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This is an English translation of the Independent Auditors' Report on the Financial Statements originally issued in the Serbian language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of "UniCredit Bank Srbija" a.d., Belgrade

Report on the Financial Statements

We have audited the accompanying financial statements of "UniCredit Bank Srbija" a.d., Belgrade, which comprise the balance sheet as at 31 December 2010, 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 information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the current accounting regulations in effect in the Republic of Serbia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements, in all material respects, give a true and fair view of the financial position of "UniCredit Bank Srbija" a.d., Belgrade as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with current accounting regulations in effect in the Republic of Serbia and accounting policies disclosed in the notes to the financial statements, the Law on Accounting and Auditing of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of "UniCredit Bank Srbija" a.d., Belgrade - continued

Other Matter

The financial statements of the "UniCredit Bank Srbija" a.d., Belgrade for the year ended 31 December 2009 were audited by another auditor, whose Report dated 15 February 2010, expressed an unqualified audit opinion on those financial statements.

Belgrade, 24 February 2011

MOORE STEPHENS
Revizija i Računovodstvo d.o.o. Belgrade

Bogoljub Aleksić
Certified Auditor

T R A N S L A T I O N

UNICREDIT BANK SRBIJA A.D. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Belgrade, 22 February 2011

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INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of RSD	Notes	31 December 2010	31 December 2009
Operating income and expenses			
Interest income	4	11,620,255	8,246,727
Interest expenses	5	(5,025,583)	(3,134,458)
Net interest income		**6,594,672**	**5,112,269**
Fees and commissions income	6	1,555,361	1,442,430
Fees and commissions expenses	7	(317,154)	(268,874)
Net fee and commission income		**1,238,207**	**1,173,556**
Net gains/(losses) on the sale of securities at fair value through profit and loss	8	1,443	0
Net gains/(losses) on the sale of available for sale securities	9	15,599	1,759
Net foreign exchange gains/(losses)	10	(8,469,559)	(2,853,871)
Dividends and other income from equity investments	11	20	22
Other operating income	12	26,983	6,786
Losses on impairment and provisions	13	(1,091,801)	(824,617)
Net wages and salaries, taxes, contributions and other personnel expenses	14	(1,517,984)	(1,314,730)
Depreciation costs	15	(344,726)	(322,256)
Other operating expenses	16	(1,737,915)	(1,500,160)
Income from assets and liabilities valuation adjustments	17	29,481,831	23,487,377
Expenses from assets and liabilities valuation adjustments	18	(20,263,861)	(19,795,587)
Operating profit		**3,932,909**	**3,170,548**
Profit before tax		**3,932,909**	**3,170,548**
Income taxes	19	(408,619)	(324,644)
Gain on increase of deferred tax assets and decrease of deferred tax liability	19	12,043	8,025
Loss on decrease of deferred tax assets and increase of deferred tax liability	19	0	0
Profit after tax		**3,536,333**	**2,853,929**
Earnings per share in RSD			
Basic earnings per share	20	2,236	2,220
Diluted earnings per share	20	2,236	2,220

BALANCE SHEET AS AT 31 DECEMBER 2010

In thousands of RSD	Note	31 December 2010	31 December 2009
Cash and cash equivalents	21	6,379,863	5,690,283
Revocable deposits and loans	22	19,032,984	20,894,060
Interest and fees receivables	23	487,764	292,607
Loans and deposits	24	112,254,522	81,657,732
Securities (excluding treasury shares)	25	23,073,362	21,660,152
Equity investments	26	0	9,405
Other placements	27	2,406,545	2,271,252
Intangible assets	28	687,626	610,511
Fixed assets and investment property	28	1,195,527	715,634
Non-current assets held for sale and discontinued operations	29	1,599	11,061
Deferred tax assets	30	28,930	16,887
Other assets	31	1,433,469	1,937,978
Total assets		**166,982,191**	**135,767,562**
Transaction deposits	32	23,379,195	21,113,358
Other deposits	33	59,205,458	62,615,920
Borrowings	34	46,679,822	23,729,166
Interest and fees liabilities	35	25,878	15,834
Provisions	36	142,461	385,826
Income taxes payable	37	9,487	36,114
Liabilities from income distribution	38	109,075	31,789
Other liabilities	39	5,357,742	4,298,727
Total liabilities		**134,909,118**	**112,226,734**
Share and other capital	40	18,419,776	13,419,776
Reserves	40	10,116,546	7,262,617
Revaluation reserves	40	418	4,506
Retained earnings	40	3,536,333	2,853,929
Total equity		**32,073,073**	**23,540,828**
Total liabilities and equity		**166,982,191**	**135,767,562**
Off-balance sheet items		**157,207,319**	**167,364,798**
Operations on behalf of third party	41	256,890	171,802
Guarantees and other contingent liabilities	41	45,647,004	44,901,170
Derivatives	41	414,202	458,049
Other off-balance sheet items	41	110,889,223	121,833,777

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of RSD	31 December 2010	31 December 2009
SHARE CAPITAL		
Balance, beginning of year	12,857,620	12,857,620
New share issuance	5,000,000	0
Balance, end of year	17,857,620	12,857,620
SHARE PREMIUM		
Balance, beginning of year	562,156	562,156
Transfer from Share capital	0	0
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	6,259,545	3,378,002
Distribution of previous year's retained earnings	2,853,929	2,881,543
Balance, end of year	9,113,474	6,259,545
RESERVES WITH RESPECT TO SECURITIES AVAILABLE FOR SALE		
Balance, beginning of year	4,506	387
Effects of changes in the fair value of securities available-for-sale	(4,088)	4,119
Balance, end of year	418	4,506
RETAINED EARNINGS		
Balance, beginning of year	2,853,929	2,881,543
Transfer of portion of previous year's retained earnings to the Bank's reserves from income	(2,853,929)	(2,881,543)
Profit for the year	3,536,333	2,853,929
Balance, end of year	3,536,333	2,853,929
TOTAL EQUITY	32,073,073	23,540,828

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of RSD	31 December 2010	31 December 2009
Cash receipts from operating activities	**19,714,038**	**15,505,626**
Interest receipts	8,979,947	6,966,560
Fee and commission receipts	1,583,493	1,418,766
Receipts from other operating income	9,150,578	7,120,278
Receipts from dividends and equity investments	20	22
Cash payments from operating activities	**(16,211,812)**	**(13,240,073)**
Interest payments	(4,809,442)	(3,950,330)
Fee and commission payments	(312,709)	(267,942)
Payments to and on behalf of employees	(1,518,133)	(1,286,333)
Taxes, contributions and other duties paid	(321,899)	(247,140)
Payments for other operating expenses	(9,249,629)	(7,488,328)
Net operating cash flows before changes in placements and deposits	**3,502,226**	**2,265,553**
Decreases in placements and increases in deposits	**0**	**26,116,831**
Decrease in loans and placements to banks and customers	0	0
Increase in deposits from banks and customers	0	0
Decrease in securities and other placements available-for-sale and held to maturity	0	26,116,831
Increases in placements and decreases in deposits	**(29,819,151)**	**(51,649,262)**
Increase in loans and placements to banks and customers other financial institutions	(18,330,061)	(34,178,704)
Increase in securities and other placements available-for-sale and held to maturity	(62,438)	(17,470,558)
Decrease in deposits from banks and customers	(11,426,652)	0
Net cash (used in)/generated from operating activities before taxes	**(26,316,925)**	**(23,266,878)**
Paid taxes	(326,423)	(345,600)
Paid dividends	0	0
Net cash (used in)/generated from operating activities	**(26,643,348)**	**(23,612,478)**
Cash inflows from investing activities	**1,089,321**	**0**
Inflows from long-term investments in securities	1,089,321	0
Inflows from sale of intangible and fixed assets	0	0
Cash outflows from investing activities	**(345,585)**	**(1,306,471)**
Outflows from long-term investments in securities	0	(997,255)
Purchases of equity investments	0	0
Purchases of property and equipment and intangible assets	(345,585)	(309,216)
Net cash (used in)/generated from investing activities	**743,736**	**(1,306,471)**
Cash inflows from financing activities	**26,448,668**	**11,273,258**

In thousands of RSD	31 December 2010	31 December 2009
Proceeds from the issuance of shares	5,000,000	0
Proceeds from long-term borrowings, subordinated liabilities	0	0
Proceeds from short-term borrowings	21,448,668	11,273,258
Proceeds from securities	0	0
Cash outflows from financing activities	0	**0**
Payments for subordinated liabilities	0	0
Outflows based on repayment of loans	0	0
Net cash from financing activities	**26,448,668**	**11,273,258**
Total cash inflows	**47,252,027**	**52,895,715**
Total cash outflows	**(46,702,971)**	**(66,541,406)**
Net increase/(decrease) in cash and cash equivalents	549,056	(13,645,691)
Cash and cash equivalents at beginning of the year	**5,690,283**	**19,197,994**
Foreign exchange gains	140,524	137,980
Foreign exchange losses	0	0
Cash and cash equivalents at end of the year	**6,379,863**	**5,690,283**

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. Bankruptcy proceedings were initiated against this company during 2010, with proceedings concluded on 31 December 2010, whereby based on Decision BD 150356/2010 issued by the Serbian Business Registers Agency the company BA Creditanstalt Alpha d.o.o., Beograd under bankruptcy has been stricken out of the Companies Register.

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 2010 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 2009: seventy branch offices).

At 31 December 2007 the Bank had 925 employees (31 December 2009: 910). 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, 85/05 and 44/10), 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, 84/2004 and 18/10), 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, 104/09 and 30/10), Decision on Adequacy of Bank Equity (Official Gazette of the Republic of Serbia no. 129/07 and 63/08), Decision on Risk Management of a Bank (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, 12/09 and 05/10).

In accordance with the Law on Accounting and Auditing, companies and entrepreneurs in the Republic of Serbia prepare financial statements in compliance with the law, professional and internal regulations, where professional regulations relate to the applicable Framework for Preparing and Disclosing Financial Statements (“Framework”), International Accounting Standards (“IAS”), International Financial Reporting Standards (“IFRS”) and interpretations which are integral to the standards and IAS and IFRS texts in effect, excluding the basis for conclusions, illustrative examples, guidelines, commentaries, opposing opinions, developed examples and other additional materials.

Amendments to existing IAS and translations of new IFRS, including interpretations which are integral to the standards issued by the International Accounting Standards Board and the IFRS Interpretations Committee up to 1 January 2009 are officially adopted following decision no. 401-00-1380/2010-16 adopted by the Minister of Finance, as published in the Official Gazette of the Republic of Serbia RS 77/2010. Revised or issued IFRS and interpretations of standards after this date have not been translated and published, and therefore have not been applied in the preparation of the attached financial statements.

The attached financial statements are prepared in the form prescribed by the Regulation on the Form and Content of Items in Financial Statement Forms of Banks (Official Gazette of RS no. 74/08, 3/09, 12/09 and 5/10), which prescribes the use of a set of financial statements whose form and content are not fully compliant with revised IAS 1 – Presentation of Financial Statements, whose application is required for periods starting on 1 January 2009.

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 73.59%, unreconciled receivables amount to 1.51%, while the percentage of outstanding receivables amount to 24.90%. As far as liabilities are concerned, the percentage of reconciliation of liabilities amounts to 35.12%, unreconciled liabilities amount to 3.23%, while the percentage of outstanding liabilities amount to 61.65%.

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.

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 represents the 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 2010	31 December 2009
USD	79.2802	66.7285
EUR	105.4982	95.8888
CHF	84.4458	64.4631
JPY	0.972782	0.722054

	2010	2009
Consumer price index	111.5	110.4

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 cover 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 counterparty financial standing and creditworthiness, the number of days that settlement of liabilities toward the Bank are in arrears, 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 than 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 than 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 than one year and that these benefits will be higher than 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 2010 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

	2010	2009
Banking and insurance sector	810,490	1,261,029
Corporate clients	5,086,774	3,545,227
Public sector	2,743,286	1,331,681
Entrepreneurs	84,882	58,260
Retail	2,503,277	1,904,393
Households	302,094	95,802
Foreign entities		
- other foreign banks	636	631
- banks within the UniCredit Group	17,427	686
- foreign corporate clients	54,329	47,605
- foreign retail clients	3,315	706
Other entities	13,745	707
	11,620,255	8,246,727

5. Interest expense

In thousands of RSD

	2010	2009
Banking and insurance sector	290,035	444,443
Corporate clients	1,574,826	801,425
Public sector	72,675	13,787
Entrepreneurs	2,877	4,432
Retail	1,428,886	716,585
Households	8	19
Foreign entities		
- banks within the UniCredit Group	1,236,165	812,343
- other foreign banks	274,116	280,158
- foreign banks within the UniCredit Group	5,774	0
- other foreign corporate clients	53,544	30,415
- foreign retail clients	84,242	27,383
Other entities	2,435	3,468
	5,025,583	3,134,458

6. Fees and commissions income

In thousands of RSD

	2010	2009
Fee and commission income from domestic and foreign payment transfers	102,069	95,227
Fee and commission income from other banking services	654,237	514,882
Fees for the rental of safety-deposit boxes	1,216	1,138
Fees for “custody” services	79,845	62,571
Fees on issued guarantees and other contingent liabilities	424,385	521,575
Fees from credit card operations	159,468	136,677
Fees from treasury operations	7,776	4,107
Other fee and commission income	126,365	106,253
	1,555,361	1,442,430

7. Fees and commissions expenses

In thousands of RSD

	2010	2009
Fees arising from domestic payment transfers	24,011	25,668
Fees arising from international payment transfers	66,992	66,114
Commission expenses arising on guarantees	825	412
Fees arising from credit card operations	156,588	125,734
Other fees and commissions expenses	68,738	50,946
	317,154	268,874

8. Net gains/(losses) on the sale of securities at fair value through profit and loss

In thousands of RSD

	2010	2009
Gains on sale of securities	1,443	0
	1,443	0

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

In thousands of RSD

	2010	2009
Gains on sale of securities	16,043	3,584
Losses on sale of securities	(444)	(1,825)
	15,599	1,759

10. Net foreign exchange gains/(losses)

	In thousands of RSD 2010	2009
Foreign exchange gains	0	0
Foreign exchange losses	(8,469,559)	(2,853,871)
	(8,469,559)	(2,853,871)

11. Dividends and other income from equity investments

	In thousands of RSD 2010	2009
Dividend income	20	22
	20	22

12. Other operating income

	In thousands of RSD 2010	2009
Other operating income	26,983	6,786
	26,983	6,786

13. Losses on impairment and provisions

13.1 Losses on impairment and provisions are presented as follows:

	In thousands of RSD 2010	2009
Impairment provisions of:		
- on-balance sheet items – Note 13.2	1,334,080	804,982
- off-balance sheet items – Note 36	0	14,971
	1,334,080	819,953
Income from cancelled impairment provisions:		
- off-balance sheet items – Note 36	240,847	0
Provisions for litigations – Note 36	1,724	0
Provisions for retirement benefits – Note 36	0	4,664
Income from cancelled provisions for litigations – Note 36	3,156	0
	1,091,801	824,617

13.2 Movements in impairment provisions in the period from 1 January to 31 December 2010 are presented in table below:

In thousands of RSD	Loans and deposits to customers (Note 24)	Interest and fee receivables (Note 23)	Securities (Note 25)	Equity investments (Note 26)	Other placements (Note 27)	Other assets (Note 31)	Total
Balance as at 1 January 2010	1,683,452	178,047	75,992	12,126	898,474	30,810	2,878,901
Indirect impairment provisions – Note 13.1	1,269,655	194,224	(12,454)	38	(144,055)	26,672	1,334,080
Foreign exchange gains/losses	224,837	16,866	0	0	172,391	2,859	416,953
Direct write-offs	(8,085)	(63,621)	0	(103)	(448,684)	(2,621)	(523,114)
Balance as at 31 December 2010	3,169,859	325,516	63,538	12,061	478,126	57,720	4,106,820

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

In thousands of RSD	2010	2009
Net wages and salaries	963,768	865,621
Taxes and contributions on salaries and fringe benefits	374,438	336,804
Other personnel expenses	179,778	112,305
	1,517,984	1,314,730

15. Depreciation costs

In thousands of RSD	2010	2009
Depreciation of intangible assets	189,638	155,980
Depreciation of fixed assets	155,088	166,276
	344,726	322,256

16. Other operating expenses

	In thousands of RSD 2010	2009
Costs of material and energy	69,147	56,857
Rental costs	389,256	378,541
Maintenance of software	246,519	218,879
Advertising costs	44,413	64,569
Cost of sponsorship	1,255	621
Representation costs	7,333	6,001
Consulting services	11,968	18,440
Telecommunications	60,928	59,361
Insurance premium	175,042	132,890
Transportation	5,703	5,793
Cost of taxes and contributions	295,260	262,099
Property insurance costs	81,993	92,854
Writing-offs of irrevocable receivables	132,302	1,787
Professional training costs	2,296	2,962
Other expenses	214,500	198,506
	1,737,915	1,500,160

17. Income from assets and liabilities valuation adjustments

	In thousands of RSD 2010	2009
Income from assets and liabilities valuation adjustments	29,481,831	23,487,377
	29,481,831	23,487,377

18. Expenses from assets and liabilities valuation adjustments

	In thousands of RSD 2010	2009
Expenses from assets and liabilities valuation adjustments	20,263,861	19,795,587
	20,263,861	19,795,587

19. Income taxes

a. Components of Income taxes

	In thousands of RSD 2010	2009
Current income tax	(408,619)	(324,644)
Increase in defer. tax assets and decrease in defer. tax liabilities	12,043	8,025
	(396,576)	(316,619)

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

	In thousands of RSD 2010	2009
Profit before tax	3,932,909	3,170,548
Income tax at the statutory tax rate of 10%	393,291	317,055
Permanent differences:		
Non-deductible expenses	1,136	1,134
Income adjustments	16,404	
Temporary differences:		
Differences in the depreciation charges	9,093	8,842
Expenses to be recognised in subsequent period	496	
Tax deductions:		
Tax credits for investments in property and equipment	(11,801)	(2,387)
Current income taxes	408,619	324,644

c. Components of Deferred tax assets/ liabilities

	In thousands of RSD 2010	2009
Deferred tax assets associated with differences in depreciation charges	24,825	16,887
Deferred tax assets associated with provisions for employee benefits	3,609	0
Deferred tax assets associated with unrecognised tax expenses, contributions and other duties	496	0
	28,930	16,887

20. Earnings per share

Basic earnings per share for 2010 amount to RSD 2, 236 (2009: RSD 2,220).

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.

21. Cash and cash equivalents

In thousands of RSD

	31 December 2010	31 December 2009
Cash on hand in RSD	482,452	443,861
Gyro account	4,230,661	4,551,249
Cash on hand in foreign currencies	497,502	439,497
Foreign currency accounts with foreign banks:		
- other banks within UniCredit Group (Note 40)	1,043,105	184,863
- local banks (NBS - Beokliring)	32,597	19,577
- other foreign banks	91,436	46,357
Cheques	2,110	4,879
	6,379,863	5,690,283

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 5% on the dinar reserving base representing average daily book value of deposits in dinars, borrowings, securities and other liabilities in dinars within one month.

Banks do not calculate statutory obligatory reserves for the amount of:
1) liabilities toward the National Bank of Serbia;
2) liabilities toward banks that deposit their obligatory reserves with the National Bank of Serbia;
3) subordinated liabilities;
4) liabilities in dinars and foreign currency that banks receive from international financial organisation, governments and financial institutions whose founders area foreign countries, via the government as the principal debtor or beneficiary of such funds, or directly, under the condition when investing those assets for agreed principles to be respected in setting interest rate margins;
5) liabilities in dinars and foreign currency associated with deposits, loans and other funds received from abroad in the period from 1 October 2008 to 31 March 2010 – up to the initially set date of maturity of such liabilities, and at the latest by 31 December 2013.

The obligatory reserve in dinars consists of the calculated obligatory dinar reserve and the equivalent value in dinars of the adjusted base foreign currency reserve at the exchange rate ruling on 17 March 2010.

The NBS pays interest on obligatory reserves in dinars at an interest rate that in 2010 amounted to 2.5% p.a.

22. Revocable deposits and loans

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Obligatory reserves in foreign amount	18,029,790	14,378,921
REPO transactions with NBS	1,003,194	6,515,139
	19,032,984	20,894,060

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, banks calculate the obligatory foreign currency reserve at a rate of 25% of the foreign currency base.

The foreign currency base for computing the obligatory reserve consists of the average daily carrying amount of foreign currency liabilities in the previous calendar month and the average carrying amount of dinar liabilities indexed with a foreign currency clause in the previous calendar month.

Banks do not calculate statutory obligatory reserves for the amount of:
1) liabilities toward the National Bank of Serbia;
2) liabilities toward banks that deposit their obligatory reserves with the National Bank of Serbia;
3) subordinated liabilities;
4) liabilities in dinars and foreign currency that banks receive from international financial organisation, governments and financial institutions whose founders area foreign countries, via the government as the principal debtor or beneficiary of such funds, or directly, under the condition when investing those assets for agreed principles to be respected in setting interest rate margins;
5) liabilities in dinars and foreign currency associated with deposits, loans and other funds received from abroad in the period from 1 October 2008 to 31 March 2010 – up to the initially set date of maturity of such liabilities, and at the latest by 31 December 2013.

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 2010 the securities purchased under resell agreements with NBS totalling RSD 1,003,194 thousand are associated with the bonds purchased from the NBS, having 15 day maturities, issued at annual interest of 11.5%. These transactions are governed by the NBS Agreement on the Sale of Securities with an Obligation to Repurchase.

23. Interest and fees receivables

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Matured interest:		
-in RSD	656,546	305,814
-in foreign currencies	65,320	68,319
Fees and commissions receivable:		
- in RSD	65,622	82,788
- in foreign currencies	190	82
Other receivables for fair valuation of derivatives	25,602	13,651
Less: Allowances for impairment	(325,516)	(178,047)
	487,764	292,607

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

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Balance as at 1 January	(178,047)	(110,784)
Allowances for impairment during the year	(194,224)	(66,113)
Exchange rate differences	(16,866)	(5,154)
Direct write-offs	63,621	4,004
Balance as at 31 December	(325,516)	(178,047)

24. Loans and deposits

	In thousands of RSD 31 December 2010	31 December 2009
Overnight deposits		
- in RSD	320,000	0
- in foreign currencies	233,221	965,728
Total overnight deposits:	553,221	965,728
Short-term deposits with domestic banks		
- in RSD	0	0
- in foreign currencies	0	2,397,220
Total short-term deposits with domestic banks:	0	2,397,220
Guarantee foreign currency deposits for purchase of securities	4,220	3,836
Short-term loans:		
- in RSD	32,159,100	24,156,421
- in foreign currencies	737,245	835,223
Total short-term loans:	32,896,345	24,991,644
Long-term loans:		
- in RSD	74,232,061	52,581,208
- in foreign currencies	7,738,534	2,401,548
Total long-term loans:	81,970,595	54,982,756
Less: Allowances for impairment	(3,169,859)	(1,683,452)
Balance as at 31 December	112,254,522	81,657,732

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 on the average 5.40% per annum, in accordance with other expenses and the Bank’s interest rate policy.

During 2010 long-term loans to retail customers were mainly granted for financing residential property purchases, with 5 to 25-year maturities. Interest rates ranged from 3M Euribor +3.60 to 4.99% 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 2010 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.

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

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Balance as at 1 January	(1,683,452)	(1,081,745)
Allowances for impairment in current year	(1,269,655)	(565,941)
FX gain/loss effects	(224,837)	(62,598)
Direct write-offs	8,085	26,832
Balance as at 31 December	(3,169,859)	(1,683,452)

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

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Energy sector	1,994,521	15,133
Agriculture	2,353,339	2,234,074
Construction	14,950,411	10,849,536
Industry and mining	16,480,805	10,671,695
Trade	18,458,829	17,455,806
Services	8,305,606	9,875,070
Transportation	13,418,537	2,882,653
Finance	1,075,846	3,968,841
Retail clients	25,682,369	19,861,385
Others	9,534,259	3,843,539
	112,254,522	81,657,732

25. Securities (excluding treasury shares)

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Securities at fair value through profit and loss		
- placements in commercial bills	1,063	1,063
Securities held to maturity		
- receivables for discounted bills	2,117,618	2,271,764
Securities available for sale		
- foreign currency bonds of the Republic of Serbia	177,127	1,153,088
- treasury bonds of the Republic of Serbia	20,841,092	18,310,229
	23,136,900	21,736,144
Less: Allowances for impairment	(63,538)	(75,992)
	23,073,362	21,660,152

As at 31 December 2010 receivables for discounted bills in the amount of RSD 2,117,618 thousand relate to investments that mature within one year at discount rates ranging from 0.84% to 1.66% per month.

As at 31 December 2010 available-for-sale securities of RSD 177,127 thousand represent a portfolio of the long-term bonds issued by the Republic of Serbia with maturities occurring between the years 2011 to 2016, while the amount of RSD 20,841,092 thousand relates to treasury bonds of the Republic of Serbia with maturities up to 2012.

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

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Balance as at 1 January	(75,992)	(32,470)
Decrease/(increase) of allowance for impairment in current year	12,454	(43,522)
Balance as at 31 December	(63,538)	(75,992)

26. Equity investments

	In thousands of RSD 2010	2009
Equity investments		
- subsidiaries (RSD)	0	9,410
- in companies with up to 10% interest (RSD)	12,061	12,121
	12,061	21,531
Less: Allowances for impairment	(12,061)	(12,126)
	0	9,405

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), which was liquidated in 2010.

Equity investments in companies with up to 10% interest in the amount of RSD 12,061 thousand relate to equity investments in the following companies:

	In thousands of RSD **31 December 2010** Amount	% share
FAP Priboj a.d.	4,737	2%
Fund for Further Education of Young Farmers	147	7.72%
Tržište novca a.d.	108	0.18%
RTL TV d.o.o.	7,069	9%
Total	12,061	

For the full amount of the equity investment in companies of up to 10% in RSD (amount of RSD 12,061) 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 2010**	**31 December 2009**
Balance as at 1 January	(12,126)	(12,126)
Allowance for impairment in current year	(38)	0
Direct write-offs	103	0
Balance as at 31 December	(12,061)	(12,126)

27. Other placements

	In thousands of RSD 31 December 2010	31 December 2009
Other placements in RSD:		
Forfeiting	25,710	50,949
Factoring	252,609	84,035
Placements related to acceptances, sureties and payments made for guarantees	288,365	216,187
Receivables from credit cards	1,166,673	1,326,532
Other placements in foreign currency:		
Factoring	59,782	0
Placements related to acceptances, sureties and payments made for guarantees	1,058,763	1,464,441
Covered letters of credit and other sureties	31,242	26,296
Other placements	1,527	1,286
Less: Allowances for impairment	(478,126)	(898,474)
	2,406,545	2,271,252

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

	In thousands of RSD 31 December 2010	31 December 2009
Balance as at 1 January	(898,474)	(748,158)
Decrease/(increase) in allowances for impairment in current year	144,055	(119,670)
FX gain/loss effects	(172,391)	(44,981)
Direct write-offs	448,684	14,335
Balance as at 31 December	(478,126)	(898,474)

28. Fixed and intangible assets

In thousands of RSD	Buildings	Equipment and other assets	Leasehold improve-ments	Investments in progress	Intangible assets	Total
Cost or valuation						
Opening balance	86,794	892,717	364,375	0	1,226,139	2,570,025
Purchases during the year	0	0	0	636,425	268,053	904,478
Transfer from investments in progress	571,687	63,743	988	(636,418)	0	0
Transfer from assets received from collection of receivables	0	0	0	0	0	0
Disposals and write-offs	0	(10,760)	0	0	0	(10,760)
Other (transfer to/from)	10,271	0	(18,664)	0	(1,897)	(10,290)
Closing balance	668,752	945,700	346,699	7	1,492,295	3,453,453
Depreciation						
Opening balance	6,692	505,709	115,851	0	615,628	1,243,880
Depreciation	2,517	109,911	42,660	0	189,638	344,726
Disposals and write-offs	0	(10,304)	0	0	0	(10,304)
Other (transfer to/from)	925	0	(8,330)	0	(597)	(8,002)
Closing balance	10,134	605,316	150,181	0	804,669	1,570,300
Net book value as at:						
31 December 2010	658,618	340,384	196,518	7	687,626	1,883,153
31 December 2009	80,102	387,008	248,524	0	610,511	1,326,145

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

	In thousands of RSD 31 December 2010	31 December 2009
Non-current assets held for sale	1,599	11,061
	1,599	11,061

In 2010 non-current assets held for sale comprised three real-estate properties – three garage spaces which were initially measured at carrying amounts that as at reclassification date amounted to a total of RSD 1,599 thousand, whereby the Bank did not report any related impairment loss.

30. Deferred tax assets

	In thousands of RSD 31 December 2010	31 December 2009
Deferred tax assets associated with differences in depreciation charges	24,825	16,887
Deferred tax assets associated with provisions for employee benefits	3,609	0
Deferred tax assets associated with unrecognised tax expenses, contributions and other duties	496	0
	28,930	16,887

31. Other assets

	In thousands of RSD 31 December 2010	31 December 2009
Other assets in RSD:		
Advances paid	152	3,417
Other receivables from business dealings	213,406	125,973
Assets received in exchange for collection of receivables	4,927	4,927
Receivables from employees	58	92
Accrued interest receivables	549,515	355,538
Accrued other income receivable	2,961	442,921
Accrued expenses regarding liabilities calculated at amortized cost using effective interest rate method	51,537	34,340
Other accrued expenses	38,126	43,606
Total:	860,682	1,010,814
Other assets in foreign currency:		
Receivables from employees	1,042	849
Other receivables from business dealings	12,980	10,592
Accrued interest receivables	21,397	32,943
Accrued other income receivable	33,803	27,719
Accrued other expenses	561,285	885,871
Total:	630,507	957,974
Allowance for impairment	(57,720)	(30,810)
	1,433,469	1,937,978

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

	In thousands of RSD 31 December 2010	31 December 2009
Balance as at 1 January	(30,810)	(21,903)
Allowance for impairment in current year	(26,672)	(9,736)
FX gains/losses	(2,859)	(749)
Direct write-offs	2,621	1,578
Balance as at 31 December	(57,720)	(30,810)

32. Transaction deposits

	In thousands of RSD 31 December 2010	31 December 2009
Transaction deposits		
- in RSD	8,943,843	8,321,511
- in foreign currency	14,435,352	12,791,847
	23,379,195	21,113,358

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

	In thousands of RSD 31 December 2010	31 December 2009
Banking and insurance sector	1,781,876	882,961
Public companies	263,571	144,420
Corporate clients	14,791,749	14,371,571
Public sector	6,427	14,230
Other customers	379,994	340,394
Foreign entities	2,985,798	2,617,926
Retail clients	2,976,950	2,586,173
Entrepreneurs	189,545	152,605
Households	3,285	3,078
	23,379,195	21,113,358

33. Other deposits

	In thousands of RSD	
	31 December 2010	31 December 2009
Demand deposits:		
- in RSD	1,130,705	474,526
- in foreign currency	1,885,555	1,948,723
Total demand deposits	3,016,260	2,423,249
Short-term deposits:		
- in RSD	8,165,533	4,500,979
- in foreign currency	46,253,861	53,409,332
Total short term deposits	54,419,394	57,910,311
Long-term deposits:		
- in RSD	4,778	3,775
- in foreign currency	1,765,026	2,278,585
Total long-term deposits	1,769,804	2,282,360
	59,205,458	62,615,920

Demand deposits in dinars from companies are deposited at average interest rate of 2.97% per annum while interest rate on term deposits is up to 11% per annum.

Demand deposits in foreign currencies from companies are deposited at annual interest rate ranging from 1.21% to 2.74% per annum depending on deposited currency.

Short-term deposits in foreign currencies from companies are deposited at annual interest rate ranging from 3.50% to 5.50% per annum depending from deposited currency.

Demand deposits in dinars from banks are deposited at 3% 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 5.4% to 12.8% per annum. Short-term foreign currency deposits from banks are deposited with maturities of up to one year at interest rates ranging from 0.19% to 5% per annum.

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

Demand deposits in foreign currency from retail clients are deposited at annual interest rate up to 0.3%.

Short-term term deposits from retail customers in foreign currencies are deposited at annual interest rates ranging from 2% to 6% depending on term of deposit, and during saving week („Nedelja štednje“) at even higher interest rates.

Dinar deposits indexed in EUR from small companies and entrepreneurs are deposited at annual interest rates up to 3%.

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

	In thousands of RSD 31 December 2010	 31 December 2009
Banking and insurance sector	1,762,437	2,559,849
Public companies	1,413,681	115,459
Companies	17,622,538	11,074,275
Public sector	208,120	79,476
Other customers	443,834	57,836
Foreign entities	16,145,048	27,538,648
Retail clients	21,575,331	21,155,048
Entrepreneurs	34,469	35,329
	59,205,458	62,615,920

34. Borrowings

	In thousands of RSD 31 December 2010	 31 December 2009
Loans with one day maturity (overnight)		
- in RSD	598,940	846,217
- in foreign currency	822,885	3,499,941
Total loans with one day maturity (overnight)	1,421,825	4,346,158
Short-term loans:		
- in RSD	0	0
- in foreign currency	158,780	0
Total short term loans	158,780	0
Long-term loans		
- in RSD	0	0
- in foreign currency	45,044,223	19,349,175
Total long-term loans	45,044,223	19,349,175
Other liabilities		
- in RSD	0	18,578
- in foreign currency	54,994	15,255
Total other liabilities		33,833
	46,679,822	23,729,166

Breakdown of foreign long-term loans in the amount of RSD 45,044,223 thousand is as follows:

	In thousands of dinars	
	31 December 2010	**31 December 2009**
European Bank for Reconstruction and Development (EBRD)	5,271,779	2,775,135
Kreditanstalt fur Wiederaufbau Frankfurt am Main ("KfW")	3,164,946	2,876,664
European Investment Bank, Luxembourg	5,504,296	1,738,871
International Finance Corporation, Washington	2,453,595	2,347,430
Deutsche Invertitions und Entwicklungs GmbH, Germany	1,582,473	0
UniCredit Bank Austria AG	26,374,550	9,588,880
BA CA Leasing (Deutchland) GmbH, Bad Homburg	670,145	0
Government of the Republic of Italy	22,439	22,195
	45,044,223	19,349,175

Long-term loans were granted for periods from 5 to 16 years, at interest rates ranging from 1% to 3.96%.

35. Interest and fees liabilities

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Interest payable:		
- in RSD	1,593	2,062
Commissions payable		
- in RSD	3,417	3,638
- in foreign currency	9,054	6,942
Liabilities for fluctuation in value of derivatives	11,814	3,192
	25,878	15,834

36. Provisions

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Provisions for retirement benefits	36,089	40,332
Provisions for off-balance sheet items	86,302	327,149
Provisions for litigations	20,070	18,345
	142,461	385,826

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

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Provisions for retirement benefits		
Balance, beginning of year	40,332	36,395
Charge during the year - Note 13.1	0	4,664
Cancellation of provisions credited to income - Note 13.1	(3,156)	0
Payments during the year	(1,087)	(727)
Balance, end of year	36,089	40,332
Provisions for off-balance sheet items		
Balance, beginning of year	327,149	312,178
Charge during the year - Note 13.1	0	14,971
Cancellation of provisions credited to income - Note 13.1	(240,847)	0
Balance, end of year	86,302	327,149
Provisions for litigations		
Balance, beginning of year	18,346	18,510
Cancellation of provision in favour of income - Note 13.1	1,724	0
Payments during the year	0	(165)
Balance, end of year	20,070	18,345
Total	**142,461**	**385,826**

37. Income taxes payable

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Liabilities for VAT	6,644	33,787
Liabilities for capital income tax	600	0
Liabilities for withholding income tax on interest income from non-resident companies	2,172	2,060
Other liabilities for taxes and contributions	71	267
	9,487	36,114

38. Liabilities from income distribution

	In thousands of RSD 31 December 2010	31 December 2009
Liabilities from income distribution	235	235
Corporate income tax	408,619	324,644
Advance payment of income tax from previous period	(299,779)	(293,090)
	109,075	31,789

Calculation of the current corporate income tax in the amount of RSD 445,541 thousand is presented in Note 19.

39. Other liabilities

	In thousands of RSD 31 December 2010	31 December 2009
Liabilities for received advances and deposits:		
- in RSD	1,376	1,248
- in foreign currency	1,305	1,155
Liabilities to suppliers:		
- in RSD	43,834	30,425
- in foreign currency		
- within the UniCredit Group (Note 41)	130,465	150,783
- other	2,606	7,130
Other liabilities:		
- in RSD	39,231	53,794
- in foreign currency	269,425	89,992
Accrued interest payable:		
- in RSD	44,720	39,563
- in foreign currency	479,979	565,409
Other accrued income:		
- in RSD	327,263	268,483
- in foreign currency	13,579	12,576
Other accrued expenses:		
- in RSD	467,604	31,650
- in foreign currency	2,727	691
Accrued income regarding receivables calculated at amortized cost using effective interest rate method	423,962	360,942
Subordinated liabilities in foreign currencies	3,109,666	2,684,886
	5,357,742	4,298,727

As at 31 December 2010 subordinated liabilities in foreign currencies in the amount of RSD 3,109,666 thousand relate to the subordinated long-term loans originated by UniCredit Bank Prague, Czech Republic in the amount of EUR 7,500,000 (equivalent of RSD 791,236 thousand) and by UniCredit Bank Austria AG in the amount of EUR 500,000 (equivalent of RSD 52,749 thousand) and 26,830,000 CHF (equivalent to RSD 2.265,681 thousand). These loans were extended with 10-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 LIBOR 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).

40. Equity

	In thousands of RSD	
	31 December 2010	**31 December 2009**
Share capital	17,857,620	12,857,620
Issue premium	562,156	562,156
Share and other capital	**18,419,776**	**13,419,776**
Profit reserves for estimated losses arising on balance sheet assets	7,548,588	4,192,171
Profit reserves for estimated losses arising on off-balance sheet items	1,564,886	2,067,374
Other profit reserves	1,003,072	1,003,072
Reserves	**10,116,546**	**7,262,617**
Revaluation reserves	**418**	**4,506**
Accumulated profit	**3,536,333**	**2,853,929**
Total equity	**32,073,073**	**23,540,828**

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.

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.

Under eighth issuance of shares of 10 March 2010, 250,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The eighth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

Under ninth issuance of shares of 19 August 2010, 250,000 ordinary shares with an individual par value of RSD 10 thousand were distributed. The ninth share issue was fully subscribed and paid in by the UniCredit Bank Austria AG.

As at 31 December 2010 the Bank's share capital is comprised of RSD 17,857,620 thousand of ordinary share capital. The Bank's share capital is comprised of 1,785,762 ordinary shares as at 31 December 2010.

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 9,113,474 thousand as at 31 December 2010. Insufficient amount of mentioned reserves as at 31 December 2010 amount to RSD 7,818,265 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 418 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 3,536,333 thousand relate to profit after taxes for the period from 1 January to 31 December 2010.

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 2010 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 2010, all ratios were within their prescribed limits.

OPERATING RATIOS PRESCRIBED BY	PRESCRIBED	31 Dec 2009

NBS	VALUE	31 Dec 2010	
Capital adequacy ratio	min 12%	17.10%	16.52%
Long-term investments vs. equity	max 60%	4.51%	3.46%
Exposure toward related parties of the bank	max 20%	2.09%	4.29%
Sum of large exposures of the bank	max 400%	71.80%	107.32%
Liquidity ration – for December	min 1.00	1.22	1.58
Foreign currency risk ratio	max 20%	11.08%	3.73%

41. Off-balance sheet items

	In thousands of RSD	
	31 December 2010	31 December 2009
Operations on behalf of third parties		
- on behalf of public sector	256,890	171,802
	256,890	171,802
Guarantees, securities, property pledges for liabilities and undertaken and incontestable liabilities		
Payment guarantees:		
- in RSD	6,108,010	5,015,773
- in foreign currency	13,387,158	19,870,224
Performance guarantees:		
- in RSD	5,887,261	3,622,338
- in foreign currency	1,392,890	475,760
Uncovered letters of credit	3,960,216	3,202,039
Acceptances	281	9,795
Undertaken and incontestable liabilities	14,911,188	12,705,241
	45,647,004	44,901,170
Derivatives		
- receivables from foreign currency exchange derivatives	414,202	458,049
	414,202	458,049
Other off-balance sheet items	110,889,223	121,833,777
	157,207,319	167,364,798

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, approved with maturities up to 5 years, with grace period up to 3 year and annual interest rate of 3%, and to subsidised housing loans based on a Decree issued by the Serbian Government in 2010.

Breakdown of undertaken and incontestable liabilities:

	In thousands of RSD 31 December 2010	31 December 2009
Current account overdrafts	2,859,878	3,919,032
Unused credit limits on credit cards	1,450,540	1,659,076
Unused framework loans	9,226,017	6,640,470
Letters of intention	1,374,753	486,663
	14,911,188	12,705,241

Breakdown of other off-balance sheet items:

	In thousands of RSD 31 December 2010	31 December 2009
Securities associated with custody operations	46,628,267	28,183,594
Securities purchased from NBS from REPO contracts	1,000,000	6,500,000
Secured letters of credit	17,309	1,712
Received letters of credit, guarantees and collection funds	13,721,149	13,199,845
Off-balance sheet financial instruments	40,736,033	63,738,930
Equipment under lease	50,035	23,155
Other	8,736,430	10,186,541
	110,889,223	121,833,777

Undertaken liabilities relating to office space rental:

	In thousands of RSD 31 December 2010	31 December 2009
Undertaken liabilities with maturities:		
- up to 1 year	343,406	397,559
- between 1 and 5 years	1,174,767	1,414,177
- over 5 years	330,647	698,865
	1,848,820	2,510,601

Undrawn foreign loan facilities

Undrawn foreign loan facilities as at 31 December 2010 amount to RSD 1,054,982 thousand.

Court Cases

As at 31 December 2010 the Bank is defendant in 20 court cases (including labour disputes) whose total value amounts to RSD 41,788 thousand, excluding labour disputes. In 6 cases the claimants are companies, and in 14 cases the claimants are private individuals.

The Bank made provisions in the amount of RSD 20,070 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.

42. 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 2010	**31 December 2009**
Foreign currency accounts with:		
UniCredit Bank Austria AG, Vienna	974,727	146,343
UniCredit Bank AG, Munich	13,817	19,680
UniCredit Bulbank, Sofia	13,525	2,572
UniCredit S.P.A. Milano	24,436	11,673
UniCredit Bank Hungary Z.r.t., Hungary	9,154	0
UniCredit Banka Slovenija, Ljubljana	5,769	3,054
Zagrebačka banka d.d.	1,677	1,541
Sub-total:	1,043,105	184,863
Interest and fees receivables:		
UniCredit Bank Austria AG, Vienna	1,385	1,065
UniCredit Bank AG, Greece	0	13
UniCredit Banka Slovenija, Ljubljana	3	52
Zagrebačka banka d.d.	554	467
UniCredit Leasing Srbija d.o.o.	276	0
Sub-total:	2,218	1,597
Loans and deposits receivable:		
Executive Board of the Bank	16,479	13,026
UniCredit Leasing Srbija d.o.o.	100,985	0
UniCredit Bank Austria AG, Vienna	20,000	924
Sub-total:	137,464	13,950
Equity investments:		
BA Creditanstalt Alpha doo	0	9,410
Sub-total:	0	9,410

Receivables from paid actual expenses in dinars

	In thousand RSD	
	31 December 2010	**31 December 2009**
UniCredit S.P.A. Milano	689	956
UniCredit Bank Austria AG, Vienna	37,831	35,399
UniCredit Bank AG, Munich	67	2
Unicredit Bulbank, Sofia	259	542
ATF Bank, Kazahstan	2,569	15,546
Unicredit Bank Slovakia a.s., Bratislava	21,094	11,641
Sub-total:	62,509	64,086
Secured letters of guarantee and other sureties:		
UniCredit Bank Austria AG, Vienna	31,242	26,296
Total:	31,242	26,296
Short-term placements purchased – factoring:		
UniCredit S.P.A. Milano	14,025	26,296
Total:	14,025	26,296
Overnight deposits:		
UniCredit Bank Austria AG, Vienna	421,993	0
UniCredit CAIB AG, Vienna	0	3,499,941
Sub-total:	421,993	3,499,941
Demand deposits:		
Executive Board of the Bank	1,795	1,625
UniCredit Bank Austria AG, Vienna	15,252	84,964
BA Creditanstalt Alpha d.o.o.	0	18,971
UniCredit Leasing Srbija d.o.o.	1,196,305	599,014
UniCredit Rent d.o.o.	219,661	17,427
UniCredit Partner d.o.o...	60,700	985
UniCredit Bank AD Banja Luka	1,470	639
Zagrebačka banka d.d.	10,360	7,197
UniCredit Bank AG, London	20	834
UniCredit Banka Slovenija d.d.	9,100	10,566
UniCredit CAIB AG, Vienna	54	4,207
UniCredit Bank AG, Munich	9,641	35,978
Unicredit CAIB Srbija d.o.o.	33,016	4,875
BA CA Leasing Deutschland Gmbh, Germany	556	510
UniCredit Bank AG, Greece	0	5
Sub-total:	1,557,930	787,797
Short-term deposits:		
Executive Board of the Bank	36,980	5,141
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
Loans liabilities:		
UniCredit Bank Czech Republic	791,237	719,166

	In thousand RSD	
	31 December 2010	**31 December 2009**
BA CA Leasing Deutchland GmbH, Germany	670,145	0
UniCredit Bank Austria AG, Vienna	28,693,200	11,554,600
Sub-total	30,154,582	12,273,766
Other liabilities:		
UniCredit Bank Austria AG, Vienna	6,904	2,101
UniCredit Bank AG, Munich	30	0
UniCredit Bank BIH	6	6
UniCredit Banka Slovenija d.d.	0	1
Zagrebačka banka d.d.	11	10
UniCredit S.P.A. Milano	19	2,897
UniCredit Bank Hungary Z.r.t., Hungary	155	4
Sub-total:	7,125	5,019
Liabilities to suppliers:		
UGIS, Vienna	28,811	75,713
IT Austria, Vienna	0	1,917
UniCredit Business Partner s.r.o., Czech Republic	1,950	1,423
UniCredit Bulbank, Sofia	0	6,405
BA Global Information Services, Vienna	9,015	5,207
BA CA Administration Services GmbH, Vienna	87	79
Unicredit S.P.A. Milano	90,602	60,039
Sub-total:	130,465	150,783

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

	In thousand RSD	
	31 December 2010	**31 December 2009**
Interest revenue	17,427	686
Interest expense	(1,259,776)	(812,343)
Other income	24,690	22,358
Other expenses	(275,156)	(275,984)
Net expenses	(1,492,815)	(1,065,283)

Total gross salaries and other remuneration of the Executive Board in 2010 amounts to RSD 16,448 thousand.

43. RISK MANAGEMENT POLICIES

The Bank's core activity is the acquisition of funds through deposits from clients or through direct borrowings on the financial market at fixed and variable interest rates over different time periods, and channelling them into high quality placements to retail and corporate clients with a view to realising interest rate margins. 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 liquidity required for settling all liabilities that could be due for payment.

In credit activities risk exposure is inevitable and arises through hidden and unforeseen 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 organisational structure the Bank has a special Risk Management Sector with a comprehensive and very significant function of maintaining and developing a stable and profitable portfolio of loans and other placements. This Sector encompasses credit, market and operating risk management through six directorates: Directorate for Strategic Risk Management and Control, Directorate for Corporate Loan Approval, Directorate for Retail Loan Approval, Directorate for Credit Portfolio Management, Directorate for Restructuring, Management of Problem Placements and Collection of Receivables, and Directorate for 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.

Organisational structure is compliant with standards and best practices of UniCredit Group owing to clear and specialised credit process which ensure early identification of placements with signs of increased risk and comprehensive credit portfolio management, as well as restructuring and management of problem placements. Through strict separation of the functions of approval, monitoring and restructuring of placements, the effectiveness of the process is strengthened and possibilities are created for timely and intense action directed at creating conditions for resolving problem placements and their transfer back to the regular portfolio, or, if this is not possible, of improving the Bank's position in the procedure of collecting receivables.

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.

The Bank's exposure risks include the Bank's exposure to a single entity and a group of related entities, as well as to an entity that is related with the Bank, to a commercial sector, country, etc. The Bank's total exposure to any of the mentioned categories cannot exceed limits defined by the Risk Management Decision.

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 available and applies the following internal regulations: Risk Management Manual, Collaterals Policy, Real-estate Valuation Policy, Policy for Monitoring the Corporate Portfolio and Managing the List of Problem Clients, Guidelines for Managing Restructured and Problem Retail Clients, Manual for Calculating Provisions According to IAS-IFRS and other internal regulations. The Bank's objective is to define procedures and responsibilities of individuals in the risk management process with a view to minimising risks.

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, in accordance with its credit policies and strategies, as well as other internal regulations, in particular the Methodology for Assigning Criteria and the Method for Classifying Balance Sheet and Off-balance Sheet Items of the Bank, as well as the Manual for Calculating Provisions According to IAS-IFRS.

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.

With a view to defining comprehensive guidelines for portfolio development and risk management the Bank adopted in 2010 the Strategy for Credit Risk Management. In particular this document defines the general guidelines for the basic parameters for risk management, principles for analysing creditworthiness for each client segment, as well as positioning toward development of particular products, with detailed consideration of the portfolio management strategy for individual industrial sectors and the largest groups of related parties. In this way the Bank ensures that implementation of adopted business policy will unfold within limits that will result in acceptable levels of risk at individual placement level and adequate diversification and general quality of the credit portfolio.

Credit risk reporting

The Risk Management Information System (further RMIS) has been set up in the Bank 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 adequate decision on credit risk management based on reliable information.

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 that represent the ratio between the costs of provisions calculated in accordance with IAS/IFRS and average loans
- Impaired loans ratio which represents the share of non-performing loans in total loans
- Coverage ratio which represents the ratio between provisions calculated in accordance with IAS/IFRS for non-performing loans and the total amount of non-performing loans.

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 credit risk concentrations by setting limits. Internal policies recommend for portfolio growth to be limited per individual industrial segments to 20% in the Bank's total portfolio of placements.

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.

During 2010 the process of monitoring individual clients with deteriorating creditworthiness has been underwent significant improvements:

- The watch list process is integrated into the Directorate 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

- 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:

- List of clients in repayment delay
- Overdue amount per client and per days delay range of repayments
- Overdue amount per portfolio client segments
- 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.

6. ***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

During 2010 activities mostly centred on developing internal models for estimating risk parameters in accordance with principles of the basic and advanced Basel II IRB approaches. In the area of retail placements, a scoring system of requirements and behaviours was implemented for private individuals, entrepreneurs and small companies, based on an internally developed scoring model. In the area of corporate placements, based on the results of rating model validation and the Group's recommendations, the project was initiated for improving the current rating model. Models were developed for estimating the Bank's exposure at default (EaD) and loss given default (LGD) with a view to reconciling these parameters with their development in the credit portfolio and commencement of their use for the purpose of transfer to the IRB approach. The planned dates of IRB approach implementation are reconciled at Group level in the ensuing period until 2014. In 2011 activities will be directed at continued monitoring and development of implemented internal models (rating model for corporate clients, small companies, entrepreneurs and private individuals, LGD and EaD models), as part of compliance with local Basel II regulations.

Credit risk exposure as at 31 December 2010 is presented in the table below:

In 000 RSD	Loans and deposits		Other placements		Securities		Equity investments		Interest and fees receivables		Other assets		Cash and cash equivalents		Off-balance sheet assets	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Book value	97,459,034	74,459,336	2,406,545	2,271,252	2,055,143	2,196,835	-	9,405	487,764	292,607	1,395,116	1,910,258	47,522	22,631	45,578,010	44,575,733
Individual provision																
Corporate clients, Rating 10	1,942,737	268,389	485,799	1,027,105	17,315	17,315	-	-	180,482	106,473	8,663	10,509	-	-	956	11,971
Corporate clients, Rating 9	1,714,334	973,632	600,697	255,325	40,000	40,000	4,992	5,052	151,521	65,389	9,153	3,980	-	-	362,459	280,400
Corporate clients, restructured placements*	2,469,375	1,911,941	51,698	336,702	8,439	-	-	-	68,641	77,790	23,449	13,696	-	-	8,874	413,192
Retail clients > 90 overdue	1,429,546	838,785	126,874	101,004	-	-	-	-	172,900	88,573	42,551	14,777	-	-	25,815	19,533
Gross placements	7,555,992	3,992,747	1,265,068	1,720,136	65,754	57,315	4,992	5,052	573,544	338,225	83,816	42,962	-	-	398,104	725,096
Provision	2,774,659	1,260,406	467,800	881,768	59,002	57,315	4,992	5,052	323,571	175,737	55,191	22,683	-	-	39,766	109,269
Book value	4,781,333	2,732,341	797,268	838,368	6,752	-	-	-	249,973	162,488	28,625	20,279	-	-	358,338	615,827
Portfolio provision																
Corporate clients, rating 1 - 6	57,034,379	51,870,832	629,361	200,474	2,052,927	2,215,512	7,069	16,479	186,920	100,793	1,112,448	1,769,280	47,522	22,631	42,565,745	42,084,283
Corporate clients, rating 7	9,942,840	351,925	4,526	46,191	-	-	-	-	18,765	2,627	75,432	878	-	-	1,144,141	352,005
Corporate clients, rating 8	625,796	161,450	3,567	-	-	-	-	-	1,322	791	4,452	645	-	-	62,616	960
Retail clients < 90 overdue	25,428,926	19,765,730	982,149	1,202,925	-	-	-	-	32,729	28,218	176,580	127,303	-	-	1,493,706	1,740,538
Gross placements	93,031,941	72,149,937	1,619,603	1,449,590	2,052,927	2,215,512	7,069	16,479	239,736	132,429	1,368,912	1,898,106	47,522	22,631	45,266,208	44,177,786
Provision	354,240	422,942	10,326	16,706	4,536	18,677	7,069	7,074	1,945	2,310	2,421	8,127	-	-	46,536	217,880
Book value	92,677,701	71,726,995	1,609,277	1,432,884	2,048,391	2,196,835	-	9,405	237,791	130,119	1,366,491	1,889,979	47,522	22,631	45,219,672	43,959,906
Total book value of risk assets	97,459,034	74,459,336	2,406,545	2,271,252	2,055,143	2,196,835	-	9,405	487,764	292,607	1,395,116	1,910,258	47,522	22,631	45,578,010	44,575,733
Total book value of non-risk assets	14,795,488	7,198,396	-	-	21,018,219	19,463,317	-	-	-	-	38,353	27,720	25,365,325	26,561,712	111,188,317	122,461,915
Total book value	112,254,522	81,657,732	2,406,545	2,271,252	23,073,362	21,660,152	-	9,405	487,764	292,607	1,433,469	1,937,978	25,412,847	26,584,343	156,766,327	167,037,648

* The category “Corporate clients, restructured placements” 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 2010:

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 2010														
Corporate clients, Rating 10	1,942,737	1,105,906	485,799	327,531	17,315	-	-	-	180,482	92,850	8,663	211	956	955
Corporate clients, Rating 9	1,714,334	1,039,880	600,697	407,929	40,000	-	4,992	-	151,521	88,293	9,153	2,566	362,459	323,077
Corporate clients, restructured placements*	2,469,375	2,232,577	51,698	47,753	8,439	6,752	-	-	68,641	60,447	23,449	20,068	8,874	8,491
Retail clients > 90 overdue	1,429,546	402,970	126,874	14,055	-	-	-	-	172,900	8,383	42,551	5,780	25,815	25,815
Total	**7,555,992**	**4,781,333**	**1,265,068**	**797,268**	**65,754**	**6,752**	**4,992**	**-**	**573,544**	**249,973**	**83,816**	**28,625**	**398,104**	**358,338**
31 December 2009														
Corporate clients, 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
Corporate clients, 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
Corporate clients, restructured placements*	1,911,941	1,820,209	336,702	318,967	-	-	-	-	77,790	69,326	13,696	12,721	413,192	400,632
Retail clients > 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**

* The category “Corporate clients, restructured placements” includes clients with an internal rating 8- for whom provision is not individual but assigned by client group.

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 future 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 repayment delays more than 90 days. This related to actual breach of contract, such as default or delinquency in interests or principal payments without Bank approval
b. Existence of at least one written-off credit
c. Existence of at least one credit under legal proceedings
d. Existence of at least one restructured loan transactions
e. Existence of at least one transaction undergoing recovery
f. Significant financial difficulty of the borrower
g. 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 impairment loss.

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.

If the *client is individually significant* (there is impairment of placements and the total amount of the receivable from the client exceed RSD 6 million), impairment estimation of individually assessed placements is performed in accordance with IAS 39.

Loan impairment is measured as the difference between the carrying amount and the present value of expected future cash flows arrived at by using the effective interest rate.

The effective interest rate is used for discounting expected future cash flows over the estimated period of duration of the financial asset. The interest rate used in concluding an individual transaction is used as the effective interest rate in calculating impairment of individual financial assets.

Provisions for *clients who are not individually assessed* depend on the Bank's exposure at default (EaD) and expected loss rate.

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 and reflects ***Incurred but not yet reported losses*** of the remaining portfolio with no impairment signals.

Incurred but not yet reported losses are grouped based on similar credit risk characteristics and general provision is calculated based on group characteristics and credit risk level.

Expected loss is the average amount of loss that the Bank can expect in the relevant time period. Expected loss calculation is used for measuring projected average portfolio loss in the relevant time period.

Expected loss is calculated as the product of three credit risk parameters, in accordance with Basel II standards: probability of default (PD), exposure at default (EaD) and loss given default (LGD).

In order to cover losses in the part of the credit portfolio without impairment of placements, a portfolio provision is assigned as the products of expected annual loss and the incurred loss identification period, which is expressed in time periods.

The Bank's collateral policy and table for fair value valuation of collaterals

The Bank uses the Manual on Collateral Valuation 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.
- 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 2010 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	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Corporate clients, Rating 10	**841,659**	**61,719**	**388,736**	**139,830**	**-**	**-**	**77,249**	**902**	**-**	**58**	**-**	**10,194**
Real estate	841,659	61,719	388,736	139,830	-	-	77,249	902	-	58	-	10,194
Other	-	-	-	-	-	-	-	-	-	-	-	-
Corporate clients, Rating 9	**388,283**	**378,494**	**248,841**	**146,832**	**-**	**-**	**32,922**	**22,784**	**1,594**	**969**	**208,340**	**154,093**
Real estate	375,731	378,494	248,841	146,832	-	-	32,754	22,784	1,549	969	208,340	154,093
Other	12,552	-	-	-	-	-	168	-	45	-	-	-
Corporate clients, restructured loans	**1,285,384**	**1,453,281**	**31,455**	**248,026**	**-**	**-**	**27,676**	**35,470**	**6,530**	**8,819**	**-**	**347,801**
Real estate	1,269,279	1,446,655	31,455	248,026	-	-	27,516	35,426	6,475	8,777	-	67,478
Other	16,105	6,626	-	-	-	-	160	44	55	42	-	280,323
Retail clients > 90 days overdue	**143,909**	**155,010**	**-**	**-**	**-**	**-**	**-**	**4,518**	**3,675**	**2,426**	**2,703**	**-**
Real estate	98,275	51,116	-	-	-	-	-	1,070	2,455	558	969	-
Other	45,634	103,894	-	-	-	-	-	3,448	1,220	1,868	1,734	-
Portfolio provision	**38,864,349**	**41,658,842**	**71,411**	**21,856**	**-**	**15,399**	**36,486**	**36,207**	**186,721**	**173,854**	**11,298,998**	**17,207,955**
Real estate	31,179,056	25,485,928	1,005	21,729	-	-	27,373	35,676	157,681	110,880	7,500,249	11,379,414
Other	7,685,293	16,172,914	70,406	127	-	15,399	9,113	531	29,040	62,974	3,798,749	5,828,541
Total	**41,523,584**	**43,707,346**	**740,443**	**556,544**	**-**	**15,399**	**174,333**	**99,881**	**198,520**	**186,126**	**11,510,041**	**17,720,043**

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.

Objectives of liquidity policy are as follows:

- Securing required mechanisms for liquidity management, which is an unavoidable part of general Bank management.
- Establishing guidelines for quantifying liquidity positions and locating risks of structural liquidity, as well as creation of a well developed financing plan (structural liquidity).
- Securing the possibility for settlement of the Bank's liabilities at any given time (short-term liquidity).
- Achieving a healthy balance between profitability and liquidity.
- Measures for managing potential liquidity problems during the market crisis or liquidity.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. 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 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 Directorate prepares a report on daily liquidity for the National Bank of Serbia at daily and monthly levels.

The local ALM manager is responsible for liquidity management at operating level in each subsidiary area of the Group's activities. 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.

The Groups conducts liquidity scenarios and sensitivity analyses, where sensitivity analysis is intended to estimate the effects on the financial position of the institution through movements of a specified risk factor, when the source of the liquidity shock cannot be determined, while test scenarios are intended to estimate the effects of simultaneous action of different factors, where stress events are clearly defined.

The liquidity stress test must be part of wider stress testing which encompasses all relevant risk categories. Cross effects on the liquidity position – especially unexpectedly large write-offs and reputation factors – must be taken into consideration when defining liquidity stress test parameters.

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.

	2010	**2009**
Liquidity ration of I order		
0 as at 31 December	1.31	1.28
0 average for the period – month of December	1.22	1.58
0 maximum for the period – month of December	1.33	1.73
0 minimum for the period – month of December	1.08	1.28

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 2010 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	6,379,863	0	0	0	0	6,379,863
Revocable deposits and loans	19,032,984	0	0	0	0	19,032,984
Interest and fees receivables	487,764	0	0	0	0	487,764
Loans and deposits	9,705,726	3,450,112	24,733,453	43,292,152	31,073,079	112,254,522
Securities (excluding treasury shares)	21,469,108	1,516,829	87,425	0	0	23,073,362
Equity investments	0	0	0	0	0	0
Other placements	1,168,619	265,901	620,923	319,860	31,242	2,406,545
Intangible assets	0	0	0	687,626	0	687,626
Fixed assets and investment property	0	0	0	0	1,195,527	1,195,527
Non-current assets held for sale and discontinued operations	1,599	0	0	0	0	1,599
Deferred tax assets	0	0	28,930	0	0	28,930
Other assets	1,433,469	0	0	0	0	1,433,469
Total assets	**59,679,132**	**5,232,842**	**25,470,731**	**44,299,638**	**32,299,848**	**166,982,191**
Transaction deposits	23,379,195	0	0	0	0	23,379,195
Other deposits	20,804,832	17,445,898	19,843,214	995,719	115,795	59,205,458
Borrowings	1,635,599	0	0	28,606,711	16,437,512	46,679,822
Interest and fees liabilities	25,878	0	0	0	0	25,878
Provisions	0	86,303	20,069	0	36,089	142,461
Income taxes payable	9,487	0	0	0	0	9,487
Liabilities from income distribution	109,075	0	0	0	0	109,075
Other liabilities	2,248,075	0	0	843,986	2,265,681	5,357,742
Equity	0	0	0	0	32,073,073	32,073,073
Total equity and liabilities	**48,212,141**	**17,532,201**	**19,863,283**	**30,446,416**	**50,928,150**	**166,982,191**
Net liquidity gap as at 31 December 2010	**11,466,991**	**(12,299,359)**	**5,607,448**	**13,853,222**	**(18,628,302)**	**0**
Net liquidity gap as at 31 December 2009	**10,610,933**	**(15,533,393)**	**(2,437,212)**	**21,520,831**	**(14,161,159)**	**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.

The base point value (BPV) limits the position of maximum interest rate risk within the currency and time group, where changes in the BPV are based on interest rate changes with a base point of 0.01% (1 base point). BPV presentation is based on the position of options (interest rate options) with a delta value (i.e. change in present value of marginal fluctuations, rounded up to 1 base point).

The amount of the BPV limit should be selected such that the VaR limit leads to a limitation in trading activities, while the BPV is activated before the VaR limit in periods of lower volatility. In this respect, the specific situation related to currencies that are traded should be taken into account, along with maturities and appropriate risk carriers.

For BPV limits, the general limitation of position is also defined as the combination of currencies and the principal focus of positioning. BPV limits must be assigned for all risk carriers exposed to significant interest rate risk. The interest rate position is considered significant if it exceeds 70,000 euro or comprises a specific risk based on the position of the currency slope and/or interest rate slope.

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	4,035,435	0	0	0	0	2,344,428	6,379,863
Revocable deposits and loans	1,000,000	0	0	0	0	18,032,984	19,032,984
Interest and fees receivables	0	0	0	0	0	487,764	487,764
Loans and deposits	9,168,073	54,017,920	47,634,813	1,429,496	0	4,220	112,254,522
Securities (excluding treasury shares)	165,526	208,858	22,518,000	0	0	180,978	23,073,362
Equity investments	0	0	0	0	0	0	0
Other placements	2,116,740	0	264,110	25,695	0	0	2,406,545
Intangible assets	0	0	0	0	0	687,626	687,626
Fixed assets and investment property	0	0	0	0	0	1,195,527	1,195,527
Non-current assets held for sale and discontinued operations	0	0	0	0	0	1,599	1,599
Deferred tax assets	0	0	0	0	0	28,930	28,930
Other assets	0	0	0	0	0	1,433,469	1,433,469
Total assets	**16,485,774**	**54,226,778**	**70,416,923**	**1,455,191**	**0**	**24,397,525**	**166,982,191**
Transaction deposits	8,021,715	14,149,562	0	0	0	1,207,918	23,379,195
Other deposits	4,297,817	20,331,709	26,607,535	4,380,147	0	3,588,250	59,205,458
Borrowings	1,421,826	0	45,203,003	0	0	54,993	46,679,822
Interest and fees liabilities	0	0	0	0	0	25,878	25,878
Provisions	0	0	0	0	0	142,461	142,461
Income taxes payable	0	0	0	0	0	9,487	9,487
Liabilities from income distribution	0	0	0	0	0	109,075	109,075
Other liabilities	0	0	3,109,667	0	0	2,248,075	5,357,742
Equity	0	0	0	0	0	32,073,073	32,073,073
Total equity and liabilities	**13,741,358**	**34,481,271**	**74,920,205**	**4,380,147**	**0**	**39,459,210**	**166,982,191**
Interest sensitive gap as at 31 December 2010	**2,744,416**	**19,745,507**	**(4,503,282)**	**(2,924,956)**	**0**	**(15,061,685)**	**0**
Interest sensitive gap as at 31 December 2009	**(575,406)**	**12,373,889**	**1,322,139**	**(4,090,963)**	**0**	**(9,029,659)**	**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 Directorate 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 defined 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.

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.

	2010	**2009**
Foreign Currency Ration:		
- as at 31 December	12,92	4.69
- maximum for the period – month of December	12,92	4.99
- minimum for the period – month of December	1.01	0.76

The following table provides a net currency gap of assets and liabilities of the Bank as at 31 December 2010:

	EUR	USD	Other currencies	Total in currencies	Total dinars	Total
Cash and cash equivalents	1,160,122	337,765	168,863	1,666,750	4,713,113	6,379,863
Revocable deposits and loans	18,029,790	0	0	18,029,790	1,003,194	19,032,984
Interest and fees receivables	233,993	3,516	37,622	275,131	212,633	487,764
Loans and deposits	75,057,609	1,298,221	12,238,328	88,594,158	23,660,364	112,254,522
Securities (excluding treasury shares)	5,340,848	0	0	5,340,848	17,732,514	23,073,362
Equity investments	0	0	0	0	0	0
Other placements	966,099	42,891	48,091	1,057,081	1,349,464	2,406,545
Intangible assets	0	0	0	0	687,626	687,626
Fixed assets and investment property	0	0	0	0	1,195,527	1,195,527
Non-current assets held for sale and discontinued operations	0	0	0	0	1,599	1,599
Deferred tax assets	0	0	0	0	28,930	28,930
Other assets	1,006,446	9,869	48,974	1,065,289	368,180	1,433,469
Total assets	**101,794,907**	**1,692,262**	**12,541,878**	**116,029,047**	**50,953,144**	**166,982,191**
Transaction deposits	12,894,169	1,256,088	285,095	14,435,352	8,943,843	23,379,195
Other deposits	46,551,796	1,010,382	4,985,437	52,547,615	6,657,843	59,205,458
Borrowings	42,001,730	164,021	3,915,131	46,080,882	598,940	46,679,822
Interest and fees liabilities	9,006	0	47	9,053	16,825	25,878
Provisions	0	0	0	0	142,461	142,461
Income taxes payable	0	0	0	0	9,487	9,487
Liabilities from income distribution	0	0	0	0	109,075	109,075
Other liabilities	1,740,957	19,657	2,280,357	4,040,971	1,316,771	5,357,742
Equity	0	0	0	0	32,073,073	32,073,073
Total equity and liabilities	**103,197,658**	**2,450,148**	**11,466,067**	**117,113,873**	**49,868,318**	**166,982,191**
Financial instruments regarding off-balance sheet items	**(1,800,966)**	**(823,410)**	**1,087,606**	**(1,536,770)**	**1,950,971**	**414,201**
Net currency gap as at 31 December 2010	**398,215**	**65,524**	**(11,795)**	**451,944**	**(866,145)**	**(414,201)**
Net currency gap as at 31 December 2009	**(825,707)**	**49,712**	**(46,520)**	**(822,515)**	**848,143**	**25,628**

As at 31 December 2010 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 Directorate is responsible for recording, monitoring and managing the Bank's operating risk and directly answers to the Chief Risk Officer (CRO).This Directorate's basic task is to coordinate and cooperate with operating risk managers and to communicate with colleagues at the Operating Risk Directorate in Vienna and Milan, with the purpose of securing information for the efficient monitoring of operating risk at all levels. On a daily basis the Directorate monitors changes in specially defined accounts and on a weekly basis, based on reports received from operating risk manager, 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. All events occurred are recorded in the group application ARGO.

The Market and Operating Risk Directorate is also responsible for organising and implementing the process of information gathering for worst case scenarios related to operation risk (scenario analysis), for recording in the ARGO application, as well as for recording and monitoring key risk indicators.

The Operating Risk Monitoring Committee meets quarterly for more efficient internal control. The Market and Operating Risk Directorate is also responsible for preparing the quarterly report for the National Bank of Serbia relating to all occurred and potential operating risk related losses, as well as reports for Group reporting.

Belgrade, 22 February 2011

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