ProCredit Bank

Serbia

Annual Report 2007

Key Figures

EUR ’000	2007	2006	Change
Balance Sheet Data			
Total Assets	778,786	495,290	57.24%
Gross Loan Portfolio	415,328	306,196	35.64%
Business Loan Portfolio	251,762	195,188	28.98%
EUR < 10,000	94,386	67,341	40.16%
EUR > 10,000 < 50,000	81,272	64,642	25.73%
EUR > 50,000 < 150,000	38,550	31,781	21.30%
EUR > 150,000	37,555	31,424	19.51%
Agricultural Loan Portfolio	89,775	64,517	39.15%
Housing Improvement Loan Portfolio	31,201	16,540	88.64%
Other	42,589	29,952	42.19%
Allowance for Impairment on Loans	9,565	5,881	62.65%
Net Loan Portfolio	405,763	300,315	35.11%
Liabilities to Customers	393,380	240,575	63.51%
Liabilities to Banks and Financial Institutions	292,447	177,197	65.04%
Shareholders’ Equity	60,748	43,009	41.24%
Income Statement			
Operating Income	43,437	32,560	33.40%
Operating Expenses	36,879	31,460	17.23%
Operating Profit Before Tax	6,558	1,101	495.64%
Net Profit	6,916	2,306	199.91%
Key Ratios			
Cost/Income Ratio	74.73%	88.92%	
ROE*	13.35%	6.63%	
Capital Ratio	16.64%	14.42%	
Operational Statistics			
Number of Loans Outstanding	101,999	75,764	34.63%
Number of Loans Disbursed within the Year	91,236	85,689	6.47%
Number of Business and Agricultural Loans Outstanding	67,757	52,735	28.48%
Number of Deposit Accounts	434,183	310,143	39.99%
Number of Staff	1,743	1,421	22.66%
Number of Branches and Outlets	67	52	28.85%

* The ROE figure for 2006 differs from that shown in last year’s annual report because the method of calculating this indicator has been modified.

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 achieved outstanding results in 2007, its sixth year of operations. The bank maintained its position as one of the key institutions in Serbia's financial sector and continued to have a significant impact on the development of the country's private sector.

Serbia's GDP growth exceeded 7% in 2007. This growth was particularly significant given the political, economic and social turbulence that the country experienced during the year.

Strong inflationary pressures led the National Bank of Serbia to take additional measures to bring core inflation under control. The Serbian banking sector continued to grow, contributing to the stabilisation of the financial system. The first voluntary private pension funds were launched, and the country's first investment funds were established, expanding the capabilities of the local financial sector. Confidence in the banking sector continued to increase, as was reflected in a rise in the deposits of private individuals and legal entities: in 2007, total bank deposits increased by 44%.

ProCredit Bank achieved an ROE of 13%, clearly demonstrating that the bank can remain steadfast in its commitment to responsible banking while earning a sufficient return on shareholders' funds. ProCredit Bank has actively supported the National Bank of Serbia's policies to promote responsible lending. In Serbia's challenging and increasingly competitive banking market, it has continued to be the leader in providing very small, small and medium-sized enterprises and farmers with high-quality financial services. The bank's number of customers increased by 99,496 during 2007 to over 230,000. The loan portfolio consisted of more than 120,000 loans outstanding, representing a total volume of EUR 415 million. The bank increased its deposit base by EUR 153 million to EUR 393 million.

In 2007, ProCredit Bank opened 15 branches, expanding the network to 67 branches in 43 cities across Serbia. Over 500 new employees were hired, trained, and successfully integrated into the ProCredit team.

To support ProCredit Bank's growth, the shareholders carried out two capital increases, one in September and one in December, boosting the institution's capital to EUR 46.7 million. In August 2007, KfW sold its shares in ProCredit Bank Serbia and used the proceeds to acquire shares in ProCredit Holding. KfW will continue to support ProCredit Bank Serbia as a shareholder in ProCredit Holding.

The achievements of the past year would not have been possible without the unwavering support of our shareholders. I would like to express my sincere thanks to them for their belief in and dedication to our bank's mission and for their commitment to the Serbian market.

I would also like to take this opportunity to express my gratitude to the bank's 1,743 staff members for their hard work, dedication, and loyalty. In 2007 it was once again abundantly clear that our employees are our most important asset.

Klaus Glaubitt

Klaus Glaubitt
Chairman of the Board of Directors

Members of the Board of Directors as at December 31, 2007:
Klaus Glaubitt
Claus-Peter Zeitinger
Gabriele Heber
Helen Alexander
Maria-Teresa Zappia
Per Fischer
Goran Zivkov

Members of the Executive Management as at December 31, 2007:
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. In 2007, it further increased its stake in the bank by acquiring the shares held by Kreditanstalt für Wiederaufbau (KfW), thus demonstrating its commitment to, and confidence in, ProCredit Bank Serbia. KfW will remain indirectly involved in the development of ProCredit Bank Serbia through its shareholding in ProCredit Holding. At the end of December 2007, ProCredit Holding held over 66% of the shares in ProCredit Bank Serbia.

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 serve 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 the 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. The management of the bank was provided by Internationale Projekt Consult GmbH (IPC). Over the years, ProCredit Holding, working closely with 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 46.7 million.

Shareholder (as of Dec. 31, 2007)	Sector	Headquarters	Share	Paid-in Capital (in EUR million)
ProCredit Holding	Investment	Germany	66.67%	31.1
Commerzbank AG	Banking	Germany	16.67%	7.8
EBRD	Banking	UK	16.67%	7.8
Total Capital			**100%**	**46.7**

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 Basle 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. Historically, IPC provided the senior managers of the ProCredit banks. At the end of 2007, IPC staff were integrated into ProCredit Holding, significantly strengthening the company's ability to support the ProCredit group.

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, the Swiss investment fund responsAbility and the Salvadoran company Fundasal. The public shareholders of ProCredit Holding include KfW (the AAA-rated German promotional bank), IFC (the AAA-rated private sector arm of the World Bank), FMO (the Dutch development bank) and BIO (the Belgian development fund).

ProCredit Holding has an investment grade rating (BBB-) from Fitch Ratings Agency. As of the end of 2007, the equity base of the ProCredit group is EUR 333.2 million. The total assets of the ProCredit group are EUR 4.1 billion.

COMMERZBANK **Commerzbank AG** was established in 1870 and following the takeover of Eurohypo AG, announced in November 2005, is Germany's second-largest bank and one of the leading commercial banks in Europe. With a strong international network comprising offices and shareholdings in more than 40 countries, Commerzbank is a universal bank providing retail, corporate, public-sector and investment banking services. It also offers financial products and services via a number of subsidiaries, such as online banking, leasing, asset management and real-estate investment.

The **European Bank for Reconstruction and Development (EBRD)** was established in 1991. It aims to foster the transition towards open, market-oriented economies and to promote private and entrepreneurial initiative in countries from Central Europe to Central Asia that are committed to democracy, pluralism and market economics. The EBRD seeks to help its countries of operations to implement structural and sectoral economic reforms, promoting competition, privatisation and entrepreneurship. In fulfilling its role as a catalyst of change, the Bank encourages cofinancing and foreign direct investment from the private and public sectors, helps to mobilise domestic capital, and provides technical cooperation in relevant areas.

The ProCredit Group – Neighbourhood Banks for Ordinary People

The ProCredit group currently comprises 22 target group-oriented banks. We focus on developing countries and transition economies in three regions: Eastern Europe, Latin America and Africa. The group has 622 branches staffed by 16,800 employees. Currently, ProCredit banks disburse more than 75,000 loans totalling more than EUR 236 million every month. By the end of 2007, the number of loans outstanding had grown to 926,000 (amounting to EUR 2.8 billion, an increase of 34% over the year). The average loan amount outstanding is EUR 3,045, and the loan portfolio quality remains excellent, with a ratio of loans in arrears (>30 days) to total loan portfolio of only 1.4%. Over 2007, the group's deposit base increased from EUR 1.8 billion to EUR 2.5 billion, an increase of 37%. The number of accounts increased by 900,000.

But what do these facts and figures mean and what is ProCredit trying to achieve? ProCredit is building a global group of neighbourhood banks. But what is a neighbourhood bank? Wherever we are, we aim to be the accessible, trusted, socially responsible bank for local small businesses and "ordinary" people who live and work in the area. In our lending business, we focus on very small, small and medium-sized enterprises. At the same time ProCredit provides retail banking services to ordinary people, with a focus on low-income families. In this way we aim to be the long-term banking partner for target groups which most conventional commercial banks neglect. By providing socially responsible products, we aim to contribute to the economic development of the countries in which we work.

In the developing countries and transition economies in which the ProCredit group operates, conventional commercial banks tend to neglect small and very small businesses because they are thought to keep inadequate records, have insufficient collateral and generate high administrative costs. However, these businesses are the main engine of economic growth and job creation. Over the years, the ProCredit group and IPC, which developed the lending methodology used by the ProCredit group, have gained a profound understanding of both the problems faced by small businesses and the opportunities available to them, and have tailored the credit technology to reflect the realities of their operating environment. Thanks to this credit technology, which combines careful analysis of all credit risks with a high degree of standardisation and efficiency, ProCredit institutions are able to reach a large number of small borrowers.

In contrast to ProCredit, other commercial banks give priority in their lending operations to corporate finance and consumer lending, especially the latter. Consumer finance is attractive to those banks because it usually does not require skilled staff or much financial analysis of the client, allowing banks focussed on market share to grow quickly. However, this quest for market share can lead to irresponsible lending and over-indebtedness on the part of the client. ProCredit never forgets that a loan is also a debt. The recent events around the US subprime mortgage crisis are an important reminder of the social and economic consequences of inappropriate lending behaviour. In contrast, we place great emphasis on the careful evaluation of a borrower's debt capacity and on building lasting relationships. In this way, ProCredit is characterised by a responsible, long-term attitude towards business development and client relationships.

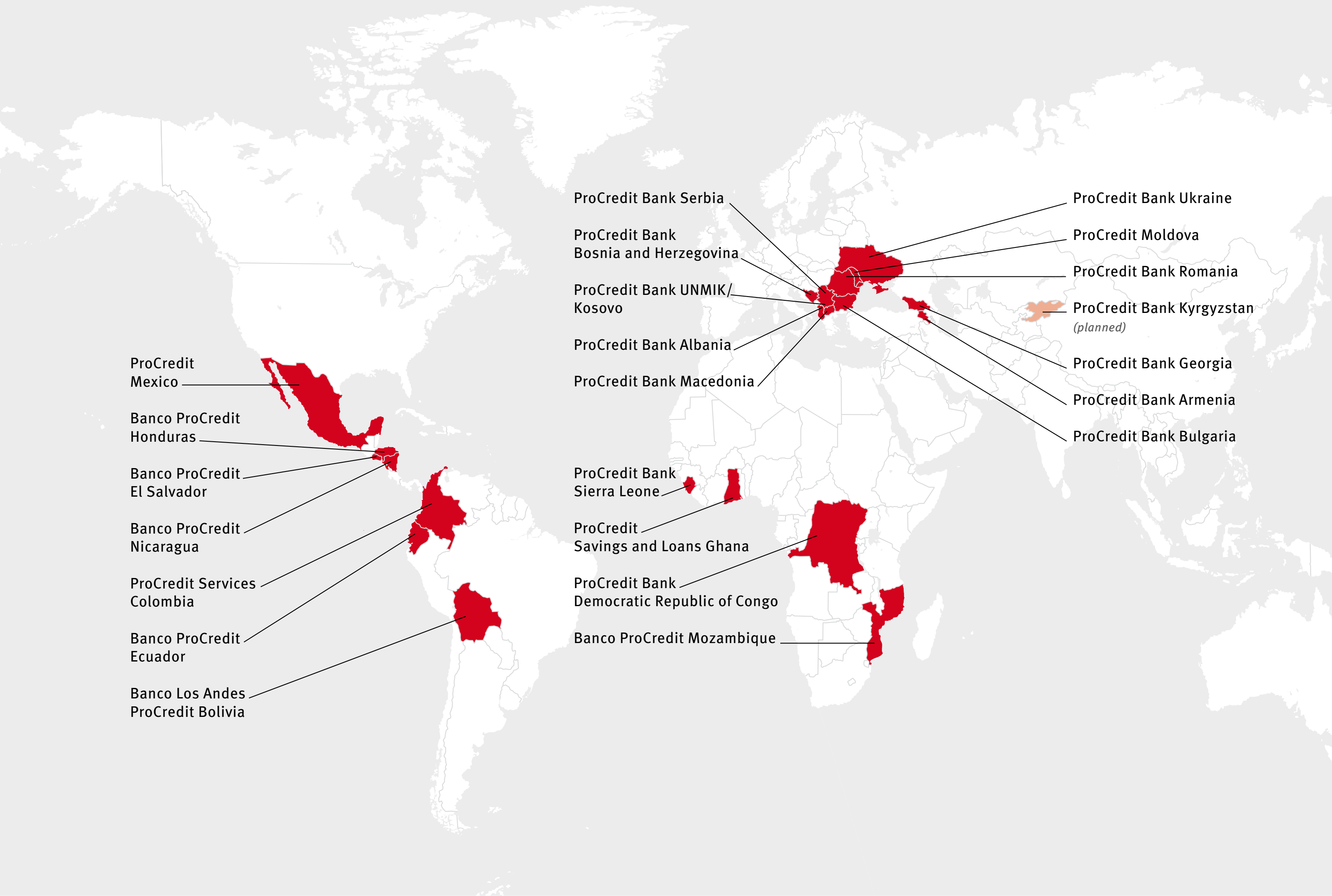
Furthermore, ProCredit institutions strive to foster a savings culture. We aim to build public confidence in banks by setting new standards in customer service, transparency and business ethics. ProCredit deposit facilities are appropriate for a broad range of customers, especially low-income groups. We offer simple savings products with no minimum deposit requirement. Eighty percent of all deposit accounts have a balance of less than EUR 100. This illustrates our target-group orientation and highlights the challenge of serving this target group of small savers who account for only 1% of our total deposit volume. In the spirit of a neighbourhood bank, ProCredit banks place great emphasis on children's savings products and education campaigns as well as on sponsoring local community events. In addition to deposit facilities, clients are offered a full range of standard non-credit banking services.

The shareholders of the group aim to strike the right balance between their prime developmental goals: reaching as many small enterprises and small savers as possible, and achieving commercial success. For 2007, the return on equity for the group as a whole, expressed in hard currency after deduction of profit taxes, is 12.6%.

And who are the shareholders behind the ProCredit group? The ProCredit group is led by the Frankfurt-based ProCredit Holding AG, founded by the consulting firm IPC in 1998. In Eastern Europe, EBRD and Commerzbank, and in Latin America, the IDB, also participate as minority shareholders. ProCredit Holding is a public-private partnership, led by IPC and by 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 include KfW, IFC, FMO and BIO.

ProCredit Holding not only provides equity to its subsidiaries, but also guides the development of the ProCredit banks, provides their senior management, and supports the banks in all key areas of activity. Historically, IPC staff managed the ProCredit institutions, building them to what they are today. At the end of 2007, IPC staff were integrated into ProCredit Holding, greatly strengthening its ability to support the group. The holding company ensures that ProCredit corporate values, best-practice banking operations and Basle II risk management principles are implemented group-wide. Plans are underway to bring the ProCredit group under the supervision of the German federal banking supervisory authority (BaFin) in 2008.

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



ProCredit Holding is deeply involved in human resource management. The neighbourhood bank 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 neighbourhood bank approach requires a high degree of decentralised decision-making and therefore judgement and creativity from all staff, 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 right selection and training of staff. We maintain a corporate culture that harnesses the creativity and entrepreneurial spirit 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 and the humanities. 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 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 is to continue its very rapid growth in order to meet the large unmet demand for financial services from its target groups. The continued success of ProCredit relies on a self-confident team of people who share a personal commitment to the target group, to fast growth and to the neighbourhood way of doing things.

ProCredit in Eastern Europe

ProCredit operates 11 banks across Eastern Europe. With more than 535,000 loans outstanding, it is the region's leading provider of banking services to very small, small and medium-sized businesses. In 2007, ProCredit decided to expand its regional presence into Armenia and Kyrgyzstan. A provisional banking licence has been obtained in Armenia, and the bank will be operational in February 2008. We plan for ProCredit Bank Kyrgyzstan to be operational in 2008.

The region is currently enjoying relative political stability and strong GDP growth of around 5% in 2007. Financial sectors and private sector lending are also rapidly expanding. In all Eastern European markets in which ProCredit operates, total banking assets in 2007 grew by well over 20%, and in several markets by over 50%. Much of this growth is driven by heavy investment in the form of foreign capital and the activities of western banks. In this context the market opportunities are clear, but sometimes we are asked: can ProCredit claim to be different and to be making a difference in the region? Our answer is a resounding "yes". We stand out as banks deeply committed to small business lending over the long term, to building a responsible savings culture rather than blindly fuelling consumer spending, and to setting new standards of transparency and service for our customers.

Across the region, the focus of most other banks continues to be corporate finance and consumer lending. They neglect lending to small entrepreneurs and small family businesses. Yet these businesses are the driving force behind economic growth and job creation across Eastern Europe, and have been since the collapse of Soviet influence and the large state-owned enterprises related to it. For most banks, it is simply easier to make money with consumer lending and loans to large corporate clients, since small business lending requires decentralised decision-making and highly qualified staff who are able to assess risk quickly and reliably and maintain durable client relationships.

The loan portfolio volume of ProCredit banks in Eastern Europe grew by more than 34% in 2007, which is at least as fast as the consumer-driven market as a whole, emphasising the importance of our focus on small business loans. The importance of ProCredit in transition economies should be no surprise: even in well-developed western markets, only a few banks are dedicated to the long-term support of small business customers.

It is also no surprise that consumer lending, which is being so aggressively pursued by other banks in Eastern Europe, is not a business in which ProCredit actively engages. We believe that it tends to drive imports rather than domestic production. If pushed irresponsibly in the context of a market-share gain game – with very little analysis of a customer's repayment capacity – it quickly leads to over-indebtedness. This creates suffering for the individuals and families affected, and can undermine wider social and financial stability. The growing incidence of rising default rates underpins this view. The sub-prime mortgage crisis in the US is a timely reminder of the consequences of inappropriate lending practices. Our approach is to provide loans primarily to businesses and to do so based on a careful, efficient analysis of a client's ability to repay. We aim to build lasting relationships, and we never forget that a loan is also a debt. In this way, ProCredit is characterised by a responsible, long-term attitude towards business development.

Across the region, we provide agricultural loans, supporting 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. ProCredit banks offer their business clients loans and other services, including plastic cards and fast, low-cost money transfers ("ProPay"), providing a truly integrated service for entrepreneurs who are active across the region.

In the face of rapid expansion in consumer lending, we make it a priority to create a "savings" culture, not just a "spending" culture – because savings are an important buffer against the vagaries of life. The level of deposits to GDP in Eastern European countries, typically around 50%, remains well below Western European levels. Through promotional events and direct, personal communication, we encourage people – particularly those who do not yet have a banking relationship – to use banking services and to regu-

larly set aside a portion of their earnings. This outreach is combined with the offer of simple and reliable banking products, especially savings and deposit accounts.

In keeping with our mission to be accessible to clients wherever they are, the ProCredit group continues to expand to provide comprehensive coverage across the region: in 2007 we opened 100 branches and employed 2,400 more staff to bring the total to more than 440 branches and 11,000 staff. Our clients can now drive from Tirana in Albania to Yerevan in Armenia and enjoy the same friendly service and open, welcoming branches all along the way. We place a strong emphasis on transparency in all ProCredit banks. We run information campaigns to ensure that all customers understand the pricing of our products as well as those of our competitors, since we find that aggressively growing markets create a lot of scope for misleading customers about the true price of banking services.

Our staff are the key element in our approach to being a stable, down-to-earth banking partner to clients across the region. The group has a strong commitment to staff training, professional development and cultivating an open, honest communication culture. Staff exchanges, cross-border training programmes and regional workshops are an important part of our approach. In 2007 we founded the ProCredit Regional Academy in Skopje, Macedonia for the training of local middle managers. Already 90 managers have graduated from the six-week intensive course. In the highly competitive Eastern European banking sectors, well-trained, highly motivated ProCredit staff, who have built strong, long-term relationships with clients, are in high demand from competitor banks. However, the ProCredit work environment, the investment we make in our staff, and the international opportunities that they enjoy enable us to be very successful in retaining our best people, providing a firm base for our ongoing growth in the region.

Name	Highlights*	Contact
ProCredit Bank Albania	Founded in October 1998 26 branches 32,581 loans / EUR 117.5 million in loans 198,668 deposit accounts / EUR 213.8 million 711 employees	Rruga Sami Frasheri Tirana Tel./Fax: +355 4 271 272 / 276 info@procreditbank.com.al www.procreditbank.com.al
ProCredit Bank Armenia	Founded in December 2007 Operational in February 2008 1 branch 118 employees	31, Moskovvan St. 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 39 branches 68,752 loans / EUR 162.1 million in loans 84,126 deposit accounts / EUR 143.1 million 831 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 72 branches 63,125 loans / EUR 447.4 million in loans 194,530 deposit accounts / EUR 311.4 million 1,566 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 42 branches 64,283 loans / EUR 164.2 million in loans 407,756 deposit accounts / EUR 118.2 million 1,476 employees	154 D. Agmashenebeli Ave. 0112 Tbilisi Tel./Fax: +995 32 20 2222 / 2266 info@procreditbank.ge www.procreditbank.ge
ProCredit Bank UNMIK/Kosovo	Founded in January 2000 47 branches 69,601 loans / EUR 343.2 million in loans 296,825 deposit accounts / EUR 492.1 million 914 employees	"Mother Tereze" Boulevard No. 16 10 000 Prishtina Tel./Fax: +381 38 555 777 / 776 info@procreditbank-kos.com www.procreditbank-kos.com
ProCredit Bank Macedonia	Founded in July 2003 34 branches 28,642 loans / EUR 105.3 million in loans 117,247 deposit accounts / EUR 105.9 million 737 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 22 branches 15,267 loans / EUR 25.0 million in loans 323 employees	65, Stefan cel Mare Ave. Off. 900; Chisinau Tel./Fax: +373 22 27 0707 / 3488 office@procredit.md www.procredit.md
ProCredit Bank Moldova	Founded in December 2007 Operational in February 2008 1 branch 41 employees	35, Eminescu St. Chisinau Tel./Fax: +373 22 271707 / 204496 office@procreditbank.md www.procreditbank.md
ProCredit Bank Romania	Founded in May 2002 36 branches 39,687 loans / EUR 213.9 million in loans 106,804 deposit accounts / EUR 160.8 million 899 employees	Calea Buzesti, No. 62-64, Sector 1 011017 Bucharest Tel./Fax: +40 21 2016000 / 305 5663 headoffice@procreditbank.ro www.procreditbank.ro
ProCredit Bank Serbia	Founded in April 2001 60 branches 101,999 loans / EUR 415.3 million in loans 434,183 deposit accounts / EUR 393.4 million 1,625 employees	Bulevar despota Stefana 68c Belgrade Tel./Fax: +381 11 20 77 906/ 905 info@procreditbank.rs www.procreditbank.rs
ProCredit Bank Ukraine	Founded in January 2001 61 branches 52,885 loans / EUR 264.9 million in loans 100,682 deposit accounts / EUR 150.1 million 1,803 employees	107a Peremogy Ave. Kyiv 03115 Tel./Fax: +380 44 590 10 41 / 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 2007

- ProCredit Bank Serbia has disbursed more than 280,000 loans with a total volume of over EUR 1.2 billion since its founding in 2001. At year-end 2007, the bank was serving 41,000 very small, small and medium-sized enterprises throughout the country, making it a reliable partner to almost one quarter of all registered enterprises in Serbia.

- With an agricultural loan portfolio totalling EUR 90 million, ProCredit Bank was one of the largest lenders to Serbia's agricultural sector. Loans were approved with a strong awareness of what farmers appreciate most: speed, simplicity and tailor-made services.

- In the first quarter of the year, the bank raised additional funds for lending by issuing loan participation notes totalling EUR 125 million on European capital markets. This was the first placement of its kind initiated by a Serbian bank.

- ProCredit Bank broadened its range of savings products to accommodate people's varying savings habits. The bank encouraged children to begin saving by regularly inviting them to branch opening ceremonies and by organising competitions that focused on savings-related themes.

- The Corporate Journalists Association and ProCredit Bank selected the best very small, small and medium-sized enterprises in Serbia, according to a methodology developed by ProCredit Bank's lending experts. These top entrepreneurs were awarded prizes by government officials, ProCredit Bank representatives, and economic journalists.

- ProCredit Bank issued a booklet entitled "How to Talk to a Bank". The project aimed to increase ordinary people's awareness of the banking business and financial products and services. The booklet was distributed through one of Serbia's largest daily newspapers and reached an estimated one million people.

- ProCredit employees organised a drive to collect New Year's gifts for orphaned and disabled children. Twenty-six children's institutions across Serbia were presented with 1,460 gifts.

- ProCredit was the first bank in Serbia to introduce the teller cash recycler (TCR) technology. TCR machines enable the bank to perform incoming and outgoing payments and exchange operations faster and more reliably. By the end of the year, the bank had 40 TCRs in 37 cities across Serbia.

- ProCredit Bank established an Information Centre staffed by a team of highly trained employees who answer customers' questions regarding their accounts and the bank's services.

Management Business Review

Members of the Executive Management
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

Serbia continued on its economic growth path during 2007 and made a certain amount of progress on reforms. Most macroeconomic indicators showed favourable trends. GDP grew by 7.5%, debt outstanding to the IMF decreased significantly, and the unemployment rate fell from 21% to 18%. The National Bank of Serbia effectively contained core inflation. Headline inflation was slightly above target at 10.1% due to an expansive fiscal policy and external factors. At 14.8% of GDP, the current account deficit remained problematic.

After parliamentary elections in January, efforts to form a new government proved unsuccessful. As a result, parliament was not able to pass a state budget during the first half of the year. Serbian and Kosovar officials had begun negotiations on the status of Kosovo, but no agreement had been reached as of year-end. Serbia did not meet its obligations to the International Criminal Tribunal for the former Yugoslavia, which is one of the preconditions for its joining the EU.

The anticipated privatisation of large state-owned enterprises did not occur in 2007. Only the former oil-refining monopoly Naftna Industrija Srbije (NIS) was privatised. Fifty-one percent of the company was sold to Russia's Gazprom as part of an agreement between Serbia and Gazprom to build a gas pipeline through Serbia. Six state-owned companies are due to be privatised in 2008. The parliament decided that 17.5% of these companies' shares will be distributed to approximately four million eligible citizens. Parliament did not adopt a final model for privatisation, however. Due to the uncertainty surrounding this plan and the inability of parliament to form a government during the first half of the year, foreign investment was down significantly from 2006.

Financial Sector Developments

The National Bank of Serbia continued its restrictive monetary policy in an effort to stabilise inflation and strengthen confidence in the national currency. It raised the repo rate and maintained a high level of mandatory reserves for foreign currencies. To rein in the consumer-lending boom, the National Bank strongly restricted the disbursement of loans to households. The National Bank also liberalised the foreign currency market, allowing the interbank market to determine foreign exchange rates.

The National Bank's consistent and transparent policies encouraged stability in the banking sector. Total banking assets grew from EUR 15 billion in 2006 to EUR 20 billion in 2007. Mergers in 2006 and 2007 reduced the number of banks to 35 from 40 in 2005. ProCredit Bank Serbia – one of 21 banks in foreign ownership – ranked 9th with a 4% share of total assets.

The banking sector experienced significant growth in both lending and deposit-taking. Total loan disbursements increased by 39%; 58% of loans were disbursed to legal entities, 40% to private individuals, and 2% to the public sector. Cross-border lending increased substantially. Of the business loan portfolio booked inside the country, 20% was obtained from banks operating abroad. Despite its concentration on small and very small business loans, ProCredit Bank Serbia defended its position as the No. 9 bank in lending with a market share of approximately 4.4%.

Total deposits in the banking sector grew by 44%. Legal entities accounted for 34% of deposits, households accounted for 45%, and banks and the public sector accounted for the remaining 21%. ProCredit Bank's deposit base grew in line with the market. The bank maintained a market share of 4.3%, and it was the 6th largest bank in terms of deposits from private individuals.

Investment funds and voluntary private pension funds began to operate in Serbia during the year, and the banking sector had to face competition for the first time for the placement of private individuals' funds. The stock exchange became an attractive investment alternative even to people of modest means.

Lending Performance

ProCredit Bank achieved very good results in 2007 and maintained its leading position in lending to Serbia's very small, small and medium-sized businesses. As of December 31, the bank's total outstanding loan portfolio (including credit card receivables) consisted of over 120,000 loans with a combined volume of EUR 415 million. The number of loans outstanding grew by 38%, and the volume outstanding grew by 35% during the year. The average loan amount disbursed was EUR 5,860.

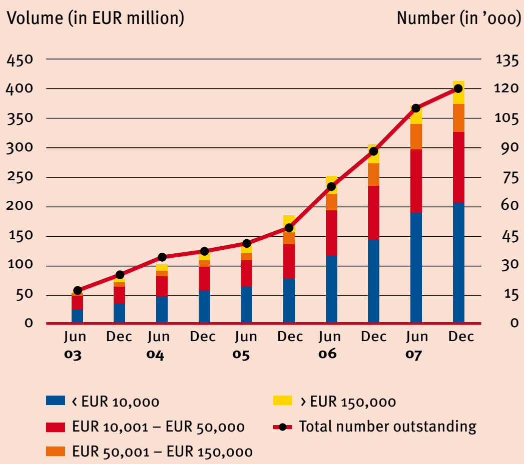
The outstanding portfolio of business loans reached EUR 252 million. Loans for less than EUR 10,000 comprised 88% of the total number of business loans and 37% of the business loan portfolio volume. The bank disbursed more than 21,000 loans up to EUR 10,000 – amounting to EUR 94 million – to very small enterprises, the bank's core target group. We simplified our procedures for loans up to EUR 10,000 for clients with good credit histories and stable businesses. With minimal documentation and collateral requirements, processing time for these loans was reduced to less than two days. Based on the bank's considerable experience in the market and high loan portfolio quality, we increased the maturities of our business loans for working capital, investments in fixed assets, and the construction and refurbishment of business premises.

The small business loan portfolio (consisting of loans between EUR 10,000 and EUR 50,000) grew to EUR 81 million. The bank considers this market segment to be vitally important because very small clients develop into small clients and small clients, in turn, transform their businesses into more formal enterprises. The bank introduced specialist loan officers and improved its client acquisition and customer care to better serve this target group.

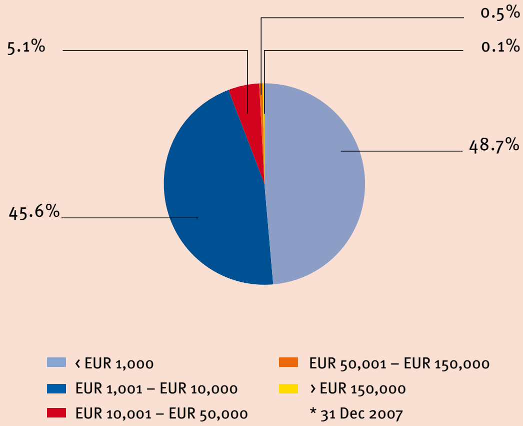
The loan portfolio for medium-sized businesses (consisting of loans over EUR 50,000) grew from EUR 63 million to EUR 76 million. The bank offers these clients a full range of services, including account administration, domestic and international payments, and trade finance instruments. It also provides high-quality and proactive customer care by assigning customer relationship managers responsibility for medium-sized businesses. The bank's documentary business in this market segment grew rapidly in 2007, resulting in a 35% increase in its off-balance sheet exposure, which rose to EUR 67 million. Guarantees contributed 68% of this amount, and the remainder was accounted for by letters of credit and other forms of documentary business.

ProCredit Bank continued to support the development of the agricultural sector; it disbursed more than 21,000 agricultural loans with a total volume of EUR 66 million for working capital and the purchase of machinery, livestock and land. The outstanding volume of agricultural loans grew by 39% to almost EUR 90 million and constituted 22% of the total loan portfolio. The bank disbursed agricultural loans with maturities of up to 36 months and in local currency to protect small farmers and other agricultural producers

Loan Portfolio Development



Number of Loans Outstanding – Breakdown by Loan Size*

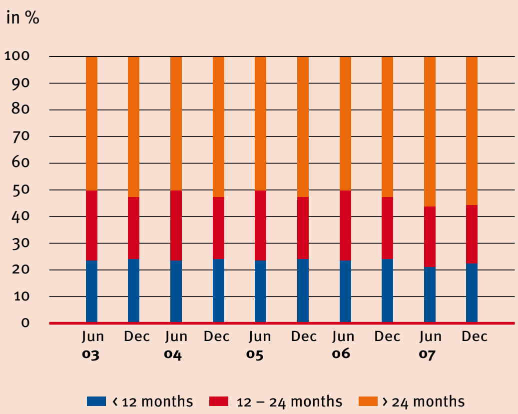


from foreign currency risk.

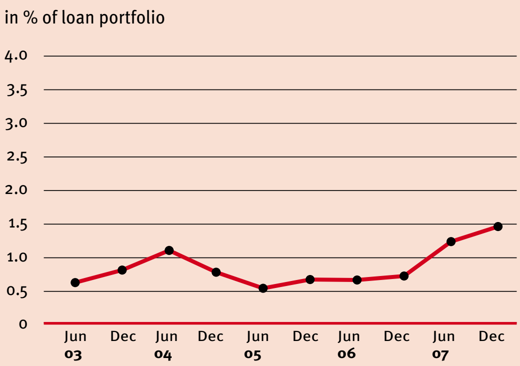
ProCredit Bank does not focus on consumer lending; it only offers consumer loans to customers who have stable and regular salaries and who are not overly indebted. Consequently, the restrictions introduced by the National Bank in 2007 to contain the growth of consumer finance did not have an adverse impact on ProCredit Bank's lending operations. Housing improvement and energy efficiency loans continued to be our primary lending products in serving private individuals. The bank issued loans for home renovation, additions and the installation of heating, ventilation, plumbing and electrical systems. As a development-oriented bank, we believe that these kinds of loans play an important role in improving our clients' quality of life. In 2007, we nearly doubled our home improvement loan portfolio, which grew from EUR 17 million to EUR 31 million. A total of 8,652 clients were using loans of this type as of the end of the year.

The bank's portfolio at risk increased from 0.7% to 1.46% during the year but remained significantly lower than the sector average. We are confident that our strict adherence to the principles of sound monitoring will allow us to bring the portfolio at risk back down to less than 1%.

Business Loan Portfolio – Breakdown by Maturity

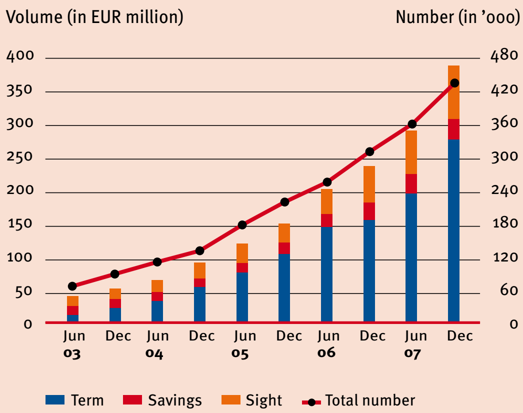


Loan Portfolio Quality (arrears >30 days)

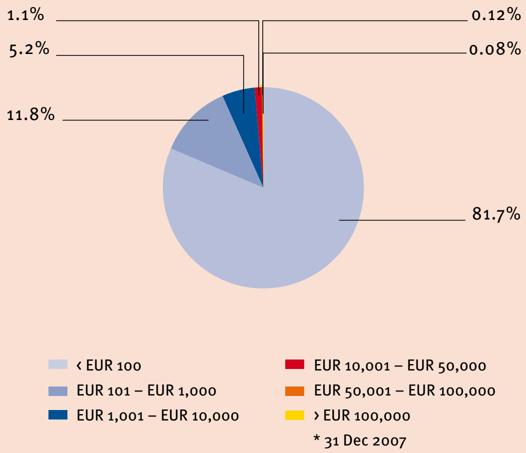


Net write-offs:
in 2003: EUR 41,015
in 2004: EUR 294,201
in 2005: EUR 612,741
in 2006: EUR 848,073
in 2007: EUR 1,397,288

Customer Deposits



Number of Customer Deposits – Breakdown by Size



Other Banking Services

The bank achieved outstanding results in attracting deposits. Total deposit volume rose to EUR 393 million. Private deposits grew by 51% to EUR 235 million, primarily due to a 56% increase in the volume of term deposits. Deposits by legal entities and institutions grew by 88% to EUR 158 million. This increase was a strong indicator of general confidence in the banking sector and of the increasing formalisation of the economy.

In line with our aim to be a “neighbourhood bank”, most of our employees’ contacts with potential clients take place outside of our branches, and we carry out many activities to bring the bank closer to the community. Effective customer care, well-planned business development programmes and targeted promotions were the primary tools we used to reach the 160,689 clients who made use of our deposit facilities and other non-credit services in 2007.

Payment cards (DinaCard, Visa and MasterCard) were popular among our clients. During 2007, the number of cards issued grew by 61% to 145,615, boosting our market share in this area. The number of card transactions rose to almost 80,000.

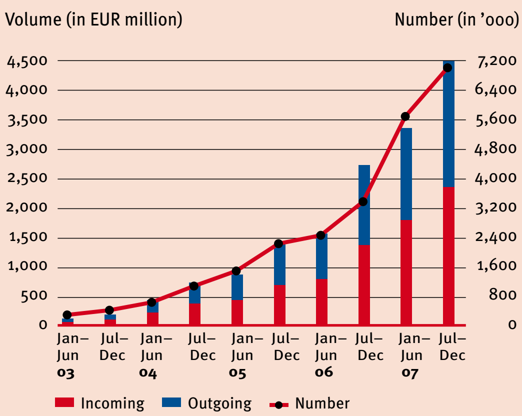
The bank installed 35 ATMs throughout Serbia during the year, increasing its total number of ATM machines to 105. To boost efficiency, ProCredit was the first bank in Serbia to introduce teller cash recyclers (TCRs). We installed a total of 40 TCRs in our larger branches. With these machines, deposits and withdrawals no longer have to be carried out exclusively at the cashiers’ booths, and such transactions can be performed much more quickly.

ProCredit’s payment services are an essential component of its product range. Both domestic and international payments grew rapidly in 2007; domestic money transfers rose by 83% in volume terms and by 119% in numbers. The number of payments carried out via e-banking also increased significantly. More than 154,000 payment orders – 19% of all payments – were handled through the e-ProBanking service. International money transfers grew by 44% in volume terms and by 37% in numbers, boosting fee and foreign exchange trading income.

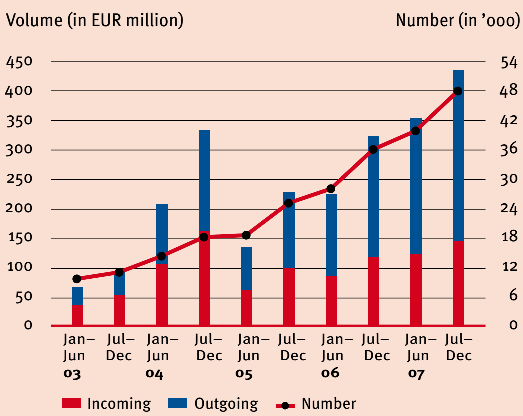
Financial Results

In 2007 ProCredit Bank Serbia operated in an environment shaped by aggressive competition and more restrictive regulation of the banking sector. The bank carried out a successful securities issue to acquire additional funds for lending and recorded healthy loan portfolio growth. A rise in corporate and institutional local-currency deposits further increased the bank’s resources for onlending, and fee and commission income was up, helping to boost profits.

Domestic Money Transfers



International Money Transfers



In 2007, the bank opened 15 branches, expanding its network to 67 branches in 43 cities across Serbia. The investments and expenses associated with strong branch network expansion impacted the bank's financial results. Thanks to prudent planning and rigorous controlling, however, the cost-income ratio decreased from 88.9% (December 2006) to 74.7% (December 2007). Income steadily increased throughout the year and exceeded the bank's targets. Loan portfolio volume was slightly lower than planned, but the bank met its interest income targets. ProCredit Bank was able to defend its interest rates even in the very competitive Serbian market due to its high quality, efficient services. The bank generated additional interest income by investing surplus liquidity from local-currency corporate deposits in repurchase agreements. The higher interest income largely compensated for increased interest expenses, which the bank incurred due to:

- higher rates paid on corporate and institutional local-currency deposits, and
- the increased cost of funds resulting from the National Bank's mandatory reserve requirements.

Fee and commission income was higher than expected, reflecting strong growth in the number and volume of payment transactions and the excellent development of the documentary and card businesses. This in turn helped the bank to exceed its projected profit.

In its financial statements, prepared in accordance with IFRS, the bank recorded a net profit of EUR 6.9 million, up from EUR 2.3 million in 2006. The bank's return on assets rose from 0.6% to 1.0%, and its return on equity grew from 7% to 13%.

In the first quarter of the year the bank raised EUR 125 million through loan participation notes placed on European capital markets. This was the first placement of its kind initiated by a Serbian bank. It was made at a time when parliament could not form a government, and rating agencies were warning of a worsening country rating. The success of this placement confirmed the favourable assessment of ProCredit Bank by Fitch Ratings, which had awarded the bank a rating of BB-.

Outlook

Since its founding in 2001, ProCredit Bank has consistently achieved outstanding growth. The bank will continue to promote economic development while strengthening its solid market position. In the highly competitive Serbian market, the most important institutional challenges in 2008 will be expanding services to the current portfolio of over 230,000 clients and continuing to acquire new clients. We plan to open approximately 20 branches that will be distributed evenly among the country's four regions: Northern, Central and Southern Serbia, and Belgrade. These new branches will constitute a significant source of growth, since there is strong potential for private sector development in all of the cities targeted for expansion.

We will enhance our brand awareness by increasing our efforts to inform clients about our existing and new services. This will involve greater emphasis on direct promotional activities that underscore our role as a neighbourhood bank which sees itself as an integral part of each community it serves.

To strengthen its competitive position and to boost customer satisfaction, ProCredit Bank will focus on improving the efficiency of all its operations. This will enable us to reduce costs and increase profitability, thereby helping to support branch network expansion. To accelerate network expansion in more remote towns and rural areas, we will launch our "micro branch" concept by opening smaller offices with fewer employees.

Our most important priority in 2008 will be to ensure that we invest the time and resources required to integrate all new employees into the existing ProCredit team. We consider it vital for all staff members to understand ProCredit Bank's mission and to be familiar with its history. Employees are encouraged to adopt the values that characterise the ProCredit group: transparency and openness, social responsibility and tolerance, customer orientation, and a high level of professionalism. In 2008, managers at all levels will promote discussions of our philosophy and values among employees. To prepare managers for their challenging tasks, the bank will be supported by the ProCredit group's Regional Acad-

emy for Eastern Europe in Macedonia and the ProCredit Academy in Germany. Ensuring that all of the institution's employees share – and live – ProCredit's values will foster a positive spirit, enabling the bank to achieve sustainable growth and the performance-related goals it has set for itself.

Special Feature

Financial Education – "How to Talk to a Bank"

The Serbian banking market has been characterised by dramatic growth for more than six years. Since 2001, when foreign banks began operating in the country, broad segments of the population have gained access to financial services. But an important aspect of selling banking products has often been neglected: providing people with the information they need to be able to understand and choose among the financial services that are available to them. In their efforts to boost the sale of their products, many banks do not communicate with clients in a transparent manner. As a result, clients do not always understand what they are buying, and their choices may eventually cause them to encounter financial problems.

To address this issue, ProCredit Bank produced and distributed an educational booklet called "How to Talk to a Bank". The publication aims to explain the basics of the banking business in such a way that ordinary people can understand it. It emphasises the simple logic behind loans and savings, thereby providing important background information for people to draw upon when talking with bank officers about specific products and services. The booklet is divided into four main sections: "About Banks", "How to Choose the Right Bank", "10 Important Things to Know about Loans", and "5 Important Things to Know about Savings". In addition, the booklet provides a home budget table with simple and straightforward advice on how to budget funds effectively and ensure that a household's expenditures do not exceed its income.

To make the booklet widely available, it was distributed as an insert in the highest-circulation national daily newspaper. We estimate that it reached approximately one million people. ProCredit Bank, together with the National Bank of Serbia, which supported our initiative, promoted the booklet throughout the country. The publication and distribution of “How to Talk to a Bank” was also supported by the European Fund for Southeast Europe.

ProCredit Bank intends to continue its educational role in Serbia’s banking system. In 2008, the bank will organise various targeted activities at the regional level, including press conferences and events focusing on financial education. A new booklet addressing issues of importance for the users of banking services will be introduced as part of our ongoing effort to build trust and long-term relationships between the bank and its customers.

Risk Management

ProCredit Bank Serbia operates in a rapidly growing market and a volatile macroeconomic context. The range of risks to which it is exposed underscores the importance of risk awareness and appropriate management procedures to measure and mitigate risks.

ProCredit Bank's strategic orientation is advantageous from the standpoint of risk management. Since the bank's target group is very small, small and medium-sized enterprises, its portfolio is well diversified in terms of both the number of loans outstanding and regional and sectoral breakdown. ProCredit Bank does not engage in speculative transactions and maintains a high level of internal and external transparency.

Risk management is organised within a collective decision-making structure consisting of four risk committees. These are the Credit Risk Committee, the Assets and Liabilities Committee, the Operational Risk Committee, and the Information Security Committee. They are responsible for identifying and monitoring risks, defining the bank's risk-bearing capacity, and making decisions on measures to mitigate risk. The committees are convened on a regular basis, and participation by the bank's senior management is mandatory.

The Risk Department is in charge of measuring, analysing and reporting on risks. It is responsible for providing reliable information on risk exposures to the bank's management and risk committees, and it serves as an adviser on all risk-related issues. In 2007 the bank increased the size of the Risk Department and made significant investments to upgrade its risk management tools and procedures.

Credit Risk

Effective credit risk management is essential since lending is the main focus of ProCredit Bank's business activities. The bank's lending methodology is designed to accurately assess the creditworthiness of each individual client. The bank does not use scoring systems but instead relies upon an assessment of the profitability of the applicant's business. The same thorough credit analysis procedure is used for all loans, regardless of their size. All loan approval decisions are made by credit committees, and the composition of these bodies varies depending on the size and specific features of the loans they deal with.

Credit risk at the portfolio level is monitored and managed by the Credit Risk Committee. This committee analyses trends and correlations between various categories of loans and clients, determines the bank's loan-loss provisioning policy, and assesses the probable impacts of major macroeconomic events on the quality of the portfolio.

The benefits of the bank's lending methodology and approach to credit operations were reflected in its high loan portfolio quality. Measured by the portfolio at risk (PAR), which refers to the percentage of the outstanding loan volume that is overdue by 30 days or more, total arrears stood at 1.46%. The PAR was higher than it had been in 2006 (0.73%) but remained significantly lower than the sector average. Loan-loss provisions were 1.6 times the amount of the loans in arrears. Real loan losses, reflected in the net write-offs for 2007, were low, amounting to 0.96%.

Market and Financial Risks

The Assets and Liabilities Committee monitors and controls the bank's open currency position, interest rate gaps, and liquidity and funding positions to ensure that it maintains an optimal balance sheet structure.

During 2007, ProCredit Bank kept its open currency position at a very low level, preventing exchange rate volatility from impacting the bank's equity or financial results. Since ProCredit Bank obtains funds in euros at rates that are linked to EURIBOR, part of its loan portfolio is also linked to this reference rate to prevent potential negative consequences of interest rate movements. The bank has entered into interest rate swap agreements to hedge against interest rate risk. It only uses derivatives and other financial instruments to hedge against risks or to support its short-term liquidity position. As a result, its exposure to market risks is low.

ProCredit Bank's liquidity position is monitored on an ongoing basis to avoid mismatches in the structure and volume of its assets and liabili-

ties. The high quality of the credit portfolio and the predictability of cash flows from loan repayments are important benefits from the standpoint of liquidity management. A strong liquidity position was maintained throughout the year, and the ratio of short-term liquid funds to short-term deposits was always greater than 1.0.

Operational Risk

As a growing institution, ProCredit Bank pays close attention to operational risk. The bank has established a reliable framework for managing such risks based on industry and group best-practice standards. The framework provides for a sound allocation and separation of risk-related responsibilities among employees, an integrated system of internal controls, and transparent and well-documented processes. In line with the Basle II accord, the bank upgraded its system for the collection and assessment of loss event data. All relevant processes were continuously monitored and analysed to identify possible sources of operational risk. The bank also established an Information Security Committee. This new body is responsible for identifying weaknesses in the bank's information security measures and ensuring the availability, integrity and confidentiality of data at all levels within the institution.

Operational risks are monitored and addressed under the supervision of the Operational Risk Committee. This body analyses exposure to potential threats and real loss event data and makes decisions to mitigate any risks identified.

An important feature of operational risk management at ProCredit Bank is the well-established culture of risk awareness among its staff. The bank places great emphasis on ensuring that employees understand the nature of relevant risks and their potential negative effects on the bank's performance.

Branch Network

ProCredit Bank continued to expand its network in 2007 by opening 15 branches throughout Serbia. We had 67 branches in 43 cities by year-end. Of the new branches, 11 were opened in towns with a population of less than 50,000 where ProCredit Bank had not previously had a presence: Vrbas, Temerin, Lazarevac, Mladenovac, Svilajnac, Arandjelovac, Ivanjica, Prokuplje,Preševo, Senta and Aleksinac. Prior to the opening of these new facilities, loan customers in the respective areas had been served from branches as far as 50 km away.

In line with our goal of becoming a true "neighbourhood bank" in the areas we serve, we opened four branches in cities where we already had a presence: one in Subotica, two in Belgrade, and one in Nis. This expansion strengthened our position in these cities, particularly in residential areas, and made it easer for members of our target group to access the bank's services.

Due to the growing demand for our services, branches in Backa Palanka, Loznica and Uzice were enlarged and refurbished. To provide better and faster service to our clients, the bank launched its Information Centre, where highly trained employees are available to answer clients' calls regarding their accounts and the bank's services.

In 2008, ProCredit Bank plans to further expand its branch network, particularly in towns with a population of less than 20,000. We aim to broaden and enlarge our client base and to provide all clients – regardless of the sector in which they operate or the size of their enterprises – with excellent customer service from a branch located in the vicinity of their business premises.

Organisation, Staff and Staff Development

ProCredit Bank's employees are its most valuable asset. By giving their best in the performance of their day-to-day tasks, our more than 1,700 staff members enable the bank to fulfil its mission and contribute immeasurably to the overall success of its operations. Our corporate values remain the driving force behind the development of our business strategy, providing firm ethical guidelines for the achievement of our goals.

Ensuring the quality and continuity of staff development activities posed great challenges in 2007. The bank grew significantly, requiring strong support from the head office at all levels within the organisation. To build the bank's capacity for effective staff development, we made the Training and Development Unit an independent department, while maintaining its close links with the Human Resources Department. In 2007, the bank hired more than 500 people who had to be fully integrated into its team. Particular attention was given to training activities. The orientation seminar for new employees was conducted more than 30 times, and seventeen groups of new hires completed the bank's entry-level training programme at three training centres. To meet the growing need for accommodation for participants in training measures, ProCredit Bank opened a guest house in a quiet residential area of Belgrade. This facility has space for 50 people and has operated at full capacity since it was opened.

All employees were given an opportunity to further develop their professional expertise and skills. ProCredit Bank organised 277 training events consisting of a total of more than 800 training days. Our existing training and staff development programmes were reviewed and updated, with special emphasis on improving training in communication and sales techniques. All training activities were based on an interactive approach, requiring a high level of involvement from participants.

Management training continued at the local level, primarily for lower level managers. In 2007, ProCredit Holding established the Regional Academy for Eastern Europe in Skopje, Macedonia, to provide targeted training for management personnel from ProCredit institutions throughout the region. Ten middle managers from Serbia participated in courses held at the Regional Academy. In 2007, 11 members of our bank's senior management staff took part in the long-term training programme at the ProCredit Academy in Germany. In

addition, many of our senior staff members were given the opportunity to improve their command of written and spoken English in special courses organised for ProCredit employees.

ProCredit Bank provides a pleasant working atmosphere in which creativity and initiative are encouraged and recognised by management. To facilitate the integration of new staff members into the ProCredit team, the Human Resources Department and the management organise annual gatherings for employees within each branch and each department to discuss the Code of Conduct, our corporate values and topics such as staff motivation. The bank offers a wide range of employee benefits including private health insurance and employee loans. All children born to staff members of the bank in 2007 were welcomed with special "baby packages" sent directly to their parents' home addresses.

A high priority is given to measures to promote a team spirit. Each month, branches and departments organise excursions, dinners, and visits to local theatres. Every year the bank also holds an annual Sports Weekend, an event that gives all staff members an opportunity to get to know colleagues, attend presentations, engage in discussions with managers and other staff and participate in sports and other recreational activities. In 2007, 1,100 employees attended this annual staff meeting, which was held in the Kopaonik National Park, located in a mountainous area in southern Serbia.

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.

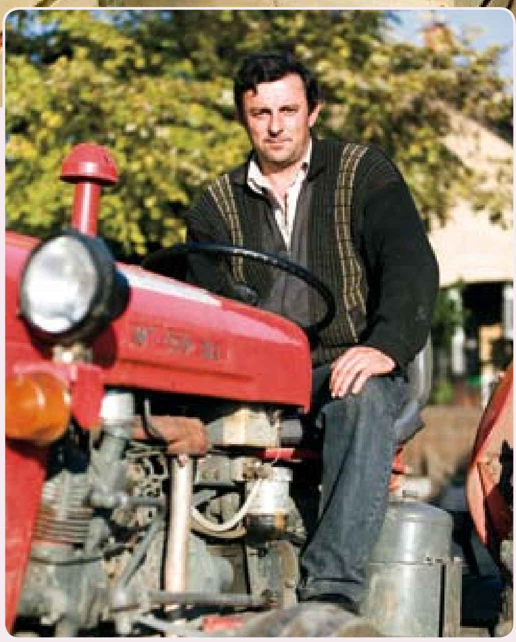
These ProCredit values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations. Moreover, they are reflected in the Code of Conduct, which transforms the ProCredit group's ethical principles into practical guidelines for all ProCredit staff. 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.

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

Mikica Radojevic, Farmer



Agriculture is typically a family tradition in Serbia. Often several generations live and work together in a single agricultural household, and farming skills are passed down from one generation to the next. Mikica Radojevic's household, in the village of Plaskovac, is just such a traditional agricultural family. All the family members work on the farm. Most of their land is used for vineyards and orchards. In addition to growing apples, pears, sour cherries, grapes, plums and peaches, the family raises livestock. Throughout the year, they sell calves, pigs and lambs at the market in a nearby village, and they sell milk to a large dairy. Mr. Radojevic supplies large fruit wholesalers and also sells some of his output at the biggest fruit and vegetable market in the country, where his parents have two stands.

Mr. Radojevic began using the services of ProCredit Bank on the recommendation of his son-in-law, who is a farmer and lives in a nearby village. Today, he maintains a current account with the bank and uses it to make money transfers. With a loan from ProCredit, he was able to purchase a tractor, which helped the Radojevic family to boost their output and made the day-to-day work involved in running the farm easier. The family reinvests as much of its earnings as it can in the farming operation. They are aware that every dinar invested wisely in mechanising or modernising production will pay off in higher yields. It is particularly gratifying for Mr. Radojevic that his son is becoming increasingly involved in the family farm and will take it over one day.

The Ecimovic Family, Savings Clients

Zoran and Jelena Ecimovic live with their three children in an apartment in the capital's New Belgrade district. Zoran practises law, and his wife takes care of the children. The two girls, 9-year-old Andjela and 7-year-old Zorana, attend elementary school, and their 4-year-old son, Aleksa, is still in nursery school. Both the girls get very good marks and take part in a variety of extracurricular activities. Like many other boys his age, little Aleksa loves football, and he enjoys playing with the other children in the quiet neighbourhood where the Ecimovic family lives.

When they received invitations to the "Savings Fancy Dress Party" held by ProCredit Bank, Andjela and Zorana were very eager to participate. Their mother helped them make costumes, and the girls entered the competition to select the best costume. Andjela won first prize – a children's savings account with a deposit of EUR 100. Her parents were very pleased, since they have always taught their children that it is important for everyone to save to accumulate a reserve for emergencies and to buy things in the future that they cannot afford now. When Andjela won the savings account, Mr. and Mrs. Ecimovic decided to open accounts at ProCredit Bank for their other two children as well.

In addition to the accounts he maintains for his children at ProCredit Bank, Mr. Ecimovic has a savings account at the bank for himself. He is currently putting money aside for the children's education, which he and his wife regard as their most important investment, and he intends to open an account for his wife. Mr. Ecimovic is so favourably impressed with the bank's savings facilities and other account services that he has decided to transfer his law firm's business account to ProCredit Bank. Like their savings, the Ecimovic family's successful banking relationship with ProCredit is growing.

The Krsmanovics, Manufacturers of Food Products for the Restaurant Industry

"Sesta Gama" is a family business located in Kragujevac that manufactures a range of products for the restaurant industry. Slavica Krsmanovic runs the business with her husband, Dragan.

Sesta Gama produces coffee, ice cream, and powder for making hot chocolate, milk shakes, espresso, and a number of other products used by cafés and restaurants. The bulk of its output is exported, and the remainder is sold to local restaurants via several distributors. The company exports to Bosnia, Croatia, Slovenia, Hungary, Bulgaria, Macedonia, Italy and the United Kingdom.

Before he and his wife founded Sesta Gama in May 2006, Mr. Krsmanovic worked for a company operating in a similar field. His experience provided a sound basis for the launch of their business. In collaboration with an Italian company, they developed a product line, set up manufacturing facilities and concluded export contracts. The quality of Sesta Gama's products is a key advantage that has enabled it to be competitive even in foreign markets.

During the early stage of their operations, Mr. and Mrs. Krsmanovic required external financing and they took out a loan from ProCredit Bank to purchase production inputs. The Krsmanovics were very satisfied with the service they received and decided to transfer their company's business account to ProCredit and to use it to carry out all of their payment transactions.

Mr. and Mrs. Krsmanovic are considering expanding their manufacturing facilities and broadening their product range. They know that ProCredit will continue to be a reliable banking partner that understands their business and can provide just the right mix of services to support its growth.

The Mitrovics, Owners of the "Ozon" Bakery

Tanja and Nebojsa Mitrovic own "Ozon", the only bakery in the small town of Pozega that produces frozen pastries. Every morning, they produce, and sell to a large number of regular customers, various kinds of bread, sandwiches, *burek* and *komplet lepinja* (two savoury local delicacies), and cakes and biscuits – as well as their speciality, frozen pastries. The Mitrovics are well established in the local market and sell their products through the four retail outlets that they operate in Pozega and the neighbouring town of Kosjeric.

Mr. Mitrovic launched the business in 1995, when he began producing bread and rolls in a makeshift bakery in the cellar of his house. Sales were good, and he decided to invest in the business.

In 1999, Mr. Mitrovic opened a proper bakery and a kiosk near a local elementary school. The business continued to grow, and he opened more outlets. When he realised that frozen pastries were the one thing that the competition did not offer, Mr. Mitrovic decided to add this to his product range. With a loan from ProCredit Bank, he bought the refrigeration equipment he needed to begin producing frozen baked goods. Mr. Mitrovic took out a second loan from ProCredit to open new sales outlets and a new production facility in a nearby town, enabling him to supply a larger market. He took out further loans from the bank to finance the renovation of premises for new shops and to introduce new products.

In addition to its credit facilities, Mr. and Mrs. Mitrovic use other banking services offered by ProCredit to help keep their business running smoothly, including money transfers, overdraft arrangements, e-banking, credit cards, and direct deposit services to pay the salaries of their 18 employees into current accounts maintained at the bank.

Financial Statements

Consolidated Financial Statements for the year ended 31 December 2007.

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 (the "Group") which comprise the consolidated balance sheet as of 31 December 2007 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 (the "Group") as of 31 December 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

22 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

in thousand of Dinars	Notes	Year ended 31 December 2007	2006
Interest and similar income		5,861,031	4,024,359
Interest expense and similar charges		(2,781,087)	(1,516,624)
Net interest income	5	**3,079,944**	**2,507,735**
Fee and commission income		669,501	361,797
Fee and commission expense		(140,222)	(57,254)
Net fee and commission income	6	**529,279**	**304,543**
Net trading income	7	288,937	(26,447)
Other operating income	8	45,305	24,065
Impairment charge for credit losses	9	(468,610)	(222,660)
Other operating expenses	10	(2,955,262)	(2,500,291)
Profit before income tax		**519,593**	**86,945**
Income tax credit	11	28,423	95,261
Profit for the year		**548,016**	**182,206**

The accompanying notes on pages 44 to 65 form an integral part of these consolidated financial statements.

ProCredit Bank a.d. Belgrade
Consolidated Financial Statements for the year ended 31 December 2007
(All amounts expressed in thousand of Dinars unless otherwise stated)

Consolidated balance sheet

	Note	As of 31 December 2007	As of 31 December 2006
ASSETS			
Cash and balances with the Central Bank	12	25,302,872	13,104,952
Loans and advances to banks	13	2,487,471	977,169
Loans and advances to customers	14	32,151,095	23,724,909
Derivative financial assets	15	15,391	6,611
Intangible assets	16	17,537	9,775
Property and equipment	17	1,336,847	935,620
Deferred income tax assets	18	201,669	154,598
Other assets	19	195,131	214,244
Total assets		**61,708,013**	**39,127,878**
LIABILITIES			
Deposits from banks	20	268,830	1,954,097
Due to customers	21	31,169,914	19,253,647
Other borrowed funds	22	25,133,582	14,185,001
Other liabilities	23	288,061	311,303
Retirement benefit obligations	24	34,202	26,081
Total liabilities		**56,894,589**	**35,730,129**
EQUITY			
Share capital	25	2,363,274	1,920,120
Share premium	25	1,325,813	901,308
Retained earnings		461,133	576,321
Other reserves	26	663,204	-
Total equity		**4,813,424**	**3,397,749**
Total equity and liabilities		**61,708,013**	**39,127,878**

The accompanying notes on pages 5 to 56 form an integral part of these consolidated financial statements.

These consolidated financial statements have been approved by Executive Board on 21.04.2008 and signed on their behalf by:

Dörte Weidig
Chairperson of the Executive Board

Svetlana Tolmachova
Member of the Executive Board

The accompanying notes on pages 44 to 65 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

in thousand of Dinars	Notes	Share capital	Share premium	Retained earnings	Other reserves	Total
At 1 January 2006		**1,320,120**	**266,845**	**514,910**	**–**	**2,101,875**
Profit for the year		–	–	182,206	–	182,206
Dividends related to 2005				(120,795)	–	(120,795)
New shares issued	25	600,000	634,463		–	1,234,463
At 31 December 2006 and 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	26	–	–	(663,204)	663,204	–
New shares issued	25	443,154	424,505	–	–	867,659
At 31 December 2007		**2,363,274**	**1,325,813**	**461,133**	**663,204**	**4,813,424**

The accompanying notes on pages 44 to 65 form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

in thousand of Dinars	Year ended 31 December 2007	2006
Cash flows from operating activities:		
Profit before tax	519,593	86,945
Adjustments for non cash items:		
Impairment loss	468,610	222,660
Depreciation and amortization	242,848	165,422
Unrealized losses on foreign currency revaluation	(20,259)	19,843
Retirement benefits provisions	8,121	26,081
Net cash flow from operating activities before changes in operating assets and liabilities	**1,218,913**	**520,951**
Changes in operating assets:		
Decrease/ (increase) in loans and advances to banks	86,656	(86,656)
Increase in derivative financial assets	(8,780)	(6,422)
Increase in loans and advances to customers	(8,894,795)	(8,434,680)
Increase in other assets	10,333	(59,662)
	(8,806,586)	**(8,587,420)**
Changes in operating liabilities:		
(Decrease)/ increase in deposits from banks	(1,685,268)	385,401
Increase in due to customers	11,916,267	6,273,702
(Decrease)/ increase in other liabilities	(23,242)	(18,168)
	10,207,757	**6,640,935**
Net cash from/ (used in) operating activities	**2,620,085**	**(1,425,534)**
Cash flow from investing activities:		
Proceeds from disposal of property and equipment	6,780	2,830
Purchase of property and equipment and intangible assets	(644,075)	(775,980)
Net cash used in investment activity	**(637,295)**	**(773,150)**
Cash flow from financing activities:		
Increase in other borrowed funds	12,994,737	9,144,250
Repayments of other borrowed funds	(2,050,307)	(1,466,320)
Paid dividends	–	(41,795)
Issued share capital	867,659	1,234,463
Net cash from financing activities	**11,812,089**	**8,870,598**
Net increase in cash and cash equivalent	**13,794,878**	**6,671,914**
Cash and cash equivalents as at 1 January	13,995,465	7,323,551
Cash and cash equivalents as at 31 December (Note 27)	**27,790,343**	**13,995,465**

Cash flows for the year ended 31 December 2007 include interest received in the amount of RSD 5,861,030 thousand (2006: RSD 4,024,359 thousand) and interest paid in the amount of RSD 2,781,086 thousand (2006: RSD 1,516,624 thousand).

The accompanying notes on pages 44 to 65 form an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2007

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 2007 the Bank's shares are owned by three shareholders: European Bank for Reconstruction and Development ("EBRD"), Commerzbank AG Frankfurt am Main, and ProCredit Holding AG Frankfurt am Main, with holdings of 16.67 percent, 16.67 percent and 66.66 percent of the Bank's shares, respectively. During 2007 Kreditanstalt für Wiederaufbau (KfW) sold its shareholding in the Bank (9.37%) 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 2007, the Group has head office located in Belgrade, Bul. despota Stefana 68c and 68 branches throughout Serbia.

As at 31 December 2007 the Group had 1,744 employees (31 December 2006: 1,418 employees).

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 IFRSs became effective for the Bank from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

Other new standards or interpretations. The Bank has adopted the following other new standards or interpretations which became effective from 1 January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The new IFRIC interpretations 7 to 10 did not significantly affect the Bank's financial statements.

(b) New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). Management does not expect IFRS 8 to affect the Bank's financial statements.
  Other new standards or interpretations. The Bank has not early adopted the following other new standards or interpretations:
- IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009.
- Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The Bank does not expect the amendment to affect its financial statements.
- IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The Bank 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 Bank is currently assessing the im pact of the amended standard 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 Bank is currently assessing the impact of the amended standard on its financial statements.

- 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);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- 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).

The new standards and interpretations are not expected to significantly affect the Bank's 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 finan-

cial 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 (ie, 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

All property and equipment is stated at historical cost less depreciation. 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:

- Leasehold improvements – longest 10 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.
The Group did not have any financial guaranties during the reporting period.

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 December 2007 per economy;
- Estimated annual increase in salaries of 3.5%; and
- Discounting rate of 10%.

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:

- Received coverage based on unrealized international payments for 2006 in the amount of RSD 248,189 thousand were transferred from position 'Other liabilities' to position 'Due to customers';
- License for software with purchasing value of RSD 106 thousand and charge for the year of RSD 28 thousand for 2006 was reclassified from position 'Property and equipment' to position 'Intangible assets'. This reclassification is applied in Movement in Intangible and Tangible (Notes 16 and 17) assets respectively;

Reclassification in Cash flow statement was made:

- Received coverage based on unrealized international payments for 2006 in the amount of RSD 248,189 thousand were transferred from position '(Decrease)/ increase in other liabilities' to position 'Increase in due to customers';

3. Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. 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 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 and emerging best practice.

Risk management is carried out by a central Risk Department and Group's Risk Committees under procedures approved by the Board of Directors. Risk department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board 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 risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

A) Credit risk

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

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

- 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 sales or client relationship from the process of assessing client's creditworthiness, which applies to all loans to corporate clients.

A.1. Policy of Loan Approvals

To control the credit risk exposure, the bank has defined a cautious 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 fulfill 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).

A.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 the methodology of the National Bank of Serbia, all receivables of a bank are classified according to the pre-requisites from the Law on Banks (Official Gazette of the Republic of Serbia No. 107/2005) and the Decision on Classification of Balance Sheet Assets and Off-balance Items of Banks (Official Gazette of the Republic of Serbia No. 57/06 and 116/2006).

According to internal methodology of the Group, classification is done by applying the principle of the number of days in arrears in repayment of the loan liabilities by clients. This principle of number of days in arrears means the following classification set-up:

- I class of loan and off balance receivables corresponds to loans with no arrears or with arrears up to 30 days;
- II class of loan and off balance receivables corresponds to loans with arrears from 31 to 90 days;
- III class of loan and off balance receivables corresponds to loans with arrears from 91 to 180 days;
- IV class of loan and off balance receivables corresponds to loans with arrears from 181 to 360 days;
- V class of loan and off balance receivables corresponds to loans with arrears of over 360 days;

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 Decision Classification of Balance Sheet Assets and Off-balance Items of Banks (Official Gazette of the Republic of Serbia No. 57/06 and 116/2006) defines the range of the impairment provision for all risk classes except class E (which is fixed to 100%). In line with the Decision the Group has determined the criteria and methodology which have defined the exact percentages of impairment provision for all risk classes.

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 2007 and 2006:

Group's internal methodology

Mark *in %*	Impairment provision
I	1.30
II	25
III	50
IV	100
V	Write-off (100)

All exposures to the same client or 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:

	2007		2006	
in %	Impairment provision	Loans and advances	Impairment provision	Loans and advances
I	1.3	98.5	1.3	99.2
II	24.6	0.7	22.8	0.3
III	49.4	0.2	49	0.2
IV	99.8	0.3	67.7	0.2
V	99.7	0.3	53.6	0.1
	2.1	**100**	**1.6**	**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.

A.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) and low level of write offs. 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 December 31st, 2007 and 2006 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	
	2007	2006
Balance Sheet Exposure		
Balances with Central bank other than mandatory reserve deposits	6,621,895	2,679,133
Nostro accounts	272,214	229,507
Nostro covered letters of credit and guarantees	–	86,656
Money market placements	2,215,257	661,006
Loans to clients:		
Loans for business purposes		
‹10,000 EUR	6,179,727	4,314,551
10,001-50,000 EUR	6,099,541	4,949,624
›50,001 EUR	5,956,929	5,038,168
Overdrafts	954,162	629,129
Agriculture Loans		
‹10,000 EUR	4,834,437	3,493,341
10,001-50,000 EUR	1,801,643	1,434,123
›50,001 EUR	387,746	229,829
Consumer Loans		
Consumer Loans	1,591,265	1,251,803
Overdrafts	101,050	67,642
Credit Cards	692,727	445,429
Housing Loans	605,972	368,630
Loans for Housing Improvement	1,847,472	924,628
Finance leases		
Legal entities	1,165,305	660,783
Entrepreneurs	369,013	177,187
Agriculture producers	202,981	126,335
Private individuals	119,041	78,306
Off balance Credit Risk Exposure	6,672,199	4,074,768
At 31 December	**48,690,576**	**31,920,578**

The table on previous page represents the scenario of the maximum credit risk exposure of the Group at 31 December 2007 and 2006, 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.

- 78.3% from total exposure is related to loans to customers and financial leases thus reflecting the major business activity of the Group (2006: 86.9%);
- 98.5% from total loans and advances is classified in most favorable impairment class according to the Group's internal methodology (2006: 99.2%);
- 32.5% loans and advances to customers is covered with mortgages or deposits of the customers (2006: 36.2%);
- 59.9% of all loans and advances to customers consist of loans originally disbursed in the amounts below 10,000 EUR significantly improving diversification of the Group's loan portfolio (2006: 55.4%).

The table bellow shows structure of the quality of the loan portfolio:

		2007		2006
	Loans to clients	Loans to banks	Loans to clients	Loans to banks
Neither past due nor impaired	32,118,619	2,487,471	23,657,361	977,169
Past due but not impaired	530,990	–	323,128	–
Impaired	259,402	–	209,019	–
Total	**32,909,011**	**2,487,471**	**24,189,508**	**977,169**

(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.

31 December 2007		**Total**
	< 10,000 EUR	6,005,200
	10,000-50,000 EUR	5,998,589
Business Loans	> 50,000 EUR	5,920,168
	Business Overdrafts	953,572
	< 10,000 EUR	4,668,747
Agriculture Loans	10,000-50,000 EUR	1,724,110
	> 50,000 EUR	387,746
	Consumer Loans	1,550,616
	Private individuals Overdraft	92,864
Consumer and	Credit Cards	665,227
other loans	Housing Loans	598,801
	Housing Improvement Loans	1,815,997
	Legal Entities	1,140,306
	Entrepreneurs	324,547
Financial Lease	Agriculture producers	167,264
	Private individuals	104,865
Loans and Advances to Customers		**32,118,619**
Loans and Advances to Banks		**2,487,471**

31 December 2006		**Total**
	< 10,000 EUR	4,230,038
Business Loans	10,000-50,000 EUR	4,852,672
	> 50,000 EUR	4,939,482
	Business Overdrafts	616,806
	< 10,000 EUR	3,424,915
Agriculture Loans	10,000-50,000 EUR	1,406,032
	> 50,000 EUR	225,327
	Consumer Loans	1,227,283
	Private individuals overdraft	66,317
Consumer and	Credit Cards	436,704
other loans	Housing Loans	361,409
	Housing Improvement Loans	906,516
	Legal Entities	610,873
Financial Lease	Entrepreneurs	163,804
	Agriculture producers	116,792
	Private individuals	72,391
Loans and Advances to Customers		**23,657,361**
Loans and Advances to Banks		**977,169**

(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 2007

				Business loans	Total
	< 10,000 EUR	10,000-50,000 EUR	> 50,000 EUR	Business Overdraft	business loans
Past due up to 30 days	62,750	34,265	6,126	–	103,141
Past due 31 to 90 days	35,395	11,592	13,755	590	61,332
Total	**98,145**	**45,857**	**19,881**	**590**	**164,473**
Fair value of collateral	**41,160**	**19,231**	**18,306**	**362**	**79,059**

			Agriculture loans	Total
	< 10,000 EUR	10,000-50,000 EUR	> 50,000 EUR	agriculture Loans
Past due up to 30 days	55,510	24,895	–	80,405
Past due 31 to 90 days	77,662	41,526	–	119,188
Total	**133,172**	**66,421**	**–**	**199,593**
Fair value of collateral	**52,367**	**26,118**	**–**	**78,485**

					Consumer and other loans	Total
	Consumer loans	Private individuals overdraft	Credit cards	Housing loans	Housing improvement loans	consumer and other loans
Past due up to 30 days	19,369	855	2,221	–	16,490	38,935
Past due 31 to 90 days	6,908	848	1,481	7,171	6,719	23,127
Total	**26,277**	**1,703**	**3,702**	**7,171**	**23,209**	**62,062**
Fair value of collateral	**23,639**	**–**	**117**	**6,250**	**20,089**	**50,095**

	Legal entitites and entrepreneurs	Agriculture producers	Fiancial lease Private indiviuals	Total financial lease
Past due up to 30 days	46,754	32,349	12,498	91,601
Past due 31 to 90 days	8,961	2,758	1,542	13,261
Total	**55,715**	**35,107**	**14,040**	**104,862**
Fair value of collateral	**257,608**	**40,435**	**16,970**	**315,013**

31 December 2006

	< 10,000 EUR	10,000-50,000 EUR	> 50,000 EUR	Business loans Business Overdraft	Total business loans
Past due up to 30 days	49,021	44,994	22,302	16,883	133,201
Past due 31 to 90 days	18,370	20,633	8	3,517	42,528
Total	**67,391**	**65,627**	**22,310**	**20,401**	**175,729**
Fair value of collateral	**29,198**	**28,434**	**26,930**	**534**	**85,095**

	< 10,000 EUR	10,000-50,000 EUR	Agriculture loans > 50.000 EUR	Total agriculture Loans
Past due up to 30 days	23,466	6,789	6,393	36,647
Past due 31 to 90 days	6,789	133	–	6,922
Total	**30,255**	**6,922**	**6,393**	**43,570**
Fair value of collateral	**12,211**	**2,794**	**6,142**	**21,147**

	Consumer loans	Private individuals overdraft	Credit cards	Housing loans	Consumer and other loans Housing improvement loans	Total consumer and other loans
Past due up to 30 days	11,595	1,054	1,105	–	4,240	17,993
Past due 31 to 90 days	8,447	853	2,837	–	1,286	13,423
Total	**20,042**	**1,908**	**3,942**	**–**	**5,525**	**31,416**
Fair value of collateral	**17,671**	**–**	**226**	**–**	**6,260**	**24,157**

	Legal entitites and entrepreneurs	Agriculture producers	Fiancial lease Private indiviuals	Total financial lease
Past due up to 30 days	52,698	12,373	4,373	69,444
Past due 31 to 90 days	1,706	1,032	230	2,969
Total	**54,404**	**13,406**	**4,604**	**72,413**
Fair value of collateral	**72,667**	**17,496**	**6,352**	**96,515**

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. 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 realisable by the legal owners of the assets. Management considers the loans covered by collateral as impaired because experience shows that a significant proportion of the collateral cannot be enforced due to administrative and legal difficulties. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite difficulties in 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.

During 2007 there were no individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held. For year 2006 individually impaired loans amounted to RSD 92,039 thousand, with fair value of the collateral amounting to RSD 57,840 thousand. The individually impaired loans for 2006 relate to 3 customers. All those loans were fully recovered during 2007.

(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 onsite 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 2007 was RSD 26,543 thousand (2006: RSD 78,606 thousand).

(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 49,254 thousand (2006: RSD 31,998 thousand). The figure relates to all types of assets gained, both movable and immovable.

A.4.Collateral Policy

As a general rule for loans up to 5,000 EUR the collateral is not required, while collateral is required for loans disbursed in amounts exceeding 5,000 EUR. For loans with housing purpose, real-estate as collateral is demanded. The same rule applies for housing improvement loans disbursed in the amounts exceeding 10,000 EUR. 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.

A.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 December 31st 2007, this indicator was on the level of 21.63% with tendency of stagnation during 2007. 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 2007 and 2006:

	2007		2006
HHI ratio by number of loans	HHI ratio by volume of loans	HHI ratio by number of loans	HHI ratio by volume of loans
0.2497	0.1240	0.2386	0.1283

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

A.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.

B) Market risk

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.

B.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 foreign 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.

	EUR	USD	Other currencies	Totel foreign currencies	Local currency	Total
As of 31 December 2007						
Assets						
Cash and balances with the Central Bank	17,886,427	359,380	29,560	18,275,367	7,027,505	25,302,872
Loans and advances to banks	2,116,914	218,379	32,166	2,367,459	120,012	2,487,471
Loans and advances to customers	27,031,018	–	–	27,031,018	5,120,077	32,151,095
Derivative financial assets	15,391	–	–	15,391	–	15,391
Intangible assets	–	–	–	–	17,537	17,537
Property and equipment	–	–	–	–	1,336,847	1,336,847
Deferred income tax assets	–	–	–	–	201,669	201,669
Other assets	23,596	43,071	5,035	71,702	123,429	195,131
Total assets	**47,073,346**	**620,830**	**66,761**	**47,760,937**	**13,947,076**	**61,708,013**
Liabilities						
Deposits from banks	167,113	5,507	–	172,620	96,210	268,830
Due to customers	21,830,192	578,448	64,610	22,473,250	8,696,664	31,169,914
Other borrowed funds	25,133,582	–	–	25,133,582	–	25,133,582
Other liabilities	36,801	34,965	986	72,752	215,309	288,061
Retirement benefit obligations	–	–	–	–	34,202	34,202
Equity	–	–	–	–	4,813,424	4,813,424
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 28)	–	–	–	–	**2,243,228**	**2,243,228**
31 December 2006						
Total assets	31,248,796	459,316	31,493	31,739,605	7,388,273	39,127,878
Total liabilities and equity	31,149,889	751,730	50,130	31,951,749	7,176,129	39,127,878
Net on-balance sheet position	**98,907**	**(292,414)**	**(18,637)**	**(212,144)**	**212,144**	**–**
Credit commitments (note 28)	–	–	–	–	**1,380,011**	**1,380,011**

As of 31 December 2007 the Group did not have any hedging. 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 December 31st		Effect of depreciation of RSD to open currency position		Effect of appreciation of RSD to open currency position	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
USD	1,910	(292)	38	(5,848)	(38)	5,848
EUR	(94,342)	98,907	(1,887)	1,978	1,887	(1,978)
Other Currencies	(1,165)	(18,637)	(23)	(373)	23	373
RSD	(91,267)	(212,144)	–	–	–	–

Having in mind the currency structure of the balance sheet the depreciation of the local currency by 2% would result in negative revaluation accumulated effect of RSD 1,872 thousand (2006: 4,243 thousand). In case of appreciation of the local currency by 2% positive revaluation accumulated effect would be RSD 1,872 thousand (2006: 4,243 thousand).

B.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 micro economic 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 December 31st 2007 the Group had outstanding Interest Rate Swap of EUR 9,9 million (December 31st 2006: EUR 15.8 million). The Group had only economic hedging transactions during the reporting period.

The table below summarizes the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

			2007			2006
in %	**RSD**	**EUR**	**USD**	**RSD**	**EUR**	**USD**
Assets						
Cash and balances with the Central Bank	2.50	–	–	2.50	–	–
Loans and advances to banks	8.90	5.78	4.92	16.67	4.08	–
Loans and advances to customers	25.35	15.53		26.73	16.56	–
Reverse repo placements	10.06	–	–	11.50	–	–
Other placements with Central Bank	7.67	–	–	10.26	–	–
Liabilities						
Deposits and loans from banks	9.10	6.19	6.93	12.23	7.63	–
Due to customers						
Current accounts	2.17	–	–	1.69	–	–
Saving accounts	10.20	2.37	1.57	7.89	2.36	1.49
Term deposits	10.41	4.65	3.47	9.96	4.40	2.95
Other borrowed funds	–	6.92	–	–	6.63	–

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.

	Up to 30 days	**1 – 6 months**	**6 – 12 months**	**More than 12 months**	**Non-interest bearing assets**	**Total**
Assets						
Cash and balances with the Central Bank	7,353,472	–	–	–	17,949,400	25,302,872
Loans and advances to banks	2,487,471	–	–	–	–	2,487,471
Loans and advances to customers	10,528,988	5,973,512	4,740,672	10,676,909	231,014	32,151,095
Derivative financial assets	–	–	–	–	15,391	15,391
Intangible assets	–	–	–	–	17,537	17,537
Property and equipment	–	–	–	–	1,336,847	1,336,847
Deferred income tax assets	–	–	–	–	201,669	201,669
Other assets	–	–	–	–	195,131	195,131
Total assets	**20,369,931**	**5,973,512**	**4,740,672**	**10,676,909**	**19,946,989**	**61,708,013**
Liabilities						
Deposits from banks	268,830	–	–	–	–	268,830
Due to customers	11,145,195	11,186,916	7,060,723	1,338,254	438,825	31,169,914
Other borrowed funds	6,140,806	4,481,106	-	14,081,645	430,025	25,133,582
Other liabilities	–	–	–	–	288,061	288,061
Retirement benefit obligations	–	–	–	–	34,202	34,202
Equity	–	–	–	–	4,813,424	4,813,424
Total liabilities	**17,554,830**	**15,668,022**	**7,060,723**	**15,419,899**	**6,004,538**	**61,708,013**
Interest sensitivity gap	**2,815,101**	**(9,694,511)**	**(2,320,051)**	**(4,742,990)**	**13,942,451**	**–**
As of 31 December 2006						
Total Assets	14,711,801	3,727,845	3,470,598	6,075,490	11,142,144	39,127,878
Total Liabilities	17,660,399	9,718,883	3,548,743	3,895,269	4,304,584	39,127,878
Interest sensitivity gap	**(2,948,598)**	**(5,991,038)**	**(78,145)**	**2,180,221**	**6,837,560**	**–**

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2007, if interest rates had been 50 basis points higher with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2007 would respectively increase by approximately RSD 270 thousand (2006: decrease by RSD 44,240 thousand).

At 31 December 2007, if interest rates had been 50 basis points lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2007 would respectively decrease by approximately RSD 270 thousand (2006: increase by RSD 44,240 thousand).

C) 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 represents future cash requirements, since many of these commitments will expire or terminate without being funded.

C.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.

31 December 2007	Less than 1 month	1 – 3 months	3 – 12 months	More than 1 year	Total
Liabilities to banks	270,174	–	–	–	270,174
Current and savings deposits	8,478,470	–	–	–	8,478,470
Term deposits	3,164,362	5,904,413	12,763,527	1,419,852	23,252,154
Long-term loans in foreign currency	152,818	282,030	738,596	14,946,524	16,119,969
Liabilities for issued debt securities	–	–	–	10,567,849	10,567,849
Other	–	–	–	214,612	214,612
Total Liabilities (by contractual due dates)	**12,065,825**	**6,186,443**	**13,502,124**	**27,148,837**	**58,903,229**
Total Assets (by expected due dates)	**29,607,345**	**3,145,559**	**10,825,814**	**19,494,983**	**63,073,702**

31 December 2006	Less than 1 month	1 – 3 months	3 – 12 months	More than 1 year	Total
Liabilities to banks	1,963,867	–	–	–	1,963,867
Current and savings deposits	6,480,767	–	–	–	6,480,767
Term deposits	1,041,190	3,231,360	6,657,752	1,795,415	12,725,717
Long-term loans in foreign currency	117,209	–	1,914,360	13,043,974	15,075,543
Other	–	–	–	496,403	496,403
Total Liabilities (by contractual due dates)	**9,603,033**	**3,231,360**	**8,572,112**	**15,335,791**	**36,742,297**
Total Assets (by expected due dates)	**15,078,233**	**2,169,823**	**8,478,903**	**14,987,423**	**40,714,381**

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.

C.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.

At 31 December 2007	Less than 1 month	1 – 3 months	3 – 12 months	More than 1 year	Total
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**
At 31 December 2006					
Foreign currency swaps:					
– Outflow	306,599	–	–	–	306,599
– Inflow	306,411	–	–	–	306,411
Interest rate swaps					
– Outflow	–	–	–	1,258,674	1,258,674
– Inflow	–	–	1,254,110	–	1,254,110
Total outflow	**306,599**	**–**	**–**	**1,258,674**	**1,565,273**
Total inflow	**306,411**	**–**	**1,254,110**	**–**	**1,560,521**

D) 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	
	2007	2006	2007	2006
Financial assets				
Loans and advances to customers	32,151,095	23,724,909	32,125,325	23,660,539
Loans and advances to banks	2,487,471	977,169	2,487,471	977,169
Financial liabilities				
Deposits and loans from banks	268,830	1,954,097	268,830	1,954,097
Due to customers	31,169,914	19,253,647	31,275,413	19,258,215
Other borrowed funds	25,133,582	14,185,001	23,880,709	14,969,038

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 and loans 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.

E) 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.

	2007	2006
Tier 1 capital		
Share capital	2,363,274	1,920,120
Share premium	1,325,813	901,308
Retained earnings	412,981	386,168
Intangible assets	(17,537)	(9,697)
Total qualifying Tier 1 capital	**4,084,531**	**3,197,899**
Tier 2 capital	**2,042,265**	**1,283,053**
Deductions from equity	**(466,986)**	**(283,737)**
Total regulatory capital	**5,659,810**	**4,197,215**
Risk weighted assets		
On-balance sheet	33,073,516	24,017,342
Off-balance sheet	4,045,334	2,786,854
Open currency position	191,040	220,236
Total risk weighted assets	**37,309,890**	**27,024,432**
Capital adequacy ratio	**15.17%**	**15.53%**

The increase of the regulatory capital in 2007 is mainly due to additional paid in capital the contribution of the current-year profit, and additional subordinated liability. The increase of the risk-weighted assets reflects the expansion of the business in retail segment and in SMEs in 2007.

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.

(c) Recent volatility in global financial markets.

In 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivatives markets. The Management has analysed the current situation on global financial markets and concluded that the credit crunch has no significant impact on Group's financial position as at 31 December 2007.

5. Net interest income

	2007	2006
Interest and similar income		
Cash and balances with the Central Bank	23,576	25,795
Reverse repo placements	342,908	59,200
Loans and advances to banks	129,044	111,656
Loans and advances to customers	5,365,503	3,827,708
	5,861,031	**4,024,359**
Interest and similar expenses		
Deposits from banks	57,641	272,679
Due to customers	1,131,928	698,968
Other borrowed funds	1,591,518	544,977
	2,781,087	**1,516,624**
Net interest income	**3,079,944**	**2,507,735**

Interest income accrued on impaired financial assets is RSD nil (2006: RSD 275 thousand).

6. Net fee and commission income

	2007	2006
Fee and commission income		
Payment transfer business	447,546	243,196
Guarantee business	63,207	41,311
Other fees	158,748	77,290
	669,501	**361,797**
Fee and commission expense		
Payment transfer business	100,272	42,320
Loan administration and guarantee business	0	0
Other fees	39,950	14,934
	140,222	**57,254**
Net fee and commission income	**529,279**	**304,543**

Other fee income include fees on travelers' cheques in the amount of RSD 1,153 thousand (2006: RSD 770 thousand), other fees from customers in the amount of RSD 33,879 thousand (2006: RSD 18,151 thousand) and fees from card business in the amount of RSD 123,715thousand (2006: RSD 58,369 thousand).

7. Net trading income

	2007	2006
Translation (losses)/ gains	3,717	(201,436)
Transaction gains	300,610	181,593
Interest rate swaps	(15,390)	(6,487)
Foreign exchange swaps	–	(117)
Total net trading income	**288,937**	**(26,447)**

8. Other operating income

	2007	2006
Net gains from disposals of property and equipment	1,396	884
Gains and losses from securities	6,667	–
Other	37,242	23,181
	45,305	**24,065**

Position "Other" includes income from litigation settlements RSD 1,333 thousand (2006: RSD nil), income from reversals of other provisions not related to lending RSD 7,296 thousand (2006: RSD nil), reimbursement of expenses related to other entities within ProCredit Holding Group of RSD 14,696 thousand (2006: RSD 23,181 thousand), grants RSD 6,726 thousand (2006: RSD nil) income from previous years RSD 6,606 thousand (2006: RSD nil), and others RSD 585 thousand (2006: RSD nil).

9. Impairment charge for credit losses

	2007	2006
Charge for the year on loans to customers (note 14)	1,157,988	478,351
Release of provision on loans to customers (note 14)	(682,602)	(292,327)
Provisions for commitments	(6,776)	36,636
Total impairment provision	**468,610**	**222,660**

10. Other operating expenses

	2007	2006
Staff costs		
Wages and salaries	1,147,146	979,203
State pension contributions	119, 475	103,807
Other social security costs	74,943	65,115
Other staff costs	84,656	99,244
Total staff costs	**1,426,220**	**1,247,369**
Office rent	343,637	286,607
Office supplies and other office utilities	135,506	111,864
Marketing and representation	227,674	161,902
Depreciation and amortization	242,848	165,422
Communication expenses	89,119	71,101
Legal and advisory expenses	60,934	64,793
Security	52,758	48,147
Other taxes	24,804	82,137
Insurance expenses	65,096	48,062
Transport expenses	41,269	35,577
Training expenses	35,979	29,663
Other service expenses	101,547	71,764
Expenses for royalties on software	32,025	23,410
Expenses for repairs and maintenance	10,802	12,876
Other administrative expenses	65,044	39,597
Total	**2,955,262**	**2,500,291**

Other staff costs include fringe benefits in the amount of RSD 68,037 thousand (2006; RSD 51,704 thousand), provisions for retirement benefit obligations RSD 8,121 thousand (2006: RSD 26,081thousand) and other employee' benefits RSD 8,497 thousand (2006: RSD 21,459 thousand).

11. Income tax credit

	2007	2006
Current income tax	(18,649)	–
Deferred income tax credit (Note 18)	47,072	95,261
Total income tax credit	**28,423**	**95,261**

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

	2007	2006
Profit before tax	519,593	86,944
Tax calculated at a tax rate of 10% (2005: 10%)	(51,959)	(8,694)
Penalty interest	–	(401)
Fines and penalties	(2,159)	(277)
Accounting depreciation above tax depreciation	(7,883)	(2,840)
Other non-deductible expenses	(4,331)	(11,002)
Utilized tax credits	47,683	23,214
Unutilized tax credits	47,072	95,261
Current tax credit	**28,423**	**95,261**

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

	2007	2006
Cash on hand	720,963	403,446
Mandatory reserve	17,960,014	10,022,373
Balances with the Central Bank other than mandatory reserve deposits	6,621,895	2,679,133
Total (Note 27)	25,302,872	13,104,952

Balances with National Bank of Serbia other than mandatory reserves are REPO placements amounting RSD 5,350,000 thousand (2006: 2,359,437 thousand) and overnight placements to NBS amounting RSD 1,250,000 thousand (2006: nil). NBS placement breakdown is as follows:

- Reverse repo placements with maturity of 14 days – RSD 5,350,000 thousand, interest rate 9.50% (2006: RSD 900,000 thousand),
- Other balances (overnight placements to National Bank of Serbia) amounted RSD 1,271,895 thousand (2006: RSD 319,903 thousand).

The National Bank of Serbia (NBS) regulations related to mandatory reserve have been changed for a few times during 2007. 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 (at the beginning of year 15%) 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.
Mandatory reserves can be used by the Group in its day-to-day operations. However, the Group is required to maintain the minimum monthly average balance of mandatory reserves. As of 31 December 2007 and 2006, the Group was in compliance with the above mentioned regulations related to mandatory reserve.
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

	2007	2006
Nostro accounts (Note 27)	272,214	229,507
Nostro covered letters of credit and guaranties	–	86,656
Money market placements (Note 27)	2,215,257	661,006
Total loans and advances to banks	**2,487,471**	**977,169**

Nostro accounts represent the account balances with Commerzbank, American Express bank, Dresdner bank and ProCredit Bulgaria. Money market placements in the amount of RSD 2,167,162 thousand (2006: RSD 661,006 thousand) are overnight deposits with: Barclays Bank 629,928 thousands (2006: NIL), Dresdner bank 629,928 thousands (2006: NIL), Commerzbank RSD 487.378 thousand (2006: 252,800 thousand), American Express bank

RSD 204,161 thousand (2006: 47,879 thousand).and RSD 263,863 thousand placements for spot trading.

14. Loans and advances to customers

	2007	2006
Legal entities	19,856,553	14,341,522
Retail customers small and medium size enterprises	12,037,687	9,170,633
Retail customers private individuals	917,808	736,878
Other customers	831,116	465,290
Total loans and advances to customers	**33,643,164**	**24,714,323**
Unearned future finance income on finance leases	(375,497)	(254,079)
Deferred fee income	(358,656)	(270,736)
Allowance for impairment	(757,916)	(464,599)
Net loans to customers	**32,151,095**	**23,724,909**
Current	15,429,672	11,229,680
Non-current	16,721,423	12,495,229
	32,151,095	**23,724,909**

Accrued interest amounts RSD 236,111 thousand (2006: RSD 197,455 thousand).

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

	2007	2006
Balance at 1 January	**464,599**	**362,612**
Provision for loan impairment (note 9)	1,157,988	478,351
Loans written off	(153,518)	(57,440)
Release of loan impairment provision (note 9)	(682,602)	(292,327)
Exchange rate differences	(28,552)	(26,597)
Balance 31 December	**757,916**	**464,599**

Allowances for losses on loans and advances to customers include the amount of RSD 18,604 thousand, representing the impairment provision on finance lease receivables (2006: RSD 10,439 thousand).

Loans and advances to customers include finance lease receivables:

	2007	2006
Gross investment in finance leases :		
No later than 1 year	693,038	342,849
Later than 1 year and no later than 5 years	1,515,868	917,614
Later than 5 years	29,078	37,189
	2,237,984	**1,297,652**
Unearned future finance income on finance leases	(375,497)	(254,079)
Net investment in finance leases	**1,862,487**	**1,043,573**
Net investment in finance lease can be analyzed as follows:		
No later than 1 year	529,788	242,311
Later than 1 year and no later than 5 years	1,305,522	766,233
Later than 5 years	27,177	35,029
	1,862,487	**1,043,573**

15. Derivative financial assets

Financial assets at fair value through profit or loss 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 2007 the Group entered into foreign currency swap agreements in order to hedge its open currency position, as of 31 December 2007 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 2007 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).

Financial assets and liabilities at fair value through profit or loss could be presented as follows:

	Fair value			
	Assets		Liabilities	
	2007	2006	2007	2006
Foreign currency swaps	–	124	–	7
Interest rate swaps	15,391	6,487	–	–
Total	**15,391**	**6,611**	**–**	**7**

16. Intangible assets

The movement in intangible assets for the years 2006 and 2007 is presented in table below:

	Advance payments for intangible assets	Software	Total
Cost			
Balance, 1 January 2006	–	21,408	21,408
Additions	6,392	–	6,392
Transfers	(6,392)	6,392	–
Balance, 31 December 2006	**–**	**27,800**	**27,800**
Accumulated amortization			
Balance, 1 January 2006	–	13,423	13,423
Charge for the year	–	4,602	4,602
Balance, 31 December 2006	**–**	**18,025**	**18,025**
Net Book Value 31 December 2006	**–**	**9,775**	**9,775**
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**

17. Property and equipment

The movement in property and equipment for the 2006 and 2007 is presented in table below:

	Equipment	Leasehold improvements	Assets under construction and other fixed assets	Total
Cost				
Balance, 1 January 2006	402,389	71,512	49,024	522,925
Additions	–	14,812	701,857	716,669
Transfers	282,974	97,484	(380,458)	–
Disposals	(11,109)	–	(635)	(11,744)
Balance, 31 December 2006	674,254	183,808	369,788	1,227,850
Accumulated Depreciation				
Balance, 1 January 2006	124,025	1,707	14,747	140,479
Disposals	(8,481)	–	(589)	(9,070)
Charge for the year	114,886	28,091	17,844	160,821
Balance, 31 December 2006	230,430	29,798	32,002	292,230
Net Book Value 31 December 2006	**443,824**	**154,010**	**337,786**	**935,620**
Cost				
Balance, 1 January 2007	674,254	183,808	369,788	1,227,850
Additions	–	–	644,950	644,950
Transfers	301,941	82,489	(384,430)	–
Disposals	(16,380)	(7)	(1,050)	(17,437)
Balance, 31 December 2007	959,815	266,290	629,258	1,855,363
Accumulated Depreciation				
Balance, 1 January 2007	230,430	29,798	32,002	292,230
Disposals	(11,334)	(7)	(712)	(12,053)
Charge for the year	172,515	40,990	24,834	238,339
Balance, 31 December 2007	391,611	70,781	56,124	518,516
Net Book Value 31 December 2007	**568,204**	**195,509**	**573,134**	**1,336,847**

As of 31.12.2007 the Group had RSD 510,997 thousand in assets under construction (2006: RSD 269,751 thousand) due to investment in new Head Office building which finishing is planned for 2008. Total planned investments in new Head Office building for 2008 are around EUR 2.5 million.

18. 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:

	2007	2006
Tax loss carried forward (expiring in the period from 1 to 5 years)	–	12,412
Tax credit carried forward (expiring in the period from 1 to 5 years)	–	2,296
Tax credit carried forward (expiring in the period over 5 years)	201,669	139,890
As of 31 December	**201,669**	**154,598**

The movement in deferred income tax account is as follows:

	2007	2006
As of 1 January	154,598	59,337
Income statement credit (Note 11)	47,072	95,261
As of 31 December	**201,669**	**154,598**

Deferred income tax assets are recognized for tax losses carried forward and investment tax credits only to the extent that realization of the related tax benefit is probable.

19. Other assets

	2007	2006
Advances paid	22,798	9,816
Other assets and receivables	80,596	115,245
Other prepayments and deferred expenditure	91,737	89,183
	195,131	**214,244**

Other prepayments and deferred expenditure consist of the following expenses:

- Interest expenses paid in advance to the clients using Pro Advance deposit products in the amount of RSD 21,405 thousand (2006: RSD 28,298 thousand)
- Deferred interest on revise repo transactions in the amount of RSD 14,883 thousand (2006: RSD 5,039 thousand)
- Expenses paid in advance that are related to rent, insurance, marketing and magazine subscription in the amount of RSD 55,448 thousand (2006: RSD 55,024 thousand)
- Other claims to ProCredit Holding present invoiced cost of advertising in the name of ProCredit Holding in the amount of RSD 0.5 thousand (2005:RSD 5,861 thousand);

20. Deposits from banks

	2007	2006
Money market deposits	–	1,835,564
Other banks deposits	268,830	118,533
	268,830	**1,954,097**

Other bank deposits as of 31st December consist of placements from banks in process of bankruptcy in the amount of RSD 5,507 thousand (2006: RSD 118,533) and deposits for spot foreign exchange transactions in the amount of RSD 263,323 thousand (2006: RSD NIL)

21. Due to customers

	2007	2006
Large corporate customers:		
– Current/settlement accounts	1,414,076	1,472,922
– Term deposits	6,909,662	823,571
SMEs:		
– Current/settlement accounts	3,413,265	1,912,323
– Term deposits	909,620	2,118,332
Retail customers:		
– Current/demand accounts	3,608,948	3,063,279
– Term deposits	14,105,881	9,197,899
Other liabilities	369,288	444,058
	30,730,740	**19,032,384**
Accrued interest on deposits	439,174	221,263
Total deposits	**31,169,914**	**19,253,647**
Current	29,832,548	17,471,627
Non-current	1,337,366	1,782,020
	31,169,914	**19,253,647**

22. Other borrowed funds

Other borrowed funds include long term borrowed funds from International Financial Institutions and foreign banks. The table bellow summarizes other borrowed funds as of 31 December 2007:

	Initial loan in EUR	Carrying value in EUR	Maturity	RSD '000	RSD '000
		2007		2007	2006
European Bank for Reconstruction and Development (EBRD)	12,000,000	6,500,000	2005-2009	515,035	1,624,023
Kreditanstalt für Wiederaufbau (KfW)	21,800,000	21,414,286	2007-2012	1,696,787	59,250
Commerzbank AG,	2,500,000	–	2002-2007	–	197,500
International Finance Corporation,	21,957,957	16,739,489	2007-2011	1,326,374	354,994
Instituto de Credito Oficial	15,000,000	15,000,000	2005-2015	1,188,543	1,185,000
Financierings – Maatschappij voor Ontwikkelingslanden (FMO)	63,000,000	63,000,000	2006-2013	4,991,881	4,977,000
ProCredit Holding	8,000,000	6,000,000	2005-2010	475,417	1,165,250
ProCredit Holding subordinated debt	16,000,000	16,000,000	2006-2016	1,267,779	948,000
Other subordinated debt	15,000,000	15,000,000	2007-2012	1,188,543	–
EFSE	36,000,000	26,400,000	2005-2011	2,091,836	3,638,326
PC Finance B.V	125,000,000	125,000,000	2007-2012	9,904,524	–
	336,257,957	**311,053,775**	–	**24,646,719**	**14,149,343**
Accrued interest				777,788	137,293
Deferred fees				(290,925)	(101,635)
Total				**25,133,582**	**14,185,001**
Current				1,150,846	2,004,310
Non-current				23,982,736	12,180,691
				25,133,582	**14,185,001**

In 2007 ProCredit Holding granted to ProCredit Bank loan of EUR 4 million (2006: EUR 12 million) in form of subordinated debt in 2 instalments. As at 26.12.2007 existing loan from EFSE in the amount of EUR 15,000,000 was annexed and converted to subordinated loan. This loan matures as at 22.03.2013 and its interest rate is euribor + 3.6%. Subordinated debt describes debt that is unsecured or has a lesser priority than that of an additional debt claim on the same asset. It has maturity of 10 years and according to its nature and capital characteristics it can be transferred to equity.

The Group is obliged to complain 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:

in %	Required (higher than)	Actual
European Bank for Reconstruction and Development	10	16.64
International Finance Corporation	10	16.64
International Finance Corporation	12	16.64
FMO (loan to ProCredit Bank)	12	15.17
FMO (loan to ProCredit Leasing)	10	16.81

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 2007 and 2006 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.

23. Other liabilities

	2007	2006
Liabilities to employees	15,374	11,028
Taxes, contributions and other charges	21,068	25,216
Liabilities to suppliers	73,449	63,089
Impairment of credit commitments	55,966	62,742
Liabilities for dividends	79,236	79,000
Derivative financial liabilities	–	7
Current income tax liabilities	1,205	–
Others	41,763	70,221
	288,061	**311,303**

Position others includes: Provisions for unused vacation RSD 27,594 thousand (2006: RSD 21,124 thousand), liabilities for received prepayments RSD 925 thousand (2006: RSD NIL), other liabilities RSD 13,244 thousand (2006: RSD 297,286 thousand),

24. Retirement benefit obligations

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.

	2007	2006
Retirement benefit obligation	34,202	26,081
	34,202	**26,081**

25. Share Capital

Based on the Shareholders Decision from 6th July 2006 the Group has carried out distribution of the fifth issue of ordinary shares for the purpose of capital increase (number of shares: 600,000 in the nominal amount RSD 600,000 thousand). The shares were subscribed and paid at the price which is higher than their nominal value and thus the total amount of equity paid by the shareholders was RSD 634,463 thousand. The equity increase is registered with the Agency for Legal Entities Belgrade under register number BD 185971 / 2006 as of 15 November 2006. The shareholders' structure during increase of equity remained unchanged.
Based on the public offer for take over bid for the acquiring of ProCredit Bank a.d. Beograd, issued by ProCredit Holding dated 6 December 2006 in accordance with decision of Security and Exchange Commission no. 4/0-32-4222/6-06, ProCredit Holding acquired 81,810 shares from KFW.

Based on Shareholders Decision from 3rd July 2007 the Group has carried out distribution of the sixth issue of ordinary shares for the purpose of capital increase (number of shares: 217,674 in the nominal amount RSD 217,674 thousand). The shares were subscribed and paid at the price which is higher than their nominal value and thus the total amount of equity paid by the shareholders was RSD 395,057 thousand. The equity increase is registered with the Agency for Legal Entities Belgrade under register number BD 108297/2007 as of 28 August 2007. The shareholders' structure during increase of equity remained unchanged.
Based on the agreement between ProCredit Holding and KfW dated 8th June 2007 for take over for the acquiring of 180,000 shares of ProCredit Bank a.d. Beograd, ProCredit Holding acquired 180,000 shares from KfW.
Based on Shareholders Decision from 14th December 2007 the Group has carried out distribution of the seventh issue of ordinary shares for the purpose of capital increase (number of shares: 225,480 in the nominal amount RSD 225,480 thousand). The shares were subscribed and paid at the price which is higher than their nominal value and thus the total amount of equity paid by the shareholders was RSD 463,411 thousand. The equity increase is registered with the Agency for Legal Entities Belgrade under register number BD 152718/2007 as of 27 December 2007. The shareholders' structure during increase of equity remained unchanged.

The ownership structure of the ProCredit Bank a.d. Belgrade as at 31 December 2007 and 2006 is as follows:

	Number of shares		Share in %	
	2007	2006	2007	2006
ProCredit Holding AG	1,575,516	1,100,080	66.66	57.29
European Bank for Reconstruction and Development (EBRD)	393,879	320,020	16.67	16.67
Commerzbank AG	393,879	320,020	16.67	16.67
Kreditanstalt für Wiederaufbau	–	180,000	–	9.37
	2,363,274	**1,920,120**	**100.00**	**100.00**

As of 31 December 2007 the Group plans to issue new shares in March and in July 2008.

26. Other 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 2007, the special banking risk reserves under Central Bank's regulations were amounted to RSD 1,073,364 thousand (31 December 2006: RSD 313,871 thousand). During 2007 the Bank has allocated to special account reserves the amount of RSD 663,204 thousand (2006: NIL). The Bank should allocate to special reserves an additional amount of RSD 410,160 thousand, after approval of the Bank's shareholders, in order to reach the level prescribed by the Central Bank.

27. Cash and cash equivalents

Cash and cash equivalents	2007	2006
Cash and balances with Central Bank (Note 12)	25,302,872	13,104,952
Nostro accounts with other banks (Note 13)	272,214	229,507
Money market placements (Note 13)	2.215,257	661,006
	27,790,343	**13,995,465**

28. 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:

	2007	2006
Payments and guarantees	3,200,676	1,710,549
Performance guarantees	747,586	390,694
Acceptances and endorsements	15,737	16,322
Loan commitments	2,243,228	1,380,011
Letters of credit (documentary business)	464,972	577,192
Balance as at 31 December	**6,672,199**	**4,074,768**

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

	2007	2006
No later than 1 year	14,107	8,937,487
Later than 1 year and no later than 5 years	24,013,751	18,533,789
Later than 5 years	11,413,500	13,146,640
	35,441,358	**40,617,916**

29. Related party transactions

The Group is controlled by ProCredit Holding AG (incorporated in Germany), which owns 66.66% of the ordinary shares. The remaining 33.34% of the shares is held by European Bank for Reconstruction and Development (EBRD) and Commerzbank AG. ProCredit Bank Albania and ProCredit Bank Bulgaria are subsidiaries of ProCredit Holding.
In normal course of business, the Group enters into transactions with its shareholders and other micro finance institutions in Central and Eastern Europe.

	2007	2006
Nostro accounts		
Commerzbank AG	199,950	73,364
ProCredit Bank Bulgaria	15,447	11,424
Share in equity		
ProCredit Academy Eastern Europe	7,923	–
Other receivables		
ProCredit Holding	290	5,861
ProCredit Academy Eastern Europe	874	–
ProCredit Bank Honduras	29	–
ProCredit Bank Georgia	31	–
Other borrowed funds		
ProCredit Holding	1,743,196	2,113,250
Commerzbank AG	–	197,500
EBRD	515,035	1,624,023
KFW	1,584,724	59,250
Liabilities for dividends		
Liabilities for dividends PCH	63,030	62,842
Liabilities for dividends KFW	16,206	16,158
Other liabilities		
ProCredit Holding	3,262	–

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

	2007	2006
Deposits from banks		
Loans outstanding at 1 January	–	256,500
Loans issued during year	547,141	2,536,448
Loan repayments during the year	(547,141)	(2,792,948)
Loans outstanding at 31 December	–	–
Other borrowed funds		
Loans outstanding at 1 January	3,994,023	4,308,789
Loans issued during year	1,901,669	1,481,250
Exchange rate differences	11,941	(327,568)
Loan repayments during the year	(2,064,678)	(1,468,448)
Loans outstanding at 31 December	3,842,955	3,994,023

	2007	2006
Interest income	8,344	216
Interest expenses	384,356	286,102

The policy of the Group is to reimburse the Members of Board of Directors for their travel expense related to the Board Meetings. No salaries or any other contribution on this membership is paid. As of 31.12.2007 Executive Board members total loan commitments including commitments for credit and debit cards amounted RSD 18,822 thousand. (2006: RSD 70 thousand).

30. Events after balance sheet date

Based on Shareholders Decision from 19 March 2008 the Group has carried out distribution of the eighth issue of ordinary shares for the purpose of capital increase (number of shares: 389,262 in the nominal amount RSD 389,262 thousand). The shares were subscribed and paid at the price which is higher than their nominal value and thus the total amount of equity paid by the shareholders was RSD 832,882 thousand. The equity increase is registered with the Agency for Legal Entities Belgrade under register number BD 23710/2008 as of 28 March 2008. EBRD did not subscribe for these new shares issue. The shareholders' structure after increase of equity changed.

The ownership structure of the Group as at 31 March 2008 is as follows:

		Number of shares		Share in %
	31 March 2008	**31 December 2007**	**31 March 2008**	**31 December 2007**
ProCredit Holding AG	1,899,901	1,575,516	69.02	66.66
European Bank for Reconstruction and Development (EBRD)	393,879	393,879	14.31	16.67
Commerzbank AG	458,756	393,879	16.67	16.67
	2,752,536	**2,363,274**	**100.00**	**100.00**

The official exchange rates as of 31 December 2007 and 2006 are as follows:

	2007	**2006**
USD	53.7267	59.9757
EUR	79.2362	79.0000

Contact Addresses

Head Office

Belgrade
Bulevar despota Stefana 68c
Tel. +381 11 2077 906
Fax +381 11 2077 905
info@procreditbank.rs
www.procreditbank.rs

Regional Centres

Belgrade
Milutina Milankovica 9
Tel. +381 11 3012 750
Fax +381 11 3012 751

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

Nis
Svetozara Markovica 10
Tel. +381 11 257 845
Fax +381 11 505 380

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

ProCredit Leasing
Milutina Milankovica 9, Novi Beograd
Tel. +381 11 3012 700
Fax +381 11 3012 700
info@procreditleasing.rs

Branches

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

Arandjelovac
Knjaza Milosa 218
Tel. +381 34 701 687
Fax +381 34 701 747

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

Becej
Mose Pijade 3
Tel. +381 21 6914 480
Fax +381 21 6913 220

Belgrade
Bulevar despota Stefana 68c
Tel. +381 11 2077 888
Fax +381 11 2077 860

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

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

Bulevar Zorana Djindjica 65,
Novi Beograd
Tel. +381 11 2120 210
Fax +381 11 2120 214

Goce Delceva 29, Novi Beograd
Tel. +381 11 3194 400
Fax +381 11 3194 400

Glavna 47, Zemun
Tel. +381 11 3168 655
Fax +381 11 3068 656

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

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

Milutina Milankovica 9,
Novi Beograd
Tel. +381 11 3012 750
Fax +381 11 3012 751

Obilicev Venac 26
Tel. +381 11 2635 303
Fax +381 11 3283 624

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

Pozeska 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

Cacak
Sindjeliceva 35
Tel. +381 32 226 556
Fax +381 32 228 336

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

Ivanjica
Boska Petrovica 45
Tel. +381 32 601 810
Fax +381 32 601 820

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

Kikinda
Trg. Srpskih Dobrovoljaca 2
Tel. +381 230 401 110
Fax +381 230 401 110

Kragujevac
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

Krusevac
Mirka Tomica 99
Tel. +381 37 418 490
Fax +381 37 418 490

Lazarevac
Karadjordjeva 64–70
Tel. +381 11 8128 626
Fax +381 11 8120 522

Leskovac
Bulevar Oslobodjenja bb
Tel. +381 16 244 478
Fax +381 16 212 392

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

Mladenovac
Nikole Pasica 1b
Tel. +381 11 8245 820
Fax +381 11 8245 840

Nis
Dusanova 21
Tel. +381 18 514 345
Fax +381 18 514 344

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

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

Vojvode Misica 113
Tel. +381 18 296 292
Fax +381 18 296 292

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

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

Laze Teleckog 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
Milosa Obrenovica 105
Tel. +381 11 8725 431
Fax +381 11 8725 833

Pancevo
Petra Drapsina 4–6
Tel. +381 13 331 491
Fax +381 13 331 492

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

Pozarevac
Tabacka Carsija 12
Tel. +381 12 543 145
Fax +381 12 543 156

Presevo
Save Kovacevica 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 Ulica 16
Tel. +381 24 817 107
Fax +381 24

Smederevo
Vojvode Djuse 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 Dusana 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

Sabac
Cara Dusana 1
Tel. +381 15 360 050
Fax +381 15 360 022

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

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

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

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

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

Vrsac
Ive Milutinovica 46
Tel. +381 13 801 380
Fax +381 13 801 380

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

Zajecar
Nikole Pasica 87
Tel. +381 19 444 850
Fax +381 19 444 878

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

utisci@procreditbank.rs
INFO center – Tel. 0 700 700 000