive Board on April, 15 2009 and signed on their behalf by:

Mirjana Garapić- Zakanyi
Member of the Executive Board

Dejan Janjatović
Member of the Executive Board

4

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

in thousand of Dinars	Notes	Share Capital	Share Premium	Retained earnings	Revaluation reserve on property and equipment	Special banking risk reserves	Total
At 1 January 2007		**1,920,120**	**901,308**	**576,321**	**–**	**–**	**3,397,749**
Profit for the year		–	–	548,016	–	–	548,016
Transfer to special banking risk reserves	28	–	–	(663,204)	–	663,204	–
New shares issued	27	443,154	424,505	–	–	–	867,659
At 31 December 2007 and 1 January 2008		**2,363,274**	**1,325,813**	**461,133**	**–**	**663,204**	**4,813,424**
Profit for the year		–	–	616,031	–	–	616,031
Transfer to special banking risk reserves	28	–	–	(412,982)	–	412,982	–
Distributed dividends		–	–	(118,854)	–	–	(118,854)
New shares issued	27	1,299,738	1,450,932	–	–	–	2,750,670
Revaluation of buildings (net of tax)		–	–	–	580,993	–	580,993
At 31 December 2008		**3,663,012**	**2,776,745**	**545,328**	**580,993**	**1,076,186**	**8,642,264**

The accompanying notes on pages 46 to 70 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

in thousand of Dinars	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Cash flows from operating activities:		
Profit before tax	529,076	519,593
Adjustments for non cash items:		
Impairment loss	566,534	468,610
Depreciation and amortization	302,394	242,848
Unrealized losses on foreign currency revaluation	(9,250)	(20,259)
Provisions	43,511	8,121
Net cash flow from operating activities before changes in operating assets and liabilities	**1,432,265**	**1,218,913**
Changes in operating assets:		
(Increase)/ decrease in loans and advances to banks	(3,359,507)	86,656
Decrease/ (increase) in derivative financial assets	7,221	(8,780)
Increase in loans and advances to customers	(5,865,425)	(8,894,795)
(Increase)/ decrease in other assets	(136,983)	10,333
	(9,354,694)	**(8,806,586)**
Changes in operating liabilities:		
Increase/ (decrease) in deposits from banks	4,325,310	(1,685,268)
(Decrease)/ increase in due to customers	(1,192,726)	11,916,267
Increase/ (decrease) in other liabilities	204,560	(23,242)
	3,337,144	**10,207,757**
Net cash (used in)/ from operating activities	**(4,585,285)**	**2,620,084**
Cash flow from investing activities:		
Proceeds from disposal of property and equipment	3,793	6,780
Purchase of property and equipment and intangible assets	(688,984)	(644,075)
Net cash used in investment activity	**(685,191)**	**(637,295)**
Cash flow from financing activities:		
Increase in other borrowed funds	900,972	12,994,737
Repayments of other borrowed funds	(1,995,866)	(2,050,307)
Paid dividends	(226,975)	–
Issued share capital	3,362,921	867,659
Net cash from financing activities	**2,041,052**	**11,812,089**
Net (decrease)/ increase in cash and cash equivalent	**(3,229,424)**	**13,794,878**
Cash and cash equivalents as at 1 January	27,790,343	13,995,465
Cash and cash equivalents as at 31 December (Note 29)	**24,560,919**	**27,790,343**

Cash flows for the year ended 31 December 2008 include interest received in the amount of RSD 5,966,586 thousand (2007: RSD 5,861,030 thousand) and interest paid in the amount of RSD 2,465,885 thousand (2007: RSD 2,781,086 thousand).

The accompanying notes on pages 46 to 70 form an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2008
(All amounts expressed in thousand of Dinars unless otherwise stated)

1. General Information

ProCredit Bank a.d. Beograd (the "Bank") was established in 2001 as a Joint Stock Company. The National Bank of Yugoslavia (the Central Bank) issued the Bank with a banking license on 5 April 2001. In 2003, the Bank changed its name from Micro Finance Bank a.d. Beograd to ProCredit Bank a.d., Beograd.
As at 31 December 2008 the Bank's shares are owned by two shareholders: ProCredit Holding AG Frankfurt am Main, with holdings of 83.33 percent and Commerzbank AG Frankfurt am Main. During 2008 European Bank for Reconstruction and Development ("EBRD") sold its shareholding in the Bank (16.67%) to ProCredit Holding AG.
The Bank is licensed in the Republic of Serbia to perform payment transfers, credit and deposit activities in the country and abroad, and in accordance with the Republic of Serbia law, is to operate on principles of liquidity, security of placements and profitability.
The Bank established ProCredit Leasing d.o.o. as Limited Liability Company. The ProCredit Leasing d.o.o. is registered with the Agency for legal entities Belgrade under register number 1973/2005 as of 17th February 2005. The Bank is 100% owner of ProCredit Leasing.
The Group consists of the Bank and its subsidiary ProCredit Leasing d.o.o.
On 31 December 2008, the Group has head office located in Belgrade, Bul. despota Stefana 68c and 86 branches throughout Serbia.
These consolidated financial statements have been approved for issue by the Executive Board on April 15, 2009.

2. Summary of significant accounting policies

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

A) Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation derivative financial instruments.
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 Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated financial statements are disclosed in Note 4.

(a) Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008); and
- IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant effect on the Group's consolidated financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

(b) New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:
IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Management does not expect IFRS 8 to affect the Group's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to the standard to have a material effect on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Group as it does not expect a business combination to occur.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group's consolidated financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

B) Consolidation

(a) Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.
The Bank has only one 100% owned subsidiary – ProCredit Leasing d.o.o.
Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

C) Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Serbian Dinars (RSD), which is the functional and presentation currency of the Group entities.

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

D) Financial assets

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

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.
A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:
- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for loans and advances to customers or banks and debt securities in issue;

- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in "Net trading income".
The Group did not designate any financial asset as at fair value through profit or loss during reporting period.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances are initially recognized at fair value. All loans and advances are recognized when cash is advanced to borrowers. After initial recognition, these are subsequently measured at amortized costs using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

(c) Held-to-maturity financial assets
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale. The Group did not classify any financial asset as held-to-maturity during reporting period.

(d) Available-for-sale financial assets
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.
The Group did not classify any financial asset as available-for-sale financial assets during reporting period.
Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date – the date on which the Group commits to purchase or sell the asset.
Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.
Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recognized in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale is recognized in the income statement.
The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

E) Offsetting financial instruments

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

F) Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses arising from changes in fair value of derivatives are included in "Net trading income".
The Group had only economic hedging transactions during the reporting period.

G) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

H) Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

I) Sale and repurchase agreements

Securities purchased under agreements to resell ('reverse repos') are recorded as Cash and balances with Central Bank. Reverse repos are included in cash and cash equivalents if they have a maturity less than three months from the date of acquisition. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

J) Impairment of financial assets carried at amortized cost

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

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

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

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.
The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.
The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.
Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.
When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in impairment charge for credit losses.

K) Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives and the period licenses are issued for. Cost associated with developing or maintaining computer software programs are recognized as an expense as incurred.

L) Property and equipment

Premises are stated at revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Equipment is stated at cost, less accumulated depreciation and provision for impairment, where required.
Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. The revaluation reserve for premises included in equity shall be transferred directly to retained earnings when the surplus is realised on the retirement or disposal of the asset.
Historical cost includes expenditure that is directly attributable to acquisition of the items.
Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Depreciation of fixed assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings – 50 years,
- Leasehold improvements – shortest of 10 years or leasehold contract duration,
- Motor vehicles – 4 years,
- Furniture – 6–8 years,
- Computers – 3 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

M) Impairment of non-financial assets

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

N) Leases

(a) A group company is the lessee
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.
The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.
When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

(b) A group company is the lessor
When assets are held subject to a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

O) Cash and cash equivalents

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

P) Provisions

Provisions for legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Q) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.
Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.
Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

R) Employee benefits

(a) Pension obligations
The Group operates a defined contribution pension plan. The Group companies pay contributions to publicly administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Retirement benefit scheme
The Group companies provide retirement employee benefit scheme, as required by the Labor code in Serbia. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and/or the completion of a minimum service period and is calculated as three monthly average salaries in Serbia in the month before employee retirement. The expected costs of these benefits are accrued over the period of employment. The defined benefit obligation is valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees.

The assumptions used by actuary in calculation of the retirement benefits are as follows:

- Three average salaries in November 2008 per economy;
- Estimated annual increase in salaries of 4%; and
- Discounting rate of 11%.

S) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.
Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.
Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.
The tax effects of income tax losses available for carry-forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.
Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognized in the income statement together with the deferred gain or loss.

T) Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

U) Share capital

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders.
Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

V) Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. The amounts of reclassifications in balance sheet and income statement are not material.

Reclassifications in Balance sheet were made:
- Claims from other banks for withdrawals on ATM (Master and Visa credit cards) were transferred from Loans and advances to customers to Loans and advances to Banks amounting RSD 33,367 thousand.
- Temporary account-nostro accounts were transferred from other assets to Loans and advances to banks amounting RSD 162 thousand.
- Claims for fees for guarantees were transferred from other assets to loans and advances to customers amounting RSD 5,956 thousand.
- Claims on non-banks that are not customers, Western Union reclassified from loans and advances to customers to other assets amounting RSD 8,687 thousand.
- Temporary account-nostro account reclassified from other assets to Loans and advances to banks amounting RSD 162 thousand.
- Received prepayments were transferred from Due to customers to Other liabilities amounting RSD 174,376 thousand.

3. Financial risk management

The Group's activities are exposed to a variety of financial risks. This exposure demands organized activities related to analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects of risks on the Group's financial performance.
The Group's risk management procedures are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management procedures and systems to reflect changes in markets, products, legislature and emerging best practice.
Risk management is carried out by a Group's Risk Department and specialized Risk Committees under procedures approved by the Board of Directors. Risk Department identifies, evaluates financial risks and makes proposals to Risk Committees to hedge those risks in close co-operation with the Group's business units. The Board of Directors provides principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity and funding risk, market risks and other operational risk. Market risks includes currency risk, interest rate and other market price related risk.

A) Impact of the ongoing global financial and economic crisis

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.
The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.
Borrowers of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available,

management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Serbia for many types of collateral, especially real estate, has been affected in some extent by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

The market in Serbia for many types of real estate has been affected in some extent by the recent volatility in global financial markets. As such the carrying value of land and buildings measured at fair value in accordance with IAS 16 has been updated to reflect market conditions at the reporting date.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

B) Credit risk

The Group takes exposure to credit risk which is the risk that a counterparty will be unable or unwilling to pay the debt amounts in full when due. The Group's primary exposure to credit risk arises through its loans to customers.

In order to keep the credit risk on acceptable level the Group:

- Evaluates creditworthiness of each client individually including his/her exposure to loans and off balance liabilities;
- Analyze risks arising from the investment which is the loan purpose;
- Determines limits of credit exposure to its clients;
- Approves loans only to creditworthy clients and gathers appropriate means of collateral;
- Separates process of maintaining client relationship from the process of assessing client's creditworthiness, which applies to all loans to corporate clients;
- Takes mandatory down-payment of 20% to 30% for each financial leasing contract with the client as the cushion against the depreciation of the value of the subject of leasing.

B.1. Policy of Loan Approvals

To control the credit risk exposure, the bank has defined a prudent lending policy. The clients that are subjects of the lending process are carefully analyzed. The decisions on loan approval are made on the basis of client's loan repayment capability and appropriate means of collateral as loan coverage. All clients must fulfil the following criteria:

- To have stable and profitable business (in case of legal entities, entrepreneurs and agriculture producers),
- Appropriate capability for future loan repayment (applies to all clients),
- In case that the bank identifies maturity mismatches between certain types of assets and liabilities in client's balance sheet, this mismatch has to be justifiable (in case of legal entities, entrepreneurs and agriculture producers),
- Cash flow does not indicate potential problems (in case of legal entities, entrepreneurs and agriculture producers),
- Good credit history and repayment behavior in ProCredit Bank and/or other banks (applies to all clients),
- To provide adequate collateral (applies to all clients),
- To have adequate management and organization of business (in case of legal entities, entrepreneurs and agriculture producers).

In the light of the impact of the global financial crisis to the liquidity and financial position of the Group's borrowers, the Group has tightened the level of creditworthiness of clients. Maximum exposure which includes all loan installments versus clients monthly profitability (net cash flow) was changed and now is on the level of 50 to 70%.

B.2. Loan Loss Classification

The Group has developed procedures for classification of loans and off balance claims of the bank, with regards to the degree of credit risk associated with the client. At the same time two methodologies of loan loss classification standards were developed to satisfy the requirements of:

1. Laws and regulations enacted by the National Bank of Serbia (NBS); and
2. Internal loan loss provisioning policy.

According to internal methodology of the Group, classification is done by applying the principle Internal Client Rating (hereinafter: ICR) which is the consequence of applying the above mentioned rules and policies of loan approvals. The client can be in one out of four risk classes. Overall internal risk class which will be applied to a particular loan will also depend on corrective factors such as number of days in arrears and collateral.

Following categories of loan collateral from the classification point of view exist:

A. Secured – applies to mortgages and cash collateral in the amount which is covering the loan principle
B. Partially Secured – applies to all other types of collateral that are not mortgages or cash collateral as well as mortgages and cash collateral which are not fully covering the principle loan amount
C. Unsecured – which is not satisfying neither of the above mentioned criteria.

According to internal methodology there are following risk classes:

- IA class – ICR 1 + A and arrears up to 30 days
- IB class – ICR 1 + B, IRK 2 + A and arrears up to 30 days
- IC class – ICR 1 + C, IRK 2 + B, IRK 3 + A, and arrears up to 30 days
- II class – ICR 2 + C, IRK 3 + B, IRK 4 + A and arrears between 31 and 90 days
- III class – ICR 3 + C, IRK 4 + B and arrears between 91 and 180 days
- IV class – ICR 4 + C and arrears over 180 days
- V class – is not included into internal rating model as it covers receivables which are written off, that should be written of and where the loan contracts with clients are terminated.

Number of days in arrears means the number of days in delay with the payment of interest or principle from the due date until the day of setting the risk classes. In this manner the risk classes are set every month.

The following table shows overview of risk classes and associated impairment provisions in line with the Group's Internal Methodology both valid on 31 December 2008 and 2007:

	Group's internal methodology 2008		Group's internal methodology 2007
Rating	**Impairment Provision**	**Rating**	**Impairment Provision**
I A	1.0%		
I B	1.3%	I	1.3%
I C	1.5%		
II	25%	II	25%
III	50%	III	50%
IV	100%	IV	100%
V	100% (write off)	V	100% (write off)

All exposures to the same client or to groups of connected parties have to be categorized in the same risk class. If there are differences between the risk classes among those single exposures, the total exposure to the client or groups of connected parties have to be classified in the least favorable risk class.
The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating classes. However, the majority of the impairment provision comes from the bottom two classes. The table below shows the percentage of the Group's balance sheet items relating to loans and advances and the associated impairment provision according to the rules of Group's internal methodology. Receivables originating from financial leasing are placed in I risk class:

		2008		2007
in %	**Impairment provision**	**Loans and Advances**	**Impairment provision**	**Loans and Advances**
I	1.3	98.6	1.3	98.5
II	24.9	0.4	24.6	0.7
III	51.1	0.2	49.4	0.2
IV	97.0	0.1	99.8	0.3
V	99.5	0.7	99.7	0.3
	2.4	**100**	**2.1**	**100**

Associated impairment provision percentages in this case represent the relation between the extracted impairment provision and gross amount of loans and advances to customers without taking into consideration the deductive items which can lower the basis for calculating impairment provision.

B.3. Quality of the Loan Portfolio and the Maximum Exposure to Risk before Collateral Held

Quality of the loan portfolio is high which is reflected through the low level of portfolio at risk (defined as unpaid part of loan portfolio with at least one installment in due over 30 days). General rule of the bank is that the write off takes place after 360 days in arrears. However, in special cases the write off is possible even before this period.
The following table shows exposure to credit risk on 31 December 2008 and 2007 indicating total exposure to credit risk without taking into consideration means of collateral. The table also includes off balance items which might lead to credit risk.

	Maximum Exposure Before Collateral	
	2008	**2007**
Balance Sheet Exposure		
Balances with Central bank other than mandatory reserve deposits	15,039	6,621,895
Loans and advances to banks		
Loans to banks within a group	78,461	16,816
Loans to OECD banks	3,456,963	2,231,970
Loans to domestic and non-OECD banks	3,024,496	272,214
Total loans and advances to banks	**6,559,920**	**2,521,000**
Loans and advances to customers:		
Business	20,269,046	18,063,925
Agricultural	8,110,169	6,797,182
Housing	3,300,953	2,503,674
Finance leases	3,357,081	2,145,947
Consumer	973,398	856,900
Other	2,890,708	1,747,369
Total loans and advances to customers	**38,901,355**	**32,114,997**
Other financial assets	224,211	201,669
Off balance Credit Risk Exposure (Note 30)	8,320,713	5,924,613
On 31 December	**54,021,238**	**47,384,174**

The table above represents the scenario of the maximum credit risk exposure of the Group at 31 December 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

- 72.0% from total exposure is related to loans to customers and financial leases thus reflecting the major business activity of the Group (2007: 67.8%);
- 98.6% from total loans and advances is classified in most favorable impairment class according to the Group's internal methodology (2007: 98.5%);
- 25.3% loans and advances to customers are covered with mortgages or deposits of the customers (2007: 32.5%);
- 45.9% of all loans and advances to customers consist of loans originally disbursed in the amounts below EUR 10,000 significantly improving diversification of the Group's loan portfolio (2007: 59.9%).

The table below shows structure of the quality of the loan portfolio (gross amounts):

		2008		2007
	Loans to Clients	Loans to Banks	Loans to Clients	Loans to Banks
Neither past due nor impaired	40,014,878	6,559,920	32,824,429	2,521,000
Past due but not impaired	337,310	–	530,990	–
Impaired	477,812	–	259,402	–
Total	**40,830,000**	**6,559,920**	**33,614,821**	**2,521,000**

(a) Loans and advances neither past due or impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group. All loans and advances to customers that are neither past due nor impaired are classified in risk class I according to Group's internal methodology.

		2008		2007
Business Loans	20,898,280	52.23%	18,829,540	57.36%
Agriculture Loans	8,303,143	20.75%	6,970,338	21.24%
Consumer Loans	992,598	2.48%	824,573	2.51%
Housing improvement loans and housing loans	3,410,406	8.52%	2,448,181	7.46%
Other	3,037,387	7.59%	1,633,157	4.98%
Finance leases	3,373,064	8.43%	2,118,640	6.45%
Total loans to customers	**40,014,878**	**100.00%**	**32,824,429**	**100.00%**

The loans and advances to banks are with banks which have the following credit rating:

		2008		2007
AAA rated	0	0.0%	0	0.0%
AA- to AA+ rated	19,781	0.3%	634,990	25.2%
A- to A+ rated	2,513,320	38.3%	1,568,950	62.2%
Lower than A- rated	4,021,838	61.3%	317,060	12.6%
Not rated	4,981	0.1%	0	0.0%
Total loans and advances to banks	**6,559,920**	**100.0%**	**2,521,000**	**100.0%**

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2008	Business loans	Agriculture loans	Consumer loans	Housing improvement and housing loans	Other	Finance leases	Total
Past due up to 30 days	74,922	43,808	6,222	10,355	822	56,772	192,901
Past due 31 to 90 days	64,769	34,510	8,310	11,026	73	25,721	144,409
Total	**139,691**	**78,318**	**14,532**	**21,381**	**895**	**82,493**	**337,310**
Fair value of collateral	102,562	58,941	6,565	16,544	650	170,630	355,892

31 December 2007	Business loans	Agriculture loans	Consumer loans	Housing improvement and housing loans	Other	Finance leases	Total
Past due up to 30 days	103,141	80,405	19,369	16,490	3,076	91,601	314,082
Past due 31 to 90 days	61,332	119,188	6,908	13,890	2,329	13,261	216,908
Total	**164,473**	**199,593**	**26,277**	**30,380**	**5,405**	**104,862**	**530,990**
Fair value of collateral	79,059	78,485	23,639	26,339	117	315,013	522,652

For certain types of loans and advances to customers the Group is well collateralized, with fair value of collateral exceeding amounts of claims that are past due. This is particularly the case with financial lease since it bears down-payment which protects the Group against the depreciation of the leasing subject. In such a manner the bank is protected against the potential default of the client.

The disclosed fair value of collateral is determined by local certified evaluator and represents value realizable by the legal owners of the assets. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite of the length in the process of enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal.

This applies to long-term loans to business or agriculture clients exceeding EUR 50,000 and loans for housing purposes.

(c) Loans and advances to customers individually impaired

Loans that are overdue by 91 or more days are considered to be impaired. This includes in addition individually impaired loans. Those are loans disbursed in the original amount of over EUR 50,000 that are overdue by less than 90 days, but related to clients with identified significant financial problems.

For year 2008 individually impaired loans amounted to RSD 19,574 thousand, with fair value of the collateral amounting to RSD 18,214 thousand. The individually impaired loans for 2008 relate to 2 customers. During 2007 there were no individually impaired loans and advances to customers.

(d) Loans and advances renegotiated

Renegotiation of loans and advances includes all activities undertaken by the Group which alter any of the important conditions under which the loans and advances were originally approved to a customer. This includes change of the loan maturity, interest rate, change of the due date of installment, change of the installment amount etc. Renegotiation of the loans and advances to customers is not only done in case that the customer is facing financial difficulties.

In case that the customer is facing financial difficulties that might seriously jeopardy his/her loan repayment capacity, renegotiation can be done only under the circumstances described in the Credit Standards of the Group. Renegotiation is possible only if the client is still able to generate sufficient cash flow to repay new – restructured loan. Regardless of the loan amount disbursed and regardless of the type of customer all loan renegotiation requests include on-site visit to client and execution of monitoring on his/her financial position. All renegotiation requests for loans originally disbursed in amounts exceeding EUR 25,000 have to be approved by Credit Risk Department of the Group.

Amount of the renegotiated loans and advances that would otherwise be impaired due to deterioration of the client's financial position for 2008 was RSD 197,574 thousand (2007: RSD 26,543 thousand). During year 2008 renegotiation of the originally approved loan features came as a consequence of more active role of the bank in solving arrears problems which resulted in quite similar arrears rates compared to the situation in previous year.

(e) Repossessed collateral

During 2007, the Group collected its overdue loans and advances by taking possession of collateral in court proceedings in amount of RSD 87,156 thousand (2006: RSD 49,254 thousand). The figure relates to all types of assets gained, both movable and immovable.

B.4. Collateral Policy

In the light of the impact of the global financial crisis to the liquidity and financial position of the Group's borrowers, the Group has tightened the collateral conditions. As a general rule for loans up to EUR 2,000 the collateral is not required, while collateral or external guarantor (or combination of those two types of security) is required for all loans disbursed or exposures in amounts exceeding EUR 2,000. For loans with housing purpose, real-estate as collateral is demanded. The same rule applies for housing improvement loans disbursed in the amounts exceeding EUR 10,000.

For all loans to be approved in amounts over EUR 50,000 or loans in smaller loan amounts that demand collateral with registration legal opinion of the bank's lawyer is necessary screening legal risks related to client's business and collateral itself.

For all loans with mortgage as collateral, to be disbursed in amounts over EUR 50,000 or with maturities over 59 months it is necessary to have official mortgage estimation done by external court-certified expert and approved by bank's Investment Group.

When financing purchase of new cars or taxi vehicles Casco insurance assigned to the bank is necessary mean of collateral. In addition when using mortgages as collateral the bank reserves the right to demand real-estate insurance against common risks. Also the bank can ask for credit life insurance of the client (only in case of a private person) if deemed necessary.

Having in mind that the participation of the small loans (disbursed in amounts below 10,000 EUR) is almost 95% (number-wise), we can conclude that the presented collateral is adequate to the bank's operations.

B.5. Structure and Diversification of the Loan Portfolio

Concentration of exposure risk to various industries and sectors is under constant observation. Limits with regards to the portfolio diversification exist for the agriculture portfolio. The limit for its growth is 25% from the total loan portfolio of the bank. On 31 December 2008, this indicator was on the level of 21.4% with tendency of stagnation during 2008. Achieved sector diversification is on a high level thus diminishing the exposure risk arising from the exposure to credit risk.

For analysis of the portfolio diversification/concentration HHI index was used (Hirschman Hiefendahl Index), representing sum of squares of relative participation of every sector/industry in the bank's portfolio. If the result is closer to 1, the portfolio is more concentrated. If the result is closer to ideal proportion this indicates low level of portfolio concentration. In case of ProCredit Bank ideal proportion would be 1/40, or HHI ratio of 0.025 having in mind that the loan portfolio is separated in 40 different sectors/industries. The following table shows the values of HHI ratio for years 2008 and 2007:

2008		2007	
HHI ratio by number of loans	HHI ratio by volume of loans	HHI ratio by number of loans	HHI ratio by volume of loans
0.2303	0.1123	0.2497	0.1240

The following table sets basis for interpretation of the degree of concentration of the loan portfolio of the Group according to Hirschman Hiefendahl Index:

Concentration level	HHI
Low	0.025 – 0.26875
Medium	0.26876 – 0.5125
High	0.5126 – 0.75625
Critical	0.75626 – 1

B.6. Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Guarantees or letters of credit are subjected to the same approval mechanism as regular loans. This also implies that the same collateral requirements apply for off balance commitments as for loans. Moreover, the bank measures total client exposure and creditworthiness by adding also off-balance commitments to him/her and by taking into consideration the connected parties and their exposure and creditworthiness.

C) Market risks

Policy of the Group is not to take any speculations and to keep all kind of risk on acceptable level. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group complies with the limits on value of risk that may be accepted that are prescribed by the Central Bank as well as with limits set by Risk Committees.

C.1. Foreign currency risk

Foreign currency risk exposure is monitored regularly through compliance with the regulatory limits prescribed by the Central Bank. The Group maintains the foreign currency position by granting loans with foreign currency clauses. On the other hand, the Group has active approach to currency risk management, and it is prudently assessing and managing open foreign currency position through making foreign currency swaps and keeping open currency risk exposure in limits set by Central Bank, as well as with internal rules and limits prescribed by Management and Risk Committees.

The table below summarizes the Group exposure to foreign currency exchange risk at 31 December. In the table are included Group's assets and liabilities at carrying amounts, categorized by currency.

31 December 2008	EUR	USD	Other currencies	Total foreign currencies	Local Currency	Total
Assets						
Cash and balances with the Central Bank	11,393,528	414,153	46,972	11,854,653	6,146,346	18,000,999
Loans and advances to banks	6,200,280	303,871	24,306	6,528,457	31,463	6,559,920
Loans and advances to customers	30,513,557	–	–	30,513,557	8,387,798	38,901,355
Available-for-sale financial assets	–	6,882	–	6,882	–	6,882
Other financial investments	–	–	–	–	7,924	7,924
Intangible assets	–	–	–	–	33,346	33,346
Property, plant and equipment	–	–	–	–	2,347,529	2,347,529
Tax Assets	–	–	–	–	224,211	224,211
Other assets	24,384	2,366	-	26,750	297,438	324,188
Total assets	**48,131,749**	**727,272**	**71,278**	**48,930,299**	**17,476,055**	**66,406,354**
Liabilities						
Liabilities to banks	1,099,543	2,842	2,350	1,104,735	2,099,265	3,204,000
Derivative financial liabilities	1,830	–	–	1,830	–	1,830
Due to customers	22,815,512	721,366	63,742	23,600,620	6,822,145	30,422,765
Other borrowed funds	23,597,656	–	–	23,597,656	–	23,597,656
Provisions	6,060	–	–	6,060	169,946	176,006
Other liabilities	226,496	–	–	226,496	135,337	361,833
Equity	–	–	–	–	8,642,264	8,642,264
Total liabilities and equity	**47,747,097**	**724,208**	**66,092**	**48,537,397**	**17,868,957**	**66,406,354**
Net on-balance sheet position	**384,652**	**3,064**	**5,186**	**392,902**	**(392,902)**	**–**
Credit commitments (note 30)	**–**	**–**	**–**	**–**	**2,178,592**	**2,178,592**
31 December 2007						
Total assets	47,073,346	620,830	66,761	47,760,937	13,947,076	61,708,013
Total liabilities and equity	47,167,688	618,920	65,596	47,852,204	13,855,809	61,708,013
Net on-balance sheet position	**(94,342)**	**1,910**	**1,165**	**(91,267)**	**91,267**	**–**
Credit commitments (note 30)	**–**	**–**	**–**	**–**	**2,243,228**	**2,243,228**

As of 31 December 2008 the Group did not have any hedging accounting. The Group had only economic hedging transactions during the reporting period.

Following table provides overview of sensitivity analysis of the exposure to currency risk:

	Open currency position on 31 December		Effect of depreciation of RSD to open currency position		Effect of appreciation of RSD to open currency position	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
USD	3,064	1,910	306	191	(306)	(191)
EUR	384,652	(94,342)	38,465	(9,434)	(38,465)	9,434
Other Currencies	5,186	(1,165)	519	(117)	(519)	117

Having in mind the currency structure of the balance sheet the appreciation of the local currency by 10% would result in negative revaluation accumulated effect of RSD 39,290 thousand (2007: 9,360 thousand). In case of depreciation of the local currency by 10% positive revaluation accumulated effect would be RSD 39,290 thousand (2007: - 9,360 thousand).

C.2. Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rates may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Interest rates are based on market rates and Group reprises rates regularly.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Group's business strategies. In managing maturity structure, senior management considers among others:

- Macro- and microeconomic forecasts,
- Forecasts in liquidity conditions and
- The anticipated trends in interest rates.

Interest rate risk present in gap between maturities of reprising of taken long term loans linked to floating rates, and reprising of loans disbursed at floating interest rates, is prudently hedged with Fixed-for-Floating Interest Rate Swap. As of 31 December 2008 the Group had outstanding Interest Rate Swap of EUR 3.9 million (31 December 2007: EUR 9.9 million).

The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

31 December 2008	Up to 1 month	1 – 3 months	3 – 12 months	1– 2 years	2 – 5 years	over 5 years	Non-Interest Bearing	Total
Assets								
Cash and balances with the Central Bank	5,654,104	–	–	–	–	–	12,346,895	18,000,999
Loans and advances to banks	6,470,818	77,954	–	–	–	–	11,148	6,559,920
Loans and advances to customers	1,889,830	3,720,105	11,502,696	10,845,293	7,159,988	3,469,770	313,673	38,901,355
Available-for-sale financial assets	6,882	–	–	–	–	–	–	6,882
Financial investments	–	–	–	–	–	7,924	–	7,924
Other assets	–	–	–	–	–	–	324,188	324,188
Total assets	**14,021,634**	**3,798,059**	**11,502,696**	**10,845,293**	**7,159,988**	**3,477,694**	**12,995,904**	**63,801,268**
Liabilities								
Liabilities to banks	3,177,296	–	–	–	–	–	26,704	3,204,000
Derivative financial liabilities	–	–	–	–	–	–	1,830	1,830
Due to customers	7,787,969	7,656,278	9,556,391	746,583	807,694	68,359	3,799,491	30,422,765
Other borrowed funds	2,180,608	-	4,402,840	706,281	14,256,937	1,325,283	725,707	23,597,656
Other liabilities	–	–	–	–	–	–	361,833	361,833
Total liabilities and equity	**13,145,873**	**7,656,278**	**13,959,231**	**1,452,864**	**15,064,631**	**1,393,642**	**4,915,565**	**57,588,084**
Interest sensitivity gap	**875,761**	**(3,858,219)**	**(2,456,535)**	**9,392,429**	**(7,904,643)**	**2,084,052**	**8,080,339**	**6,213,184**
As 31 December 2007								
Total Assets	20,369,931	1,948,033	8,766,151	4,995,413	5,379,012	302,484	18,390,936	60,151,960
Total Liabilities	17,554,830	4,132,499	18,596,246	783,733	12,747,242	1,888,925	1,070,986	56,774,461
Interest sensitivity gap	**2,815,101**	**(2,184,466)**	**(9,830,095)**	**4,211,680**	**(7,368,230)**	**(1,586,441)**	**17,319,950**	**–**

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2008, if interest rates had been 200 basis points higher with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2008 would respectively decrease by approximately RSD 56,556 thousand (2007: increase by RSD 1,084 thousand).

At 31 December 2008, if interest rates had been 200 basis points lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2008 would respectively increase by approximately RSD 56,556 thousand (2007: decrease by RSD 1,084 thousand).

D) Liquidity risk

Liquidity risk arises in the general funding of the Group'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.

The Group has diversified funding base. Funding base includes:

- customer deposits with wide ranges of maturity
- money market deposits
- loans from foreign banks and financial institutions
- subordinated debt
- share capital.

The Group continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Group's strategy.

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

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

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

D.1 Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

As at 31 December 2008	Up to 1 month	1 – 3 months	3 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	Total
Liabilities							
Liabilities to banks	3,223,316	–	–	–	–	–	3,223,316
Derivative financial liabilities	1,830	–	–	–	–	–	1,830
Due to customers	8,914,905	8,866,941	11,499,700	912,606	1,110,237	88,763	31,393,152
Other borrowed funds	2,281,596	894,379	5,181,882	1,789,105	17,429,768	1,549,380	29,126,110
Provisions	–	–	–	–	–	176,006	176,006
Other liabilities	–	–	–	–	–	361,833	361,833
Total Liabilities (by contractual due dates)	**14,421,647**	**9,761,320**	**16,681,582**	**2,701,711**	**18,540,005**	**2,175,982**	**64,282,247**
Total Assets (by expected due dates)	**26,709,918**	**3,844,759**	**12,668,300**	**12,364,833**	**9,274,164**	**3,964,242**	**68,826,216**

As at 31 December 2007	Up to 1 month	1 – 3 months	3 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	Total
Total Liabilities (by contractual due dates)	**12,065,825**	**6,186,443**	**13,502,124**	**11,149,774**	**12,409,031**	**3,590,032**	**58,903,229**
Total Assets (by expected due dates)	**29,607,345**	**3,145,559**	**10,825,814**	**2,478,671**	**15,047,370**	**1,968,942**	**63,073,701**

Assessment of the expected inflows of the financial assets were done on the basis of contractual cash flows diminished on the basis of the historical data on write offs and premature repayments of loans by clients.

D.2 Derivative cash flows

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Foreign currency swaps; and
- Interest rate swaps.

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

	Less than one month	From 1 – 3 months	From 3 – 12 months	Over one Year	Total
At 31 December 2008					
Interest rate swaps:					
Outflow	–	–	354,623	–	354,623
Inflow	–	–	5,339	348,866	354,205
Total outflow	**–**	**–**	**354,623**	**–**	**354,623**
Total inflow	**–**	**–**	**5,339**	**348,866**	**354,205**
At 31 December 2007					
Interest rate swaps					
Outflow	–	–	296,303	488,623	784,926
Inflow	–	–	793,823	–	793,823
Total outflow	**–**	**–**	**296,303**	**488,623**	**784,926**
Total inflow	**–**	**–**	**793,823**	**–**	**793,823**

D.3 Credit Commitments

The table below provides analysis of the maturity structure of credit commitments on the basis of remaining maturity. Entire stock of credit commitments is related to local currency potential loan placements to clients, maturing mostly up to 24 months.

31 December 2008	Up to 1 month	1 – 3 months	3 – 12 months	1 – 2 years	2 – 5 years	Total
Approved but unused overdraft limits for consumer clients	29,014	20,058	107,647	1,301	–	158,019
Approved but unused overdraft limits for business clients	150,368	438,247	844,702	12	–	1,433,329
Approved but unused credit card limits	36,440	69,359	229,938	244,786	6,720	587,244
Total	**215,822**	**527,664**	**1,182,287**	**246,099**	**6,720**	**2,178,592**

31 December 2007	Up to 1 month	1 – 3 months	3 – 12 months	1 – 2 years	2 – 5 years	Total
Approved but unused overdraft limits for consumer clients	2,234	19,706	121,989	1,638	9	145,576
Approved but unused overdraft limits for business clients	129,028	435,421	1,017,930	–	–	1,582,380
Approved but unused credit card limits	26,903	43,842	182,049	248,171	14,307	515,273
Total	**158,165**	**498,970**	**1,321,969**	**249,809**	**14,316**	**2,243,228**

E) Fair values of financial assets and liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	Carrying value		Fair value	
	2008	2007	2008	2007
Financial assets				
Loans and advances to customers	38,911,251	32,090,219	38,706,300	32,064,448
Loans and advances to banks	6,481,459	2,470,655	6,073,274	2,422,559
Financial investments	7,923	7,924	7,924	7,886
Total Financial Assets	**45,400,633**	**34,568,798**	**44,787,498**	**34,494,893**
Financial liabilities				
Deposits from banks	3,204,000	268,830	3,002,221	220,575
Due to customers	29,733,837	28,826,158	29,999,916	28,931,658
Due to IFI's and other borrowings	12,348,950	11,986,692	12,634,951	11,312,585
Debt securities	8,810,684	10,164,544	10,495,879	9,627,747
Subordinated debt	2,438,022	1,206,009	2,169,245	1,164,040
Total Financial Liabilities	**56,535,493**	**52,452,233**	**58,302,212**	**51,256,605**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between the willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value.

Loans and advances to banks
The fair value of placements with and loans to other banks approximately equals the carrying amount since they all have less than a six-month maturity and therefore no calculation is needed.

Loans and advances to customers
The fair value of loans and advances to customers is their expected cash flow discounted at current market rates. Current market rates are interest rates we would charge at the moment (year end). Loans and advances to customers are stated net of provisions for impairment.

Deposits from banks
The fair value of liabilities to banks approximately equals the carrying amount since they all have less than a six-month maturity and therefore no calculation is needed.

Due to customers
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.
The estimated fair value of term deposits is calculated by discounting the cash flows at agreed dates with today's rates on deposit that have more than a six-month maturity and where actual interest rate is not the same as the agreed for these deposits. Since there is a very small amount of deposits where this is the case Management believes, that the difference between the fair value and the carrying amount is immaterial.

Other borrowed funds
Fair value of Liabilities to International Financial Institutions shows that the Group, based on its current position in the market, strong shareholders and achieved results was able to contract very good conditions for long term loans. Fair value is smaller than carrying amount, discounted by interest rate that ProCredit Holding would ask for.

F) Capital management

The Group's objectives when managing capital can be set down as following demands:

- To comply with the capital requirements set by the National Bank of Serbia;
- To comply with the capital requirements set by International Financial Institutions according to long term loans contracts;
- To ensure expected stability of growth and development and strong basis for further progress of Group's business.

Capital adequacy is planned in detail in the process of business planning and it is monitored monthly by the Group's management and Performance Committee. The National Bank of Serbia is informed of achieved capital adequacy ratio on a quarterly basis.
The National Bank of Serbia requires that every bank, at any moment, has minimum of EUR 10 million of share capital and capital adequacy ratio of minimum 12%.

The Bank's capital consists of two parts:

- Tier 1 capital, that consists of share capital, share premium, reserves and retained earnings;
- Tier 2 capital, that consists of subordinated loan capital and reserves from profit for general banking risks up to 1.25% of risk weighted assets.

Risk weights in calculating risk weighted on-balance sheet and off-balance sheet assets are prescribed by regulatory rules of the National Bank of Serbia. Table below shows capital elements and calculation of capital adequacy for the years ended 31 December.

	2008	2007
Tier 1 capital		
Share capital	3,663,012	2,363,274
Share premium	2,776,745	1,325,813
All types of reserves	663,204	
Retained earnings	543,134	412,981
Intangible assets	(33,219)	(17,537)
Total qualifying Tier 1 capital	**7,612,876**	**4,084,531**
Tier 2 capital	**2,493,777**	**2,042,265**
Deductions from equity	**(395,958)**	**(466,986)**
Total regulatory capital	**9,710,694**	**5,659,810**
Risk weighted assets		
Assets weighted by credit risk	57,019,193	37,118,850
Open currency position	323,363	191,040
Total risk weighted assets	**57,342,556**	**37,309,890**
Capital adequacy ratio	**16.93%**	**15.17%**

The increase of the regulatory capital in 2008 is mainly due to additional paid in capital, the contribution of the current-year profit, and additional subordinated liability.

Tier 2 capital includes property and equipment revaluation reserves and subordinated debt. The deductions for equity includes the Bank's direct investments in leasing subsidiary and the difference between the required amount of the special banking risk reserves and the amount actually created by the Bank.

4. Critical accounting estimates and judgments

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

(a) Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group 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 in a group, or national or local economic conditions that correlate with defaults on assets in the group.

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

(b) Provisions

Provisions in general are highly judgmental, especially in the cases of legal disputes. The Group assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty percent, the Group fully provides for the total amount of the liability. The Group is rather prudent in these assessments, but due to the high level of uncertainty, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

5. Net interest income

	Year ended 31 December	
	2008	**2007**
Interest and similar income		
Cash and balances with the Central Bank	70,680	23,576
Reverse repo placements	841,460	342,908
Loans and advances to banks	179,931	129,044
Loans and advances to customers	6,287,015	5,365,503
	7,379,086	**5,861,031**
Interest and similar expenses		
Deposits from banks	48,931	57,641
Due to customers	1,853,234	1,131,928
Other borrowed funds	1,680,839	1,591,518
	3,583,004	**2,781,087**
Net interest income	**3,796,082**	**3,079,944**

6. Net fee and commission income

	Year ended 31 December	
	2008	**2007**
Fee and commission income		
Payment transfer business	646,859	447,546
Guarantee business	112,181	63,207
Other fees	167,230	158,748
	926,270	**669,501**
Fee and commission expense		
Payment transfer business	113,843	100,272
Other fees	17,604	39,950
	131,447	**140,222**
Net fee and commission income	**794,823**	**529,279**

Other fee income include fees and commissions from banks in the amount of RSD 4,748 thousand, fees on travelers' cheques in the amount of RSD 1,216 thousand (2007: RSD 1,153 thousand), other fees from customers in the amount of RSD 19,651 thousand (2007: RSD 33,879 thousand) and fees from card business in the amount of RSD 141,615 thousand (2007: RSD 123,715 thousand).

In 2007 other fees paid include fee expenses to other group co in the amount of RSD 2,811 thousand. Other fees paid include other fees to banks in the amount of RSD 16,596 thousand (2007: RSD 37,139 thousand) and other fees to others in the amount of RSD 1,008 thousand.

7. Net trading income

	Year ended 31 December	
	2008	**2007**
Translation (losses)/ gains	(9,250)	3,717
Transaction losses from foreign exchange trading operations with banks	(57,140)	(26,599)
Transaction gains from foreign exchange trading operations with customers	386,702	311,819
Total net trading income	**320,312**	**288,937**

8. Other operating income

	Year ended 31 December	
	2008	2007
Insurance indemnity	50,492	–
Reimbursment of expenses for bills of exchange and safe bags for money	13,959	13,865
Net gains from disposal of property and equipment	3,092	1,396
Income from litigation settlements	1,415	1,333
Gains and losses from financial assets at fair value through profit or loss	(2,670)	9,123
Gains and losses from AFS securities	–	(2,456)
Other	11,430	22,024
Total Other operating income	**77,718**	**45,305**

9. Impairment charge for credit losses

	Year ended 31 December	
	2008	2007
Charge for the year on loans to customers (Note 14)	1,545,511	825,287
Expenses derived from write-offs	14,724	13,959
Release of provision on loans to customers (Note 14)	(935,343)	(349,901)
Recovery of written- off loans	(58,358)	(20,735)
Total impairment provision	**566,534**	**468,610**

10. Other operating expenses

	Year ended 31 December	
	2008	2007
Staff costs:		
Wages and salaries	1,163,169	818,879
Taxes and contributions on salaries	752,274	522,686
Fringe benefits	98,631	68,037
Other staff costs	17,931	16,618
Total staff costs	**2,032,005**	**1,426,220**
Office rent	405,341	343,637
Depreciation and amortization	302,394	242,848
Marketing and representation	273,492	227,674
Office supplies and other office utilities	162,097	135,506
Other service expenses	120,143	101,547
Communication expenses	102,185	89,119
Expenses for consulting services from ProCredit Holding	62,891	17,818
Transport expenses	57,795	41,269
Legal and advisory expenses	51,155	60,934
Security	49,661	52,758
Other taxes	41,857	24,804
Training expenses	41,318	35,979
Expenses for royalties on software	31,628	32,025
Expenses for repairs and maintenance	18,984	10,802
Insurance expenses	11,604	11,169
One-time working contracts	9,765	9,308
Other administrative expenses	1,463	4,816
Expenses for deposit insurance fund	75,974	53,927
Expenses for provisions on off balance sheet	25,985	–
Expenses for litigation settlements	7,718	–
Expenses for disposal of property and equipment	3,630	2,875
Others	4,247	30,227
Total Other operating expenses	**3,893,332**	**2,955,262**

11. Income tax credit

	Year ended 31 December	
	2008	2007
Current income tax expenses	(141)	(18,649)
Deferred income tax credit	87,096	47,072
Total income tax credit	**86,955**	**28,423**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the official rate as follows:

	Year ended 31 December	
	2008	2007
Profit before tax	529,076	519,593
Tax calculated at a tax rate of 10% (2007: 10%)	(52,908)	(51,959)
Fines and penalties	(29)	(2,159)
Accounting depreciation above tax depreciation	(9,246)	(7,883)
Other non-deductible expenses	(7,409)	(4,331)
Utilized tax credits	69,592	47,683
Unutilized tax credits	86,955	47,072
Current tax credit	**86,955**	**28,423**

According to Serbian tax law, the Group is entitled to use tax credits based on the amounts invested in property and equipment and number of new employees hired and to reduce the current income tax liability. Tax credits on new employees hired can be used by the Bank only in the year when declared. Tax credit on new investments in property and equipment can be carried forward for a period on 10 years. In order to be eligible to use these investment tax credits, the Bank should not dispose related property and equipment items during a period of three years from the year when tax credit was declared.

12. Cash and balances with the Central Bank

	At 31 December	
	2008	**2007**
Cash on hand	1,049,060	720,963
Mandatory reserve	16,936,900	17,960,014
Balances with the Central Bank other than mandatory reserve deposits	15,039	6,621,895
Total included in Cash and cash equivalents (Note 29)	**18,000,999**	**25,302,872**

The National Bank of Serbia (NBS) regulations related to mandatory reserve have been changed for a few times during 2008. At the end of December mandatory reserve in local currency was calculated by applying the rate of 10% for deposits maturity up to 1 month and 5% for deposits maturity above 1 month on the average daily amount of Group's deposit base in local currency in the preceding month. At the end of December mandatory reserve in foreign currency for borrowings from abroad were calculated by applying the rate of 45% and for deposits in foreign currency were calculated by applying the rate of 40% on the average daily amount of Bank's deposit base in foreign currency in the preceding month.
Mandatory reserves on subordinated debt are calculated applying the rate of 20 % on the average daily liabilities for subordinated debt in preceding month, and for leasing agreements applying the rate of 20% on average daily Leasing borrowings from abroad in preceding month. For private individual deposits collected during saving week from 28th October to 6th November, banks are not obligated to calculate and allocate required reserves.
Calculated dinar mandatory reserves are the sum of mandatory reserves calculated in dinars and 40% of the dinar equivalent of the sum of mandatory reserves calculated in euros. Calculated mandatory foreign currency mandatory reserves is the sum of 60% mandatory reserves calculated in euros. Mandatory reserves can be used by the Group in its day-to-day operations. The NBS pays interest of 2.5% on mandatory reserve in RSD and does not pay any interest on mandatory reserve in foreign currency.

13. Loans and advances to banks

	At 31 December	
	2008	**2007**
Nostro accounts (Note 29)	2,565,321	272,214
Money market placements (Note 29)	3,994,599	2,248,786
Total loans and advances to banks	**6,559,920**	**2,521,000**

Nostro accounts represent the account balances with Commerzbank, American Express bank, Dresdner bank, ProCredit Bulgaria and Standard Chartered bank GMBH.

14. Loans and advances to customers

	At 31 December	
	2008	**2007**
Legal entities	13,410,916	11,659,408
Small and medium enterprises	11,339,457	9,712,047
Agricultural	8,610,765	6,846,694
Private individuals	7,468,862	5,396,672
Total loans and advances to customers	**40,830,000**	**33,614,821**
Unearned future finance income on finance leases	(527,285)	(375,497)
Deferred fee income	(420,561)	(358,656)
Allowance for impairment	(980,799)	(757,916)
Net loans to customers	**38,901,355**	**32,114,997**

Accrued interest amounts RSD 321,580 thousand (2007: RSD 258,896 thousand).

Allowance for losses on loans and advances
Movement in allowance for losses on loans and advances are as follows:

	2008	**2007**
Balance at 1 January	**757,916**	**464,599**
Provision charge for loans and advances impairment (Note 9)	610,168	475,386
Loans written off	(499,683)	(153,518)
Exchange rate differences	112,398	(28,551)
Balance 31 December	**980,799**	**757,916**

Loans and advances to customers include finance lease receivables:

	At 31 December	
	2008	**2007**
Gross investment in finance leases :		
No later than 1 year	1,203,349	693,038
Later than 1 year and no later than 5 years	2,269,691	1,515,868
Later than 5 years	25,449	29,078
	3,498,489	**2,237,984**
Unearned future finance income on finance leases	(527,285)	(375,497)
Net investment in finance leases	**2,971,204**	**1,862,487**
Net investment in finance lease is analyzed as follows:		
No later than 1 year	962,514	529,788
Later than 1 year and no later than 5 years	1,984,410	1,305,522
Later than 5 years	24,280	27,177
	2,971,204	**1,862,487**

15. Derivative financial instruments

Derivative financial assets and liabilities include currency swaps and interest rate swaps. Currency swaps are commitments to exchange one set of cash flows for another. The risk is monitored on an ongoing base with reference to the current fair value, and the liquidity of the market. Interest rate swap is used to change commitments with floating interest rates for commitments with fixed interest rates.
During 2008 the Group entered into foreign currency swap agreements in order to hedge its open currency position, as of 31 December 2008 the Group did not have currency swap agreements (Note 4.B.1 Foreign exchange risk). The foreign currency swaps are economic hedges only and the hedge accounting is not being applied.
As of 31 December 2008 the Group had Fixed-for-Floating Interest Rate Swap with Commerzbank AG of EUR 9.9 million. The Group entered into interest rate swap agreements in order to hedge its open gap between maturities of reprising of taken long term loans linked to floating rates, and reprising of loans disbursed at floating interest rates (Note 4.B.2 Interest rate risk).
Fair Value of interest rate swaps are presented in Income statement in position gains and losses from financial assets at fair value through profit or loss (Note 8).

16. Financial assets available for sale

Financial assets available for sale include Visa International shares in amount RSD 6,882 thousand.

	At 31 December	
	2008	**2007**
Shares in companies situated in OECD countries	6,882	–
Total available-for-sale financial assets	**6,882**	**–**

The revaluation for available for sale financial assets in equity show the following changes in

Movements in revaluation reserve (AFS)	**2008**	**2007**
As at January 1	–	–
Additions	1,109	–
Deferred taxes	(111)	–
As of December 31	**998**	**–**

17. Other financial investments

	At 31 December	
	2008	**2007**
Shares in subsidiaries - PC Academy Eastern Europe	7,924	7,924
Total financial investments	**7,924**	**7,924**

Other financial investments are classified as financial assets available for sale.

18. Intangible assets

The movement in intangible assets for the years 2008 and 2007 is presented in table below:

	Advance payments for intangible assets	**Software**	**Total**
Cost			
Balance, 1 January 2007	–	27,800	27,800
Additions	12,272	–	12,272
Transfers	(12,272)	12,272	–
Balance, 31 December 2007	**–**	**40,072**	**40,072**
Accumulated amortization			0
Balance, 1 January 2007	–	18,025	18,025
Charge for the year	–	4,510	4,510
Balance, 31 December 2007	–	22,535	22,535
Net Book Value 31 December 2007	**–**	**17,537**	**17,537**
Cost			
Balance, 1 January 2008	–	40,072	40,072
Additions	21,111	–	21,111
Transfers	(12,451)	12,451	–
Balance, 31 December 2008	**8,660**	**52,523**	**61,183**
Accumulated amortization			0
Balance, 1 January 2008	–	22,535	22,535
Charge for the year	–	5,302	5,302
Balance, 31 December 2008	–	27,837	27,837
Net Book Value 31 December 2008	**8,660**	**24,686**	**33,346**

19. Property and equipment

The movement in property and equipment for the 2008 and 2007 is presented in table below:

	Building	Leasehold improvements	IT and other equipment	Assets under equipment	Furniture and fixtures	Total
Cost						
Balance, 1 January 2007	–	183,802	614,122	291,885	136,888	1,226,697
Additions	–	–	–	644,949	–	644,949
Transfers	–	82,488	298,786	(414,475)	33,201	–
Disposals	–	–	(13,404)	–	(2,878)	(16,282)
Balance, 31 December 2007	**–**	**266,290**	**899,504**	**522,359**	**167,211**	**1,855,364**
Accumulated Depreciation						
Balance, 1 January 2007	–	29,792	229,853	–	31,355	290,999
Disposals	–	–	(9,377)	–	(1,444)	(10,821)
Charge for the year	–	40,988	174,212	–	23,138	238,338
Balance, 31 December 2007	**–**	**70,780**	**394,688**	**–**	**53,049**	**518,516**
Net Book Value 31 December 2007	**–**	**195,510**	**504,816**	**522,359**	**114,162**	**1,336,847**
Cost or valuation						
Balance, 1 January 2008	–	266,290	899,504	522,359	167,211	1,855,364
Additions	–	–	–	667,873	–	667,873
Revaluation	644,439	–	–	–	–	644,439
Transfers	688,685	75,654	288,075	(1,091,522)	39,108	–
Disposals	–	–	(26,525)	–	(5,555)	(32,080)
Balance, 31 December 2008	**1,333,124**	**341,944**	**1,161,054**	**98,710**	**200,764**	**3,135,596**
Accumulated Depreciation						
Balance, 1 January 2008	–	70,780	394,688	–	53,049	518,517
Disposals	–	–	(24,745)	–	(2,797)	(27,542)
Charge for the year	–	51,533	218,479	–	27,080	297,092
Balance, 31 December 2008	**–**	**122,313**	**588,422**	**–**	**77,332**	**788,067**
Net Book Value 31 December 2008	**1,333,124**	**219,631**	**572,632**	**98,710**	**123,432**	**2,347,529**

As at 31 December 2008 the Group performed a revaluation of its Head Office building in accordance with IAS 16. The valuation was performed by an independent valuer. The building value was determined by the valuer using the Comparative Market Price Method. The revalued amount of the building is RSD 1,333,124 thousand. The group has recorded in property and equipment revaluation reserves within equity the amount of RSD 580,993, net of related deferred tax (Note 20).

20. Deferred income tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 10% (2006: 10%).

Deferred tax assets are attributable to the following items:

	At 31 December	
	2008	**2007**
Tax credit carried forward (expiring in the period over 5 years)	271,667	190,465
Accelerated tax depreciation	17,101	11,206
Deferred tax liabilities on Building revaluation	(64,557)	(2)
As of 31 December	**224,211**	**201,669**

The movement in deferred income tax account is as follows:

	At 31 December	
	2008	**2007**
As of 1 January	201,669	154,598
Income statement credit (Note 11)	81,203	35,866
Accelerated tax depreciation	5,894	11,207
Deferred tax liabilities	(64,555)	(2)
As of 31 December	**224,211**	**201,669**

21. Other assets

	At 31 December	
	2008	**2007**
Accounts receivables	11,563	9,246
Pre-payments	38,643	25,349
Repossessed properties	1,553	675
Deferred items	145,876	89,885
Claims against insurances	79,536	32,064
Claims from customs and taxes	29,084	17,894
Inventory items	17,712	13,874
Others	221	789
	324,188	**189,776**

Deferred items consist of following:

- Interest expenses paid in advance to the clients using ProAdvance deposit products in the amount of RSD 17,742 thousand (2007: RSD 21,405 thousand);
- Deferred interest on revise repo transactions (2007: RSD 14,883 thousand);
- Leased assets in the amount of RSD 3,374 thousand (2007: RSD 3,720);
- Expenses paid in advance that are related to marketing and magazine subscription in the amount of RSD 86,544 (2007: RSD 45,260 thousand);
- Deferred invoiced from ProCredit group in the amount of RSD 37,995 thousand (2007: RSD 0.5 thousand);
- Others represent losses in cash box and litigated receivables in the amount of RSD 221 thousand (2007: RSD 950 thousand).

22. Deposits from banks

	At 31 December	
	2008	**2007**
Money market deposits	2,403,813	–
Other banks deposits	800,187	268,830
	3,204,000	**268,830**

Money market deposits as of 31st December consist of overnight deposits in the amount of RSD 710,000 thousand, short term deposits in the amount of RSD 1,668,912 thousand and accrued interest on deposits in the amount of RSD 24,901 thousand.
Other bank deposits as of 31st December consist of placements from banks in process of bankruptcy in the amount of RSD 2,463 thousand (2006: RSD5,507) , deposits for spot foreign exchange transactions in the amount of RSD 797,724 thousand (2006: RSD 263,323).

23. Due to customers

	At 31 December	
	2008	**2007**
Current accounts:		
private individuals	1,357,092	1,177,742
corporates	4,876,451	4,384,316
other customers	266,545	443,026
Saving accounts:		
private individuals	1,924,338	2,431,206
Term deposits:		
private individuals	12,862,794	12,465,252
corporates	5,848,004	6,864,979
other customers	216,890	251,176
Deposit as collateral for credit commitment	2,306,941	2,169,379
Other liabilities	356,036	369,288
	30,015,091	**30,556,363**
Accrued interest on deposits	407,674	439,174
Total deposits	**30,422,765**	**30,995,538**

Other liabilities as of 31st December consist of pending client transfers the amount of RSD 355,981 thousand (2007:RSD 369,180) and other liabilities in the amount of RSD 55 thousand (2007:RSD 108 thousand).

24. Other borrowed funds

Other borrowed funds include long term borrowed funds from International Financial Institutions and foreign banks. The table below summarizes other borrowed funds as of 31 December 2008:

	Initial loan in EUR	Carrying value in EUR	Maturity	RSD thousand	RSD thousand
		2008		**2008**	**2007**
European Bank for Reconstruction and Development (EBRD)	21,000,000	1,500,000	2005-2009	132,902	515,035
Kreditanstalt für Wiederaufbau (KfW)	21,800,000	21,157,143	2007-2012	1,874,544	1,696,787
International Finance Corporation	31,957,957	25,000,000	2004-2014	2,215,025	1,326,374
Instituto de Credito Oficial	15,000,000	15,000,000	2010-2015	1,329,015	1,188,543
Financierings - Maatschappij voor Ontwikkelingslanden (FMO)	63,000,000	61,750,000	2005-2013	5,471,112	4,991,881
ProCredit Holding	8,000,000	–	2005-2010	–	475,417
ProCredit Holding subordinated debt	16,000,000	–	2006-2016	–	1,267,779
EFSE subordinated debt	27,000,000	27,000,000	2012-2013	2,392,227	1,188,543
EFSE	12,400,000	12,400,000	2006-2015	1,098,652	2,091,836
PC Finance B.V.	125,000,000	97,000,000	2007-2012	8,594,297	9,904,524
	341,157,957	**260,807,143**	**–**	**23,107,774**	**24,646,719**
Accrued interest				725,708	777,788
Deferred fees				(235,826)	(290,925)
Total				**23,597,656**	**25,133,582**

The Group is obliged to comply with a number of debt covenants set in the borrowing contracts, such as risk weighted capital adequacy, single client exposure ratio, aggregate large exposure ratio, group exposure ratio, related party exposure ratio, maturity gap to available capital ratio, open credit exposure ratio, liquid assets to total assets ratio, unhedged open foreign currency position in any currency and in aggregate. One of the most significant debt covenant is risk weighted capital adequacy ratio, which as at 31 December 2007 was as follows:

	Required (higher than)	Actual
European Bank for Reconstruction and Development	10%	20.51%
International Finance Corporation	10%	20.51%
International Finance Corporation	12%	20.51%
FMO (loan to ProCredit Bank)	12%	18.41%
FMO (loan to ProCredit Leasing)	10%	20.85%

The methodology of calculation of the risk weighted capital adequacy ratio is different, based on specific requirements of the loan agreements.
As at 31 December 2008 and 2007 the Group was not in breach of debt covenants with respect to its borrowed funds.
Loan agreement between PC Finance B.V. and ProCredit Bank is dated on 20 March 2007 with the maturity of five years. Amount of loan is 125,000,000 EUR. Interest rate is 6% per annum and payable annually. Interest rate is fixed for the period of five years.

25. Provisions

	At 31 December	
	2008	**2007**
Retirement benefit obligations	39,388	34,202
Provision for losses on off-balance sheet items	81,952	55,966
Provision for losses on pending transactions	11,962	–
Provision for untaken vacation	36,644	27,594
Other provisions	6,060	2,366
Total provisions	**176,006**	**120,128**

Retirement benefit obligations are paid after regularly retirement of employee. The right on this benefit is conditioned with keeping employee until the right on retirement is achieved. Expected costs for this allowance are accumulated during the period of employee's working years. Defined retirement obligation is estimated on yearly level by independent, certified actuary applying projected credit sample. Net present value of this liability is determined with discounting future net cash outflows applying interest rate on long term bonds which have same currency and similar maturity as retirement benefit obligations have.
Retirement benefit obligations which mature in more than 12 months after balance sheet date are discounted to net present value.
Other provisions as of 31st December consist of provisions for Academy bonus in the amount of RSD 6,060 thousand (2007: RSD 2,366 thousand).

26. Other liabilities

	At 31 December	
	2008	**2007**
Liabilities to employees	13	15,374
Taxes, contributions and other charges	18,470	21,068
Liabilities to suppliers	117,206	73,449
Liabilities for dividends	–	79,236
Current income tax liabilities	–	1,205
Received prepayments for credit installments	213,149	174,376
Liabilities to Credit Bureau	2,031	1,263
Others	10,964	10,540
	361,833	**376,511**

Position others includes: other due payments RSD 10,857 thousand (2007: RSD 4,973 thousand) , liabilities for surplus in cash box RSD 107 thousand (2007 : RSD 5,567 thousand).

27. Share Capital

The ownership structure of the ProCredit Bank a.d. Belgrade as at 31 December 2008 and 2007 is as follows:

	Number of shares		Share in %	
	2008	**2007**	**2008**	**2007**
ProCredit Holding AG	3,052,510	1,575,516	83.33	66.66
European Bank for Reconstruction and Development (EBRD)	–	393,879	–	16.67
Commerzbank AG	610,502	393,879	16.67	16.67
Kreditanstalt für Wiederaufbau	–	–	–	–
	3,663,012	**2,363,274**	**100.00**	**100.00**

28. Special banking risks reserves

According to the Central Bank's decision on classification of banks balance sheet assets and off-balance sheet items, starting with 30 June 2006, the Group is obliged to allocate from retained earnings to a special account reserve in equity the difference between the amounts of allowances for loans and advances to banks and customers calculated based on the Group's internal rules and Central Bank provisioning regulations, respectively. The amounts allocated to special account reserves are not distributable to shareholders.
As at 31 December 2008, the special banking risk reserves under Central Bank's regulations were amounted to RSD 1,532,044 thousand (31 December 2007: RSD 1,073,364 thousand). During 2008 the Bank has allocated to special account reserves the amount of RSD 1,076,186 thousand (2007: 663,204). The Bank should allocate to special reserves an additional amount of RSD 269,407 thousand, after approval of the Bank's shareholders, in order to reach the level prescribed by the Central Bank.

29. Cash and cash equivalents

	At 31 December	
	2008	2007
Cash and balances with Central Bank (Note 12)	18,000,999	25,302,872
Nostro accounts with other banks (Note 13)	2,565,321	272,214
Money market placements (Note 13)	3,994,599	2,248,786
	24,560,919	**27,823,872**

30. Contingent liabilities and commitments

The following table indicates the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers:

	At 31 December	
	2008	2007
Payments and guarantees	5,899,748	3,200,676
Acceptances and endorsements	9,362	15,737
Loan commitments	2,178,592	2,243,228
Letters of credit (documentary business)	233,011	464,972
Credit related commitments (Note 3.B.3)	**8,320,713**	**5,924,613**
Performance guarantees	448,072	747,586
Balance as at 31 December	**8,768,785**	**6,672,199**

The following table shows the Operating lease commitments for rent of business premises:

	At 31 December	
	2008	2007
No later than 1 year	8,162	20,847
Later than 1 year and no later than 5 years	344,787	447,968
Later than 5 years	2,000,773	1,315,420
	2,353,722	**1,784,235**

31. Related party transactions

In normal course of business, the Group enters into transactions with its shareholders and other micro finance institutions in Central and Eastern Europe.

	At 31 December	
	2008	2007
Nostro accounts		
Commerzbank AG	794,343	199,950
ProCredit bank Bulgaria	15,054	15,447
Loans and advances to banks		
ProCredit Bank Moldova	62,900	–
Share in equity		
ProCredit Academy Eastern Europe	7,923	7,923
Other receivables		
ProCredit Holding	37,487	290
PC Finance II	1,013	–
ProCredit Bank Moldova	507	–
ProCredit Academy Eastern Europe	–	874
ProCredit Bank Honduras	–	29
ProCredit Bank Georgia	–	31
Liabilities to group co.		
PC Finance II	686,750	–
Other borrowed funds		
ProCredit Holding	–	1,267,779
Liabilities for dividends		
Liabilities for dividends PCH	–	63,030
Other liabilities		
PC Finance II	2,178	–
ProCredit Holding	–	3,262
Off balance sheet items		
Guarantees issued to PC Finance II	79,741	–

The volumes of related party transactions and related expenses for the year are as follows:

	2008	2007
Deposits from banks		
Loans outstanding at 1 January	–	–
Loans issued during year	–	547,141
Loans repayments during the year	–	(547,141)
Loans outstanding at 31 December	–	–
Other borrowed funds		
Loans outstanding at 1 January	1,267,780	1,323,250
Loans issued during year	–	322,141
Exchange rate differences	13,236	1,091
Loans repayments during the year	(1,281,016)	(378,702)
Loans outstanding at 31 December	–	1,267,780

	2008	2007
Interest income	14,092	46
Interest expenses	96,201	190,674

Paid salaries the Members of Board of Directors as of 31 December 2008 Executive Board members in total net amount are RSD 760 thousand (2007: NIL).

32. Events after balance sheet date

No post balance sheet events have occurred which have any substantial impact on the consolidated financial statements for the year ending 31 December 2008.

33. Exchange Rates

The official exchange rates as of 31 December 2008 and 2007 are as follows:

	2008	2007
USD	62.9000	53.7267
EUR	88.6010	79.2362

Contact Addresses

Head Office

ProCredit Bank
Belgrade
Milutina Milankovića 17
Tel. +381 11 2077 906
Fax +381 11 2077 905
info@procreditbank.rs
www.procreditbank.rs

ProCredit Leasing
Belgrade
Bulevar despota Stefana 68c
Tel. +381 11 3012 700
Fax +381 11 3012 712
info@procreditleasing.rs
www.procreditleasing.rs

Regional Centres

Belgrade
Bulevar despota Stefana 68c
Tel. +381 11 3313 088
Fax +381 11 3313 088

Novi Sad
Narodnog fronta 73a
Tel. +381 21 4895 700
Fax +381 21 4895 727

Niš
Svetozara Markovića 10
Tel. +381 18 505 300
Fax +381 18 505 335

Kragujevac
Kneza Mihaila 49
Tel. +381 34 308 800
Fax +381 34 308 818

Branches

Aleksinac
Majora Tepića bb
Tel. +381 18 808 502
Fax +381 18 808 512

Apatin
Petefi Šandora 2a
Tel. +381 25 779 536
Fax +381 25 779 544

Aranđelovac
Knjaza Miloša 218
Tel. +381 34 701 687
Fax +381 34 701 747

Bačka Palanka
Kralja Petra I 21
Tel. +381 21 754 902
Fax +381 21 754 904

Bačka Topola
Glavna 46a
Tel. +381 24 718 644
Fax +381 24 718 645

Bečej
Moše Pijade 3
Tel. +381 21 6914 480
Fax +381 21 6913 220

Belgrade
Borska 41V
Tel. +381 11 3057 460
Fax +381 11 3057 461

Bratstva i jedinstva 73
Tel. +381 11 2086 800
Fax +381 11 2086 400

Bulevar despota Stefana 68c
Tel. +381 11 3313 088
Fax +381 11 3313 060

Bulevar kralja Aleksandra 240
Tel. +381 11 3808 273
Fax +381 11 3809 272

Bulevar vojvode Mišića 12
Tel. +381 11 2067 588
Fax +381 11 2067 592

Bulevar Zorana Đinđića 65
Tel. +381 11 2120 210
Fax +381 11 2120 214

Glavna 47, Zemun
Tel. +381 11 3168 655
Fax +381 11 3168 656

Goce Delčeva 29
Tel. +381 11 3194 400
Fax +381 11 3194 400

Gospodar Jevremova 9
Tel. +381 11 3025 625
Fax +381 11 3025 620

Jurija Gagarina 221
Tel. +381 11 2281 833
Fax +381 11 2281 834

Mileševska 65
Tel. +381 11 3089 443
Fax +381 11 3089 405

Milutina Milankovića 17
Tel. +381 11 2077 750
Fax +381 11 2077 751

Nedeljka Gvozdenovića 11
Tel. +381 11 2285 055
Fax +381 11 2285 056

Obilićev venac 26
Tel. +381 11 3038 180
Fax +381 11 3038 189

Pilota Mihajla Petrovića 72
Tel. +381 11 2349 492
Fax +381 11 2349 505

Požeška 60
Tel. +381 11 3057 030
Fax +381 11 3057 033

Vojvode Milenka 38
Tel. +381 11 3617 533
Fax +381 11 3613 399

Vojvode Stepe 162
Tel. +381 11 3099 102
Fax +381 11 3099 104

Vojvođanska 100
Tel. +381 11 844 3031
Fax +381 11 844 2179

Čačak
Milenka Nikšića 63
Tel. +381 32 350 665
Fax +381 32 350 645

Sinđelićeva 35
Tel. +381 32 226 556
Fax +381 32 228 336

Dimitrovgrad
Balkanska 5
Tel. +381 10 362 711
Fax +381 10 362 712

Inđija
Kralja Petra I 13
Tel. +381 22 510 911
Fax +381 22 510 912

Ivanjica
Boška Petrovića 45
Tel. +381 32 601 810
Fax +381 32 601 820

Jagodina
Gine Pajević bb
Tel. +381 35 244 695
Fax +381 35 242 905

Kanjiža
Glavna 16
Tel. +381 24 879 500
Fax +381 24 879 470

Kikinda
Trg srpskih dobrovoljaca 2
Tel. +381 230 401 110
Fax +381 230 401 110

Kragujevac
Avalska 3
Tel. +381 34 372 910
Fax +381 34 372 911

Kneza Mihaila 49
Tel. +381 34 308 800
Fax +381 34 308 818

Kralja Petra I 3
Tel. +381 34 302 175
Fax +381 34 302 175

Kraljevo
Cara Lazara 44
Tel. +381 36 317 290
Fax +381 36 317 290

Kruševac
Mirka Tomića 99
Tel. +381 37 418 490
Fax +381 37 418 490

Lazarevac
Karađorđeva 64 - 70
Tel. +381 11 8128 626
Fax +381 11 8120 522

Leskovac
Bulevar oslobođenja bb
Tel. +381 16 212 392
Fax +381 16 212 392

Loznica
Vere Blagojević F/9
Tel. +381 15 877 113
Fax +381 15 877 105

Mladenovac
Nikole Pašića1b
Tel. +381 11 8245 820
Fax +381 11 8245 840

Niš
Dušanova 21
Tel. +381 18 514 345
Fax +381 18 514 344

Svetozara Markovića 10
Tel. +381 18 505 300
Fax +381 18 505 301

Toplički partizanski odred 70
Tel. +381 18 290 016
Fax +381 18 290 017

Vizantijski bulevar 84
Tel. +381 18 206 816
Fax +381 18 206 817

Vojvode Mišića 113
Tel. +381 18 296 292
Fax +381 18 296 290

Novi Pazar
Stefana Nemanje 54
Tel. +381 20 316 584
Fax +381 20 316 591

28. novembra 93
Tel. +381 20 318 221
Fax +381 20 318 221

Novi Sad
Bulevar cara Lazara 7b
Tel. +381 21 455 711
Fax +381 21 458 122

Bulevar oslobođenja
Tel. +381 21 477 8600
Fax +381 21 477 8601

Jovana Dučića 7
Tel. +381 21 6791 750
Fax +381 21 6791 010

Laze Telečkog 28
Tel. +381 21 4726 426
Fax +381 21 4726 434

Narodnog fronta 73a
Tel. +381 21 4895 700
Fax +381 21 4895 727

Obrenovac
Miloša Obrenovića 105
Tel. +381 11 8725 431
Fax +381 11 8725 833

Odžaci
Železnička 26
Tel. +381 25 746 664
Fax +381 25 743 306

Pančevo
Petra Drapšina 4 - 6
Tel. +381 13 331 491
Fax +381 13 331 492

Paraćin
Vožda Karađorđa 35
Tel. +381 35 573 386
Fax +381 35 573 382

Pirot
Srpskih vladara 48
Tel. +381 10 313 033
Fax +381 10 313 036

Požarevac
Tabačka čaršija 12
Tel. +381 12 543 145
Fax +381 12 543 156

Požega
Knjaza Miloša 53
Tel. +381 31 825 229
Fax +381 31 825 629

Preševo
Save Kovačevića 21
Tel. +381 17 661 300
Fax +381 17 661 301

Prijepolje
Valterova bb
Tel. +381 33 716 040
Fax +381 33 716 050

Prokuplje
Hajduk Veljkova 25
Tel. +381 27 329 339
Fax +381 27 329 993

Senta
Glavna 16
Tel. +381 24 817 107
Fax +381 24 817 106

Smederevo
Vojvode Đuše 7
Tel. +381 26 640 160
Fax +381 26 640 121

Sombor
Venac Radomira Putnika 24
Tel. +381 25 26 480
Fax +381 25 433 900

Sremska Mitrovica
Svetog Dimitrija 35
Tel. +381 22 615 022
Fax +381 22 636 215

Stara Pazova
Kralja Petra 22
Tel. +381 22 316 613
Fax +381 22 316 612

Subotica
Cara Dušana 3
Tel. +381 24 622 501
Fax +381 24 622 505

Matije Korvina 17
Tel. +381 24 572 532
Fax +381 24 572 554

Pazinska 3
Tel. +381 24 670 075
Fax +381 24 673 705

Svilajnac
Svetog Save 73
Tel. +381 35 312 702
Fax +381 35 312 712

Šabac
Cara Dušana 1
Tel. +381 15 360 050
Fax +381 15 360 022

Temerin
Novosadska 373
Tel. +381 21 851 441
Fax +381 21 851 442

Ub
Vuka Karadžića 32
Tel. +381 14 416 404
Fax +381 14 416 403

Užice
Dositejeva 4
Tel. +381 31 510 135
Fax +381 31 513 457

Valjevo
Doktora Pantića 118
Tel. +381 14 244 723
Fax +381 14 244 725

Veliko Gradište
Trg Milana Miloradovića 48
Tel. +381 12 661 451
Fax +381 12 661 451

Vranje
Lenjinova 20
Tel. +381 17 414 332
Fax +381 17 414 668

Vrbas
Maršala Tita 60
Tel. +381 21 705 405
Fax +381 21 705 885

Vršac
Ive Milutinovića 46
Tel. +381 13 801 380
Fax +381 13 801 380

Trg Save Kovačevića 3
Tel. +381 13 801 350
Fax +381 13 801 350

Zaječar
Nikole Pašića 87
Tel. +381 19 444 850
Fax +381 19 444 878

Zlatibor
Tržni centar
Tel. +381 31 845 444
Fax +381 31 845 363

Zrenjanin
Kralja Aleksandra 10
Tel. +381 23 511 780
Fax +381 23 511 780

ProCredit Bank

Serbia

Annual Report 2008