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TRANSLATION

TO THE SHAREHOLDERS OF

UNICREDIT BANK SRBIJA A.D. BEOGRAD

Report on the Financial Statements

We have audited the accompanying balance sheet of Unicredit Bank Srbija a.d. Beograd (hereinafter: the Bank) as at 31 December 2008 and the related statement of income, cash flows and changes in shareholders equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006), Banks Law ("Official Gazette of the RS", no. 107/2005) and other relevant by-laws issued by National Bank of Serbia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006) and International Standards on Auditing as issued by the International Federation of Accountants as well as in accordance with the Decision on External Audit of Banks. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2008, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006) and Banks Law ("Official Gazette of the RS", no. 107/2005) and relevant National Bank of Serbia's by-laws.

Belgrade, 15 February 2009 KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

This is a Translation of the Original Report on the Financial Statements issued in Serbian Language. We are responsible for the translation of the Report on the Financial Statements and not for any other documents.

Belgrade, 15 February 2009 KPMG d.o.o. Beograd

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 BEOGRAD

(L.S.)

Nina Bulatović
Certified Auditor

UNICREDIT BANK SRBIJA A.D. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Belgrade, 15 February 2009

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UNICREDIT BANK SRBIJA A.D. BEOGRAD

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

In thousands of RSD	Notes	31 December 2008	31 December 2007
Operating income and expenses			
Interest income	4	6,954,427	4,844,726
Interest expenses	5	(2,826,954)	(1,948,322)
Net interest income		**4,127,473**	**2,896,404**
Fees and commissions income	6	1,513,130	1,331,084
Fees and commissions expenses	7	(222,041)	(262,358)
Net fee and commission income		**1,291,089**	**1,068,726**
Net gains/(losses) on the sale of available for sale securities	8	(395)	20,645
Net foreign exchange gains/(losses)	9	(3,923,660)	1,039,140
Dividends and other income from equity investments	10	19	17
Other operating income	11	6,028	8,255
Losses on impairment and provisions	12	(494,885)	(262,460)
Net wages and salaries, taxes, contributions and other personnel expenses	13	(1,050,005)	(837,132)
Depreciation costs	14	(275,402)	(261,094)
Other operating expenses	15	(1,434,463)	(1,343,498)
Income from assets and liabilities valuation adjustments	16	21,476,682	9,512,136
Expenses from assets and liabilities valuation adjustments	17	(16,590,654)	(9,796,608)
Operating profit		**3,131,827**	**2,044,531**
Profit before tax		**3,131,827**	**2,044,531**
Income taxes	18	(249,049)	(189,868)
Gain on increase of deferred tax assets and decrease of deferred tax liability	18	-	4,782
Loss on decrease of deferred tax assets and increase of deferred tax liability	18	(1,235)	0
Profit after tax		**2,881,543**	**1,859,445**
Earnings per share in RSD			
Basic earnings per share	19	2,479	2,355
Diluted earnings per share	19	2,479	2,355

UNICREDIT BANK SRBIJA A.D. BEOGRAD

BALANCE SHEET AS AT 31 DECEMBER 2008

In thousands of RSD	Note	31 December 2008	31 December 2007
Cash and cash equivalents	20	19,197,994	2,353,398
Revocable deposits and loans	21	18,101,893	28,357,303
Interest and fees receivables	22	146,233	105,693
Loans and deposits	23	46,933,184	39,035,924
Securities (excluding treasury shares)	24	1,827,928	1,185,101
Equity investments	25	9,405	9,410
Other placements	26	1,432,620	518,026
Intangible assets	27	461,868	427,397
Fixed assets and investment property	27	881,032	692,046
Deferred tax assets	28	8,862	10,098
Other assets	29	512,781	375,221
Total assets		**89,513,800**	**73,069,617**
Transaction deposits	30	17,098,589	21,083,371
Other deposits	31	39,071,207	23,611,530
Borrowings	32	8,399,490	10,277,439
Interest and fees liabilities	33	11,975	1,364
Provisions	34	367,084	261,729
Income taxes payable	35	20,534	17,028
Liabilities from income distribution	36	52,745	36,941
Other liabilities	37	3,809,396	3,179,092
Total liabilities		**68,831,020**	**58,468,494**
Share and other capital	38	13,419,776	10,219,776
Reserves	38	4,381,074	2,521,902
Revaluation reserves	38	387	273
Retained earnings	38	2,881,543	1,859,445
Total equity		**20,682,780**	**14,601,123**
Total liabilities and equity		**89,513,800**	**73,069,617**
Off-balance sheet items		**145,147,189**	**148,115,198**
Operations on behalf of third party	39	207,060	234,695
Guarantees and other contingent liabilities	39	60,821,148	42,799,130
Derivatives	39	205,473	91,020
Other off-balance sheet items	39	83,913,508	104,990,353

UNICREDIT BANK SRBIJA A.D. BEOGRAD

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

In thousands of RSD	31 December 2008	31 December 2007
SHARE CAPITAL		
Balance, beginning of year	9,657,627	6,517,627
New share issuance	3,200,000	3,140,000
Transfer of un-nominated capital to share premium	(7)	-
Balance, end of year	12,857,620	9,657,627
SHARE PREMIUM		
Balance, beginning of year	562,149	562,149
Transfer from Share capital	7	0
Balance, end of year	562,156	562,149
BANK'S RESERVES FROM INCOME		
Balance, beginning of year	1,003,072	1,003,072
Distribution of previous year's retained earnings	0	0
Balance, end of year	1,003,072	1,003,072
RESERVES FOR POTENTIAL LOSSES		
Balance, beginning of year	1,518,556	182,903
Distribution of previous year's retained earnings	1,859,445	1,335,653
Balance, end of year	3,378,002	1,518,556
RESERVES WITH RESPECT TO SECURITIES AVAILABLE FOR SALE		
Balance, beginning of year	273	29
Effects of changes in the fair value of securities available-for-sale	114	244
Balance, end of year	387	273
RETAINED EARNINGS		
Balance, beginning of year	1,859,445	1,335,653
Transfer of portion of previous year's retained earnings to the Bank's reserves from income	(1,859,445)	(1,335,653)
Profit for the year	2,881,543	1,859,445
Balance, end of year	2,881,543	1,859,445
TOTAL EQUITY	20,682,780	14,601,123

UNICREDIT BANK SRBIJA A.D. BEOGRAD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

In thousands of RSD	31 December 2008	31 December 2007
Cash receipts from operating activities	**23,480,084**	**21,038,458**
Interest receipts	6,513,763	4,883,537
Fee and commission receipts	1,519,126	1,316,906
Receipts from other operating income	15,447,176	14,837,998
Receipts from dividends and equity investments	19	17
Cash payments from operating activities	**(19,753,445)**	**(18,444,570)**
Interest payments	(2,235,008)	(1,629,370)
Fee and commission payments	(212,876)	(303,773)
Payments to, and on behalf of employees	(1,120,926)	(1,013,521)
Taxes, contributions and other duties paid	(213,076)	(37,383)
Payments for other operating expenses	(15,971,559)	(15,460,572)
Net operating cash flows before changes in placements and deposits	**3,726,639**	**2,593,888**
Decreases in placements and increases in deposits	**11,023,702**	**27,982,212**
Decrease in loans and placements to banks and customers	8,349,953	5,968,787
Increase in deposits from banks and customers	2,673,749	22,013,425
Increases in placements and decreases in deposits	**(446,289)**	**(12,170,332)**
Increase in loans and placements to banks and customers other financial institutions	0	(11,452,212)
Increase in securities and other placements available-for-sale	(446,289)	(718,120)
Decrease in deposits from banks and customers	0	0
Net cash (used in)/generated from operating activities before taxes	**14,304,052**	**18,405,768**
Paid taxes	(233,244)	(227,754)
Paid dividends	0	0
Net cash (used in)/generated from operating activities	**14,070,808**	**18,178,014**
Cash inflows from investing activities	**0**	**798,431**
Inflows from long-term investments in securities	0	798,431
Inflows from sale of intangible and fixed assets	0	0
Cash outflows from investing activities	**(504,123)**	**(186,113)**
Outflows from long-term investments in securities	(562)	0
Purchases of equity investments	0	0
Purchases of property and equipment and intangible assets	(503,561)	(186,113)
Net cash (used in)/generated from investing activities	**(504,123)**	**612,318**
Cash inflows from financing activities	**3,200,000**	**3,140,000**
Proceeds from the issuance of shares	3,200,000	3,140,000
Proceeds from long-term borrowings, subordinated liabilities	0	0
Proceeds from short-term borrowings	0	0
Proceeds from securities	0	0
Cash outflows from financing activities	**(157,172)**	**(22,301,005)**
Outflows based on repayment of short term loans	(157,172)	(22,301,005)

In thousands of RSD	**31 December 2008**	**31 December 2007**
Net cash from financing activities	**3,042,828**	**(19,161,005)**
Total cash inflows	**37,703,786**	**52,959,101**
Total cash outflows	**(21,094,273)**	**(53,329,774)**
Net increase/(decrease) in cash and cash equivalents	16,609,513	(370,673)
Cash and cash equivalents at beginning of the year	**2,353,398**	**2,646,974**
Foreign exchange gains	235,083	77,097
Foreign exchange losses	0	0
Cash and cash equivalents at end of the year	**19,197,994**	**2,353,398**

1 THE BANK'S ESTABLISHMENT AND OPERATING POLICY

In accordance with the Law on Banks and Other Financial Institutions, on July 2, 2001, the National Bank of Yugoslavia enacted a decision by which it approved the establishment of HVB Bank Yugoslavia A.D., Belgrade (the "Bank"). The Bank was duly registered on August 28, 2001 with the Commercial Court of Belgrade. The Bank's principal shareholders are: Bank Austria AG, Vienna, (with a 99% ownership interest in the Bank's total shares) and AVZ Vermogensver-Waltungs GmbH, Vienna (with a 1% ownership interest). In 2002, both principal shareholders changed their names to Bank Austria Creditanstalt AG and A&B Banken Holding GmbH Vienna, respectively.

The Bank is a member of Bank Austria Creditanstalt AG (BA-CA), situated in Vienna, which is a member of the UniCredit Group. The Bank Austria Creditanstalt AG changed its name in 2008 to UniCredit Bank Austria AG.

On 23 August 2004, the Commercial Court enacted a decision no. XII-Fi. 8423/04 by which it approved the change of name of the Bank to HVB Banka Srbija i Crna Gora A.D. Beograd.

In December 2004, subsequent to the acquisition of 98.57% of the total ordinary shares, and 65.9% of the preference shares, Bank Austria Creditanstalt AG, Vienna became the majority owner of the entity, Eksimbanka A.D. Beograd ("Eksimbanka") holding a 98.34% share capital ownership interest as of 31 December 2004.

In May 2005, the remaining shares of Eksimbanka were sold, whereby the Bank Austria Creditanstalt AG, Vienna's ownership interest increased to 99.57% of the acquired entity's outstanding shares, whereas the minority interest of A&B Banken Holding GmbH, Vienna was reduced to 0.43% of share capital subsequent to this transaction.

Pursuant to the Decision of the Republic of Serbian Business Registers Agency numbered BD 90660/2005 of 1 October 2005, business combination was registered subsequent to the merger of HVB Banka Srbija i Crna Gora A.D., Beograd, as Acquirer, with the entity, Eksport-Import banka Eksimbanka, the Acquiree, whose activities ceased upon the consummation of the merger transaction.

On 20 December 2005 the Bank acquired a 100% ownership interest in the entity, BA Creditanstalt Alpha d.o.o. Beograd.

On 30 March 2007 the Serbian Business Registers Agency enacted a decision no. BD 20088/2007 by which it approved the change of name of the Bank to UniCredit Bank Srbija A.D. Beograd.

The Bank is registered in the Republic of Serbia to carry out business activities in payment, credit, and deposit services in the country and abroad in accordance with the Republic of Serbia Law on Banks.

As of 31 December 2008 the Bank was comprised of a Head Office situated in Belgrade at the street address of: 27-29 Rajićeva Street and of seventy branch offices located in major cities throughout the Republic of Serbia (31 December 2007: forty-eight branch offices).

At 31 December 2007 the Bank had 923 employees (31 December 2007: 777). The Bank's tax identification number is 100000170.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of preparation and presentation of financial statements

Financial statements are prepared in accordance with the following Republic of Serbia regulations: the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46/06), Law on the National Bank of Serbia (Official Gazette of the Republic of Serbia no. 72/03, 55/04 and 85/05), Law on Banks (Official Gazette of the Republic of Serbia no. 107/05), Law on Foreign Currency Operations (Official Gazette of the Republic of Serbia no. 62/06), Law on the Market for Securities and Other Financial Instruments (Official Gazette of the Republic of Serbia no. 47/06), Corporate Income Tax Law (Official Gazette of the Republic of Serbia, no. 25/2001, 80/2002, 43/2003 and 84/2004), by-laws adopted pursuant to the above-listed laws, and Decision on Criteria for Classification of Balance Sheet and Off-balance Sheet Assets (Official Gazette of the Republic of Serbia, no. 129/07 and 63/08), Decision on Adequacy of Bank Equity (Official Gazette of the Republic of Serbia no. 129/07 and 63/08), Decision on Risk Management (Official Gazette of the Republic of Serbia no. no. 129/07, 63/08 and 112/08), Book of Regulations on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Banks and Other Financial Organizations (Official Gazette of the Republic of Serbia no. 98/07, 57/08 and 3/09) and the Book of Regulations on the Forms and Contents of Items in Financial Statements Forms for Bank and Other Financial Institutions (Official Gazette of the Republic of Serbia no. 74/08 and 3/09).

In 2008 the Bank kept its business records in accordance with legislation in effect in the Republic of Serbia and in compliance with National Bank of Serbia's regulations that are generally based on International Financial Reporting Standards (IFRS).

Regarding implementation of new chart of accounts and new form of financial statements in accordance with the Book of Regulations on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Banks (Official Gazette of the Republic of Serbia no. 98/07, 57/08 and 3/09) and the Book of Regulations on the Forms and Contents of Items in Financial Statements Forms for Bank and Other Financial Institutions (Official Gazette of the Republic of Serbia no. 74/08 and 3/09) the Bank reclassified comparative figures.

In accordance with the Law on Accounting and Auditing the Banks performed reconciliation of its receivables and liabilities. The percentage of non-reconciled receivables were 25.38%, while the percentage of non reconciled liabilities were 1.46%.

In the preparation of the accompanying financial statements, the Bank has adhered to the accounting policies described in Note 3, which are in conformity with the accounting, banking and tax regulations prevailing in the Republic of Serbia.

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

2.2. Basis of measurement

The accompanying financial statements are prepared on an historical cost basis, except for financial asset which are disclosed at their fair value. It is the policy of the Bank to disclose the fair value information of financial assets held for trading, financial assets available for sale for which published market information is readily and reliably available. Embedded derivatives are measured in accordance with the measurement of the basic instrument.

The financial assets for which fair value cannot be reliably determined are measured on an historical cost basis, including adjustments and provisions made to reduce assets to their estimated recoverable amounts. The Bank's financial assets are reviewed at balance sheet date to determine whether there is objective evidence of impairment to determine the recoverable amount of assets. If there is any indication of such an occurrence, the recoverable amount of assets is estimated.

2.3. Use of estimates

The presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that effect the: assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on historical experience, as well as on information available to us, as of the date of preparation of the financial statements, that are believed to be reasonable under the circumstances. The estimates and associated assumptions are the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

(i) Impairment

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

(ii) Fair value

The determination of fair value for financial assets and liabilities for which there is no readily available market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The principle accounting policies adopted for the preparation of the financial statements are set in Note 3.

2.4. Consolidation

These financial statements relate to single entity financial statements under which financial statements of related party under control BA Creditanstalt Alpha d.o.o. Beograd are not consolidated. BA Creditanstalt Alpha d.o.o. Beograd is 100% owned by the Bank. The Bank prepares consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest income and expenses

Interest income and interest expense are accounted for on an accrual basis using effective interest rate method. Fees income and expenses are accrued throughout the repayment period of the loan. The Bank treats this as effective interest rate method taking into account that these income and expenses are recorded within Fees and commissions income and expenses. Effective interest rate method is used to calculate amortized costs of the financial assets or financial liabilities so that related income and expenses are accrued and allocated adequately to the appropriate accounting period. Effective interest rate represent rate used for discounting future cash flows during loans repayment to their book value.

3.2. Fees and commissions expenses

Fees and commission income/expenses relate to fees arising upon payments operations in foreign currency provided by/to the Bank, loan administration, analyses of credit request, guarantees and letters of credit operations and other banking services. Fees and commissions income and expenses are income are recorded when earned or due, except fees resulting from the loans approval process or fees from guarantees which are accrued on a proportional basis throughout the repayment period of the loan, i.e. through the period the guarantee is granted.

3.3. Foreign Exchange Translation

Transactions in foreign currencies are translated at the middle foreign exchange rate set by the inter-banking foreign currency market ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at balance sheet date are translated at the middle foreign exchange rate set by the inter-banking foreign currency market ruling as at that date.

Net foreign exchange gains or losses arising on foreign currency transactions and on translation of balance sheet items denominated in foreign currency are reported in the income statements as foreign exchange gains or losses.

Contingent liabilities and commitments in foreign currency are translated into dinars at the official middle exchange rate as at balance sheet date.

Exchange rates and inflation rates

Official middle exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows:

	31 December 2008	31 December 2007
USD	62.9000	53.7267
EUR	88.6010	79.2362
CHF	59.4040	47.8422
JPY	0.696604	0.480016

	2008	2007
Consumer price index	106.8	110.1

3.4. Financial assets

The Bank classifies financial assets into following categories: financial assets at fair value through profit and loss, financial assets held to maturity and available for sale financial assets. Securities at fair value through profit and loss relate to securities held by the Bank for short term trading gains. Held-to-maturity securities are securities that the Bank has the positive intent and ability to hold to maturity. Securities held for indefinite time over which they could be sold to sustain liquidity or owing to the changes in interest rates, foreign currency rates or market values, are classified as securities available for sale. Management classifies securities in the moment of purchases.

Held for trading securities are initially stated at cost which is their market value at the moment of purchase. Cost includes transaction costs. At balance sheet date held for trading securities are stated at fair price determined at the active market. Increase and decrease in fair value is recorded through the income statement.

The securities available for sale are initially stated at cost including transaction costs. At subsequent measurement, securities available for sale are stated at market value determined in an active market for such securities (closing prices at the Belgrade Stock Exchange). Unrealized changes in market value are stated within equity, by crediting or debiting revaluation reserves up to the moment of sales, when the value of revaluation reserves is transferred to income.

Equity investments relate to participation in the equity of other legal entities and associates. Equity investments for which there is no active market are measured at costs reduced for allowances for impairment.

Securities held to maturity are stated at amortized costs, using effective interest rate method.

Income and expenses arising in the period of keeping securities in the Bank portfolio are recorded within interest income. All purchases and sales of securities are recorded in the moment of each transaction.

Securities are recorded in the records until the right on cash inflow from securities matures or until rights from securities are transferred to other party. Also, cancellation of liability is performed when liability is settled or transferred to other party.

Impairment

As at the balance sheet date the Bank performs an impairment test to check if the book value of an asset could be recovered and estimates impairment based on available market and other internal and external information. For estimated impairment amount the Bank makes provisions charged to expenses in the period when impairment occurs. Later, if management estimates that there is change in circumstances and that impairment conditions no longer exist, former provisions are cancelled and recorded as income. Cancellation of provisions could not lead to higher book value than the value that would be recorded if impairment were not performed.

3.5. Loans and advances originated by the Bank

Loans originated by the Bank are stated at the amount of principal outstanding, less allowances for impairment, which are based on an evaluation of specifically-identified exposures and are also intended to over losses that are inherent in the Bank's loan portfolio. The Bank's management applies the relevant internally defined methodology in its evaluation of the aforementioned risks (Note 3.6).

Loans that are disbursed in dinars and indexed to the dinar-EUR, CHF or other foreign exchange rate are revaluated in accordance with the specific covenants defined under individual loan agreements. The effects of such revaluation are included under gains or losses on the valuation of financial assets and liabilities.

3.6. Allowances for impairment and provisions for contingent liabilities

Allowances for loan impairment are determined as the difference between the carrying amount and the present value of the future cash flows as discounted at the effective or original contractual interest rate, where appropriate based on the requirements of IAS 39 "Financial Instruments: Recognition and Measurement". Estimated amount of allowance for impairments and provision for contingent liabilities are charged to the Income Statement.

Special reserve for potential losses is determined in accordance with the requirements of the relevant NBS Regulation. Loans, other placements, guarantees, and other on-and off-balance-sheet exposures are classified into the categories A, B, V, G and D, in accordance with the evaluation of their collectibility and associated risk exposures, which depends upon the number of days the payments are in arrears, the financial standing of the counterparty, and the quality of the collateral obtained on the exposures. An estimate of the allowances for impairment and the provision for contingent liabilities is calculated by applying the percentages in the range 1-2%, 5-10%, 20-35%, 40-75% and 100 on the amounts of the particular exposures classified into categories A, B, V, G and D, respectively.

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

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

3.7. Property and equipment

Fixed assets are initially recognized at purchase price or cost. For subsequent measurement of fixed assets, after initial recognition fixed assets are stated at cost, decreased for depreciation and impairment losses.

As at balance sheet date the Bank's management analyzes tangible assets. If there is evidence of the assets impairment, recoverable amount is estimated for determination of impairment amount. If recoverable amount is lower then the book value of an asset, book value is decreased to the recoverable amount.

Impairment loss is recorded as current expense within other expenses. If there is evidence in further periods that impairment losses no longer exists or it is decreased, asset is increased up to its recoverable amount. Increased value could not be higher then the value incurred if the asset were not previously impaired.

Property and equipment are depreciated from the following month when they are available for use.

Depreciation is calculated on the acquisition cost amount of property and equipment decreased for residual amount. If residual amount is immaterial it is not considered in determination of the basis for depreciation.

Depreciation is calculated on a straight line basis using prescribed annual rates, so that assets are fully depreciated over their useful life. Applied depreciation rates are:

Buildings	1.3%
Computers	20%
Vehicles	15.50%
Furniture and equipment	7% - 16.5%

Investment in leased business premises are amortized by using proportional method, in accordance with terms defined under agreement.

Property, plant and equipment with indefinite useful life are not amortized.

Operating and financial leases

Leases where ownership of the property will not be transferred at the end of lease period to the user of the lease assets are classified as operating leases. All payments made during the year under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Leases where the right of holding and using the lease assets during the lease period is transferred to the user of the lease assets, and where an ownership of the property will be transferred to the user of the lease assets under the contract terms are classified as financial leases.

3.8. Intangible assets

Intangible assets are initially recognized at purchase price or cost. For subsequent measurement of intangible assets, after initial recognition the assets are measured at cost decreased for amortization and impairment losses.

Intangible assets are non-monetary items (without physical evidence) such as goodwill, licences, concessions, trademarks, seals, accounting software, franchises, investments in products developments, processes and equipments, copyrights etc.. For these assets there is high probability that they will generate economic benefits for a period longer then one year and that these benefits will be higher then costs.

Intangible assets are amortized from the following month when they are available for use.

Amortization is calculated on the acquisition cost amount of intangible assets decreased for residual amount. If residual amount is immaterial it is not considered in determination of the basis for depreciation.

Amortization is calculated on a straight line basis over five years, except intangible assets for which using period are determined in agreements. For these assets amortization is performed over usage period determined in the individual agreements. Goodwill could not be amortized, but it is tested for the impairment at the end of each balance sheet date.

Intangible assets with indefinite useful life are not amortized.

3.9. Cash and cash equivalents

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

3.10. Derivatives

Financial derivatives consist of forward and swap transactions as well as interest rate swaps transactions. Initially they are measured at costs. For subsequent measurement they are measured at their fair value. Fair value is determined based on active market values, and also using different techniques for estimation, such as discounted cash flows. Financial derivatives are disclosed within assets if they have positive market value, i.e. within liabilities if they have negative market value. Changes in market values are disclosed in the income statement in the period when they occurred.

3.11. Employee benefits

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

Pursuant to the Labour law, the Bank has an obligation to disburse an employment retirement benefit to a retiree. The retirement benefit obligation recognized in the balance sheet as of 31 December 2008 represents the present value of the defined benefit obligation determined through actuarial valuations by using assumptions such as mortality tables, expected rate of salary increases of 6% for whole period, annual discount rate of 8%, disability rate of 0.1% and fluctuation rate of 2%.

3.12. Taxes and contributions

Current income tax

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

Deferred income taxes

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

Taxes and contributions not dependant on results

Taxes and contributions that are not dependant on results comprise property tax, taxes and contributions for salaries charged to the employer, as well as other taxes and contributions in accordance with Serbian tax legislation and general regulations. These taxes and contributions are reported under other operating expenses.

3.13. Fair value

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

It is the policy of the Bank to disclose the fair value information of those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts. Sufficient market experience, stability and liquidity do not exist for the purchase and sale of loans and other financial assets or liabilities, given that published market information is not readily available. Hence, fair value cannot reliably be determined. The management of the Bank considers that, in view of the nature of the business and the Bank’s business policy, there are no material differences between presented values in the financial reports and the fair value of the financial assets and liabilities.

4. Interest income

	In thousands of RSD 2008	2007
Banks	3,021,580	1,377,061
Corporate clients	1,971,104	1,991,398
Public sector	19,058	4,114
Retail	1,716,726	1,401,775
Foreign entities		
- other foreign banks	757	1,187
- banks within the UniCredit Group	101,556	65,420
- other foreign entities	52,048	769
Other entities	71,598	3,002
	6,954,427	4,844,726

5. Interest expense

	In thousands of RSD 2008	2007
Banks	445,602	334,038
Corporate clients	759,188	618,367
Public sector	53,202	34,698
Retail	565,325	243,446
Foreign entities		
- other foreign banks	362,975	319,867
- banks within the UniCredit Group	546,193	308,050
- other foreign entities	93,829	80,500
Other entities	640	9,356
	2,826,954	1,948,322

6. Fees and commissions income

	In thousands of RSD 2008	2007
Fee and commission income from domestic and foreign payment transfers	145,695	220,182
Fee and commission income from other banking services	400,314	201,371
Fees for the rental of safety-deposit boxes	991	578
Fees for “custody” services	144,517	245,713
Fees on issued guarantees and other contingent liabilities	630,031	488,116
Fees from credit card operations	126,229	114,592
Fees from treasury operations	7,447	27,202
Other fee and commission income	57,906	33,330
	1,513,130	1,331,084

7. Fees and commissions expenses

	2008	2007
	In thousands of RSD	
Fees arising from domestic payment transfers	25,051	17,239
Fees arising from international payment transfers	37,756	3,886
Commission expenses arising on guarantees	280	574
Fees arising from credit card operations	111,239	163,825
Other fees and commissions expenses	47,715	76,834
	222,041	262,358

8. Net gains/(losses) on the sale of available for sale securities

	2008	2007
	In thousands of RSD	
Gains on sale of securities	0	20,803
Losses on sale of securities	(395)	(158)
	(395)	20,645

9. Net foreign exchange gains/(losses)

	2008	2007
	In thousands of RSD	
Foreign exchange gains	-	1,039,140
Foreign exchange losses	(3,923,660)	-
	(3,923,660)	1,039,140

10. Dividends and other income from equity investments

	2008	2007
	In thousands of RSD	
Dividend income	19	17
	19	17

11. Other operating income

	In thousands of RSD 2008	2007
Other operating income	6,028	8,255
	6,028	8,255

12. Losses on impairment and provisions

12.1 Losses on impairment and provisions are presented as follows:

	In thousands of RSD 2008	2007
Impairment provisions of:		
- on-balance sheet items – Note 12.2	389,530	217,792
- off-balance sheet items – Note 34	95,214	56,557
	484,744	274,349
Income from cancelled provisions for litigations - Note 34	(347)	(15,435)
Provision for retirement benefits – Note 34	10,488	3,546
	494,885	262,460

12.2 Movements in impairment provisions in the period from 1 January 2008 to 31 December 2008 are presented in table below:

In thousands of RSD	Loans and deposits to customers (Note 23)	Interest and fee receivables (Note 22)	Securities (Note 24)	Equity investments (Note 25)	Other placements (Note 26)	Other assets (Note 29)	Total
Balance as at 1 January 2008	841,038	94,156	25,976	12,121	510,985	18,813	1,503,089
Indirect impairment provisions – Note 12.1	227,560	10,823	6,494	5	138,797	5,851	389,530
Exchange rate differences	74,957	8,141	0	0	101,872	355	185,325
Direct write-offs	(61,810)	(2,336)	0	0	(3,496)	(3,116)	(70,758)
Balance as at 31 December 2008	1,081,745	110,784	32,470	12,126	748,158	21,903	2,007,186

13. Net wages and salaries, taxes, contributions and other personnel expenses

	In thousands of RSD 2008	2007
Net wages and salaries	694,201	556,016
Taxes and contributions on salaries and fringe benefits	271,773	218,899
Other personnel expenses	84,031	62,217
	1,050,005	837,132

14. Depreciation costs

	In thousands of RSD 2008	2007
Depreciation of intangible assets	131,464	122,216
Depreciation of fixed assets	143,938	138,878
	275,402	261,094

15. Other operating expenses

	In thousands of RSD 2008	2007
Costs of material and energy	63,830	54,776
Rental costs	295,838	247,128
Maintenance of software	196,015	202,968
Advertising costs	140,417	226,963
Cots of sponsorship	5,722	5,053
Representation costs	21,955	22,055
Consulting services	16,558	11,745
Telecommunications	71,892	56,941
Insurance premium	93,964	57,223
Transportation	12,984	9,592
Cost of taxes and contributions	216,808	172,619
Property insurance costs	70,424	50,957
Writing-offs of irrevocable receivables	7,791	18,886
Professional training costs	14,800	12,318
Other expenses	205,465	194,274
	1,434,463	1,343,498

16. Income from assets and liabilities valuation adjustments

	In thousands of RSD 2008	2007
Income from assets and liabilities valuation adjustments	21,476,682	9,512,136
	21,476,682	9,512,136

17. Expenses from assets and liabilities valuation adjustments

	In thousands of RSD 2008	2007
Expenses from assets and liabilities valuation adjustments	16,590,654	9,796,608
	16,590,654	9,796,608

18. Income taxes

a. Components of Income taxes

	In thousands of RSD 2008	2007
Current income tax	(249,049)	(189,868)
Increase in deferred tax assets and decrease in deferred tax liabilities	0	4,782
Decrease in deferred tax assets and increase in deferred tax liabilities	(1,235)	-
	(250,284)	(185,086)

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

	In thousands of RSD 2008	2007
Profit before tax	3,131,827	2,044,531
Income tax at the statutory tax rate of 10%	313,183	204,453
Permanent differences:		
Non-deductible expenses	2,956	2,974
Temporary differences:		
Differences in the depreciation charges	3,595	6,978
Tax deductions:		
Tax credits for investments in property and equipment	(22,189)	(4,263)
Deduction for newly-hired employees	(48,496)	(20,274)
Current income taxes	249,049	189,868

c. Components of Deferred tax assets/ liabilities

	In thousands of RSD 2008	2007
Deferred tax assets associated with the differences in the depreciation charges	8,862	10,098
	8,862	10,098

19. Earnings per share

Basic earnings per share for 2008 amounts to RSD 2,479 (2007: RSD 2,355).

Since the Bank has not issued potential ordinary shares such as preference shares or potential ordinary shares embedded in other financial instruments or contracts with the rights for conversion into ordinary shares, calculated diluted earnings per share is equal to basic earnings per share.

20. Cash and cash equivalents

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Cash on hand in RSD	1,227,168	477,514
Gyro account	15,402,350	1,057,314
Cash on hand in foreign currencies	1,534,908	389,056
Foreign currency accounts with foreign banks:		
- other banks within UniCredit Group (Note 40)	918,033	299,730
- local banks (NBS - Beokliring)	40,483	16,077
- other foreign banks	70,559	97,594
Cheques	4,493	16,113
	19,197,994	2,353,398

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

By way of exception banks shall calculate required reserves by applying the following ratios:

1) 5% – on the portion of dinar reserving base comprised of dinar obligations arising from savings deposits termed for a period over one month;
2) 45% – on the portion of dinar reserving base comprised of foreign currency clause indexed dinar obligations;
3) 45% – on the portion of dinar reserving base comprised of dinar obligations in respect of foreign deposits and credits up to the level of such base as in September 2008;
4) 0% ratio – on the amount of positive difference between the portion of dinar base comprised of dinar obligations in respect of foreign deposits and credits from the previous calendar month and the same portion of dinar base from September 2008.

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

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

21. Revocable deposits and loans

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Obligatory reserves in foreign amount	10,577,240	12,322,803
REPO transactions with NBS	7,524,653	16,034,500
	18,101,893	28,357,303

The obligatory reserves in foreign currencies represent the minimum deposits set aside in accordance with the NBS Regulation on the "Obligatory Reserves of Banks to be Held with the NBS." The obligatory reserve is to be calculated on the basis of the average amount of deposits, borrowings and other related liability balances in foreign currencies existing during a period of one calendar month. Pursuant to this decision banks shall calculate the obligatory foreign currency reserves by applying the ratio of 45% on the foreign currency reserve base.

By way of exception banks shall calculate required reserves by applying the following ratios:

1) 40% – on the portion of foreign currency reserving base comprised of obligations arising from foreign currency savings deposited with banks;
2) 20% – on the portion of foreign currency reserving base comprised of subordinated obligations;
3) 100% – on the portion of foreign currency reserving base comprised of foreign currency assets kept by leasing companies on special accounts opened with banks;
4) 0% ratio – on the amount of positive difference between the portion of foreign currency reserve base comprised of foreign currency obligations in respect of foreign deposits and credits from the previous calendar month and the same portion of foreign currency base from September 2008, while the ratio of 45% will be applied for calculating foreign currency required reserves on the portion of foreign currency reserve base comprised of foreign currency obligations in respect of foreign deposits and credits up to the level of such portion of foreign currency reserve base from September 2008**;**
5) 0% - on the amount of positive difference between the portion of foreign currency reserve base comprised of subordinated obligations from the previous calendar month and the same portion of foreign currency reserve base from September 2008.

The Bank is required to maintain an average daily balance on its foreign currency accounts held with the NBS, in an amount not lower than the calculated amounts of the obligatory reserves. Deposits placed in foreign currencies with the National Bank of Serbia are non-interest bearing ones.

As at 31 December 2008 the securities purchased under resell agreements with NBS totalling RSD 7,524,653 thousand are associated with the bonds purchased from the NBS, having 15 day maturities, issued at annual interest of 17.75%. These transactions are governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

22. Interest and fees receivables

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Matured interest:		
-in RSD	137,680	78,653
-in foreign currencies	49,186	42,404
Fees and commissions receivable:		
- in RSD	67,450	69,067
- in foreign currencies	2,701	7,715
Other receivables	0	2,010
Less: Allowances for impairment	(110,784)	(94,156)
	146,233	105,693

Movement on allowances for impairment for interest and fees receivables is presented in the table below:

	In thousands of RSD	
	31 December 2007	**31 December 2006**
Balance as at 1 January	(94,156)	(70,352)
Allowances for impairment during the year	(11,415)	(31,824)
Collected/cancelled during the year	592	767
Exchange rate differences	(8,141)	516
Direct write-offs	2,336	6,737
Balance as at 31 December	(110,784)	(94,156)

23. Loans and deposits

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Deposits:		
Guarantee deposits for sale/purchase of bonds	3,544	3,169
Short-term deposits with domestic banks	300,000	796,181
Total deposits	303,544	799,350
Loans in RSD:		
Short-term loans	13,068,868	7,084,083
Long-term loans	29,740,012	14,882,152
Total loans	42,808,880	21,966,235
Loans in foreign currency:		
Short-term loans	2,640,891	14,519,688
Long-term loans	2,261,614	2,591,689
Total loans	4,902,505	17,111,377
Less: Allowances for impairment	(1,081,745)	(841,038)
	46,933,184	39,035,924

Loans are extended to enterprises for the purposes of daily liquidity (current account overdrafts), working capital and import financing, as well as to finance new investments. Loans up to one year have primarily been extended at thirty day to one-year maturity periods, whereas long-term loans have been extended with 2 to 10-year maturities. These loans were issued at interest rates equal to the one-month, quarterly or semi-annual EURIBOR rate and LIBOR increased by 2% to 4.5% per annum, in accordance with the Bank's interest rate policy.

During 2008 long-term loans to retail customers were mainly granted for financing residential property purchases, with 5 to 25-year maturities at interest rates ranging from 4.75% to 5.85% for CHF indexed loans, and ranging from 6.5% to 9.09% for EUR indexed loans. In the last quarter of 2008 granting of CHF indexed loans was stopped. During 2008 short term loans in dinars granted to small companies and retail clients significantly increased. Mentioned loans were granted at interest rates ranging from 18% to 23.49%.

Short-term term deposits with domestic banks in the amount of RSD 300,000 thousand are deposited for periods of up to 90 days at interest rates of 16.2% p.a.

Changes in allowances for impairment of loans and advances to customers are presented in the following table:

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Balance as at 1 January	(841,038)	(862,547)
Allowances for impairment in current year	(227,635)	(23,544)
Collected during the year	75	9,489
FX gain/loss effects	(74,957)	1,775
Direct write-offs	61,810	33,789
Balance as at 31 December	(1,081,745)	(841,038)

The concentration of total short- and long-term loans approved by the Bank is as follows:

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Mining and energy sector	79,081	193,518
Agriculture	1,100,903	179,417
Construction	2,327,056	1,587,224
Industry	7,096,760	3,565,049
Trade	11,494,442	2,980,252
Services	6,387,131	1,787,913
Transportation	1,408,156	137,458
Finance	853,575	14,903,140
Retail clients	15,640,404	13,447,980
Others	545,676	253,973
	46,933,184	39,035,924

24. Securities (excluding treasury shares)

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Securities at fair value through profit and loss		
- placements in commercial bills	1,063	1,063
Securities held to maturity		
- receivables for discounted bills	1,771,140	1,136,015
Securities available for sale		
- foreign currency bonds of the Republic of Serbia	88,195	73,999
	1,860,398	1,211,077
Less: Allowances for impairment	(32,470)	(25,976)
	1,827,928	1,185,101

As at 31 December 2008 receivables for discounted bills in the amount of RSD 1,771,140 thousand relate to investments that mature within one year at discount rates ranging from 1.20% to 1.70% per month.

As at 31 December 2008 available-for-sale securities of RSD 88.195 thousand represent a portfolio of the long-term bonds issued by the Republic of Serbia with maturities occurring between the years 2008 to 2016.

Changes in allowances for impairment of investments in securities are presented in the following table:

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Balance as at 1 January	(25,976)	(27,067)
Allowance for impairment in current year	(6,494)	1,091
Balance as at 31 December	(32,470)	(25,976)

25. Equity investments

	In thousands of RSD 2008	2007
Equity investments		
- subsidiaries (RSD)	9,410	9,410
- in companies with up to 10% interest (RSD)	12,121	12,121
	21,531	21,531
Less: Allowances for impairment	(12,126)	(12,121)
	9,405	9,410

As at 31 December 2008 the Bank's investments in its subsidiary, BA-Creditanstalt Alpha d.o.o. Beograd amounted to RSD 9,410 thousand (a 100% interest).

Equity investments in companies with up to 10% interest in the amount of RSD 12,121 thousand relate to equity investments in the following companies:

	31 December 2007	
In thousand of RSD	Amount	% of participation
Centar za evropske informacije d.o.o.	60	9.09%
FAP Priboj a.d.	4,737	0.16%
Fond za doškolovavanje mladih poljoprivrednika	147	7.72%
Tržište novca a.d.	108	0.24%
RTL TV d.o.o.	7,069	9%
Total	**12,121**	

For the full amount of the equity investment in companies of up to 10% in RSD (amount of RSD 12,121) the Bank created an allowance for impairment whereby the nominal value of its interest has been reduced to naught.

Changes in the allowances for impairment account for equity investments are presented in the following table:

	In thousands of RSD 31 December 2008	31 December 2007
Balance as at 1 January	(12,121)	(6,201)
Allowance for impairment in current year	(5)	(7,069)
Direct write-offs	0	1,149
Balance as at 31 December	(12,126)	(12,121)

26. Other placements

	In thousands of RSD 31 December 2008	31 December 2007
Other placements in RSD:		
Forfeiting	76,189	0
Placements related to acceptances, sureties and payments made for guarantees	12,532	6,548
Receivables from credit cards	1,194,788	244,129
Other placements in foreign currency:		
Placements related to acceptances, sureties and payments made for guarantees	882,733	762,612
Covered letters of credit and other sureties	0	1,041
Other placements	14,536	14,681
Less: Allowances for impairment	(748,158)	(510,985)
	1,432,620	518,026

Changes in allowances for impairment of other placements are presented in the following table:

	In thousands of RSD 31 December 2008	31 December 2007
Balance as at 1 January	(510,985)	(408,496)
Allowances for impairment in current year	(138,802)	(184,319)
Collected during the year	5	23,752
FX gain/loss effects	(101,872)	56,183
Direct write-offs	3,496	1,895
Balance as at 31 December	(748,158)	(510,985)

27. Fixed and intangible assets

In thousands of RSD	Buildings	Equipment and other assets	Investments in other entities' fixed assets	Investments in progress and advances	Intangible assets	Total
Cost or valuation						
Opening balance	97,065	725,194	213,858	7,436	755,581	1,799,134
Purchases during the year	0	0	0	337,010	165,935	502,945
Transfer from investments in progress	361	189,254	129,561	(319,176)	0	0
Transfer from assets received from collection of receivables	1,766	0	0	0	0	1,766
Disposals and write-offs	0	(31,193)	0	0	0	(31,193)
Other (transfer to/from)	0	(513)	513	0	0	0
Closing balance	99,192	882,742	343,932	25,270	921,516	2,272,652
Depreciation						
Opening balance	5,110	304,486	41,911	0	328,184	679,691
Depreciation	1,269	112,355	30,314	0	131,464	275,402
Disposals and write-offs	0	(25,341)	0	0	0	(25,341)
Other (transfer to/from)	0	(340)	340	0	0	0
Closing balance	6,379	391,160	72,565	0	459,648	929,752
Net book value as at:						
31 December 2008	92,813	491,582	271,367	25,270	461,868	1,342,900
31 December 2007	91,955	420,708	171,947	7,436	427,397	1,119,443

28. Deferred tax assets

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Deferred tax assets arising from temporary differences in depreciation costs	8,862	10,098
	8,862	10,098

29. Other assets

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Other assets in RSD:		
Advances paid	18,790	18,159
Other receivables from business dealings	69,897	56,277
Assets received in exchange for collection of receivables	4,927	6,692
Accrued interest receivables	281,364	93,798
Accrued other income receivable	17,310	3,017
Accrued expenses regarding liabilities calculated at amortized cost using effective interest rate method	2,652	2,520
Other accrued expenses	30,526	48,212
Total:	425,466	228,675
Other assets in foreign currency:		
Receivables from employees	449	0
Other receivables from business dealings	9,888	4,179
Accrued interest receivables	67,250	132,794
Accrued other income receivable	31,631	28,386
Total:	109,218	165,359
Allowance for impairment	(21,903)	(18,813)
	512,781	375,221

Changes in the allowance for impairment account for other assets and accruals are presented in the following table:

	In thousands of RSD 31 December 2008	31 December 2007
Balance as at 1 January	(18,813)	(12,705)
Allowance for impairment in current year	(7,617)	(6,135)
Collected during the year	1,766	0
FX gains/losses	(355)	27
Direct write-offs	3,116	0
Balance as at 31 December	(21,903)	(18,813)

30. Transaction deposits

	In thousands of RSD 31 December 2008	31 December 2007
Transaction deposits		
- in RSD	7,027,376	12,086,603
- in foreign currency	10,071,213	8,996,768
	17,098,589	21,083,371

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

	In thousands of RSD 31 December 2008	31 December 2007
Local banks	1,369,453	925,940
Public companies	139,298	156,394
Corporate clients	10,172,569	9,455,789
Public sector	9,134	60,295
Other customers	259,414	88,194
Foreign entities	2,961,699	7,863,385
Retail clients	2,187,022	2,533,374
	17,098,589	21,083,371

31. Other deposits

	31 December 2008	31 December 2007
	In thousands of RSD	
Demand deposits:		
- in RSD	231,330	145,453
- in foreign currency	1,979,588	2,265,646
Total demand deposits	2,210,918	2,411,099
Short-term deposits:		
- in RSD	5,311,475	4,827,871
- in foreign currency	28,419,829	14,684,217
Total short term deposits	33,731,304	19,512,088
Long-term deposits:		
- in RSD	28,399	36,701
- in foreign currency	3,100,586	1,651,642
Total long-term deposits	3,128,985	1,688,343
	39,071,207	23,611,530

Demand deposits in dinars from companies are deposited at average interest rate of 3.5% per annum while interest rate on term deposits is up to 15% per annum.

Demand deposits in foreign currencies from companies are deposited at annual interest rate ranging from 2% to 6% per annum depending from deposited currency.

Demand deposits in dinars from banks are deposited at 19.3% interest rate per annum.

Short-term term deposits in dinars from banks are deposited with maturities of up to tree months at interest rates ranging from 7.5 % to 19.2% per annum.

Short-term foreign currency deposits from banks are deposited with maturities of up to one month at interest rates ranging from 0.05% to 7.2% per annum.

Demand deposits in dinars from retail clients are deposited at annual interest rate up to 1%.

Demand deposits in foreign currency from retail clients are deposited at annual interest rate up to 0.6%.

Short-term term deposits from retail customers in foreign currencies are deposited at annual interest rates ranging from 3.6% to 6% depending from deposited currency, and during saving week („Nedelja štednje“) up to 10% per annum.

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

	In thousands of RSD 31 December 2008	31 December 2007
Local banks	2,545,190	1,597,329
Public companies	809,307	28,054
Companies	8,633,475	8,791,949
Public sector	25,091	7,775
Other customers	245,092	10,563
Foreign entities	16,237,252	3,231,001
Retail clients	10,575,800	9,944,859
	39,071,207	23,611,530

32. Borrowings

	In thousands of RSD 31 December 2008	31 December 2007
Loans with one day maturity (overnight)		
- in RSD	1,000,918	4,000,000
- in foreign currency	109,865	0
Total loans with one day maturity (overnight)	1,110,783	4,000,000
Short-term loans:		
- in RSD	0	0
- in foreign currency	165	961
Total short term loans	165	961
Long-term loans		
- in RSD	0	0
- in foreign currency	7,172,285	6,215,589
Total long-term loans	7,172,285	6,215,589
Other liabilities		
- in RSD	13,769	6,102
- in foreign currency	102,488	54,787
Total other liabilities	116,257	60,889
	8,399,490	10,277,439

Breakdown of foreign long-term loans in the amount of RSD 7,172,285 thousand is as follows:

	In thousands of dinars 31 December 2008	31 December 2007
European Bank for Reconstruction and Development (EBRD)	1,865,347	2,246,901
Creditanstalt fur Wiederaufbau Frankfurt am Main („KfW“)	2,658,030	2,377,086
European Investment Bank, Luxembourg	100,828	90,171
International Finance Corporation, Washington	2,515,809	1,462,051
Government of the Republic of Italy	32,271	39,380
	7,172,285	6,215,589

Foreign long-term loans terms are presented in the following table:

Creditor	**In thousands of dinars**	**Term**	**Interest rate in %**
Government of the Republic of Italy	32,271	2014	1.00000
European Bank for Reconstruction and Development (EBRD)	1,865,347	2018	4.7898
Creditalt fur Wiederaufbau Frankfurt am Main („KfW“)	2,658,030	2016	5.349
European Investment Bank, Luxembourg	100,828	2016	3.482
International Finance Corporation, Washington	2,515,809	2016	2.491 – 4.617
	7,172,285		

33. Interest and fees liabilities

	In thousands of RSD 31 December 2008	31 December 2007
Interest payable:		
- in RSD	1,829	23
Commissions payable		
- in RSD	4,048	1,341
- in foreign currency	6,098	-
	11,975	1,364

34. Provisions

	In thousands of RSD 31 December 2008	31 December 2007
Provisions for retirement benefits	36,395	25,907
Provisions for off-balance sheet items	312,178	216,964
Provisions for litigations	18,511	18,858
	367,084	261,729

Changes in the provisions account are presented in the following table:

	In thousands of RSD 31 December 2008	31 December 2007
Provisions for retirement benefits		
Balance, beginning of year	25,907	22,361
Charge during the year - Note 12	10,488	3,546
Balance, end of year	36,395	25,907
Provisions for off-balance sheet items		
Balance, beginning of year	216,964	160,407
Charge during the year - Note 12	95,214	56,557
Balance, end of year	312,178	216,964
Provisions for litigations		
Balance, beginning of year	18,858	34,293
Cancellation of provision in favour of income - Note 12	(347)	(15,435)
Balance, end of year	18,511	18,858
Total	367,084	261,729

35. Income taxes payable

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Liabilities for VAT	15,911	12,587
Liabilities for capital income tax	1,118	1,075
Liabilities for withholding income tax on interest income from non-resident companies	2,946	2,997
Other liabilities for taxes and contributions	559	369
	20,534	17,028

36. Liabilities from income distribution

	In thousands of RSD	
	31 December 2008	**31 December 2007**
Liabilities from income distribution	235	235
Corporate income tax	249,049	189,868
Advance payment of income tax from previous period	(196,539)	(153,162)
	52,745	36,941

Calculation of the current corporate income tax in the amount of RSD 249,049 thousand is presented in Note 18.

37. Other liabilities

	In thousands of RSD **31 December 2008**	**31 December 2007**
Liabilities for received advances and deposits:		
- in RSD	2,472	3,040
- in foreign currency	851	495
Liabilities to suppliers:		
- in RSD	43,509	23,177
- in foreign currency		
- within the UniCredit Group (Note 40)	26,658	4,220
- other	899	5,571
Other liabilities:		
- in RSD	17,615	70,283
- in foreign currency	80,839	201,289
Accrued interest payable:		
- in RSD	86,501	27,490
- in foreign currency	401,448	254,152
Other accrued income:		
- in RSD	75,078	66,791
- in foreign currency	17,299	22,369
Other accrued expenses:		
- in RSD	285,163	56,000
- in foreign currency	675	719
Accrued income regarding receivables calculated at amortized cost using effective interest rate method	289,561	224,882
Subordinated liabilities in foreign currencies	2,480,828	2,218,614
	3,809,396	3,179,092

As at 31 December 2008 subordinated liabilities in foreign currencies in the amount of RSD 2,480,828 thousand relate to the subordinated long-term loans originated by HVB Bank Prague, Czech Republic in the amount of EUR 7,500,000 (equivalent of RSD 664,508 thousand) and by UniCredit Bank Austria AG in the amount of EUR 20,500,000 (equivalent of RSD 1,816,320 thousand). These loans were extended with 7-year and 10-year maturities, at an interest rate equal to the three-month EURIBOR rate as increased by 0.75 percent per annum, and at the six-month EURIBOR interest rate as increased by 0.65 percent per annum. These loans are unsecured and all claims arising, explicitly in the event of bankruptcy or liquidation, from this agreement are subordinated to all other debt instruments (obligations toward ordinary creditors).

38. Equity

	31 December 2008	31 December 2007
	In thousands of RSD	
Share capital	12,857,620	9,657,627
Issue premium	562,156	562,149
Share and other capital	**13,419,776**	**10,219,776**
Profit reserves for estimated losses arising on balance sheet assets	2,380,527	1,112,229
Profit reserves for estimated losses arising on off-balance sheet items	997,475	406,328
Other profit reserves	1,003,072	1,003,072
Reserves	**4,381,074**	**2,521,629**
Revaluation reserves	387	274
Accumulated profit	**2,881,543**	**1,859,445**
Total equity	**20,682,780**	**14,601,123**

Share capital and other capital

Pursuant to its Articles of Association and Statute, the Bank's foundation share capital is comprised of 103,921 ordinary shares of an individual par value of RSD 10,000.

The second issue of shares was carried out through the merger of Export-Import Bank Eksimbanka A.D. Beograd with HVB Banka Srbija i Crna Gora A.D. Beograd through the distribution of 77,361 ordinary shares with a nominal value of RSD 10 thousand. Shares of the second issue have a total nominal value of RSD 773,610 thousand which contributed to the increase in the Bank's equity.

Under the third issuance of shares of 23 December 2005, 60,480 ordinary shares with an individual par value of RSD 10 thousand were distributed representing RSD 604,800 thousand. The third share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under the forth issuance of shares of 10 August 2006, 410,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The forth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under fifth issuance of shares of 5 June 2007 234,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The fifth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under sixth issuance of shares of 17 December 2007, 80,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The sixth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under seventh issuance of shares of 21 May 2008, 320,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The seventh share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

The Bank's shareholders are entitled to take part in the management of the Bank, as well as in the distribution of its profit proportionally to their ownership interest in the share capital.

After seventh issuance of shares the UniCredit Bank Austria AG holding in ownership interest increased to 99.92%, and minority holding of A&B Banken Holding GmbH, Vienna decreased to 0.08%.

As at 31 December 2008 the Bank's share capital is comprised of RSD 12,857,620 thousand of ordinary share capital. The Bank's share capital is comprised of 1,285,762 ordinary shares as at 31 December 2008.

Other equity relates to share premium in the amount of RSD 562,156 thousand.

Reserves from income

Reserves for potential losses regarding on-balance and off-balance sheet items amount to RSD 3,378,002 thousand as at 31 December 2008. Insufficient amount of mentioned reserves as at 31 December 2008 amount to RSD 3,697,626 thousand. These reserves were calculated in accordance with the National Bank of Serbia Decision on Criteria for Classification of Balance Sheet and Off-balance Sheet Assets.

Other reserves from income amount to RSD 1,003,072 thousand and are formed in accordance with the decisions on profit distributions brought by the Bank's Assembly.

Revaluation reserves

Reserves with respect to securities available for sale in the amount of RSD 387 thousand relate to reserves from valuation of the Republic of Serbia bonds calculated in accordance with accounting policy described in Note 3.4.

Retained earnings

Retained earnings in the amount of RSD 2,881,543 thousand relate to profit after taxes for the period from 1 January to 31 December 2008.

Capital Adequacy and Other Ratios Prescribed by the Law on Banks

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

The Bank is also required to maintain certain ratios related to the volume of its activities and composition of risk assets in compliance with the Law on Banks and with the NBS Requirements. As of 31 December 2008, all ratios were within their prescribed limits.

OPERATING RATIOS PRESCRIBED BY NBS	PRESCRIBED VALUE	31 Dec 2008	31 Dec 2007
Capital adequacy ratio	min 12%	16.79%	17.77%
Long-term investments vs. equity	max 60%	4.75%	8.76%
Exposure toward related parties of the bank	max 20%	3.92%	3.26%
Sum of large exposures of the bank	max 400%	100.78%	167.23%
Liquidity ration – for December	min 1.00	1.27	2.28
Foreign currency risk ratio	max 20%	4.26%	0.81%
Gross retail customer loans vs. equity	max 150%	100.79%	130.65%

39. Off-balance sheet items

In thousands of RSD

	31 December 2008	31 December 2007
Operations on behalf of third parties		
- on behalf of public sector	207,060	234,695
	207,060	234,695
Guarantees, securities, property pledges for liabilities and undertaken and incontestable liabilities		
Payment guarantees:		
- in RSD	4,434,839	1,399,467
- in foreign currency	30,717,238	23,855,674
Performance guarantees:		
- in RSD	4,153,447	1,611,741
- in foreign currency	697,199	1,640,776
Uncovered letters of credit	6,163,242	1,692,215
Acceptances	35,773	60,613
Undertaken and incontestable liabilities	14,619,410	12,538,644
	60,821,148	42,799,130
Derivatives		
- receivables from foreign currency exchange derivatives	205,473	91,020
	205,473	91,020
Other off-balance sheet items	83,913,508	104,990,353
	145,147,189	148,115,198

Operations on behalf of third parties relate to long-term agricultural loans issued from funds held by the Ministry of Agriculture, Development Fund of the Republic of Serbia and the Guarantee Fund. Loans are approved with maturities up to 5 years, with grace period up to 3 year and annual interest rate of 3%.

Breakdown of undertaken and incontestable liabilities:

	In thousands of RSD 31 December 2008	 31 December 2007
Current account overdrafts	3,044,729	3,864,982
Unused credit limits on credit cards	1,514,336	804,760
Unused framework loans	9,936,095	7,557,334
Letters of intention	124,250	311,568
	14,619,410	12,538,644

Breakdown of other off-balance sheet items:

	In thousands of RSD 31 December 2008	 31 December 2007
Securities associated with custody operations	28,891,194	37,602,953
Securities purchased from NBS from REPO contracts	7,500,000	16,000,000
Secured letters of credit	43,560	79,182
Received letters of credit, guarantees and collection funds	8,200,719	13,365,972
Off-balance sheet financial instruments	36,694,232	37,901,530
Equipment under lease	38,814	33,812
Other	2,544,989	6,904
	83,913,508	104,990,353

Undertaken liabilities relating to office space rental:

	In thousands of RSD 31 December 2008	 31 December 2007
Undertaken liabilities with maturities:		
- up to 1 year	372,254	271,025
- between 1 and 5 years	1,372,776	1,020,897
- over 5 years	901,393	815,182
	2,646,4234	2,107,104

Undrawn foreign loan facilities

Undrawn foreign loan facilities as at 31 December 2008 amount to RSD 2,557,202 thousand.

Court Cases

As at 31 December 2008 the Bank is defendant in 14 court cases (including labour cases) whose total value amounts to RSD 634,942 thousand. In 4 cases the claimants are companies, and in 10 cases the claimants are private individuals. We note that the total value of court cases includes the value of a case filed by a single client in the amount of RSD 600,000 thousand, who is related to another client, namely to another court case initiated by the Bank against another client and for which a provision has been made in the amount of RSD 660,108 thousand.

The Bank made provisions in the amount of RSD 18,511 thousand for court cases that have been filed against it. No provisions have been made for other court cases, primarily because of the assessment that the outcome of those cases will be positive for the Bank and that the Bank will not have any outflows as a result, or that they are less significant potential liabilities that do not need to be provisioned.

The Bank has filed a number of claims against third parties, mainly for the collection of its receivables.

40. Related party transactions within UniCredit Group

Entities are considered related parties if one entity holds control, joint control or exercises significant influence on financial and operating decisions made by the other party. Related parties are also parties that are under joint control of the same parent company.

Banking transactions are carried out with related parties within regular operating activities of the Bank. These transactions comprise loans, deposits and transactions made in foreign currency and are made under commercial market terms.

The table below summarizes the total balance sheet exposure to related parties which have the ability to exercise influence on the Bank's operations:

In thousand RSD

	31 December 2008	31 December 2007
Foreign currency accounts with:		
UniCredit Bank Austria AG, Vienna	887,172	189,630
Bayerische HVB, Munich	8,508	21,549
UniCredit Bulbank, Sofia	2,377	0
UniCredit S.P.A. Milano	17,539	88,011
Unicredit Banka Slovenija, Ljubljana	1,032	6
Zagrebacka banka d.d.	1,405	534
Sub-total:	918,033	299,730
Interest and fees receivables:		
UniCredit Bank Austria AG, Vienna	1,089	3,349
Bayerische HVB, Munich	20	318
Hypo Vereinsbank, Greece	35	50
UniCredit Banka Slovenija, Ljubljana	144	0
UniCredit Bank Czech Republic	2,663	0
Zagrebacka banka d.d.	679	2,424

	In thousand RSD	
	31 December 2008	**31 December 2007**
Sub-total:	4,630	6,141
Loans:		
Executive Board	50,088	37,259
UniCredit Bank Austria AG, Vienna	0	13,351,300
Unicredit Leasing Srbija d.o.o. Beograd	0	84,253
Unicredit Rent d.o.o. Beograd	0	157,758
Sub-total:	50,088	13,630,570
Equity investments:		
BA Creditanstalt Alpha doo	9,410	9,410
Sub-total:	9,410	9,410
Receivables from paid actual expenses in dinars		
UniManagement, Torino	1,308	0
UniCredit S.P.A. Milano	887	0
UniCredit Bank Austria AG, Vienna	15,417	12,631
Sub-total:	17,612	12,631
Demand deposits:		
Executive Board	9,134	8,171
UniCredit Bank Austria AG, Vienna	49,602	4,072
Hypo Vereinsbank, Greece	14	7,018
BA Creditanstalt Alpha d.o.o. Beograd	14,336	15,907
HVB Cesar d.o.o. Beograd	292	395
UniCredit Leasing Srbija d.o.o. Beograd	596,114	716,446
UniCredit Rent d.o.o. Beograd	3,678	1,218
UniCredit Partner d.o.o. Beograd	1,660	5,064
UniCredit Bank AD Banja Luka	311	149
Zagrebacka banka d.d.	1,717	1,769
Bayerische HVB, London	814	790
UniCredit Banka Slovenija d.d.	983	56
UniCredit CAIB AG	120,656	0
Bayerische HVB, Munich	49,200	6,843
Sub-total:	848,511	767,898
Short-term deposits:		
Executive Board of the Bank	5,141	1.967
UniCredit Rent d.o.o. Beograd	531,118	0
UniCredit Partner d.o.o.	34,000	0
UniCredit Leasing Srbija d.o.o.	8	17,667
UniCredit Bank Austria AG, Vienna	0	0
Zagrebacka banka d.d.	19,000	91,000
UniCredit CAIB AG	13,024,347	0
Bayerische HVB, Munich	2,658,030	2,377,086
Sub-total:	16,271,644	2,487,720
Loans liabilities:		

In thousand RSD

	31 December 2008	31 December 2007
UniCredit Bank Czech Republic	664,508	594,272
Bayerische HVB, Munich	0	0
UniCredit Bank Austria AG, Vienna	1,816,486	1,624,342
Sub-total:	2,480,994	2,218,614
Other liabilities:		
UniCredit Bank Austria AG, Vienna	74,282	2,460
Bayerische HVB, Munich	2,085	321
UniCredit Bank BIH	5	0
UniCredit Bank Slovenija d.d.	15	0
Zagrebacka banka d.d.	14	0
UniCredit S.P.A. Milano	483	47,593
Sub-total:	76,884	50,374
Liabilities to suppliers:		
Wave Solutions IT, Vienna	9,915	0
IT Austria, Vienna	1,772	2,218
Zagrebačka banka d.d.	0	10
UniCredit Bank BIH	0	5
BTS, Czech Republic	1,218	1,725
UniCredit Bulbank, Sofia	7,293	0
BA Global Inforamtion Services, Vienna	4,660	65
UniManagement, Torino	1,772	0
UniCredit Bank Austria AG, Vienna	28	197
Sub-total:	26,658	4,220

The table below presents total revenues and expenses from related party transactions:

In thousand RSD

	31 December 2008	31 December 2007
Interest revenue	101,556	65,420
Interest expense	(546,193)	(308,050)
Other expenses	(264,683)	(277,751)
Net expenses	(709,320)	(520,381)

Total gross salaries and other remuneration of the Executive Board in 2008 amounts to RSD 40,129 thousand.

40. RISK MANAGEMENT POLICIES

The Bank's core activity is use of financial instruments. The Bank acquires deposits at fixed and variable interest rates for different time periods and strives to realize above average interest rate margins by investing assets into high quality investments. The Bank strives to increase interest rate margins by concentrating short-term assets and investing them for longer periods at higher interest rates, while maintaining adequate liquidity for settling all liabilities that could be due for payment.

In the loan business exposure to risk is inevitable and occurs for hidden and unforeseeable reasons. In that sense one of the most important objectives of the Bank's Business Policy is to identify, measure and assess risks and to manage risks in accordance with the Law on Banks, other relevant regulations and its internal acts.

The operating business risks are:

- Credit Risk
- Bank Exposure Risk
- Liquidity Risk
- Market Risks (comprising interest rate and foreign currency risk)
- Operating Risk

In its organizational structure the Bank has a special sector whose basic function is risk management. This sector manages Credit, Market and Operating risks.

Credit risk

The Bank takes on exposure to credit risk, which represents the risk that a counterparty will be unable to pay in full the amounts due in a timely manner. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to the geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Exposure to credit risk is managed by the regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collaterals.

Credit risk is the risk of potential negative effects on the Bank's financial result and equity due to failure to meet commitments by the Bank's clients. The risk management sector includes in its structure Corporate Risk Management, Retail Risk Management, Risk Control and Reporting and Restructuring of Poor Investments.

In terms of Credit Risk Management the Bank has and applies the following acts: Bank Credit Policy, Risk Management Methodology, Foreign Currency Risk Management Methodology, Rules for Ranking Corporate Clients, Competence Rules, Rules for Maintaining Credit Committees, Valuation of Security Instruments, which are intended to provide protection against particular types of risks and to define procedures and responsibilities of individuals for undertaking adequate measures in the risk management process.

Corporate and retail risks are managed in accordance with the book of rules on competences. Decisions in the area of credit approval, irrespective of what level of decision making is involved, are based on the 4-pairs-of-eyes principle which ensures that there is always a side which proposes and a side which approves a particular placement.

The Bank measures, identifies and assesses risk based on a borrowers credit rating, regularity of settlement of obligations toward the Bank and on the quality of the security instrument, and in accordance with the Decision on Criteria for Classification of On-balance Sheet Assets and Off-balance Sheet Items According to the Level of Collectibility and Level of Special Provisions of Banks and Other Financial Organizations, and the Guidelines for Calculation of Provisions Based on IAS-IFRS.

With a view to more efficient application of the Decision on Risk Management and Credit Risk Monitoring in 2007 the Bank adopted the Procedure for Measurement and Control of Credit Risk. This ensures regular reporting to the relevant boards of the Bank in respect of identified and undertaken risks (e.g. risks of exposure) and efficient application of adopted policies and procedures in accordance with NBS regulations. The risks of the Bank’s exposure comprise the risks of the Bank’s exposure toward a single individual or a group or related parties, as well as toward a related party of the Bank, an industry sector, a country risk.

The Bank’s total exposure toward any of the mentioned categories must not exceed the limits defined by the Decision on Risk Management.

In 2007 the Bank adopted the Special Policy on Financing Construction Projects for More Efficient Financing of Such Projects and Improved Bank Portfolio Management.

Credit risk reporting

The Bank identifies, measures and estimates credit risk exposure in its operations and manages this risk.

Accordingly the Procedure for Credit Risk Management and Control is being applied for reporting, identification, control and management of credit risk and losses in UniCredit Banka Srbija a.d. (hereinafter: the Bank) as of 16 October 2007.

Procedure for controlling and managing credit risk is secured by the Risk Management Information System (further RMIS) to ensure prompt identification, accurate assessment, proper approval and consistent monitoring and reporting on credit risk in accordance with domestic regulations and rules implemented by the UniCredit Group.

With reports on a loan portfolio level and on an individual client/obligor group level, RMIS provides sufficient, accurate and timely information on the, quality and performance of the loan portfolio to enable Supervisory Board, Management Board and Risk management Division to make prudent and by information supported decisions on concentration of risk and risk inherent to lending activities of the Bank.

RMIS comprises from following reports:

- Credit Risk Parameters
- Credit Risk Monitoring report
- Retail Credit Risk report
- Early Alert List report

- Overdue List report
- Review date report
- Ad-hoc reports

1. Basic ***Credit Risk Parameters*** are calculated and monitored monthly. The most significant ones are as follows:

   a. Risk costs which represent the ratio between the Income Statement provisions calculated according to IAS-IFRS and the average weighted risk exposed assets
   b. RER1 represents the ratio between the Income Statement provisions calculated according to IAS-IFRS and interest income
   c. RER 2 RER1 represents the ratio between the Income Statement provisions calculated according to IAS-IFRS and income from interest and commissions

2. A comprehensive ***Credit Risk Monitoring report*** is prepared every month. This report is prepared in order to ensure composition and performance analysis of the present loan portfolio, related credit risk and comparison to previous periods to provide information on credit risk trend and extensions.

Credit Risk Monitoring report contains the following data:

a. loan portfolio structure and development
b. loan portfolio structure per product types
c. loan portfolio volumes per internal rating categories and per NBS classification
d. analysis of the amount and movement of provision, calculated in accordance with NBS rules, on a quarterly basis
e. amount and movement of provision, calculated in accordance with International Financial Reporting Standards (further IFRS) rules
f. loan portfolio collateral position and collateral quality
g. loan portfolio term structure aggregated by maturity
h. loan portfolio currency structure
i. concentration of exposures toward clients and related parties (further obligor group)
j. concentration of exposures per different industry sectors
k. amount of due loans and instalments and share in overall Bank portfolio
l. Comments on the most important credit risk changes and trends
m. Other information related to the level of credit risk

The Bank manages concentrations of credit risks by setting and monitoring limits on portfolio concentrations. Growth of volume per each sector of industry is advised to limit at maximum 20% share of the Bank loan portfolio. Definition of industries is based on the each client sector of activities grouped per similar characteristics (e.g. product type) into sectors of industries.

In accordance with NBS instructions and adopted rules, total exposure toward one client or toward obligor group can not exceed 25% of the available capital of the Bank, after the prescribed deductions are applied. Total exposure toward one client or toward obligor group exceeding 10% of the available capital of the Bank must be approved by Supervisory Board. As obligor group are considered all legal entities related in the way as it is defined in the “Law on Banks”. Under total exposure is considered sum amount of the On balance sheet receivables and the Off balance sheet items.

Concentration of the loan portfolio per currency of exposure and increased credit risk derived from the volatile of exchange rates is regularly monitored on a monthly basis but in case of significant market changes more frequently.

3. The ***Retail Credit Risk Report*** is prepared every month, in order to ensure the overview of lending activities to private persons and related credit risk per branches and regions and per different product types.

The goal of this report is to identify and monitor the decrease and deterioration of lending quality per branches, individually and aggregated per regions and per loan products.

4. The ***Early Alert List*** comprehends endangered exposures on a client level, which apply to at least one warning signal and to which no individual IFRS Loan Loss Provision is built. Warning signals are grounded on the basis of internal rating classification, regularity of instalment repayments and due reviews.

5. As repayment delays are one of the first indicators of reduction in credit quality, they are regularly monitored and reported. The ***Overdue List*** report provides the following information:

a. List of clients in repayment delay
b. Overdue amount per client and per days delay range of repayments
c. Overdue amount per portfolio client segments
d. Detailed overdue amount per individual transaction

Making this type of report available to relevant units and individual employees on regular basis allows detecting weaknesses in an early stage which leaves more options for improving the credit status of a client.

6. ***Review Date Report***. Each loan exposure must be evaluated from the Risk Management Division point of view at least once a year and a review submitted to the appropriate approval authority.

In order to provide a comprehensive overview and draw attention to assessment of credit quality of overdue customers, with the intention of performing the review once a year, the report is prepared weekly.

7. ***Ad-hoc reporting*** is required in the case of events with a considerable risk level affecting the Bank, especially if the risk situation is changed significantly and abruptly, that require immediate action; examples include considerably exceeded limits or rating deteriorations for individual exposures with a significant risk level, a major need for risk provisions, indications of deficiencies in the organization or the systems and procedures used. Depending on the decision-making structure and the extent of the risk situation, the decision maker affected will be informed and provided with a recommended course of action. If such events are of significance for the credit institution as a whole, the Supervisory Board and Management Board will be informed in the same way. In order to allow immediate action to mitigate the risk, it is essential to pass on such information immediately, i.e. whenever changes in the risk occur.

Additionally, the Bank identifies, measures and estimates credit risk of individual clients/obligor groups based on their credit standing and financial capacity, regularity of obligations repayment and quality of collaterals. Based on that, all On balance receivables and Off balance items are quarterly classified and provisioned in accordance with NBS adopted rules.

All aforementioned reports part of RMIS are submitted to the Committee for Monitoring Business Activities of the Bank.

The data information system RMIS on credit risk and credit risk losses is subject to continued internal control.

Implementation of Basel II standards

In 2008 the Bank started implementation of Basel II standards as part of its risk management processes. The standard approach was implemented at the beginning of 2008 for measurement of risk weighted assets. Currently preparations are underway for the implementation of the Fundation Internal Ratings Based Approach (FIRB) and of Pillar II ICAAP. Validation of the model of estimation of probability of corporate client default has been performed with satisfactory results. Also the policy of validation of new and existing credit risk models is applied as of the end of 2008 with the requirement of testing the model during implementation as well as during use, along with overall Basel II IRG compliance in terms of PD, LGD and EaD parameters. Implementation of AIRB in other business segments such as retail, financial institutions and public sector is planned at the beginning of 2013.

Credit risk exposure as at 31 December 2008 is presented in the table below:

In 000 RSD	Loans and deposits		Other placements		Securities		Equity investments		Interest and fees receivables		Other assets		Cash and cash equivalents		Off-balance sheet assets	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Book value	46,910,318	25,628,967	1,432,620	518,026	1,739,733	1,111,102	9,405	9,410	146,233	102,178	504,456	367,536	41,514	-	60,552,530	42,907,881
Individual provision																
Legal entities, Rating 10	190,857	210,292	813,507	698,651	17,315	17,315	-	21,531	102,586	109,327	9,816	18,986	-	-	313	2,828
Legal entities, Rating 9	186,866	111,356	51,782	84,895	-	-	-	-	18,602	12,658	980	-	-	-	995	2,040
Legal entities, restructured loans	120,408	125,447	-	1,001	-	-	-	-	6,720	1,919	654	-	-	-	10,007	12,584
Citizens, > 90 overdue	669,310	479,914	41,591	16,991	-	-	-	-	39,422	18,898	5,681	6,431	-	-	20,109	14,712
Gross placements	1,167,441	927,009	906,880	801,538	17,315	17,315	-	21,531	167,330	142,802	17,131	25,417	-	-	31,424	32,164
Provision	820,150	692,852	733,173	508,417	17,315	17,315	-	12,121	106,967	90,704	13,181	17,025	-	-	7,357	11,418
Book value	347,291	234,157	173,707	293,121	-	-	-	9,410	60,363	52,098	3,950	8,392	-	-	24,067	20,746
Portfolio provision																
Legal entities, rating 1 - 6	31,099,226	11,820,853	138,210	15,218	1,714,888	1,119,763	21,531	-	60,629	34,036	401,094	273,299	41,514		58,897,682	41,344,564
Legal entities, rating 7	97,771	142,371	251	495	-	-	-	-	825	172	618	-	-	-	49,169	71,876
Legal entities, rating 8	87,377	180,606	-	2,871	40,000	-	-	-	966	13,072	1,490	-	-	-	240,487	325,261
Citizens < 90 overdue	15,540,248	13,399,165	1,135,437	208,889	-	-	-	-	27,267	6,252	106,026	87,633	-	-	1,645,946	1,350,980
Gross placements	46,824,622	25,542,995	1,273,898	227,473	1,754,888	1,119,763	21,531	-	89,687	53,532	509,228	360,932	41,514	-	60,833,284	43,092,681
Provision	261,595	148,186	14,985	2,568	15,155	8,661	12,126	-	3,817	3,452	8,722	1,788	-	-	304,821	205,546
Book value	46,563,027	25,394,809	1,258,913	224,905	1,739,733	1,111,102		-	85,870	50,080	500,506	359,144	41,514	-	60,528,463	42,887,135

							9,405									
Total book value of risk assets	46,910,318	25,628,966	1,432,620	518,026	1,739,733	1,111,102	9,405	9,410	146,233	102,178	504,456	367,536	41,514	-	60,552,530	42,907,881
Total book value of non-risk assets	22,866	13,406,958	-	-	88,195	73,999	-	-	-	3,515	8,325	7,685	37,258,373	30,710,701	84,282,481	104,990,353
Total book value	46,933,184	39,035,924	1,432,620	518,026	1,827,928	1,185,101	9,405	9,410	146,233	105,693	512,781	375,221	37,299,887	30,710,701	144,835,011	147,898,234

Internal Rating System (internal rating scale)

The ranking rules for customers are established at the level of the BA CA Group and as such are unique for each member of the group. The Bank's rating system is developed and in use since 2004 at Group level. The Master Scale is used as a unique rating assignment method which ensures that customers with the same rating have the same credit characteristics and the same probability that they will not settle their obligations, in part or in full, within the period of 1 year.

The Master Scale is divided into 11 rating classes that are further broken down into a total of 27 rating subgroups.

The internal master scale is compliant with Basel II standards which means that each rating subgroup has a PD parameter associated with it, with probability that a customer with particular characteristics will be unable to settle liabilities toward the Bank and will be in default. For the first 24 subgroups the probability of default ranges between 0.00% and 20.00%, where those clients are rated between 1+ and 8. Their probability of default is based on statistical analysis based on historical data.

Rating 0: This rating notch is reserved for customers with no counter partner risk. The Bank does not use this rating class.

Ratings from 1+ to 6: These rating notches are reserved for customers determined in an internal credit assessment to have a credit standing of very good to just acceptable. For customers with this rating periodic review of credit rating is performed annually.

Ratings 7+ to 7-: Covers three subgroups for transactions with low credit rating. Customers assigned these rating notches have substantially greater risk factors and must be constantly monitored.

Ratings 8+, 8 and 8- cover those companies without individual provisioning which are subject to special workout or credit-reduction measures.

For the above noted rating classes, classes 7 and 8, reassessment of credit rating is performed quarterly. Clients with a rating of 7 or 8 represent transactions with low credit rating that are under continual supervision, and are put on the so-called "Watch List", as they are customers with reduced ability for loan repayment.

Rating 8- relates to customers in default according to the Basel II criteria, but for which no provision has been made.

Rating 9 comprises customers who are individually provisioned or for which a part of the claim has been written off.

Rating 10 contains customers who are in a state of liquidation or bankruptcy.

Ratings 9 and 10 are by definition assigned to customers in default in accordance with Basel II measures, with loan loss provisioning.

The table below presents an analysis of gross and net loans (gross loans adjusted for net allowance for impairment) that were individually adjusted as at 31 December 2008:

In 000 RSD	Loans and deposits		Other placements		Securities		Equity investments		Interest and fees receivables		Other assets		Off-balance sheet placements	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
31 December 2008														
Legal entities, Rating 10	190,857	-	813,507	162,535	17,315	-	-	-	102,586	43,617	9,816	831	313	313
Legal entities, Rating 9	186,866	106,151	51,782	-	-	-	-	-	18,602	10,005	980	954	995	-
Legal entities, restructured loans	120,408	63,445	-	-	-	-	-	-	6,720	3,499	654	340	10,007	3,645
Citizens, > 90 overdue	669,310	177,695	41,591	11,172	-	-	-	-	39,422	3,242	5,681	1,825	20,109	20,109
Total	**1,167,441**	**347,291**	**906,880**	**173,707**	**17,315**	**-**	**-**	**-**	**167,330**	**60,363**	**17,131**	**3,950**	**31,424**	**24,067**
31 December 2007														
Legal entities, Rating 10	210,292	-	698,651	238,364	17,315		21,531	9,410	109,327	43,091	18,986	2,471	2,828	1,374
Legal entities, Rating 9	111,356	62,782	84,895	46,150	-		-	-	12,658	6,827	-	-	2,040	-
Legal entities, restructured loans	125,447	67,493	1,001	538	-		-	-	1,919	956	-	-	12,584	4,660
Citizens, > 90 overdue	479,914	103,882	16,991	8,069	-		-	-	18,898	1,224	6,431	5,921	14,712	14,712
Total	**927,009**	**234,157**	**801,538**	**293,121**	**17,315**	**-**	**21,531**	**9,410**	**142,802**	**52,098**	**25,417**	**8,392**	**32,164**	**20,746**

IAS/IFRS Provision methodology

The procedure for IAS/IFRS provision calculation was adopted by the Bank and is valid for reporting and calculating of provision for all reporting periods, starting from 1 October 2006.

Process of provision in accordance to adopted rules by IFRS will be conducted in two steps:

- assigning of individual / specific provision for clients where impairment of value already occurred, and
- calculating of provision on a portfolio level for loans where impairment in value does not exist or exists but it has not yet been identified.

Specific provision methodology, rules and principles

An impairment loss should be recognized whenever recoverable amount is below carrying amount of a placement.

The amount of loss is measured as the difference between assets carrying amount and the present value of estimated cash flows discounted at the financial assets original interest rate.

The decision on impairment in value of the receivable will be performed on individual basis. Individual provision will be assessed as the difference between book value and the current value of expected future cash flow. Simplified, provision will be determinate in the amount of individual receivable which is not expected to be collected.

Impairment criteria for calculating of individual/specific provision are set as follows:

a. Existence of at least one written-off credit
b. Existence of at least one credit under legal proceedings
c. Existence of at least one restructured loan transactions
d. Existence of at least one transaction undergoing recovery
e. Customers with a warning signal, including qualitative information
f. Existence of at least one repayment delays more than 90 days. This related to actual breech of contract, such as default or delinquency in interests or principal payments
g. Significant financial difficulty of the borrower
h. A high probability of bankruptcy or other financial reorganisation of the borrower.

In assessing future cash flows emanating from an impaired loan, it is not necessary that several of above mentioned factors must be presents before it is judged that the cash flows will be substantially reduced or non-existing. A single factor, any above stated, justifies making of full individual provision for the loan.

A financial asset is impaired, and impairment losses are recognized, if its carrying amount is higher than its recoverable amount. The Bank assesses at each balance sheet date whether there is objective evidence that a financial assets or group of financial assets may be impaired. If any such evidence exists, the Bank is required to do detailed impairment calculation to determine whether an impairment loss should be recognised. In other words, if any such evidence of impairment exists, the enterprise should estimate the recoverable amount of that asset or group of assets and recognize any impaired loss for financial assets carried at amortized cost or for financial assets remeasured to fair value.

The concept of above stated is to have objective evidence that an asset may be impaired, and to estimate the recoverable amount of that asset.

The impairment of financial assets is the difference between book value and substitutable value. The substitutable value is defined as the current value (the discounted value) of the expected future cash flows, by using the original effective interest rate.

The effective interest rate is used for discounting the expected future cash flows through the expected period of the financial asset, meaning that the impairment of the financial asset, measured at the repayment value, is measured by using the original effective interest rate of the financial asset.

Portfolio provisions, rules and principles

General, portfolio, provision will be applied for loans that show no objective evidence of impairment and have not been individually assessed for impairment. Any loans/placements that have been individually assessed but found to be unimpaired will be transferred to the "portfolio". Although there is no current evidence that loans in the "portfolio" are impaired, past experience indicates that some of them will become non-performing over time.

Portfolio provision is designed to cover potential losses that are not captured in the allowances for individually assessed loans. In other words, portfolio provision reflects ***Incurred but not yet reported losses*** of the remaining portfolio with no impairment signals.

Loans for which no impairment is reported are grouped on the ground of similar credit risk characteristics and are collectively assessed for impairment.

In determining provision for credit losses arising from the portfolio credit risk but with no objective evidence of impairment, factors such as past loan loss experience, lack of reliable client information (financial data as well as qualitative information) and current economic and other relevant conditions will be taken into account.

The Bank's policy related to collaterals and table for assessment of fair value of collaterals

Instruments of security used by the Bank in its operations are mortgages on commercial and residential property, guarantees provided by companies and private individuals, pledges in immovable and movable property, bank guarantees and corporate guarantees, etc.

The Bank uses the Manual on Collateral Assessment as the basis for determining the fair value of collaterals.

Instruments of security that are assessed are Payment Guarantees issued by first class banks for the full amount, Cash Deposits for the full amount – except when there is a difference between the currency of the deposit and the currency of the approved loan when a 20% reduction is applied, Securities backed by the state reduced by 10% of their market value, and mortgages on commercial and residential property. Weighting factors of 70% or 50% are applied respectively to the appraised value of property in calculating the value of mortgages on residential or commercial property. Property value must be appraised once in three years by a certified appraiser. In certain cases the Bank accepts pledges of immovable property as instruments of security which are appraised, with the condition that such property must be insured, can be freely traded, and is physically removed and unavailable for use without the Bank's consent.

Fair value of collaterals taken as loan security by the Bank as at 31 December 2008 is presented in the following table:

In 000 RSD	Loans and deposits		Other placements		Securities		Interest and fees receivables		Other assets		Off-balance sheet placements	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Legal entities, Rating 10	-	-	508,403	601,494	-	-	21,483	26,277	2,599	-	-	-
Real estate	-	-	-	11,400	-	-	-	1,468	-	-	-	-
Other	-	-	508,403	590,094	-	-	21,483	24,809	2,599	-	-	-
Legal entities, Rating 9	122,974	37,910	-	19	-	-	10,440	2,929	-	-	-	-
Real estate	122,974	37,910	-	19	-	-	10,440	2,929	-	-	-	-
Other	-		-		-	-	-	-	-	-	-	-
Legal entities, restructured loans	85,316	84,795	-	678	-	-	4,812	1,805	462	-	10,007	12,578
Real estate	85,316	84,795	-	678	-	-	4,812	1,805	462	-	10,007	12,578
Other	-		-	-	-	-	-	-	-	-	-	-
Citizens, > 90 days overdue	102,062	56,585	-	-	-	-	1,494	613	1,157	819	-	-
Real estate	65,633	24,518	-	-	-	-	449	105	430	228	-	-
Other	36,429	32,067	-	-	-	-	1,045	508	727	591	-	-
Portfolio provision for impairment	21,428,445	8,804,340	22,569	-	4,448	-	16,694	13,622	118,561	42,591	19,282,714	16,455,735
Real estate	16,427,619	5,826,745	22,542	-	4,448	-	16,149	13,391	74,653	27,941	12,951,786	8,069,673
Other	5,000,826	2,977,595	27	-	-	-	545	231	43,908	14,650	6,330,928	8,386,062
Total	**21,738,797**	**8,983,630**	**530,972**	**602,191**	**4,448**	**-**	**54,923**	**45,246**	**122,779**	**43,410**	**19,292,721**	**16,468,313**

Liquidity Risk

Liquidity risk is the risk of potential negative effects on the Bank's financial result and equity due to the Bank's inability to settle its liabilities as they mature.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and from margin. The Bank does not maintain cash resources to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.
The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is not unusual for banks never to reconcile their balances, given that business transactions are often carried out for indefinite periods and are of different types. An unreconciled balance potentially increases profitability, but also increases the risk of losses.

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

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

The Bank's liquidity is expressed through the liquidity ratio. The Bank is under obligation to maintain the ratio between the sum of liquid receivables of first order and liquid receivables of second order, on the one hand, and the sum of the Bank's call deposit liabilities and deposits without contractual maturity and deposits with contracted maturity, as follows:

- at least 1.0 – when calculated as an average of all working days in the month,
- at least 0.8 – when calculated for the working day,
- not below 0.9 for longer than three consecutive days.

The Bank is under obligation to report to the National Bank of Serbia if the liquidity ration is not within prescribed parameters for two working days, and must do so on the next working day. If the Bank determines a critically low liquidity ration, it must report this to the National Bank of Serbia at the latest by the next working day. Such report should contain information on the amount of liquid assets that are not available, on the reasons for the lack of liquidity and on planned activities for resolving the cause of illiquidity. The Market and Operating Risk Department prepares a report on daily liquidity for the National Bank of Serbia at daily and monthly levels.

The Bank's liquidity management is the responsibility of the head of assets and liabilities management (ALM). The Liquidity Centre of the UniCredit Group monitors the liquidity of its subsidiaries, maintains liquidity policy in the region and, when needed, orders corrective measures that are to be carried out by a subsidiary.

In the event that the liquidity crisis is limited to the local market, the local ALM manager holds general responsibility for crisis management together with the operating director in charge of the CEE market and subsidiary entities. They identify and assess necessary measures and manage the internal/external communications process. Also, they ensure timely flow of information within the subsidiary entity and to/from the Liquidity Centre and facilitate timely decision making.

	2008	**2007**
Liquidity ration of I order		
0 as at 31 December	1.16	2.17
0 average for the period – month of December	1.27	2.28
0 maximum for the period – month of December	1.83	2.70
0 minimum for the period – month of December	1.15	2.07

The maturities of the Bank's assets and liabilities components, based on the remaining period from the balance sheet date to the contractual maturity date, as of 31 December 2008 are as follows:

	Up to one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Above 5 years	Total
Cash and cash equivalents	19,197,994	0	0	0	0	19,197,994
Revocable deposits and loans	18,101,893	0	0	0	0	18,101,893
Interest and fees receivables	146,233	0	0	0	0	146,233
Loans and deposits	4,534,427	1,664,767	10,606,237	17,456,891	12,670,862	46,933,184
Securities (excluding treasury shares)	722,312	494,445	611,171	0	0	1,827,928
Equity investments	0	0	0	0	9,405	9,405
Other placements	253,995	271,596	649,105	257,924	0	1,432,620
Intangible assets	0	0	0	461,868	0	461,868
Fixed assets and investment property	0	0	0	0	881,032	881,032
Deferred tax assets	0	0	8,862	0	0	8,862
Other assets	512,781	0	0	0	0	512,781
Total assets	**43,469,635**	**2,430,808**	**11,875,375**	**18,176,683**	**13,561,299**	**89,513,800**
Transaction deposits	17,098,589	0	0	0	0	17,098,589
Other deposits	28,815,978	4,880,353	3,886,859	1,406,379	81,638	39,071,207
Borrowings	1,227,205	0	0	0	7,172,285	8,399,490
Interest and fees liabilities	11,975	0	0	0	0	11,975
Provisions	0	330,689	0	0	36,395	367,084
Income taxes payable	20,534	0	0	0	0	20,534
Liabilities from income distribution	52,745	0	0	0	0	52,745
Other liabilities	1,328,568	0	0	0	2,480,828	3,809,396
Equity	0	0	0	0	20,682,780	20,682,780
Total equity and liabilities	**48,555,594**	**5,211,042**	**3,886,859**	**1,406,379**	**30,453,926**	**89,513,800**
Net liquidity gap as at 31 December 2008	**(5,085,959)**	**(2,780,234)**	**7,988,516**	**16,770,304**	**(16,892,627)**	**0**
Net liquidity gap as at 31 December 2007	**11,338,663**	**(5,756,715)**	**2,863,964**	**7,983,342**	**(16,429,254)**	**0**

Interest Rate Risk

The Bank is exposed to various risks that due to market interest rate fluctuations affect its financial position and cash flows. Interest rate margins can increase as the result of these fluctuations, but at the same time they can be reduced or cause losses in the event of unexpected fluctuations. Review of risk of fluctuation in interest rates is made using reports of acceptable interest rates based on which monetary assets and liabilities can be revaluated very quickly, with all risk of interest rate fluctuation becoming materially insignificant.

Overview of interest rate risk:

In 000 RSD	Up to 1 month	From 1 to 3 month	From 3 to 12 months	From 1 to 5 years	Above 5 years	Non-interest bearing	**Total**
Cash and cash equivalents	8,562,931	0	0	0	0	10,635,063	19,197,994
Revocable deposits and loans	7,500,000	0	0	0	0	10,601,893	18,101,893
Interest and fees receivables	0	0	0	0	0	146,233	146,233
Loans and deposits	4,371,954	26,792,265	15,765,421	0	0	3,544	46,933,184
Securities (excluding treasury shares)	489,248	495,185	611,807	0	0	231,688	1,827,928
Equity investments	0	0	0	0	0	9,405	9,405
Other placements	0	0	0	0	0	1,432,620	1,432,620
Intangible assets	0	0	0	0	0	461,868	461,868
Fixed assets and investment property	0	0	0	0	0	881,032	881,032
Deferred tax assets	0	0	0	0	0	8,862	8,862
Other assets	0	0	0	0	0	512,781	512,781
Total assets	**20,924,133**	**27,287,450**	**16,377,228**	**0**	**0**	**24,924,989**	**89,513,800**
Transaction deposits	1,705,769	14,225,189	0	0	0	1,167,631	17,098,589
Other deposits	10,696,016	5,580,730	18,994,328	783,012	10,119	3,007,002	39,071,207
Borrowings	1,110,948	0	7,172,285	0	0	116,257	8,399,490
Interest and fees liabilities	0	0	0	0	0	11,975	11,975
Provisions	0	0	0	0	0	367,084	367,084
Income taxes payable	0	0	0	0	0	20,534	20,534
Liabilities from income distribution	0	0	0	0	0	52,745	52,745
Other liabilities	0	0	2,480,828	0	0	1,328,568	3,809,396
Equity	0	0	0	0	0	20,682,780	20,682,780
Total equity and liabilities	**13,512,733**	**19,805,919**	**28,647,441**	**783,012**	**10,119**	**26,754,576**	**89,513,800**
Interest sensitive gap as at 31 December 2008	**7,411,400**	**7,481,531**	**(12,270,213)**	**(783,012)**	**(10,119)**	**(1,829,587)**	**0**

Interest sensitive gap as at 31 December 2007	**1,242,896**	**92,261**	**4,239,406**	**(853,779)**	**(673,044)**	**(4,047,740)**	**0**

Foreign Currency Risk

Foreign currency risk is the risk of potential negative effects on the Bank's financial result and equity due to fluctuations in the foreign currency exchange rate.

The foreign currency risk ratio is the relation between the Bank's total open foreign currency position and its equity, calculated in accordance with the decision that regulates the adequacy of the Bank's equity. The Bank is under obligation to maintain the relation between assets and liabilities in such a way that its total open foreign currency position at the end of a working day must not exceed 30% of its equity. The Market and Operating Risk Department prepares a report on daily liquidity for the NBS at daily and monthly levels.

The Bank is exposed to the effects of exchange rate fluctuations of the most important foreign currencies on its financial position and cash flows. Bank management sets limits for risk of exposure to particular foreign currencies and constantly monitors whether balances of various foreign currencies are within prescribed limits. Limits are effective for all relevant foreign currency products within the MIB Sector. They comprise trade balances as well as selected strategic foreign currency ALM balances. These limits are briefly described (including their calculation and procedures) in the General section of the MIB Manual. All sensitivities that result from foreign currency balances are limited by the general VaR limit set for the Bank. Besides this, in order to prevent losses associated with all foreign currency balances exceeding a particular amount a general Warning Limit has been set (Loss Limit).

For the purpose of protecting itself against the risk of fluctuations in the foreign currency exchange rate the Bank concludes derivative contracts and concludes foreign currency loan and investment contracts linked to foreign currencies.

Foreign currency risk management at the operating level of a bank that is a member of the Unicredit Group is the responsibility of the Head of the MIB.

	2008	**2007**
Foreign Currency Ration:		
- as at 31 December	4.77	0.46
- maximum for the period – month of December	10.56	8.07
- minimum for the period – month of December	1.03	0.46

The following table provides a net currency gap of assets and liabilities of the Bank as at 31 December 2008:

	EUR	USD	Other currencies	Total in currencies	Total dinars	Total
Cash and cash equivalents	1,312,575	921,806	334,095	2,568,476	16,629,518	19,197,994
Revocable deposits and loans	10,577,240	0	0	10,577,240	7,524,653	18,101,893
Interest and fees receivables	54,231	6,872	4,424	65,527	80,706	146,233
Loans and deposits	21,497,977	2,741,881	16,721,209	40,961,067	5,972,117	46,933,184
Securities (excluding treasury shares)	88,195	0	0	88,195	1,739,733	1,827,928
Equity investments	0	0	0	0	9,405	9,405
Other placements	30,511	162,535	8,314	201,360	1,231,260	1,432,620
Intangible assets	0	0	0	0	461,868	461,868
Fixed assets and investment property	0	0	0	0	881,032	881,032
Deferred tax assets	0	0	0	0	8,862	8,862
Other assets	237,752	9,094	82,417	329,263	183,518	512,781
Total assets	**33,798,481**	**3,842,188**	**17,150,459**	**54,791,128**	**34,722,672**	**89,513,800**
Transaction deposits	8,556,602	1,273,055	241,556	10,071,213	7,027,376	17,098,589
Other deposits	31,199,892	965,334	1,334,778	33,500,004	5,571,203	39,071,207
Borrowings	3,732,820	8,539	3,643,444	7,384,803	1,014,687	8,399,490
Interest and fees liabilities	6,098	0	0	6,098	5,877	11,975
Provisions	0	0	0	0	367,084	367,084
Income taxes payable	0	0	0	0	20,534	20,534
Liabilities from income distribution	0	0	0	0	52,745	52,745
Other liabilities	2,940,596	31,302	42,097	3,013,995	795,401	3,809,396
Equity	0	0	0	0	20,682,780	20,682,780
Total equity and liabilities	**46,436,008**	**2,278,230**	**5,261,875**	**53,976,113**	**35,537,687**	**89,513,800**
Financial instruments regarding off-balance sheet items	**(12,909,450)**	**1,604,081**	**11,903,133**	**597,764**	**(414,517)**	**183,247**
Net currency gap as at 31 December 2008	**271,923**	**(40,123)**	**(14,549)**	**217,251**	**(400,498)**	**(183,247)**
Net currency gap as at 31 December 2007	**(49,593)**	**1,539**	**17,979**	**(30,075)**	**111,099**	**81,024**

As at 31 December 2008 dinar loans with contracted risk protection linked to the dinar exchange rate with respect to a foreign currency and related receivables for interest calculated for such loans are presented within the foreign currency sub-balance.

- ***Operating Risks***

Operating risk is the risk of loss resulting from error, breach, interruption, damage caused by internal processes, employees or systems or external events. Operating risk is defined as an event occurring as the result of inappropriate or unsuccessful internal processes, actions of employees and systems or systemic and other external events: internal or external embezzlement, employment practice and safety at work, receivables from clients, distribution of products, fines and penalties for injury, damage to property, disruption in operation and system errors, process management. Strategic risks, business risks and reputation risks differ from operating risks, while legal risks and compliance risk are included in the definition of operating risk.

The Market and Operating Risk Department is responsible for recording, monitoring and managing the Bank's operating risk and directly answers to the Chief Risk Officer (CRO).This Department's basic task is to coordinate and cooperate with operating risk managers and to communicate with colleagues at the Operating Risk Department in Vienna, with the purpose of securing information for the efficient monitoring of operating risk at all levels. On a daily basis the department monitors changes in specially defined accounts and on a weekly basis it reports to members of the Executive Board regarding all changes in operating risks. For the purpose of efficient monitoring of operating risks the Bank appoints operating risk managers from various organizational units that are responsible for the accuracy and timeliness of data relating to all damaging events in their organizational unit, as well as for recording all damaging events into a database, INFORM (internal application for operating risk).

During 2008 the Operating Risk Monitoring Committee was set up and meets quarterly for more efficient internal control. The department is also responsible for preparing the quarterly report for the National Bank of Serbia relating to all occurred and potential operating risk related losses.

Belgrade, 15 February 2009

Chairman of Managing Board	Deputy of Chairman of Managing Board	Head of Accounting Department
Klaus Priverschek	Zoran Vojnović	Mirjana Kovačević