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PIB 100058593

TRANSLATION

TO THE SHAREHOLDERS OF

UNICREDIT BANK SRBIJA A.D. BEOGRAD

Independent Auditors' Report

We have audited the accompanying financial statements of UniCredit Bank Srbija a.d. Beograd (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 111/2009). 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 111/2009) and International Standards on Auditing as issued by the International Federation of Accountants. 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 2009, and of its financial performance and its cash flows 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 111/2009).

Belgrade, 15 February 2010 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 the Serbian Language. We are responsible for the translation of the Report on the Financial Statements and not for any other documents.

Belgrade, 15 February 2010 KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

UNICREDIT BANK SRBIJA A.D. BEOGRAD

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of RSD	Notes	31 December 2009	31 December 2008
Operating income and expenses			
Interest income	4	8,246,727	6,954,427
Interest expenses	5	(3,134,458)	(2,826,954)
Net interest income		**5,112,269**	**4,127,473**
Fees and commissions income	6	1,442,430	1,513,130
Fees and commissions expenses	7	(268,874)	(222,041)
Net fee and commission income		**1,173,556**	**1,291,089**
Net gains/(losses) on the sale of available for sale securities	8	1,759	(395)
Net foreign exchange gains/(losses)	9	(2,853,871)	(3,923,660)
Dividends and other income from equity investments	10	22	19
Other operating income	11	6,786	6,028
Losses on impairment and provisions	12	(824,617)	(494,885)
Net wages and salaries, taxes, contributions and other personnel expenses	13	(1,314,730)	(1,050,005)
Depreciation costs	14	(322,256)	(275,402)
Other operating expenses	15	(1,500,160)	(1,434,463)
Income from assets and liabilities valuation adjustments	16	23,487,377	21,476,682
Expenses from assets and liabilities valuation adjustments	17	(19,795,587)	(16,590,654)
Operating profit		**3,170,548**	**3,131,827**
Profit before tax		**3,170,548**	**3,131,827**
Income taxes	18	(324,644)	(249,049)
Gain on increase of deferred tax assets and decrease of deferred tax liability	18	8,025	0
Loss on decrease of deferred tax assets and increase of deferred tax liability	18	0	(1,235)
Profit after tax		**2,853,929**	**2,881,543**
Earnings per share in RSD			
Basic earnings per share	19	2,220	2,479
Diluted earnings per share	19	2,220	2,479

UNICREDIT BANK SRBIJA A.D. BEOGRAD

BALANCE SHEET AS AT 31 DECEMBER 2009

In thousands of RSD	**Note**	**31 December 2009**	**31 December 2008**
Cash and cash equivalents	20	5,690,283	19,197,994
Revocable deposits and loans	21	20,894,060	18,101,893
Interest and fees receivables	22	292,607	146,233
Loans and deposits	23	81,657,732	46,933,184
Securities (excluding treasury shares)	24	21,660,152	1,827,928
Equity investments	25	9,405	9,405
Other placements	26	2,271,252	1,432,620
Intangible assets	27	610,511	461,868
Fixed assets and investment property	27	715,634	881,032
Non-current assets held for sale and discontinued operations	28	11,061	0
Deferred tax assets	29	16,887	8,862
Other assets	30	1,937,978	512,781
Total assets		**135,767,562**	**89,513,800**
Transaction deposits	31	21,113,358	17,098,589
Other deposits	32	62,615,920	39,071,207
Borrowings	33	23,729,166	8,399,490
Interest and fees liabilities	34	15,834	11,975
Provisions	35	385,826	367,084
Income taxes payable	36	36,114	20,534
Liabilities from income distribution	37	31,789	52,745
Other liabilities	38	4,298,727	3,809,396
Total liabilities		**112,226,734**	**68,831,020**
Share and other capital	39	13,419,776	13,419,776
Reserves	39	7,262,617	4,381,074
Revaluation reserves	39	4,506	387
Retained earnings	39	2,853,929	2,881,543
Total equity		**23,540,828**	**20,682,780**
Total liabilities and equity		**135,767,562**	**89,513,800**
Off-balance sheet items		**167,364,798**	**145,147,189**
Operations on behalf of third party	40	171,802	207,060
Guarantees and other contingent liabilities	40	44,901,170	60,821,148
Derivatives	40	458,049	205,473
Other off-balance sheet items	40	121,833,777	83,913,508

UNICREDIT BANK SRBIJA A.D. BEOGRAD

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of RSD	31 December 2009	31 December 2008
SHARE CAPITAL		
Balance, beginning of year	12,857,620	9,657,627
New share issuance	0	3,200,000
Transfer of un-nominated capital to share premium	0	(7)
Balance, end of year	12,857,620	12,857,620
SHARE PREMIUM		
Balance, beginning of year	562,156	562,149
Transfer from Share capital	0	7
Balance, end of year	562,156	562,156
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	3,378,002	1,518,557
Distribution of previous year's retained earnings	2,881,543	1,859,445
Balance, end of year	6,259,545	3,378,002
RESERVES WITH RESPECT TO SECURITIES AVAILABLE FOR SALE		
Balance, beginning of year	387	273
Effects of changes in the fair value of securities available-for-sale	4,119	114
Balance, end of year	4,506	387
RETAINED EARNINGS		
Balance, beginning of year	2,881,543	1,859,445
Transfer of portion of previous year's retained earnings to the Bank's reserves from income	(2,881,543)	(1,859,445)
Profit for the year	2,853,929	2,881,543
Balance, end of year	2,853,929	2,881,543
TOTAL EQUITY	23,540,828	20,682,780

UNICREDIT BANK SRBIJA A.D. BEOGRAD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of RSD	31 December 2009	31 December 2008
Cash receipts from operating activities	**15,505,626**	**23,480,084**
Interest receipts	6,966,560	6,513,763
Fee and commission receipts	1,418,766	1,519,126
Receipts from other operating income	7,120,278	15,447,176
Receipts from dividends and equity investments	22	19
Cash payments from operating activities	**(13,240,073)**	**(19,753,445)**
Interest payments	(3,950,330)	(2,235,008)
Fee and commission payments	(267,942)	(212,876)
Payments to and on behalf of employees	(1,286,333)	(1,120,926)
Taxes, contributions and other duties paid	(247,140)	(213,076)
Payments for other operating expenses	(7,488,328)	(15,971,559)
Net operating cash flows before changes in placements and deposits	**2,265,553**	**3,726,639**
Decreases in placements and increases in deposits	**26,116,831**	**11,023,702**
Decrease in loans and placements to banks and customers	0	8,349,953
Increase in deposits from banks and customers	0	0
Decrease in securities and other placements available-for-sale and held to maturity	26,116,831	2,673,749
Increases in placements and decreases in deposits	**(51,649,262)**	**(446,289)**
Increase in loans and placements to banks and customers other financial institutions	(34,178,704)	0
Increase in securities and other placements available-for-sale and held to maturity	(17,470,558)	(446,289)
Decrease in deposits from banks and customers	0	0
Net cash (used in)/generated from operating activities before taxes	**(23,266,878)**	**14,304,052**
Paid taxes	(345,600)	(233,244)
Paid dividends	0	0
Net cash (used in)/generated from operating activities	**(23,612,478)**	**14,070,808**
Cash inflows from investing activities	**0**	**0**
Inflows from long-term investments in securities	0	0
Inflows from sale of intangible and fixed assets	0	0
Cash outflows from investing activities	**(1,306,471)**	**(504,123)**
Outflows from long-term investments in securities	(997,255)	(562)
Purchases of equity investments	0	0
Purchases of property and equipment and intangible assets	(309,216)	(503,561)

In thousands of RSD	**31 December 2009**	**31 December 2008**
Net cash (used in)/generated from investing activities	**(1,306,471)**	**(504,123)**
Cash inflows from financing activities	**11,273,258**	**3,200,000**
Proceeds from the issuance of shares	0	3,200,000
Proceeds from long-term borrowings, subordinated liabilities	0	0
Proceeds from short-term borrowings	11,273,258	0
Proceeds from securities	0	0
Cash outflows from financing activities	**0**	**(157,172)**
Payments for subordinated liabilities	0	0
Outflows based on repayment of loans	0	(157,172)
Net cash from financing activities	**11,273,258**	**3,042,828**
Total cash inflows	**52,895,715**	**37,703,786**
Total cash outflows	**(66,541,406)**	**(21,094,273)**
Net increase/(decrease) in cash and cash equivalents	(13,645,691)	16,609,513
Cash and cash equivalents at beginning of the year	**19,197,994**	**2,353,398**
Foreign exchange gains	137,980	235,083
Foreign exchange losses	0	0
Cash and cash equivalents at end of the year	**5,690,283**	**19,197,994**

UniCredit Bank

UNICREDIT BANK SRBIJA A.D. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Belgrade, 10 February 2010

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UNICREDIT BANK SRBIJA A.D. BEOGRAD

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of RSD	Notes	31 December 2009	31 December 2008
Operating income and expenses			
Interest income	4	8,246,727	6,954,427
Interest expenses	5	(3,134,458)	(2,826,954)
Net interest income		**5,112,269**	**4,127,473**
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Fees and commissions expenses	7	(268,874)	(222,041)
Net fee and commission income		**1,173,556**	**1,291,089**
Net gains/(losses) on the sale of available for sale securities	8	1,759	(395)
Net foreign exchange gains/(losses)	9	(2,853,871)	(3,923,660)
Dividends and other income from equity investments	10	22	19
Other operating income	11	6,786	6,028
Losses on impairment and provisions	12	(824,617)	(494,885)
Net wages and salaries, taxes, contributions and other personnel expenses	13	(1,314,730)	(1,050,005)
Depreciation costs	14	(322,256)	(275,402)
Other operating expenses	15	(1,500,160)	(1,434,463)
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Profit before tax		**3,170,548**	**3,131,827**
Income taxes	18	(324,644)	(249,049)
Gain on increase of deferred tax assets and decrease of deferred tax liability	18	8,025	0
Loss on decrease of deferred tax assets and increase of deferred tax liability	18	0	(1,235)
Profit after tax		**2,853,929**	**2,881,543**
Earnings per share in RSD			
Basic earnings per share	19	2,220	2,479
Diluted earnings per share	19	2,220	2,479

UNICREDIT BANK SRBIJA A.D. BEOGRAD

BALANCE SHEET AS AT 31 DECEMBER 2009

In thousands of RSD	Note	31 December 2009	31 December 2008
Cash and cash equivalents	20	5,690,283	19,197,994
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Securities (excluding treasury shares)	24	21,660,152	1,827,928
Equity investments	25	9,405	9,405
Other placements	26	2,271,252	1,432,620
Intangible assets	27	610,511	461,868
Fixed assets and investment property	27	715,634	881,032
Non-current assets held for sale and discontinued operations	28	11,061	0
Deferred tax assets	29	16,887	8,862
Other assets	30	1,937,978	512,781
Total assets		**135,767,562**	**89,513,800**
Transaction deposits	31	21,113,358	17,098,589
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Borrowings	33	23,729,166	8,399,490
Interest and fees liabilities	34	15,834	11,975
Provisions	35	385,826	367,084
Income taxes payable	36	36,114	20,534
Liabilities from income distribution	37	31,789	52,745
Other liabilities	38	4,298,727	3,809,396
Total liabilities		**112,226,734**	**68,831,020**
Share and other capital	39	13,419,776	13,419,776
Reserves	39	7,262,617	4,381,074
Revaluation reserves	39	4,506	387
Retained earnings	39	2,853,929	2,881,543
Total equity		**23,540,828**	**20,682,780**
Total liabilities and equity		**135,767,562**	**89,513,800**
Off-balance sheet items		**167,364,798**	**145,147,189**
Operations on behalf of third party	40	171,802	207,060
Guarantees and other contingent liabilities	40	44,901,170	60,821,148
Derivatives	40	458,049	205,473
Other off-balance sheet items	40	121,833,777	83,913,508

UNICREDIT BANK SRBIJA A.D. BEOGRAD

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of RSD	31 December 2009	31 December 2008
SHARE CAPITAL		
Balance, beginning of year	12,857,620	9,657,627
New share issuance	0	3,200,000
Transfer of un-nominated capital to share premium	0	(7)
Balance, end of year	12,857,620	12,857,620
SHARE PREMIUM		
Balance, beginning of year	562,156	562,149
Transfer from Share capital	0	7
Balance, end of year	562,156	562,156
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	3,378,002	1,518,557
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Balance, end of year	6,259,545	3,378,002
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Profit for the year	2,853,929	2,881,543
Balance, end of year	2,853,929	2,881,543
TOTAL EQUITY	23,540,828	20,682,780

UNICREDIT BANK SRBIJA A.D. BEOGRAD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

In thousands of RSD	31 December 2009	31 December 2008
Cash receipts from operating activities	**15,505,626**	**23,480,084**
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Interest payments	(3,950,330)	(2,235,008)
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Increases in placements and decreases in deposits	**(51,649,262)**	**(446,289)**
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Paid taxes	(345,600)	(233,244)
Paid dividends	0	0
Net cash (used in)/generated from operating activities	**(23,612,478)**	**14,070,808**
Cash inflows from investing activities	**0**	**0**
Inflows from long-term investments in securities	0	0
Inflows from sale of intangible and fixed assets	0	0
Cash outflows from investing activities	**(1,306,471)**	**(504,123)**
Outflows from long-term investments in securities	(997,255)	(562)
Purchases of equity investments	0	0
Purchases of property and equipment and intangible assets	(309,216)	(503,561)
Net cash (used in)/generated from investing activities	**(1,306,471)**	**(504,123)**
Cash inflows from financing activities	**11,273,258**	**3,200,000**

In thousands of RSD	**31 December 2009**	**31 December 2008**
Proceeds from the issuance of shares	0	3,200,000
Proceeds from long-term borrowings, subordinated liabilities	0	0
Proceeds from short-term borrowings	11,273,258	0
Proceeds from securities	0	0
Cash outflows from financing activities	**0**	**(157,172)**
Payments for subordinated liabilities	0	0
Outflows based on repayment of loans	0	(157,172)
Net cash from financing activities	**11,273,258**	**3,042,828**
Total cash inflows	**52,895,715**	**37,703,786**
Total cash outflows	**(66,541,406)**	**(21,094,273)**
Net increase/(decrease) in cash and cash equivalents	(13,645,691)	16,609,513
Cash and cash equivalents at beginning of the year	**19,197,994**	**2,353,398**
Foreign exchange gains	137,980	235,083
Foreign exchange losses	0	0
Cash and cash equivalents at end of the year	**5,690,283**	**19,197,994**

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.

In December 2009 with the purchase of a minority interest of 0.08% from A&B Banken Holding GmbH, Vienna, UniCredit Bank Austria AG became the sole shareholder of the Bank.

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 2009 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 2008: seventy branch offices).

At 31 December 2007 the Bank had 910 employees (31 December 2008: 923). 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 and 111/09), 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, 63/08 and 104/09), 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, 3/09 and 12/09).

In 2009 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).

In accordance with the Law on Accounting and Auditing the Bank performed reconciliation of its receivables and liabilities. The percentage of reconciliation of receivables amounts to 62.31%, unreconciled receivables amount to 0.25%, while the percentage of outstanding receivables amount to 37.44%. As far as liabilities are concerned, the percentage of reconciliation of liabilities amounts to 28.75%, unreconciled liabilities amount to 0.63%, while the percentage of outstanding liabilities amount to 70.62%.

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 2009	31 December 2008
USD	66.7285	62.9000
EUR	95.8888	88.6010
CHF	64.4631	59.4040
JPY	0.722054	0.696604

	2009	2008
Consumer price index	110.4	106.8

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 0%, 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.

If 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 is greater than the amount of allowances for impairment and provision for contingent liabilities estimated at client level in accordance with the internally adopted methodology, for the positive sum of such differences the Bank sets up a reserve within equity for potential losses calculated 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. Non-current assets held for sale

An asset is classified as a non-current asset held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset is classified as held for sale in case when the following conditions are fulfilled:

a) the asset must be available for immediate sale in its present condition,
b) the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated,
c) the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value,
d) the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. If the carrying amount is lower than the estimated fair value reduced for selling costs, the amount at which the asset is measured remains unchanged, but if it is higher, the current carrying amount is reduced to fair value less selling costs, with recognition of any impairment losses. Once an asset is recognised as a held-for sale asset it is no longer depreciated.

When the Bank changes the purpose of a non-current asset held for sale or the non-current asset is not sold in the planned time, the asset ceases to be classified as a held-for sale non-current asset. The entity shall measure a non-current asset that ceases to be classified as held for sale at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale, or its recoverable amount at the date of the subsequent decision not to sell.

Adjustments in the carrying amount of an asset that ceases to be recognised as a non-current asset held for sale are charged to current year income or expenses.

3.10. 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.

3.11. 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.

3.12. 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 that are not only based on mortality tables, employee fluctuation and disability rates, expected rate of salary increases of 7.5% for whole period, annual discount rate of 11.5%, but also on margins on annuities to a vanishing point as prepared by the actuary.

3.13. Taxes and contributions

Current income tax

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

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.

3.14. 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 2009	2008
Banks	1,180,269	3,021,580
Corporate clients	3,625,987	2,041,441
Public sector	1,331,681	19,058
Entrepreneurs	58,260	24,432
Retail	1,904,393	1,684,054
Households	95,802	8,240
Foreign entities		
- other foreign banks	631	757
- banks within the UniCredit Group	686	101,556
- foreign corporate clients	47,605	51,558
- foreign retail clients	706	490
Other entities	707	1,261
	8,246,727	6,954,427

5. Interest expense

	In thousands of RSD 2009	2008
Banks	1,180,269	3,021,580
Corporate clients	3,625,987	2,041,441
Public sector	1,331,681	19,058
Entrepreneurs	58,260	24,432
Retail	1,904,393	1,684,054
Households	95,802	8,240
Foreign entities		
- other foreign banks	631	757
- banks within the UniCredit Group	686	101,556
- foreign corporate clients	47,605	51,558
- foreign retail clients	706	490
Other entities	707	1,261
	8,246,727	6,954,427

6. Fees and commissions income

	In thousands of RSD 2009	2008
Fee and commission income from domestic and foreign payment transfers	95,227	145,695
Fee and commission income from other banking services	514,882	400,314
Fees for the rental of safety-deposit boxes	1,138	991
Fees for “custody” services	62,571	144,517
Fees on issued guarantees and other contingent liabilities	521,575	630,031
Fees from credit card operations	136,677	126,229
Fees from treasury operations	4,107	7,447
Other fee and commission income	106,253	57,906
	1,442,430	1,513,130

7. Fees and commissions expenses

	In thousands of RSD 2009	2008
Fees arising from domestic payment transfers	25,668	25,051
Fees arising from international payment transfers	66,114	37,756
Commission expenses arising on guarantees	412	280
Fees arising from credit card operations	125,734	111,239
Other fees and commissions expenses	50,946	47,715
	268,874	222,041

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

	In thousands of RSD 2009	2008
Gains on sale of securities	3,584	0
Losses on sale of securities	(1,825)	(395)
	1,759	(395)

9. Net foreign exchange gains/(losses)

	In thousands of RSD 2009	2008
Foreign exchange gains	0	0
Foreign exchange losses	(2,853,871)	(3,923,660)
	(2,853,871)	(3,923,660)

10. Dividends and other income from equity investments

	In thousands of RSD 2009	2008
Dividend income	22	19
	22	19

11. Other operating income

	In thousands of RSD 2009	2008
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 2009	2008
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 2009 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 30)	Total
Balance as at 1 January 2008	1,081,745	110,784	32,470	12,126	748,158	21,903	2,007,186
Indirect impairment provisions – Note 12.1	565,941	66,113	43,522	0	119,670	9,736	804,982
Exchange rate differences	62,598	5,154	0	0	44,981	749	113,482
Direct write-offs	(26,832)	(4,004)	0	0	(14,335)	(1,578)	(46,749)
Balance as at 31 December 2008	1,683,452	178,047	75,992	12,126	898,474	30,810	2,878,901

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

	In thousands of RSD	
	2009	**2008**
Net wages and salaries	865,621	694,201
Taxes and contributions on salaries and fringe benefits	336,804	271,773
Other personnel expenses	112,305	84,031
	1,314,730	1,050,005

14. Depreciation costs

	In thousands of RSD	
	2009	**2008**
Depreciation of intangible assets	155,980	131,464
Depreciation of fixed assets	166,276	143,938
	322,256	275,402

15. Other operating expenses

	In thousands of RSD	
	2009	**2008**
Costs of material and energy	56,857	63,830
Rental costs	378,541	295,838
Maintenance of software	218,879	196,015
Advertising costs	64,569	140,417
Cots of sponsorship	621	5,722
Representation costs	6,001	21,955
Consulting services	18,440	16,558
Telecommunications	59,361	71,892
Insurance premium	132,890	93,964
Transportation	5,793	12,984
Cost of taxes and contributions	262,099	216,808
Property insurance costs	92,854	70,424
Writing-offs of irrevocable receivables	1,787	7,791
Professional training costs	2,962	14,800
Other expenses	198,506	205,465
	1,500,160	1,434,463

16. Income from assets and liabilities valuation adjustments

	In thousands of RSD	
	2009	**2008**
Income from assets and liabilities valuation adjustments	23,487,377	21,476,682
	23,487,377	21,476,682

17. Expenses from assets and liabilities valuation adjustments

In thousands of RSD

	2009	2008
Expenses from assets and liabilities valuation adjustments	19,795,587	16,590,654
	19,795,587	16,590,654

18. Income taxes

a. Components of Income taxes

In thousands of RSD

	2009	2008
Current income tax	(324,644)	(249,049)
Increase in deferred tax assets and decrease in deferred tax liabilities	8,025	0
Decrease in deferred tax assets and increase in deferred tax liabilities	0	(1,235)
	(316,619)	(250,284)

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

In thousands of RSD

	2009	2008
Profit before tax	3,170,548	3,131,827
Income tax at the statutory tax rate of 10%	317,055	313,183
Permanent differences:		
Non-deductible expenses	1,134	2,956
Temporary differences:		
Differences in the depreciation charges	8,842	3,595
Tax deductions:		
Tax credits for investments in property and equipment	(2,387)	(22,189)
Deduction for newly-hired employees	0	(48,496)
Current income taxes	324,644	249,049

c. Components of Deferred tax assets/ liabilities

In thousands of RSD

	2009	2008
Deferred tax assets associated with the differences in the depreciation charges	16,887	8,862
	16,887	8,862

19. Earnings per share

Basic earnings per share for 2009 amount to RSD 2,220 (2008: RSD 2,479).

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 2009	31 December 2008
Cash on hand in RSD	443,861	1,227,168
Gyro account	4,551,249	15,402,350
Cash on hand in foreign currencies	439,497	1,534,908
Foreign currency accounts with foreign banks:		
- other banks within UniCredit Group (Note 40)	184,863	918,033
- local banks (NBS - Beokliring)	19,577	40,483
- other foreign banks	46,357	70,559
Cheques	4,879	4,493
	5,690,283	19,197,994

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.

Based on the Decision on Special Measures to Support the Financial Stability of the Country during 2009 the Bank earmarked between 35% and 20% of the obligatory foreign currency reserve 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 2009	**31 December 2008**
Obligatory reserves in foreign amount	14,378,921	10,577,240
REPO transactions with NBS	6,515,139	7,524,653
	20,894,060	18,101,893

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 up to the amount of that part of the foreign currency reserving base from September 2008;
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.

In compliance with regulations, the Bank reduced the base for computing the obligatory foreign currency reserve for:

- Long-term housing loans insured by the National Mortgage Insurance Corporation
- Corporate loans for financing investments, granted based on the Government program
- Consumer loans for the purchase of consumer products produced in Serbia, granted based on the Government program
- Loans granted after 30 April 2009 for maintaining liquidity and financing working capital, granted based on the Government program.

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 2009 the securities purchased under resell agreements with NBS totalling RSD 6,515,139 thousand are associated with the bonds purchased from the NBS, having 15 day maturities, issued at annual interest of 10%. 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 2009	**31 December 2008**
Matured interest:		
-in RSD	305,814	137,680
-in foreign currencies	68,319	49,186
Fees and commissions receivable:		
- in RSD	82,788	67,450
- in foreign currencies	82	2,701
Other receivables for fair valuation of derivatives	13,651	0
Less: Allowances for impairment	(178,047)	(110,784)
	292,607	146,233

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

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Balance as at 1 January	(110,784)	(94,156)
Allowances for impairment during the year	(66,113)	(11,415)
Collected/cancelled during the year	0	592
Exchange rate differences	(5,154)	(8,141)
Direct write-offs	4,004	2,336
Balance as at 31 December	(178,047)	(110,784)

23. Loans and deposits

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Overnight deposits		
- in RSD	0	500,000
- in foreign currencies	965,728	22,866
Total overnight deposits:	965,728	522,866
Short-term deposits with domestic banks		
- in RSD	0	300,000
- in foreign currencies	2,397,220	0
Total short-term deposits with domestic banks:	2,397,220	300,000
Guarantee foreign currency deposits for purchase of securities	3,836	3,544
Short-term loans:		

- in RSD	24,156,421	12,568,868
- in foreign currencies	835,223	2,618,025
Total short-term loans:	24,991,644	15,186,893
Long-term loans:		
- in RSD	52,581,208	29,740,012
- in foreign currencies	2,401,548	2,261,614
Total long-term loans:	54,982,756	32,001,626
Less: Allowances for impairment	(1,683,452)	(1,081,745)
Balance as at 31 December	81,657,732	46,933,184

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 3M Euribor +3.60 to 4.50% for loans indexed in EUR. Long-term retail cash loans in dinars are also granted, as well as long-term cash loans indexed in EUR with a repayment period of 7 years.

In 2009 interest rates for financing investments for small companies and entrepreneurs ranged between 14% to 18% for loans indexed in EUR. For the same client segment interest rates for short-term financing up to 12 months ranged between 15 to 18% for loans indexed in EUR, and 20% to 25% for dinar loans. There is a notable increase in dinar loans, above all in segments relating to long-term cash loans.

Short-term term deposits with domestic banks in the amount of RSD 2,397,220 thousand are deposited for periods of up to 7 days at interest rates of 1.3% 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 2009	**31 December 2008**
Balance as at 1 January	(1,081,745)	(841,038)
Allowances for impairment in current year	(565,941)	(227,635)
Collected during the year	0	75
FX gain/loss effects	(62,598)	(74,957)
Direct write-offs	26,832	61,810
Balance as at 31 December	(1,683,452)	(1,081,745)

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

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Mining and energy sector	15,133	79,081
Agriculture	2,234,074	1,100,903
Construction	10,849,536	2,327,056
Industry	10,671,695	7,096,760
Trade	17,455,806	11,494,442
Services	10,421,472	6,387,131
Transportation	2,882,653	1,408,156
Finance	3,422,439	853,575
Retail clients	19,861,385	15,640,404
Others	3,843,539	545,676
	81,657,732	46,933,184

24. Securities (excluding treasury shares)

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Securities at fair value through profit and loss		
- placements in commercial bills	1,063	1,063
Securities held to maturity		
- receivables for discounted bills	2,271,764	1,771,140
Securities available for sale		
- foreign currency bonds of the Republic of Serbia	1,153,088	88,195
- treasury bods of the Republic of Serbia	18,310,229	0
	21,736,144	1,860,398
Less: Allowances for impairment	(75,992)	(32,470)
	21,660,152	1,827,928

As at 31 December 2009 receivables for discounted bills in the amount of RSD 2,271,764 thousand relate to investments that mature within one year at discount rates ranging from 1.40% to 1.58% per month.

As at 31 December 2009 available-for-sale securities of RSD 1,153,088 thousand represent a portfolio of the long-term bonds issued by the Republic of Serbia with maturities occurring between the years 2008 to 2016, while the amount of RSD 18,310,229 thousand relates to treasury bonds of the Republic of Serbia with maturities up to 2011.

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

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Balance as at 1 January	(32,470)	(25,976)
Allowance for impairment in current year	(43,522)	(6,494)
Balance as at 31 December	(75,992)	(32,470)

25. Equity investments

	In thousands of RSD	
	2009	**2008**
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 2009 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:

	In thousands of RSD	
In thousand of RSD	Amount	% share
Centar za evropske informacije d.o.o.	60	9.09%
FAP Priboj a.d.	4,737	0.16%
Fond for professional training for young farmers	147	7.72%
Tržište novca a.d.	108	0.30%
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 2009	**31 December 2008**
Balance as at 1 January	(12,126)	(12,121)
Allowance for impairment in current year	0	(5)
Balance as at 31 December	(12,126)	(12,126)

26. Other placements

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Other placements in RSD:		
Forfeiting	50,949	76,189
Factoring	84,035	0
Placements related to acceptances, sureties and payments made for guarantees	216,187	12,532
Receivables from credit cards	1,326,532	1,194,788
Other placements in foreign currency:		
Placements related to acceptances, sureties and payments made for guarantees	1,464,441	882,733
Covered letters of credit and other sureties	26,296	0
Other placements	1,286	14,536
Less: Allowances for impairment	(898,474)	(748,158)
	2,271,252	1,432,620

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

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Balance as at 1 January	(748,158)	(510,985)
	(119,670)	(138,802)
Allowances for impairment in current year	0	5
Collected during the year	(44,981)	(101,872)
FX gain/loss effects	14,335	3,496
Direct write-offs		
	(898,474)	(748,158)
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 2009	92,813	491,582	271,367	25,270	461,868	1,342,900
31 December 2008	91,955	420,708	171,947	7,436	427,397	1,119,443

28. Non-current assets held for sale and discontinued operations

In thousands of RSD

	31 December 2009	31 December 2008
Non-current assets held for sale	11,061	0
	11,061	0

In 2009 commercial property in Kragujevac with an area of 99.61m2 was classified as a non-current asset held for sale. The non-current asset held for sale was initially measured at carrying amount which as at classification date amounted to RSD 11,061 thousand, so that the Bank did not report any impairment losses in this respect.

29. Deferred tax assets

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Deferred tax assets arising from temporary differences in depreciation costs	16,887	8,862
	16,887	8,862

30. Other assets

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Other assets in RSD:		
Advances paid	3,417	18,790
Other receivables from business dealings	125,973	69,897
Assets received in exchange for collection of receivables	4,927	4,927
Receivables from employees	92	0
Accrued interest receivables	355,538	281,364
Accrued other income receivable	442,921	17,310
Accrued expenses regarding liabilities calculated at amortized cost using effective interest rate method	34,340	2,652
Other accrued expenses	43,606	30,526
Total:	1,010,814	425,466
Other assets in foreign currency:		
Receivables from employees	849	449
Other receivables from business dealings	10,592	9,888
Accrued interest receivables	32,943	67,250
Accrued other income receivable	27,719	31,631
Accrued other expenses	885,871	0
Total:	957,974	109,218
Allowance for impairment	(30,810)	(21,903)
	1,937,978	512,781

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

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Balance as at 1 January	(21,903)	(18,813)
Allowance for impairment in current year	(9,736)	(7,617)
Collected during the year	0	1,766
FX gains/losses	(749)	(355)
Direct write-offs	1,578	3,116
Balance as at 31 December	(30,810)	(21,903)

31. Transaction deposits

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Transaction deposits		
- in RSD	8,321,511	7,027,376
- in foreign currency	12,791,847	10,071,213
	21,113,358	17,098,589

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

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Local banks	845,217	1,369,453
Public companies	144,420	139,298
Corporate clients	14,409,315	10,172,569
Public sector	14,230	9,134
Other customers	340,394	259,414
Foreign entities	2,617,926	2,961,699
Retail clients	2,586,173	2,063,792
Entrepreneurs	152,605	118,673
Households	3,078	4,557
	21,113,358	17,098,589

32. Other deposits

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Demand deposits:		
- in RSD	474,526	231,330
- in foreign currency	1,948,723	1,979,588
Total demand deposits	2,423,249	2,210,918
Short-term deposits:		
- in RSD	4,500,979	5,311,475
- in foreign currency	53,409,332	28,419,829
Total short term deposits	57,910,311	33,731,304
Long-term deposits:		
- in RSD	3,775	28,399
- in foreign currency	2,278,585	3,100,586
Total long-term deposits	2,282,360	3,128,985
	62,615,920	39,071,207

Demand deposits in dinars from companies are deposited at average interest rate of 3.54% per annum while interest rate on term deposits is up to 12.89% per annum.

Demand deposits in foreign currencies from companies are deposited at annual interest rate ranging from 1.79% to 2.49% per annum depending from deposited currency.

Short-term deposits in foreign currencies from companies are deposited at annual interest rate ranging from 3.37% to 5.22% per annum depending from deposited currency.

Demand deposits in dinars from banks are deposited at 8.5% interest rate per annum.

Short-term term deposits in dinars from banks are deposited with maturities of up to one year at interest rates ranging from 6.9% do 14.2% per annum.

Short-term foreign currency deposits from banks are deposited with maturities of up to one year at interest rates ranging from 0.31% to 5.5% per annum.

Demand deposits in dinars from retail clients are deposited at annual interest rate up to 2%.

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 2% to 7% depending on term of deposit, and during saving week („Nedelja štednje“) at even higher interest rates.

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

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Local banks	2,356,460	2,545,190
Public companies	115,459	809,307
Companies	11,277,664	8,633,475
Public sector	79,476	25,091
Other customers	57,836	245,092
Foreign entities	27,538,648	16,237,252
Retail clients	21,155,048	10,549,055
Entrepreneurs	35,329	26,745
	62,615,920	39,071,207

33. Borrowings

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Loans with one day maturity (overnight)		
- in RSD	846,217	1,000,918
- in foreign currency	3,499,941	109,865
Total loans with one day maturity (overnight)	4,346,158	1,110,783

Short-term loans:		
- in RSD	0	0
- in foreign currency	0	165
Total short term loans	0	165
Long-term loans		
- in RSD	0	0
- in foreign currency	19,349,175	7,172,285
Total long-term loans	19,349,175	7,172,285
Other liabilities		
- in RSD	18,578	13,769
- in foreign currency	15,255	102,488
Total other liabilities	33,833	116,257
	23,729,166	8,399,490

Breakdown of foreign long-term loans in the amount of RSD 19,349,175 thousand is as follows:

	In thousands of dinars	
	31 December 2009	**31 December 2008**
European Bank for Reconstruction and Development (EBRD)	2,775,135	1,865,347
Creditanstalt fur Wiederaufbau Frankfurt am Main („KfW“)	2,876,664	2,658,030
European Investment Bank, Luxembourg	1,738,871	100,828
International Finance Corporation, Washington	2,347,430	2,515,809
UniCredit Bank Austria AG	9,588,880	0
Government of the Republic of Italy	22,195	32,271
	19,349,175	7,172,285

Long-term loans were granted for periods from 5 to 16 years, at interest rates ranging from 0.96% to 3.46%.

34. Interest and fees liabilities

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Interest payable:		
- in RSD	2,062	1,829
Commissions payable		
- in RSD	3,638	4,048
- in foreign currency	6,942	6,098
Liabilities for fluctuation in value of derivatives	3,192	0
	15,834	11,975

35. Provisions

	31 December 2009	31 December 2008
	In thousands of RSD	
Provisions for retirement benefits	40,332	36,395
Provisions for off-balance sheet items	327,149	312,178
Provisions for litigations	18,345	18,511
	385,826	367,084

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

	31 December 2009	31 December 2008
	In thousands of RSD	
Provisions for retirement benefits		
Balance, beginning of year	36,395	25,907
Charge during the year - Note 12	4,664	10,488
Payments during the year	(727)	0
Balance, end of year	40,332	36,395
Provisions for off-balance sheet items		
Balance, beginning of year	312,178	216,964
Charge during the year - Note 12	14,971	95,214
Balance, end of year	327,149	312,178
Provisions for litigations		
Balance, beginning of year	18,511	18,858
Cancellation of provision in favour of income - Note 12	0	(347)
Payments during the year	(166)	0
Balance, end of year	18,345	18,511
Total	385,826	367,084

36. Income taxes payable

	31 December 2009	31 December 2008
	In thousands of RSD	
Liabilities for VAT	33,787	15,911
Liabilities for capital income tax	0	1,118
Liabilities for withholding income tax on interest income from non-resident companies	2,060	2,946
Other liabilities for taxes and contributions	267	559
	36,114	20,534

37. Liabilities from income distribution

	In thousands of RSD 31 December 2009	31 December 2008
Liabilities from income distribution	235	235
Corporate income tax	324,644	249,049
Advance payment of income tax from previous period	(293,090)	(196,539)
	31,789	52,745

Calculation of the current corporate income tax in the amount of RSD 324,644 thousand is presented in Note 18.

38. Other liabilities

	In thousands of RSD 31 December 2009	31 December 2008
Liabilities for received advances and deposits:		
- in RSD	1,248	2,472
- in foreign currency	1,155	851
Liabilities to suppliers:		
- in RSD	30,425	43,509
- in foreign currency		
- within the UniCredit Group (Note 41)	150,783	26,658
- other	7,130	899
Other liabilities:		
- in RSD	53,794	17,615
- in foreign currency	89,992	80,839
Accrued interest payable:		
- in RSD	39,563	86,501
- in foreign currency	565,409	401,448
Other accrued income:		
- in RSD	268,483	75,078
- in foreign currency	12,576	17,299
Other accrued expenses:		
- in RSD	31,650	285,163
- in foreign currency	691	675
Accrued income regarding receivables calculated at amortized cost using effective interest rate method	360,942	289,561
Subordinated liabilities in foreign currencies	2,684,886	2,480,828
	4,298,727	3,809,396

As at 31 December 2009 subordinated liabilities in foreign currencies in the amount of RSD 2,684,886 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 719,166 thousand) and by UniCredit Bank Austria AG in the amount of EUR 20,500,000 (equivalent of RSD 1,965,720 thousand). These loans were extended with 7-year and 12-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 and three-month EURIBOR rate as increased by 2.93% respectively. 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).

39. Equity

	In thousands of RSD	
	31 December 2009	**31 December 2008**
Share capital	12,857,620	12,857,620
Issue premium	562,156	562,156
Share and other capital	**13,419,776**	**13,419,776**
Profit reserves for estimated losses arising on balance sheet assets	4,192,171	2,380,527
Profit reserves for estimated losses arising on off-balance sheet items	2,067,374	997,475
Other profit reserves	1,003,072	1,003,072
Reserves	**7,262,617**	**4,381,074**
Revaluation reserves	**4,506**	**387**
Accumulated profit	**2,853,929**	**2,881,543**
Total equity	**23,540,828**	**20,682,780**

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%.

In December 2009 with the purchase of a minority interest of 0.08% from A&B Banken Holding GmbH, Vienna, UniCredit Bank Austria AG became the sole shareholder of the Bank.

As at 31 December 2009 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 2009.

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 6,259,545 thousand as at 31 December 2009. Insufficient amount of mentioned reserves as at 31 December 2009 amount to RSD 4,519,409 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 4,506 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 2,853,929 thousand relate to profit after taxes for the period from 1 January to 31 December 2009.

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 2009 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 2009, all ratios were within their prescribed limits.

OPERATING RATIOS PRESCRIBED BY NBS	PRESCRIBED VALUE	31 Dec 2009	31 Dec 2008
Capital adequacy ratio	min 12%	16.52%	16.79%
Long-term investments vs. equity	max 60%	3.46%	4.74%
Exposure toward related parties of the bank	max 20%	4.29%	3.92%
Sum of large exposures of the bank	max 400%	107.32%	100.80%
Liquidity ration – for December	min 1.00	1.58	1.27
Foreign currency risk ratio	max 20%	3.73%	4.26%

40. Off-balance sheet items

In thousands of RSD

	31 December 2009	31 December 2008
Operations on behalf of third parties		
- on behalf of public sector	171,802	207,060
	171,802	207,060
Guarantees, securities, property pledges for liabilities and undertaken and incontestable liabilities		
Payment guarantees:		
- in RSD	5,015,773	4,434,839
- in foreign currency	19,870,224	30,717,238
Performance guarantees:		
- in RSD	3,622,338	4,153,447
- in foreign currency	475,760	697,199
Uncovered letters of credit	3,202,039	6,163,242
Acceptances	9,795	35,773
Undertaken and incontestable liabilities	12,705,241	14,619,410
	44,901,170	60,821,148
Derivatives		
- receivables from foreign currency exchange derivatives	458,049	205,473
	458,049	205,473
Other off-balance sheet items	121,833,777	83,913,508
	167,364,798	**145,147,189**

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 2009	31 December 2008
Current account overdrafts	3,919,032	3,044,729
Unused credit limits on credit cards	1,659,076	1,514,336
Unused framework loans	6,640,470	9,936,095
Letters of intention	486,663	124,250
	12,705,241	**14,619,410**

Breakdown of other off-balance sheet items:

	In thousands of RSD 31 December 2009	31 December 2008
Securities associated with custody operations	28,183,594	28,891,194
Securities purchased from NBS from REPO contracts	6,500,000	7,500,000
Secured letters of credit	1,712	43,560
Received letters of credit, guarantees and collection funds	13,199,845	8,200,719
Off-balance sheet financial instruments	63,738,930	36,694,232
Equipment under lease	23,155	38,814
Other	10,186,541	2,544,989
	121,833,777	83,913,508

Undertaken liabilities relating to office space rental:

	In thousands of RSD 31 December 2009	31 December 2008
Undertaken liabilities with maturities:		
- up to 1 year	397,559	372,254
- between 1 and 5 years	1,414,177	1,372,776
- over 5 years	698,865	901,393
	2,510,601	2,646,423

Undrawn foreign loan facilities

Undrawn foreign loan facilities as at 31 December 2009 amount to RSD 4,000,816 thousand.

Court Cases

As at 31 December 2009 the Bank is defendant in 18 court cases (including labour disputes) whose total value amounts to RSD 637,788 thousand. In 4 cases the claimants are companies, and in 14 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 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 700,283 thousand.

The Bank made provisions in the amount of RSD 18,345 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.

41. 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 2009	**31 December 2008**
Foreign currency accounts with:		
UniCredit Bank Austria AG, Vienna	146,343	887,172
UniCredit Bank AG, Munich	19,680	8,508
UniCredit Bulbank, Sofia	2,572	2,377
UniCredit S.P.A. Milano	11,673	17,539
Unicredit Banka Slovenija, Ljubljana	3,054	1,032
Zagrebacka banka d.d.	1,541	1,405
Sub-total:	184,863	918,033
Interest and fees receivables:		
UniCredit Bank Austria AG, Vienna	1,065	1,089
UniCredit Bank AG, Munich	0	20
UniCredit Bank AG, Greece	13	35
UniCredit Banka Slovenija, Ljubljana	52	144
UniCredit Bank Czech Republic	0	2,663
Zagrebacka banka d.d.	467	679
Sub-total:	1,597	4,630

	In thousand RSD 31 December 2009	31 December 2008
Loans:		
Executive Board	13,026	50,088
UniCredit Bank Austria AG, Vienna	924	0
Sub-total:	13,950	50,088
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	0	1,308
UniCredit S.P.A. Milano	956	887
UniCredit Bank Austria AG, Vienna	35,399	15,417
UniCredit Bank AG, Munich	2	0
Unicredit Bulbank, Sofia	542	0
ATF Bank, Kazahstan	15,546	0
Unicredit Bank Slovakia a.s., Bratislava	11,641	0
Sub-total:	64,086	17,612
Secured letters of guarantee and other sureties:		
UniCredit Bank Austria AG, Vienna	26,296	0
Total:	26,296	0
Overnight deposits:		
UniCredit CAIB AG, Vienna	3,499,941	0
Total:	3,499,941	0
Demand deposits:		
Executive Board	1,625	9,134
UniCredit Bank Austria AG, Vienna	84,964	49,602
BA Creditanstalt Alpha d.o.o.	18,971	14,336
UniCredit Leasing Srbija d.o.o.	599,014	596,114
UniCredit Rent d.o.o..	17,427	3,678
UniCredit Partner d.o.o..	985	1,660
UniCredit Bank AD Banja Luka	639	311
Zagrebačka banka d.d.	7,197	1,717
UniCredit Bank AG, London	834	814
UniCredit Banka Slovenija d.d.	10,566	983
UniCredit CAIB AG, Vienna	4,207	120,705
UniCredit Bank AG, Munich	35,978	49,200
Unicredit CAIB Srbija d.o.o.	4,875	40,807
BA CA Leasing Deutschland Gmbh, Germany	510	654
UniCredit Bank AG, Greece	5	14
HVB Cesar d.o.o	0	292
Sub-total:	787,797	890,021

	31 December 2009	31 December 2008
	In thousand RSD	
Short-term deposits:		
Executive Board of the Bank	36,980	5,141
UniCredit Rent d.o.o..	91,218	531,118
UniCredit Partner d.o.o..	49,438	34,000
UniCredit Leasing Srbija d.o.o	0	8
UniCredit Bank Austria AG, Vienna	22,051,738	0
Zagrebačka banka d.d.	0	19,000
UniCredit CAIB AG	0	13,024,347
UniCredit Bank AG, Munich	2,876,664	2,658,030
Unicredit (Suisse) Bank SA, Switzerland	9,110	0
Sub-total:	25,115,148	16,271,644
Other liabilities:		
UniCredit Bank Austria AG, Vienna	2,101	74,282
UniCredit Bank AG, Munich	0	2,085
UniCredit Bank BIH	6	5
UniCredit Banka Slovenija d.d.	1	15
Zagrebačka banka d.d.	10	14
UniCredit S.P.A. Milano	2,897	483
UniCredit Bank Hungary Z.r.t., Hungary	4	0
Sub-total:	5,019	76,884
Liabilities to suppliers:		
UGIS, Vienna	75,713	9,915
IT Austria, Vienna	1,917	1,772
BTS, Czech Republic	1,423	1,218
UniCredit Bulbank, Sofia	6,405	7,293
BA Global Inforamtion Services, Vienna	5,207	4,660
UniManagement, Torino	0	1,772
UniCredit Bank Austria AG, Vienna	0	28
BA CA Administration Services GmbH, Veinna	79	0
Unicredit S.P.A. Milano	60,039	0
Sub-total:	150,783	26,658

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

	31 December 2009	31 December 2008
	In thousand RSD	
Interest revenue	686	101,556
Interest expense	(812,343)	(546,193)
Other income	22,358	49,522
Other expenses	(275,984)	(264,683)
Net expenses	(1,065,283)	(659,798)

Total gross salaries and other remuneration of the Executive Board in 2009 amounts to RSD 39,539 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, assess, minimise and monitor risks to which it is exposed, and to manage risks more comprehensively 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, foreign currency and other risks)
- 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 through five directorates: strategic risk management and control, corporate and retail loan approval, loan monitoring, restructuring and management of nonperforming loans, as well as market and operating risk. The sector is headed by a member of the Executive Board in charge of risk management to whom all the directorates report directly.

Credit risk

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 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.

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.

For adequate loan management in all phases of the loan process the organisational structure is clearly separated into loan approval and management of nonperforming loans, with the introduction of the function of loan monitoring which is charged with timely identification of deteriorating creditworthiness of clients and undertaking of adequate measures to ensure collection of such placements.

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.

During 2009 the Bank adopted the Risk Management Strategy with a view to defining comprehensive guidelines for portfolio development and risk management. This document specifically defines the framework for financing particular client categories, industrial sectors and largest groups of related parties in the future, thus providing adequate management of loan risks and risk exposures.

Credit risk reporting

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:
1. Credit Risk Parameters
2. Portfolio Credit Risk Monitoring report
3. Early Alert List report
4. Overdue List report
5. Review date report
6. Ad-hoc reports

1. Basic ***Credit Risk Parameters*** are calculated and monitored monthly. The most significant ones are as follows:
- Risk costs which represent the ratio between the Income Statement provisions calculated according to IAS-IFRS and the average weighted risk exposed assets
- RER1 represents the ratio between the Income Statement provisions calculated according to IAS-IFRS and interest income
- 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 ***Portfolio 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:
- loan portfolio structure and development
- loan portfolio structure per product types
- loan portfolio volumes per internal rating categories and per NBS classification
- analysis of the amount and movement of provision, calculated in accordance with NBS rules, on a quarterly basis

- amount and movement of provision, calculated in accordance with International Financial Reporting Standards (further IFRS) rules
- loan portfolio collateral position and collateral quality
- loan portfolio term structure aggregated by maturity
- loan portfolio currency structure
- concentration of exposures toward clients and related parties (further obligor group)
- concentration of exposures per different industry sectors
- Comments on the most important credit risk changes and trends
- 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 ***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, as well as other early alert signals. With a view to early identification of clients with deteriorating creditworthiness and early reaction the Bank implemented certain organisational changes in 2009 and initiated the implementation process for the project of closer monitoring of watch list clients.

Among the most significant changes with respect to previous organizational structure and processes we single out the following:

- Introduction of the function for Loan Portfolio Monitoring as an independent organisational unit that is directly accountable to a member of the Executive Board of the Bank, Chief Risk Officer, who is in charge of the Risk Management Sector and is independent of the directorate for Restructuring and Loan Approval
- The watch list process is integrated into the Directorate for Loan Portfolio Monitoring
- Loan portfolio monitoring consists of 4 groups and 5 local alert signals
- The entire portfolio with indications of deterioration in creditworthiness is classified into two categories according to the level of identified risk / creditworthiness deterioration
- Depending on the classification category, action plan approval within 2 weeks of alert signal identification is mandatory
- The Directorate for Loan Approvals is responsible for watch list clients, while the Directorate for Monitoring is responsible for approving the client classification as well as for providing opinion on the mandatory action plan, so-called second opinion
- The Corporate Client Directorate and the Loan Approval Directorate are responsible for action plan implementation, while the Loan Portfolio Directorate is responsible for monitoring implementation and fulfilment of action plan measures
- The Loan Portfolio Directorate makes the decision on the need for closer monitoring of particular clients and makes the decision on transferring a client to the Restructuring Directorate

With a view to improving reporting on clients with deteriorating creditworthiness, the Loan Portfolio Monitoring Directorate developed the Client Liquidity Report which presents all overdue clients, all clients with frozen bank accounts, deteriorating internal ratings, classifications, deteriorating liquidity, etc. The report also contains an analysis of defaults per Bank products and industrial segments, as well as information on implemented action plans and realised results as part of the activities of Monitoring Clients with Deteriorating Creditworthiness. The report is prepared quarterly and is addressed to members of the Executive Board and the Credit Management Board.

4. 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.

5. ***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 2009 the Bank continued its activities on implementing Basel II. In the first half of 2009 the Bank applied for implementing the Basic Approach to Internal Rating (F-IRB) to the regulatory bodies competent for the UniCredit Group. For the purpose of implementing this approach as of April 2009 the Bank used the automated Group Wide Boni (GWB) application for computing and approving ratings of clients from the group of medium sized and large sized companies. In order to achieve compliance with the Basel standard definition of default with consistent application in all processes, in the second quarter of 2009 the Bank implemented the system for Client Default Identification (CDI). Testing of the calculation of risk assets according to rules set out in the Basic Approach started in 2009. In parallel work is ongoing for implementing an Advanced IRB Approach for developing internal credit risk models and methodologies related to expected losses and calculation of risk assets.

Credit risk exposure as at 31 December 2009 is presented in the table below:

In 000 RSD	Loans and deposits 2009	Loans and deposits 2008	Other placements 2009	Other placements 2008	Securities 2009	Securities 2008	Equity investments 2009	Equity investments 2008	Interest and fees receivables 2009	Interest and fees receivables 2008	Other assets 2009	Other assets 2008	Cash and cash equivalents 2009	Cash and cash equivalents 2008	Off-balance sheet assets 2009	Off-balance sheet assets 2008
Book value	74,459,232	46,910,318	2,271,252	1,432,620	2,196,835	1,739,733	9,405	9,405	292,607	146,233	1,910,258	504,456	22,631	41,514	44,575,733	60,552,530
Individual provision																
Legal entities, Rating 10	268,389	190,857	1,027,105	813,507	17,315	17,315	-	-	106,473	102,586	10,509	9,816	-	-	11,971	313
Legal entities, Rating 9	973,632	186,866	255,325	51,782	40,000	-	5,052	-	65,389	18,602	3,980	980	-	-	280,400	995
Legal entities, restructured loans	1,911,941	120,408	336,702	-	-	-	-	-	77,790	6,720	13,696	654	-	-	413,192	10,007
Citizens, > 90 overdue	838,785	669,310	101,004	41,591	-	-	-	-	88,573	39,422	14,777	5,681	-	-	19,533	20,109
Gross placements	3,992,747	1,167,441	1,720,136	906,880	57,315	17,315	5,052	-	338,225	167,330	42,962	17,131	-	-	725,096	31,424
Provision	1,260,406	820,150	881,768	733,173	57,315	17,315	5,052		175,737	106,967	22,683	13,181	-	-	109,269	7,357
Book value	2,732,341	347,291	838,368	173,707	-	-	-	-	162,488	60,363	20,279	3,950	-	-	615,827	24,067
Portfolio provision																
Legal entities, rating 1 - 6	51,870,832	31,099,226	200,474	138,210	2,215,512	1,714,888	16,479	21,531	100,793	60,629	1,769,280	401,094	22,631	41,514	42,084,283	58,897,682
Legal entities, rating 7	351,925	97,771	46,191	251	-	-	-	-	2,627	825	878	618	-	-	352,005	49,169
Legal entities, rating 8	161,450	87,377	-	-	-	40,000	-	-	791	966	645	1,490	-	-	960	240,487
Citizens < 90 overdue	19,765,730	15,540,248	1,202,925	1,135,437	-	-	-	-	28,218	27,267	127,303	106,026	-	-	1,740,538	1,645,946
Gross placements	72,149,937	46,824,622	1,449,590	1,273,898	2,215,512	1,754,888	16,479	21,531	132,429	89,687	1,898,106	509,228	22,631	41,514	44,177,786	60,833,284
Provision	422,942	261,595	16,706	14,985	18,677	15,155	7,074	12,126	2,310	3,817	8,127	8,722	-	-	217,880	304,821
Book value	71,726,995	46,563,027	1,432,884	1,258,913	2,196,835	1,739,733	9,405	9,405	130,119	85,870	1,889,979	500,506	22,631	41,514	43,959,906	60,528,463
Total book value of risk assets	74,459,336	46,910,318	2,271,252	1,432,620	2,196,835	1,739,733	9,405	9,405	292,607	146,233	1,910,258	504,456	22,631	41,514	44,575,733	60,552,530
Total book value of non-risk assets	7,198,396	22,866	-	-	19,463,317	88,195	-	-	-	-	27,720	8,325	26,561,712	37,258,373	122,461,915	84,282,481
Total book value	81,657,732	46,933,184	2,271,252	1,432,620	21,660,152	1,827,928	9,405	9,405	292,607	146,233	1,937,978	512,781	26,584,343	37,299,887	167,037,648	144,835,011

* The category “Legal entities – restructured loans” includes clients with an internal rating 8- for whom provision is not individual but assigned by client group.

Internal Rating System (internal rating scale)

The ranking rules for customers are established at the level of the UniCredit 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 2009:

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 2009														
Legal entities, Rating 10	268,389	60,210	1,027,105	350,355	17,315	-	-	-	106,473	45,716	10,509	1,457	11,971	11,971
Legal entities, Rating 9	973,632	647,148	255,325	156,130	40,000	-	5,052	-	65,389	35,877	3,980	853	280,400	183,691
Legal entities, restructured loans	1,911,941	1,820,209	336,702	318,967	-	-	-	-	77,790	69,326	13,696	12,721	413,192	400,632
Citizens, > 90 overdue	838,785	204,774	101,004	12,916	-	-	-	-	88,573	11,569	14,777	5,248	19,533	19,533
Total	**3,992,747**	**2,732,341**	**1,720,136**	**838,368**	**57,315**	**-**	**5,052**	**-**	**338,225**	**162,488**	**42,962**	**20,279**	**725,096**	**615,827**
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**

IAS/IFRS Provision methodology

The procedure which is based on the Rule Book for IAS/IFRS provision calculation and adopted rules is 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.

Collaterals accepted and used by the Bank for minimising credit risk comprise:
- Cash deposits that are recognised at full value,
- Cash convertible guarantees of top rated banks and states, recognised at full value,
- Mortgages for residential or commercial property, recognised at most up to 70% and 60% of appraised value of property. Appraisal must be performed every three years by a certified appraiser for residential property, and once per year for commercial property.
- Pledged receivables, recognised up to 70%
- Pledged movable assets, recognised up to 50%
- Bonds issued by governments, central banks or institutions with adequate credit ratings.

In the event that the currency of a security instrument differs from the currency of the loan for which it provides security, the value of the security instrument must be further reduced using a factor defined for every currency combination, as specified by the mentioned Policy.

Fair value of collaterals taken as loan security by the Bank as at 31 December 2009 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	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Legal entities, Rating 10	61,719	-	139,830	508,403	-	-	902	21,483	58	2,599	10,194	-
Real estate	61,719	-	139,830	-	-	-	902	-	58	-	10,194	-
Other	-	-	-	508,403	-	-	-	21,483	-	2,599	-	-
Legal entities, Rating 9	378,494	122,974	146,832	-	-	-	22,784	10,440	969	-	154,093	-
Real estate	378,494	122,974	146,832	-	-	-	22,784	10,440	969	-	154,093	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Legal entities, restructured loans	1,453,281	85,316	248,026	-	-	-	35,470	4,812	8,819	462	347,801	10,007
Real estate	1,446,655	85,316	248,026	-	-	-	35,426	4,812	8,777	462	67,478	10,007
Other	6,626	-	-	-	-	-	44	-	42	-	280,323	-
Citizens, > 90 days overdue	155,010	102,062	-	-	-	-	4,518	1,494	2,426	1,157	-	-
Real estate	51,116	65,633	-	-	-	-	1,070	449	558	430	-	-
Other	103,894	36,429	-	-	-	-	3,448	1,045	1,868	727	-	-
Portfolio provision for impairment	41,658,842	21,428,445	21,856	22,569	15,399	4,448	36,207	16,694	173,854	118,561	17,207,955	19,282,714
Real estate	25,485,928	16,427,619	21,729	22,542	-	4,448	35,676	16,149	110,880	74,653	11,379,414	12,951,786
Other	16,172,914	5,000,826	127	27	15,399	-	531	545	62,974	43,908	5,828,541	6,330,928
Total	**43,707,346**	**21,738,797**	**556,544**	**530,972**	**15,399**	**4,448**	**99,881**	**54,923**	**186,126**	**122,779**	**17,720,043**	**19,292,721**

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.

	2009	2008
Liquidity ration of I order		
0 as at 31 December	1.28	1.16
0 average for the period – month of December	1.58	1.27
0 maximum for the period – month of December	1.73	1.83
0 minimum for the period – month of December	1.28	1.15

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 2009 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	5,690,283	0	0	0	0	5,690,283
Revocable deposits and loans	20,894,060	0	0	0	0	20,894,060
Interest and fees receivables	292,607	0	0	0	0	292,607
Loans and deposits	5,829,539	3,816,317	19,588,127	32,383,409	20,040,340	81,657,732
Securities (excluding treasury shares)	19,861,123	649,621	1,149,408	0	0	21,660,152
Equity investments	0	0	0	0	9,405	9,405
Other placements	915,047	146,355	271,747	911,807	26,296	2,271,252
Intangible assets	0	0	0	610,511	0	610,511
Fixed assets and investment property	0	0	0	0	715,634	715,634
Non-current assets held for sale and discontinued operations	11,061	0	0	0	0	11,061
Deferred tax assets	0	0	16,887	0	0	16,887
Other assets	1,937,978	0	0	0	0	1,937,978
Total assets	**55,431,698**	**4,612,293**	**21,026,169**	**33,905,727**	**20,791,675**	**135,767,562**
Transaction deposits	21,113,358	0	0	0	0	21,113,358
Other deposits	17,629,840	19,818,536	23,445,036	1,646,073	76,435	62,615,920
Borrowings	4,379,991	0	0	10,738,823	8,610,352	23,729,166
Interest and fees liabilities	15,834	0	0	0	0	15,834
Provisions	0	327,150	18,345	0	40,331	385,826
Income taxes payable	36,114	0	0	0	0	36,114
Liabilities from income distribution	31,789	0	0	0	0	31,789
Other liabilities	1,613,839	0	0	0	2,684,888	4,298,727
Equity	0	0	0	0	23,540,828	23,540,828
Total equity and liabilities	**44,820,765**	**20,145,686**	**23,463,381**	**12,384,896**	**34,952,834**	**135,767,562**
Net liquidity gap as at 31 December 2009	**10,610,933**	**(15,533,393)**	**(2,437,212)**	**21,520,831**	**(14,161,159)**	**0**
Net liquidity gap as at 31 December 2008	**(5,085,959)**	**(2,780,234)**	**7,988,516**	**16,770,304**	**(16,892,627)**	**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	4,551,249	0	0	0	0	1,139,034	5,690,283
Revocable deposits and loans	6,500,000	0	0	0	0	14,394,060	20,894,060
Interest and fees receivables	0	0	0	0	0	292,607	292,607
Loans and deposits	4,138,406	33,140,537	44,374,954	0	0	3,835	81,657,732
Securities (excluding treasury shares)	2,556	86,712	20,416,473	0	0	1,154,411	21,660,152
Equity investments	0	0	0	0	0	9,405	9,405
Other placements	1,291,199	0	83,665	50,726	0	845,662	2,271,252
Intangible assets	0	0	0	0	0	610,511	610,511
Fixed assets and investment property	0	0	0	0	0	715,634	715,634
Non-current assets held for sale and discontinued operations	0	0	0	0	0	11,061	11,061
Deferred tax assets	0	0	0	0	0	16,887	16,887
Other assets	0	0	0	0	0	1,937,978	1,937,978
Total assets	**16,483,410**	**33,227,249**	**64,875,092**	**50,726**	**0**	**21,131,085**	**135,767,562**
Transaction deposits	7,264,635	12,665,679	0	0	0	1,183,044	21,113,358
Other deposits	5,448,023	8,187,681	41,518,890	4,141,689	0	3,319,637	62,615,920
Borrowings	4,346,158	0	19,349,175	0	0	33,833	23,729,166
Interest and fees liabilities	0	0	0	0	0	15,834	15,834
Provisions	0	0	0	0	0	385,826	385,826
Income taxes payable	0	0	0	0	0	36,114	36,114
Liabilities from income distribution	0	0	0	0	0	31,789	31,789
Other liabilities	0	0	2,684,888	0	0	1,613,839	4,298,727
Equity	0	0	0	0	0	23,540,828	23,540,828
Total equity and liabilities	**17,058,816**	**20,853,360**	**63,552,953**	**4,141,689**	**0**	**30,160,744**	**135,767,562**
Interest sensitive gap as at 31 December 2008	**(575,406)**	**12,373,889**	**1,322,139**	**(4,090,963)**	**0**	**(9,029,659)**	**0**
Interest sensitive gap as at 31 December 2007	**7,411,400**	**7,481,531**	**(12,270,213)**	**(783,012)**	**(10,119)**	**(1,829,587)**	**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 20% 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.

	2009	**2008**
Foreign Currency Ration:		
- as at 31 December	4.69	4.77
- maximum for the period – month of December	4.99	10.56
- minimum for the period – month of December	0.76	1.03

The following table provides a net currency gap of assets and liabilities of the Bank as at 31 December 2009:

	EUR	USD	Other currencies	Total in currencies	Total dinars	Total
Cash and cash equivalents	519,460	56,153	119,560	695,173	4,995,110	5,690,283
Revocable deposits and loans	14,378,921	0	0	14,378,921	6,515,139	20,894,060
Interest and fees receivables	128,140	9,405	29,076	166,621	125,986	292,607
Loans and deposits	63,628,005	661,483	12,584,264	76,873,752	4,783,980	81,657,732
Securities (excluding treasury shares)	1,153,089	0	0	1,153,089	20,507,063	21,660,152
Equity investments	0	0	0	0	9,405	9,405
Other placements	497,728	198,732	13,951	710,411	1,560,841	2,271,252
Intangible assets	0	0	0	0	610,511	610,511
Fixed assets and investment property	0	0	0	0	715,634	715,634
Non-current assets held for sale and discontinued operations	0	0	0	0	11,061	11,061
Deferred tax assets	0	0	0	0	16,887	16,887
Other assets	1,151,754	7,913	84,263	1,243,930	694,048	1,937,978
Total assets	**81,457,097**	**933,686**	**12,831,114**	**95,221,897**	**40,545,665**	**135,767,562**
Transaction deposits	11,646,901	1,018,780	126,166	12,791,847	8,321,511	21,113,358
Other deposits	33,629,513	871,986	23,135,141	57,636,640	4,979,280	62,615,920
Borrowings	19,391,909	2,178	3,470,284	22,864,371	864,795	23,729,166
Interest and fees liabilities	6,942	0	0	6,942	8,892	15,834
Provisions	0	0	0	0	385,826	385,826
Income taxes payable	0	0	0	0	36,114	36,114
Liabilities from income distribution	0	0	0	0	31,789	31,789
Other liabilities	3,434,486	10,053	74,337	3,518,876	779,851	4,298,727
Equity	0	0	0	0	23,540,828	23,540,828
Total equity and liabilities	**68,109,751**	**1,902,997**	**26,805,928**	**96,818,676**	**38,948,886**	**135,767,562**
Financial instruments regarding off-balance sheet items	**14,173,053**	**(1,019,023)**	**(13,928,294)**	**(774,264)**	**748,636**	**(25,628)**
Net currency gap as at 31 December 2008	**(825,707)**	**49,712**	**(46,520)**	**(822,515)**	**848,143**	**25,628**
Net currency gap as at 31 December 2007	**271,923**	**(40,123)**	**(14,549)**	**217,251**	**(400,498)**	**(183,247)**

As at 31 December 2009 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 and their deputies 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. The internal application for operating risk INFORM was in use up to May 2009 when the ARGO application was implemented.

The Operating Risk Monitoring Committee 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, 10 February 2010

Chairman of Managing Board	Deputy Chairman of Managing Board	Head of Finance Department	Person responsible for preparing the financial statements
Klaus Priverschek	Branislav Radovanović	Ljiljana Berić	Mirjana Kovačević