

**KPMG d.o.o. Beograd**

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TRANSLATION

TO THE SHAREHOLDERS

KOMERCIJALNA BANKA A.D. BEOGRAD

Independent Auditors' Report

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006 and 111/2009), Banks Law ("Official Gazette of the RS", no. 107/2005) and other relevant by-laws issued by National Bank of Serbia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006 and 111/2009), International Standards on Auditing as issued by the International Federation of Accountants as well as in accordance with the Decision on External Audit of Banks ("Official Gazette of Republic of Serbia", no. 41/2007 and 59/2008). Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006 and 111/2009), Banks Law ("Official Gazette of the RS", no. 107/2005) and other relevant by-laws issued by National Bank of Serbia.

Belgrade, 8 March 2010

KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

This is a Translation of the Original Independent Auditors' Report issued in Serbian Language. We are responsible for the translation of the Independent Auditors' Report and not for any other documents.

Belgrade, 8 March 2010

KPMG d.o.o. Beograd



Nina Bulatović
Certified Auditor

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

| In thousands of RSD | Note | 2009 | 2008 |
|---|------------------|------------------|------------------|
| Operating income and expenses | | | |
| Interest income | 3.1., 4.a. | 14,713,932 | 10,939,841 |
| Interest expense | 3.1., 4.b. | 8,379,834 | 4,639,628 |
| Net interest income | | 6,334,098 | 6,300,213 |
| | | | |
| Fee and commission income | 3.2., 5.a. | 4,027,010 | 3,067,067 |
| Fee and commission expense | 3.2., 5.b. | 495,845 | 299,353 |
| Net fee and commission income | | 3,531,165 | 2,767,714 |
| | | | |
| Net gains on the sale of securities | 3.3., 6. | 37,834 | 3,057 |
| Net gain from sale of equity (shares) | 3.3., 7. | - | 56,661 |
| Net loss from sale of other placement | 8. | 5,132 | - |
| Net foreign currency exchange loss | 3.4., 9. | 4,758,593 | 3,604,499 |
| Dividends and other income from equity investments | 3.3., 10. | 6,469 | 3,208 |
| Other operating income | 11. | 228,540 | 191,280 |
| Impairment and other provisions | 3.8., 3.14., 12. | 1,365,223 | 1,525,237 |
| Salaries, benefits and other personal expenses | 14. | 3,450,060 | 3,401,414 |
| Depreciation expenses | 3.5., 15. | 534,465 | 405,505 |
| Other operating expenses | 16. | 3,973,217 | 3,585,731 |
| Income from assets and liabilities valuation adjustments | 3.7., 17. | 10,272,389 | 17,902,653 |
| Expenses from assets and liabilities valuation adjustments | 3.7., 18. | 4,268,310 | 11,887,178 |
| Operating profit | | 2,055,495 | 2,815,222 |
| | | | |
| Result for the year before tax | | 2,055,495 | 2,815,222 |
| | | | |
| Income tax | 3.12.1., 19. | 111,951 | - |
| Profit from the created deferred tax assets and the reduction of deferred tax liabilities | 3.12.1., 20. | 8,139 | - |
| Loss on decrease of deferred tax assets and increase of deferred tax liability | 3.12.1., 21. | 85,007 | 30,365 |
| Result for the year | | 1,866,676 | 2,784,857 |
| | | | |
| Basic earnings per share (in Dinars) | 42. | 2,092 | 3,172 |
| Reduced earnings per share | 42. | 2,092 | 3,172 |

BALANCE SHEET AS AT 31 DECEMBER 2009

| In thousands of RSD | Note | 2009 | 2008 |
|--|--|--------------------|--------------------|
| A S S E T S | | | |
| Cash and cash equivalents | 3.10., 22. | 27,387,157 | 29,744,775 |
| Callable deposits and loans | 23. | 46,651,225 | 19,512,049 |
| Interest and fees receivables | 13., 24. | 936,866 | 658,714 |
| Loans and advances | 3.7., 3.8., 3.13., 3.15., 13., 25. | 115,106,246 | 106,231,447 |
| Trading securities | 3.9.1.-2., 13., 26. | 566,509 | 368,411 |
| Share | 3.9.3., 13., 27. | 2,703,423 | 2,621,561 |
| Other investments | 13., 28. | 2,272,876 | 2,648,404 |
| Intangible assets | 3.5.1., 29. | 326,526 | 291,966 |
| Fixed assets and investment property | 3.5.1.-2., 30. | 7,057,487 | 7,291,341 |
| Non-current assets held for sale and discontinuing operations | 3.6.2., 31. | 104,898 | 79,387 |
| Deferred tax assets | 3.12.1., 32. | 109,217 | 186,084 |
| Other assets | 13., 33. | 2,034,791 | 1,227,230 |
| Total assets | | 205,257,221 | 170,861,369 |
| L I A B I L I T I E S | | | |
| Transaction deposits | 34. | 32,373,202 | 25,418,282 |
| Other deposits | 35. | 134,837,559 | 107,485,134 |
| Received loans | 36. | 145,319 | 1,452,325 |
| Interest and fees liabilities | 3.1.-2., 37. | 168,097 | 195,499 |
| Provisions | 3.8., 3.14., 38. | 926,337 | 1,050,030 |
| Tax liabilities | 39. | 12,844 | 68,386 |
| Liabilities relating to profit | 40. | 46,905 | 4,040 |
| Other liabilities | 41. | 9,470,577 | 9,754,530 |
| Total liabilities | | 177,980,840 | 145,428,226 |
| Capital | 42. | 17,062,534 | 17,062,534 |
| Reserves from profit | 43. | 7,385,440 | 4,685,440 |
| Revaluation reserves | 44. | 717,441 | 648,379 |
| Unrealized losses on securities available for sale | 45. | 23,324 | - |
| Profit | 46. | 2,134,290 | 3,036,790 |
| Total capital | | 27,276,381 | 25,433,143 |
| Total liabilities and equity | | 205,257,221 | 170,861,369 |
| Off-balance sheet records | | 66,248,482 | 59,365,257 |

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

| In thousands of RSD | 2009 | 2008 |
|--|-------------------|-------------------|
| Operating activities | | |
| Interest receipts | 14,178,423 | 10,706,414 |
| Fees and commission receipts | 4,043,802 | 3,106,258 |
| Receipts from other operating income | 95,769 | 101,717 |
| Receipts from dividends and profit sharing | 6,469 | 3,208 |
| Cash inflows from operating activities | 18,324,463 | 13,917,597 |
| Interest payments | 7,931,984 | 4,167,666 |
| Fees and commission payments | 495,990 | 298,792 |
| Payments of gross salaries and fringe benefits and other personal expenses | 3,450,301 | 3,401,058 |
| Payments of taxes, contributions and other expenses charged to income | 718,201 | 689,804 |
| Cash payments for other operating expenses | 3,156,906 | 2,876,183 |
| Cash outflows from operating activities | 15,753,382 | 11,433,503 |
| Net cash inflows from operating activities before increases/(decreases) in advances and deposits | 2,571,081 | 2,484,094 |
| Decrease of securities and investments for trade | - | 8,668,354 |
| Increase in deposit from banks and other financial institutions | - | 8,601 |
| Increase in deposit from customers | 30,588,713 | 12,877,250 |
| Decrease in loans and increase in deposits taken | 30,588,713 | 21,554,205 |
| Increase in credits and loans to banks and other financial institutions | 30,352,177 | - |
| Increase in credits and loans to customers | 291,944 | - |
| Increase in financial assets held for trading and short-term securities held to maturity | - | - |
| Increase in loans and decrease in deposits taken | 30,644,121 | - |
| Net cash inflows/outflows from operating activities before income tax | 2,515,673 | 24,038,299 |
| Income tax paid | 32,822 | 204,213 |
| Dividends paid | 46,956 | 257,726 |
| Net cash inflow/(outflow) from operating activities | 2,435,895 | 23,576,360 |
| Cash flows from investing activities | | |
| Inflows from long term financial assets | 140,444 | 10,500 |
| Inflows from sale of shares and stakes | 9,972 | 56,661 |
| Inflows from sale of intangible and fixed assets | 32,257 | 14,862 |
| Outflows from sale of shares and stakes | 6,811 | 121,510 |
| Outflows from purchase of intangible and fixed assets | 413,300 | 753,870 |
| Net cash outflow from investing activities | 237,438 | 793,357 |
| Cash flows from financing activities | | |
| Inflows from increase of capital | - | 3,884,048 |
| Inflows based on loans | 202,518 | 1,425,137 |
| Net cash inflows from financing activities | 202,518 | 5,309,185 |
| Net cash outflows from financing activities | | |
| Total cash inflows | 49,298,367 | 40,863,010 |
| Total cash outflows | 46,897,392 | 12,770,822 |
| Net increase/decrease in cash and cash equivalents | 2,400,975 | 28,092,188 |
| Cash and cash equivalents as at beginning of the period | 29,744,775 | 5,257,086 |
| FX gains related to cash and cash equivalents in foreign currency | 3,124,799 | 47,691,996 |
| FX losses related to cash and cash equivalents in foreign currency | 7,883,392 | 51,296,495 |
| Cash and cash equivalents at end of the period | 27,387,157 | 29,744,775 |

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

| In thousands of RSD | Share capital | Share premium | Other reserves | Revaluation reserves | Revaluation reserves based on changes in the value of securities | Unrealized losses on securities | Reserve from profit | Profit | Total |
|---|------------------|------------------|----------------|----------------------|--|---------------------------------|---------------------|------------------|-------------------|
| Balance as at 1 January 2008 | 8,736,030 | 4,442,455 | 360,868 | 585,539 | 246,503 | - | 1,624,572 | 3,172,793 | 19,168,760 |
| New issues of shares | 346,790 | 3,537,259 | - | - | - | - | - | - | 3,884,048 |
| Distribution of profit in bank reserve | - | - | 2,700,000 | - | - | - | - | (2,700,000) | - |
| Distribution of profit (dividends and top management) | - | - | - | - | - | - | - | (256,848) | (256,848) |
| Deployment of reserves from profit | - | - | (2,700,000) | - | - | - | 2,700,000 | - | - |
| Revaluation - decrease | - | - | - | (11,076) | (271,699) | - | - | 11,076 | (271,699) |
| Revaluation - increase | - | - | - | - | 99,112 | - | - | - | 99,112 |
| Results of operations for the current period | - | - | - | - | - | - | - | 2,784,857 | 2,784,857 |
| Other | - | - | - | - | - | - | - | 24,912 | 24,912 |
| Balance as at 31 December 2008 | 9,082,820 | 7,979,714 | 360,868 | 574,463 | 73,916 | - | 4,324,572 | 3,036,790 | 25,433,143 |
| Balance as at 1 January 2009 | 9,082,820 | 7,979,714 | 360,868 | 574,463 | 73,916 | - | 4,324,572 | 3,036,790 | 25,433,143 |
| Distribution of profit | - | - | - | - | - | - | 2,700,000 | (2,789,820) | (89,820) |
| Revaluation | - | - | - | (20,644) | 89,706 | (23,324) | - | 20,644 | 66,382 |
| Profit for the year | - | - | - | - | - | - | - | 1,866,676 | 1,866,676 |
| Balance as at 31 December 2009 | 9,082,820 | 7,979,714 | 360,868 | 553,818 | 163,623 | (23,324) | 7,024,572 | 2,134,290 | 27,276,381 |



NOTES TO THE
FINANCIAL STATEMENTS
FOR 2009

Belgrade, February 2010

TRANSLATION

1 THE BANK'S ESTABLISHMENT AND BUSINESS ACTIVITIES

Komercijalna banka A.D., Beograd (hereinafter: the Bank) was originally established on 1 December 1970, and was subsequently reorganized and transformed into a shareholding company on 6 May 1992.

The Bank's shareholders, with the most significant participation in the ordinary share capital, are presented as

| | |
|--|--------|
| Republika Srbija | 42.60% |
| EBRD, LONDON | 25.00% |
| ARTIO INT. EQUITY FUND, New York | 4.77% |
| Jugobanka AD Beograd u stečaju | 3.69% |
| Kompanija Dunav, Beograd | 3.49% |
| Evropa osiguranje AD Beograd u stečaju | 2.99% |
| INVEJ DOO, Beograd | 2.64% |

The Bank has control over three subsidiaries, with following equity participations

| | |
|----------|--|
| - 100% | Komercijalna banka AD Budva, Montenegro |
| - 100% | Kombank invest AD, Serbia |
| - 99.99% | Komercijalna Banka AD Banja Luka, Bosnia and Herzegovina |

Financial statements and Notes to Financial Statements represent data of the Bank as individual parent legal entity.

The Bank is registered in the Republic of Serbia to provide a wide range of banking services associated with loans and deposit activities, payment transactions in country and abroad, all in accordance with the Republic of Serbia Law on Banks. Operations of the Bank are based on principles of liquidity, security of investments and profitability.

As at 31 December 2009 the Bank comprised main branch office in Belgrade, Svetog Save street 14, 25 branches and 268 sub-branches located on the territory of the Republic of Serbia. The Bank has representative office registered in Frankfurt am Main, Germany.

During 2009 the Bank has conducted closing of offices in Zagreb (Croatia) for the purposes of rationalization and cost

As at 31 December 2009 the Bank had 3,155 employees (31 December 2008: 3,209 employees). The Bank's tax identification number is 100001931.

2 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

In the year 2009 the Bank kept its business records and prepared its financial statements in accordance with the Laws and other legislation in effect in the Republic of Serbia, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as in compliance with National Bank of Serbia's regulations.

The Financial statements are presented in Dinars (RSD), rounded to the nearest thousand. Dinar (RSD) is the official reporting currency in the Republic of Serbia and also functional currency of the Bank. The accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of

The Financial statements include banking activities. Costs of operating activities of sub-branches and representation offices abroad are presented in the Bank's financial statements.

T R A N S L A T I O N

The Bank is applying accounting policies acts in accordance with IAS/IFRS in effect:

- Rulebook on accounting and accounting policies of the Bank
- Guideline on classification of fixed assets and depreciation
- Guideline on manner and deadlines for stock count and reconciliation of book and actual state
- Rules for estimation and recognition of loans, receivables and provisions
- Instructions on classification of fixed assets, and methods of determining amortizator
- Guidelines on ways and deadlines of performing inventory count, and sinhronization of accounting balance with the actual balance

Financial statements that refer to the period from 1 January to 31 December 2009 are approved by the Executive Board of the Bank on 26 February 2010.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest income and expense

Interest income and expenses, including penalty interest and other income and expenses arising on the interest-bearing assets and liabilities, are recognized in the income statement on accruals basis. Interest is calculated in accordance with the terms defined in the agreements with lenders and borrowers.

Income from loan approval commission is recorded as deferred income, and is recognized under interest income of the period (EIR) in proportion to period of loan usage. Income from loan approval commission is presented as correction of actual returns on loan investments.

Interest income also includes income arising on risk hedging instruments, mostly by linking payments to the dinar exchange rate with respect to EUR, other foreign currency or retail price index. Income arising on risk hedging instruments is calculated at the end of each month during the repayment period, as well as at the date of payment.

3.2. Fee and commission income/expenses

Fee and commission income and expenses are recognized in the income statement on accruals basis.

3.3. Income and expenses from securities

All realized or unrealized gains and losses arising on changes in market value of securities held for trading are charged to income or expenses in the income statement.

Securities held to maturity are stated at amortized cost. Gains and losses arising on changes in amortized value of securities held to maturity are credited to income or charged to expenses.

Securities available for sale are measured after initial recognition at fair value, based on current market prices. Changes in market value of financial asset available for sale are charged to equity (revaluation reserves) till the moment of securities sale, when they are recognized as income or expenses.

Dividends received in respect of investments in shares of other legal entities are recognized as income from dividends at the moment of their collection.

With regards to investments in securities of entities which are not quoted on the stock exchange, the Bank makes provisions for the estimated amount of risk.

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3.4. Foreign exchange translation

Transactions in foreign currencies are translated at the foreign exchange mid 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 foreign exchange mid 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 recognized in the income statement as foreign exchange gains or losses.

Contingent liabilities and commitments denominated in foreign currency as at balance sheet date are translated at the foreign exchange mid rate set by the inter-banking foreign currency market ruling as at that date.

3.5. Property and equipment, investment property and intangible assets

3.5.1. Property, equipment and intangible assets

All purchases of property and equipment made during the year 2009 are stated at cost value. Cost includes all expenses which should be recognised in accordance with IAS 16: "Property, plant and equipment".

A of 1 January 2005 the Bank accepted revaluation method for fixed assets owned by the Bank.

In year 2005, based on estimated market value of property owned by the Bank adopted by the Bank's Executive Board, calculation of revalorization is made and the value of property is increased.

Depreciation is calculated on cost or revalored value of property, equipment and intangible assets on a straight line basis using prescribed annual rates determined by the Bank, in order to fully write of assets during their useful life:

| | |
|-------------------------------------|--------------|
| Intangible assets | 20%-33.34% |
| Buildings | 2.50% |
| Investment property | 2.50% |
| Computers | 25% |
| Furniture and other equipment | 6.7%-25% |
| Investments in foreign fixed assets | 8,64%-86,20% |

Intangible assets include only the items comply with IFRS

Property, equipment and intangible assets are depreciated from the month when put into use. In accordance with internal regulations of the Bank, the residual value of properties is deemed to be equal to 30% of its initial value. Residual values are not depreciated.

Depreciation rates and aimed residual useful life are verified or revised every year, in order to calculate depreciation which reflects real expenditure of these assets during the Bank's operations.

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3.5.2. Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. They are stated and valued in the same way as property for the Bank's operating activities.

As at 31 December 2009 the Bank has stated investment properties in the amount of RSD 1,790,451 thousands, composed of properties hired for rent.

As at 31 December 2009 net result based on investment properties amounts to RSD 55,344 thousands:

| in thousands RSD | | | | |
|--------------------------|-----------|-------------|---------------|------------|
| Name of the property | Area (m2) | Total Costs | Rental Income | Net result |
| Beograd, Makedonska 29 | 10,515.71 | 53,385 | 108,492 | 55,107 |
| Kruševac, Balkanska 8 | 55.72 | 141 | 167 | 26 |
| Požarevac, Moše Pijade 2 | 18.50 | 89 | 300 | 211 |

3.6. Inventories

3.6.1. Inventories are stated at the lower of cost and net realisable value.

Inventories include assets acquired by a way of collecting receivables.

3.6.2. Non-current assets held for sale represent non-current assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets held for sale are stated at the lower of its carrying amount and fair value less costs to sell.

3.7. Loans

Loans are stated at the amount of principal outstanding, less allowance for impairment, which are based on an evaluation of specifically-identified exposures and also cover losses that are inherent in the Bank's loan portfolio. The Bank's management applies internally adopted methodology, based on fully application of IAS 39, in its evaluation of the risks and resulting estimations of the allowances (Note 3.8).

For the purpose of determining amortized cost, fair value of loans in accordance with IAS/IFRS, the net present values of future cash flows are discounted at the contractual interest rate, decreased for repaid principle.

Loans, which are disbursed in dinars and index-linked to the foreign exchange rates of EUR or other foreign currencies or to the changes in the retail price index, are revalored in accordance with the provisions stated under the individual loan agreements. A difference between the nominal value and the revalored value of the outstanding principle is recognized under receivables for loans. The effects of such revaluation are recorded as gains and losses on the valuation of financial assets.

TRANSLATION

3.8. Allowances for Impairment and Provisions for Contingent Liabilities

In 2009 the Bank adopted the Manual on Assessment and Recognition of Loans, Receivables and Provisions which specifies the criteria for assessment and recognition of corporate and retail loans, receivables and reservations, in accordance with Internal methodology of the Bank. The first absolute application of assessment and provision based on internal methodology of the Bank took place in year 2007.

Bank reviews the credit portfolio in order to determine correction values and reservations on monthly basis. In determining whether the impairment losses on placements should be recognized in the income statement, the Bank assesses whether there is information / evidence indicating the existence of measurable decrease in estimated future cash flows of portfolio basis, before such losses can be identified at the level of individual placements. Information that may point to losses due to placement include: transgression and the delay in payment of obligations, market and economic conditions at the local level which cause delays in dues paid, etc.. Estimates of the impairment of financial management placement in the portfolio of the Bank through the assessment of future cash flows are based on actual losses from the past, which were implemented in financial assets with similar risk and similar causes of impairment.

Impairment assessment process is conducted on the individual level, for each material and substantial credit and on the group level for the less significant material loans. The amount of impairment is individually assessed as the difference between the carrying amount and the present value of expected future cash flows, determined by discounting, using the effective interest rate of a specific loan. If the assessment is that there is no objective evidence of impairment of loans, regardless of individual significance, the loan is classified into groups of similar credit rating of credit risk and impairment are assessed at the group level in the amount of the average weighted percentage of loss estimated at the individual level.

The methodology and assumptions from which start the process of defining the amount and period of cash inflows, on the basis of placement, are subject to regular review in order to reduce the minimum difference between estimated and actual losses. Amounts of expected inflow by loan are evaluated on the basis of evidence of borrowers planned income. Estimated number of days of delayed payments in certain claims for the debtor, shall be determined through review of all relevant evidence about the time of implementation of borrowers planned income, as well as historical data about the delay in payment of the debtor.

3.9. Securities

3.9.1. Securities held for trading

Securities held for trading are comprised of shares and foreign currency savings bonds. Securities held for trading are stated at fair value.

3.9.2. Securities held to maturity

Securities held to maturity are stated at amortized cost, or present value of future cash flows, using the contractual interest rate, since current market interest rate is not available.

3.9.3. Equity investments

Securities available for sale are comprised of equity investments of related parties, associates and other entities.

Equity investments, except those of associated legal entities, that relate to the listed securities of other legal entities are stated at market value, as of the balance sheet date. Equity investments for which an active market and reliable market values do not exist are stated at cost less allowances for impairment.

Equity investments of associated legal entities are stated at cost

T R A N S L A T I O N

3.10. Cash and cash equivalents

For purposes of the Statement of Cash Flows, "Cash and cash equivalents" include cash and balances on the current accounts held with the other banks, as well as cheques in the course of collection.

3.11. Funds managed on behalf of third parties

Assets for business operations conducted on behalf of third parties, that are managed by the Bank with no commission, are not included in the Bank's balance sheet, but in the off-balance sheet positions.

3.12. Taxes and contributions

3.12.1. Corporate income tax

Current income tax represents the amount calculated in accordance with the defined tax rate. The taxable base includes the profit stated in the statutory statement of income in accordance with IAS/IFRS, adjusted for permanent differences between defined and effective tax rate.

The annual corporate income tax is payable at the rate of 10% on the tax base reported in the annual income tax return. Tax effects which refer to temporary differences between tax basis for certain assets and liabilities and amounts of those assets and liabilities stated in balance sheet which is in accordance with IAS/IFRS, are shown as deferred income tax or deferred tax liability. Reconciliation of calculated income tax and tax liability calculated in tax return is shown in Note 19.

The Corporate Income Tax Law, effective in the Republic of Serbia, prohibits tax losses of the current period from being used to recover the tax paid within a specific carry back period. However, the current year losses may be used to decrease taxable profits for future periods, but not longer than 10 years.

Republic of Serbia tax profit law allows a tax credit for the recognition of investment in fixed assets for the own activities, as well as tax funds for direct reduction of tax liability in the next ten years.

3.12.2. Taxes and contributions not dependant on results

Taxes and contributions that are not dependant on results comprise property tax, value added 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 recorded under other operating expenses.

3.13. Fair value

In the Republic of Serbia there is no market experience, stability and liquidity for the sale/purchase of loans and other financial assets and liabilities and the official market information are not available at every moment. For the purpose of fair value determination, future cash flows are discounted at present value using discount rate equal to the contracted interest rate, which discounts present value to nominal value. Provision is made in the amount of the estimated risks that the carrying value will not be realised.

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3.14. Employee benefits

The Bank does not have its own defined benefit plans or share-based remuneration options as at 31 December 2009.

The Bank has made the abolition in provisions in 2009. year in accordance with IAS 19 for a proportional part of the reduction of long-term liabilities of severance pay for retirement. For the calculation in provisions on this basis the Bank has engaged an authorized licensed actuary.

3.15. Segment information

Due to fact that the Bank performs most of its operations in the Republic of Serbia, segment information is not disclosed. Dependent legal entities are not of material importance to the individual financial statements of the Bank. Business of dependent legal entities are recorded in the consolidated financial report

Analysis of the Bank's placements in respect of the industry concentration is presented in Note 25.

4 INTEREST INCOME AND EXPENSES

a) Interest income

| In thousands of RSD | 31 December | |
|---------------------------------------|-------------------|-------------------|
| | 2009 | 2008 |
| <i>Interest in dinars</i> | | |
| - Loans | 12,725,587 | 8,627,019 |
| - Deposits | 561,410 | 429,129 |
| - Securities | 12,242 | 10,129 |
| - Other placements | 514,759 | 602,695 |
| Total in dinars | <u>13,813,998</u> | <u>9,668,972</u> |
| <i>Interest in foreign currency</i> | | |
| - Loans in foreign currency | 864,149 | 699,869 |
| - Deposits in foreign curraency | 13,926 | 333,303 |
| - Other placeents in foreign currency | 21,859 | 237,697 |
| Total in foreign currency | <u>899,934</u> | <u>1,270,869</u> |
| TOTAL | <u>14,713,932</u> | <u>10,939,841</u> |

Interest income which is not calculated and recognized in the income statements for 2009 amounts to RSD 54.359 thousand and relates to interest on loans and advances to clients under litigation.

TRANSLATION

b) Interest expenses

| In thousands of RSD | 31 December | |
|--|-------------------------|-------------------------|
| | 2009 | 2008 |
| <i>Interest in dinars</i> | | |
| - Loans | 52,826 | 48,583 |
| - Deposits | 3,374,800 | 1,653,710 |
| - Securities | - | - |
| - Other placements | - | 337 |
| Total in dinars | <u>3,427,626</u> | <u>1,702,630</u> |
| <i>Interest in foreign currency</i> | | |
| - Loans in foreign currency | 70,817 | 81,172 |
| - Deposits in foreign currency | 4,877,381 | 2,838,244 |
| - Other placements in foreign currency | 4,010 | 17,582 |
| Total in foreign currency | <u>4,952,208</u> | <u>2,936,998</u> |
| TOTAL | <u><u>8,379,834</u></u> | <u><u>4,639,628</u></u> |

5. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and commission income

| In thousands of RSD | 31 December | |
|-------------------------|-------------------------|-------------------------|
| | 2009 | 2008 |
| Fee in dinars | | |
| - banks in the country | 393,673 | 37,584 |
| - public enterprises | 20,587 | 19,177 |
| - other companies | 1,419,492 | 1,548,073 |
| - entrepreneurs | 398,899 | 58,588 |
| - public sector | 3,678 | 1,328 |
| - retail-domestic | 1,625,181 | 1,274,625 |
| - foreign individuals | 32,912 | 35 |
| Total in RSD | <u>3,894,422</u> | <u>2,939,410</u> |
| Fee in foreign currency | | |
| - other companies | 48,222 | 65,289 |
| - retail-domestic | 38,671 | 18,222 |
| - foreign individuals | 44,468 | 42,487 |
| - other clients | 1,227 | 1,659 |
| Total foreign currency | <u>132,588</u> | <u>127,657</u> |
| TOTAL | <u><u>4,027,010</u></u> | <u><u>3,067,067</u></u> |

TRANSLATION

b) Fee and commission expenses

| In thousands of RSD | 31 December | |
|--|----------------|----------------|
| | 2009 | 2008 |
| Fee and commission in dinars | | |
| - banks in the country | 253,442 | 184,321 |
| - other companies | 117,482 | 7,636 |
| - retail-domestic | 6 | - |
| - foreign individuals | 7,073 | - |
| Total in RSD | <u>378,003</u> | <u>191,957</u> |
| Fee and commission in foreign currency | | |
| - foreign individuals | 117,556 | 107,396 |
| - other clients | 286 | - |
| Total foreign currency | <u>117,842</u> | <u>107,396</u> |
| TOTAL | <u>495,845</u> | <u>299,353</u> |

6. NET GAINS ON SALE OF SECURITIES

| In thousands of RSD | 31 December | |
|--|---------------|--------------|
| | 2009 | 2008 |
| Gains on sale of securities at fair value | 42,751 | 3,094 |
| Losses on sale of securities at fair value | (4,917) | (37) |
| Net gains in sale of securities at fair value through income statement | <u>37,834</u> | <u>3,057</u> |

7. NET GAINS ON SALE OF EQUITY INVESTMENTS

| In thousands of RSD | 31 December | |
|---|-------------|---------------|
| | 2009 | 2008 |
| Gains on sale of equity investments | - | 56,661 |
| Losses on sale of equity investments | - | - |
| Net gains on sale of equity investments | <u>-</u> | <u>56,661</u> |

8. NET LOSS ARISING FROM SALE OF OTHER INVESTMENTS

| In thousands of RSD | 31 December | |
|--|----------------|----------|
| | 2009. | 2008. |
| Gains from sale of other placements | 889 | - |
| Losses from sale of other placements | (6,021) | - |
| Net loss from sale of other placements | <u>(5,132)</u> | <u>-</u> |

TRANSLATION

9. FOREIGN EXCHANGE LOSSES/GAINS

| In thousands of RSD | 31 December | |
|-------------------------|--------------------|--------------------|
| | 2009 | 2008 |
| Foreign exchange gains | 3,124,799 | 47,691,996 |
| Foreign exchange losses | (7,883,392) | (51,296,495) |
| | <u>(4,758,593)</u> | <u>(3,604,499)</u> |

Foreign exchange gains and losses include gains/losses from transactions made in foreign currency during the year and gains/losses from translation of balance sheet items denominated in foreign currency into domestic currency at official exchange rate ruling at the end of the each month.

In accordance with the National Bank of Serbia regulations, calculation of exchange rate differences is made and stated on gross principle (exchange rate gains and losses) during the business year.

10. DIVIDENDS AND OTHER INCOME FROM EQUITY INVESTMENTS

| In thousands of RSD | 31 December | |
|--|--------------|--------------|
| | 2009. | 2008. |
| Dividends and other income from equity investments | <u>6,469</u> | <u>3,208</u> |

11. OTHER OPERATING INCOME

| In thousands of RSD | 31 December | |
|---|----------------|----------------|
| | 2009. | 2008. |
| Other operating income | 142,964 | 137,684 |
| Income from collected written-off receivables | 1,399 | 23,875 |
| Income from disposal of fixed and intangible assets | 31,605 | 8,362 |
| Income from decrease of liabilities | 5,270 | 2,804 |
| Surpluses | 44 | 247 |
| Other | 47,258 | 18,308 |
| | <u>228,540</u> | <u>191,280</u> |

The Bank realized income in the amount of RSD 6,088 thousand from subsidies in respect of salaries of new employees, which are employed in accordance with the program for employment of employees without previous working experience .

12. NET INCOME/EXPENSES ON INDIRECT WRITE-OFF OF PLACEMENTS AND PROVISIONS

| a) In thousands of RSD | 31 December | |
|--|------------------|------------------|
| | 2009. | 2008. |
| Impairment provisions for balace sheet items | 9,317,470 | 6,460,202 |
| Provisions for off-balance sheet items | 364,971 | 199,716 |
| Provisions for litigations | - | - |
| Provision for retirement benefits | - | - |
| | <u>9,682,441</u> | <u>6,659,918</u> |

TRANSLATION

| b) | In thousands of RSD | 31 December | |
|----|--|--------------------|--------------------|
| | | 2009 | 2008 |
| | Income from release of impairment of balance sheet items | 7,792,266 | 4,815,607 |
| | Income from release of provision for off-balance sheet items | 384,592 | 291,899 |
| | Income from the abolition of unused reserves for liabilities | 12,528 | - |
| | Income from release of unused provisions | 81,383 | 4,752 |
| | Income from collected suspended interest | 46,449 | 22,423 |
| | | <u>8,317,218</u> | <u>5,134,681</u> |
| | Net expenses (a-b) | <u>(1,365,223)</u> | <u>(1,525,237)</u> |

13. MOVEMENTS IN THE BALANCE OF ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

In thousands of RSD

| | Cash and cash equivalents | Interest and fees receivables and other placements | Loans and deposits | Securities | Equity investments | Other placements | Other assests | Off-balance items | Total |
|--------------------------------|---------------------------|--|--------------------|------------|--------------------|------------------|---------------|-------------------|-------------|
| Balance as at 1 January 2009 | - | 1,002,070 | 8,989,868 | 53 | 381,729 | 2,515,556 | 50,387 | 467,783 | 13,407,446 |
| Changed during the year | 1,756 | 735,574 | 6,794,075 | 348 | 12,193 | 1,576,724 | 196,800 | 364,971 | 9,682,441 |
| Release during the year | - | (319,096) | (5,893,131) | (65) | (22,037) | (1,423,209) | (134,728) | (384,592) | (8,176,858) |
| Exchange rate differences | 57 | 18,744 | 181,740 | - | - | 42,109 | 3,928 | - | 246,578 |
| Direct write-offs | (1,813) | (49,025) | (532,424) | - | - | (133,112) | (234) | - | (716,608) |
| Other | - | (32,618) | 35,658 | 1 | (128) | (616) | (72) | - | 2,225 |
| Balance as at 31 December 2009 | - | 1,355,649 | 9,575,786 | 337 | 371,757 | 2,577,452 | 116,081 | 448,162 | 14,445,224 |

There were no materially significant collections of impaired receivables till the end of January 2009, which may have significant effect on cancellation of provisions in accordance with IAS 10.

In accordance with the National Bank of Serbia requirements, apart from allowance for impairment of financial assets and provision for contingent liabilities, the bank is obliged to form additional reserves for estimated losses from retained earnings in the total amount of RSD 6.925.940 thousand. The Bank formed additional reserves for estimated losses from previous distributions of retained earnings in the amount of RSD 6.178.008 thousand. Decision on the redeployment of established reserves from profit according to the final billing for 2009. the Bank have conduct redistribution from profit reserves for estimated losses on off-balance sheet items on reserve for estimated losses on balance sheet assets in the amount of 138,169 thousand dinars to the total amount missing from the available reserves for estimated losses on balance sheet assets on the date 31.12.2009. amounted to 609,462 thousands

TRANSLATION

14. PAYROLL EXPENSES, REMUNERATION AND OTHER PERSONAL EXPENSES

| In thousands of RSD | 31 December | |
|---|------------------|------------------|
| | 2009. | 2008. |
| Payroll expenses | 1,902,237 | 1,856,087 |
| Remuneration expenses | 461,614 | 415,346 |
| Taxes and contributions on salaries and fringe benefits | 368,807 | 357,451 |
| Contribution expenses and remuneration | 554,463 | 550,794 |
| Remuneration expenses for temporary and occasional operations | 129,411 | 178,005 |
| Other personal expenses | 33,528 | 43,731 |
| | <u>3,450,060</u> | <u>3,401,414</u> |

Total gross salaries and other remuneration of the Executive Board in 2009 amounts to RSD 59,256 thousand. Total remuneration of the Board of Directors in 2009 amounts to RSD 14,410 thousand.

15. DEPRECIATION EXPENSES

| In thousands of RSD | 31 December | |
|----------------------|----------------|----------------|
| | 2009. | 2008. |
| Depreciation expense | <u>534,465</u> | <u>405,505</u> |

16. OPERATING AND OTHER EXPENSES

| In thousands of RSD | 31 December | |
|--|------------------|------------------|
| | 2009. | 2008. |
| Costs of material | 390,434 | 390,499 |
| Costs of production services | 1,672,844 | 1,443,106 |
| Non-material costs (without taxes and contributions) | 1,109,835 | 981,272 |
| Tax expenses | 80,667 | 69,765 |
| Contribution expenses | 641,166 | 623,570 |
| Other expenses | 61,295 | 48,052 |
| Write-offs of irrecoverable debts | - | 1,712 |
| Losses on sale of fixed and intangible assets | 1,822 | - |
| Impairment and write-offs of fixed and intangible assets | 3,694 | 5,487 |
| Shortfall and damages | 6 | 1,762 |
| Other expenses | 11,454 | 20,506 |
| | <u>3,973,217</u> | <u>3,585,731</u> |

Liabilities for operating lease of business premises used by the Bank are recognized monthly as rent expenses.

As at 31 December, commitments (excluding VAT) for operating leases of 204 business premises with the total area of 34.837,58 sqm amount to:

| | |
|---------------------|-----------------------|
| - in 2010 | 660.463 RSD thousands |
| - from 2011 to 2014 | 940,741 " |
| - from 2015 | <u>462,032</u> " |
| | 2,063,236 " |

TRANSLATION

17. GAINS ON VALUATION OF ASSETS AND LIABILITIES

| In thousands of RSD | 31 December | |
|--|-------------------|-------------------|
| | 2009. | 2008. |
| Gains on valuation of loans and advances | 9,994,460 | 15,252,924 |
| Gains on valuation of securities | 17,385 | 22,804 |
| Gains on valuation of liabilities | 260,544 | 2,626,925 |
| TOTAL | 10,272,389 | 17,902,653 |

18. LOSSES ON VALUATION OF ASSETS AND LIABILITIES

| In thousands of RSD | 31 December | |
|---|------------------|-------------------|
| | 2009. | 2008. |
| Losses on valuation of loans and advances | 3,113,194 | 6,739,638 |
| Losses on valuation of securities | 9,532 | 213,801 |
| Losses on valuation of liabilities | 1,145,584 | 4,933,739 |
| TOTAL | 4,268,310 | 11,887,178 |

| | | |
|---|------------------|------------------|
| Net gains/losses on valuation of assets and liabilities | <u>6,004,079</u> | <u>6,015,475</u> |
|---|------------------|------------------|

Gains/losses arising from change in value of loan investments include contractual FX clause hedging effects.¶

Gains/Losses from change in value of securities contain effects of adjusting securities to their market value.

Gains/losses arising from change in value of liabilities include contractual FX clause hedging effects.

Calculation of change in value of assets and liabilities is conducted at the end of each month of the financial year as well as on the day of transaction.

19. INCOME TAX

A. COMPONENTS OF INCOME TAX

| In thousands of RSD | 31 December | |
|---|-------------|----------|
| | 2009. | 2008. |
| Tax expenses of the period | (111,951) | - |
| Income from the creation of deferred tax assets | 8,139 | - |
| Loss from the abolition of tax funds | (85,007) | (30,365) |

TRANSLATION

B. NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF THE ACCOUNTING RESULTS MULTIPLIED BY THE APPLICABLE TAX RATE

| In thousands of RSD | 31 December | |
|--|-----------------|------------------|
| | 2009. | 2008. |
| Profit/Loss before tax | 2,055,495 | 2,815,222 |
| Income tax at the statutory tax rate of 10% | <u>205,549</u> | <u>281,522</u> |
| Tax effects of non-deductible expenses | 7,232 | 5,563 |
| The tax effects of net capital losses | 407 | - |
| Tax effects of differences in the depreciation charges | 11,163 | 892 |
| Tax effects of taxable income not included in the financial statements (related parties) | 156 | 57 |
| Tax effects of non-taxable income (dividends received from residents) | (605) | (299) |
| Tax credits for investments in property and equipment | 0 | - |
| Tax deductions | <u>(35,083)</u> | <u>(257,370)</u> |
| DEFERRED TAX EFFECTS IN THE INCOME STATEMENT | (188,819) | (30,365) |
| C. EFFECTIVE INCOME TAX RATE | <u>5.45</u> | <u>-</u> |

Profit tax payment in advance in 2009 in the amount of RSD 213,342 thousand was made in accordance with the Income Tax Law in monthly instalments. The Bank has used for current tax settlement 111,951 thousand. RSD and the rest of the 101,391 thousand RSD will be used as an advance for 2010. year

20. GAINS ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES

| In thousands of RSD | 31 December | |
|--|--------------|-------|
| | 2009. | 2008. |
| Increase in deferred tax assets and decrease in deferred tax liabilities | <u>8,139</u> | - |
| | <u>8,139</u> | - |

Calculation of deferred tax liabilities on a rate of 10% on temporary differences in the value of fixed assets on the date 31.12.2009., requested a reduction of liabilities in the amount of 8.139 thousand dinars.

TRANSLATION

MOVEMENT ON ACCOUNTS OF DEFERRED TAX ASSETS AND LIABILITIES

| In thousands of RSD | | | |
|---|------------|-----------------|----------------|
| Description | Tax assets | Tax liabilities | Net tax effect |
| 1. | 2. | 3. | 4.(2-3) |
| Opening balance as at 1 January 2009 | 257,682 | (71,598) | 186,084 |
| Income from the abolition of tax liabilities (temporary differences between tax and accounting value of fixed assets) | - | 8,139 | 8,139 |
| Loss of the abolition of tax assets (long-term provision for severance payments to employees) | (8,138) | - | (8,138) |
| Loss of the abolition of tax credits based on investments in fixed assets | (76,868) | - | (76,868) |
| Balance as at 31 December 2009 | 172,676 | (63,459) | 109,217 |

I Tax funds - based on long-term provisions for severance payments to employees, according to court litigation, and investment in fixed asset

| In thousands of RSD | | | | | |
|--|--------------------------|------------|--------------------------|------------|--|
| Description | 2009 | | 2008 | | The loss of the abolition of tax funds |
| | The amount in provisions | Tax assets | The amount in provisions | Tax assets | |
| 1. | 2. | 3. | 4. | 5. | 6. (3-5) |
| Long-term provisions for severance payments to employees | 223,254 | 22,325 | 304,637 | 30,463 | (8,138) |
| Tax credit based on the investment in fixed assets | - | 141,789 | - | 218,657 | (76,868) |
| Provisions for litigation | 254,921 | 8,562 | 277,610 | 8,562 | - |
| Total: | - | 172,676 | - | 257,682 | (85,006) |

II Tax liability - the difference between the tax and carrying value of fixed asset:

| In thousands of RSD | | | | | |
|----------------------------------|---------------------------|---------------|---------------------------|---------------|--|
| Description | 2009 | | 2008 | | Gain from the abolition of tax liabilities |
| | The value of fixed assets | Tax liability | The value of fixed assets | Tax liability | |
| 1. | 2. | 3. | 4. | 5. | 6. (5-3) |
| The value by the tax regulations | 6,665,419 | - | 6,521,008 | - | - |
| Accounting value | 7,300,006 | - | 7,236,989 | - | - |
| Difference | 634,587 | 63,459 | 715,981 | 71,598 | 8,139 |

NET DEFERRED TAX ASSETS

IN BALANCE SHEET

109,217

186,084

TRANSLATION

21. LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITIES

| In thousands of RSD | 31 December | |
|--|---------------|---------------|
| | <u>2009.</u> | <u>2008.</u> |
| Decrease in deferred tax assets and increase in deferred tax liabilities | 85,007 | 30,365 |
| | <u>85,007</u> | <u>30,365</u> |

Decrease in deferred tax assets based on long-term provisions for employees benefits at a rate of 10% amounts to RSD 8.138 thousands.

Decrease in deferred tax assets for direct payoff of current taxes by using a part of tax credit from previous years investments amounts to RSD 76.869 thousands.

22. CASH AND CASH EQUIVALENTS

| In thousands of RSD | 31 December | |
|--|--------------------------|--------------------------|
| | <u>2009.</u> | <u>2008.</u> |
| <i>In dinars</i> | | |
| Current account | 19,471,997 | 24,504,643 |
| Cash on hand | 1,551,049 | 1,514,340 |
| Total | <u>21,023,046</u> | <u>26,018,983</u> |
| <i>In foreign currency</i> | | |
| Foreign currency accounts | 4,995,949 | 2,881,208 |
| Cash on hand in foreign currency | 1,254,639 | 770,050 |
| Cash equivalents in foreign currency - cheques in the course of collection | 29,773 | 30,255 |
| Other cash and cash equivalents | 83,651 | 44,180 |
| Total | <u>6,364,012</u> | <u>3,725,693</u> |
| Gold and other precious metals | <u>99</u> | <u>99</u> |
| TOTAL | <u>27,387,157</u> | <u>29,744,775</u> |

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 and is held on the Bank's giro account. Obligatory reserve in dinars may be used for liquidity purpose.

In accordance with NBS requirements, the Bank is obliged to maintain a monthly average of funds on its giro account above the amount of obligatory reserve for that month. The Bank must maintain a minimum average monthly balance on its giro account in the amount of the calculated mandatory dinar reserve, and an average daily balance in the amount of 100% of the calculated mandatory dinar reserve.

In 2009., the Bank has not used the dinar obligatory reserves.

The Bank did not exceed prescribed limits in respect of obligatory reserve during 2009. The NBS pays interest on average obligatory reserves in dinars at an interest rate of 2.5% p.a.

TRANSLATION

23. CALLABLE DEPOSITS AND LOANS

| In thousands of RSD | 31 December | |
|----------------------------|--------------------------|--------------------------|
| | 2009. | 2008. |
| <i>In dinars</i> | | |
| Liquid assets surpluses | - | - |
| Repo transactions | 11,500,000 | - |
| | <u>11,500,000</u> | <u>-</u> |
| <i>In foreign currency</i> | | |
| Obligatory reserve at NBS | 35,151,225 | 19,512,049 |
| | <u>35,151,225</u> | <u>19,512,049</u> |
| TOTAL | <u><u>46,651,225</u></u> | <u><u>19,512,049</u></u> |

The obligatory reserve in foreign currency represents a minimum deposit required by the NBS, which is calculated and deposited with the NBS in accordance with the Decision on Obligatory Reserves of Banks with the NBS and is calculated on the average daily amount of foreign currency deposits and certain other foreign currency liabilities in the preceding month. The Bank is obliged to keep 20% of obligatory reserve in foreign currency on its current account in dinars.

The obligatory reserve in foreign currency is non-interest bearing.

24. INTEREST, FEES AND COMMISSION RECEIVABLES, CHANGE IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES

| In thousands of RSD | 31 December | |
|--|-----------------------|-----------------------|
| | 2009. | 2008. |
| <i>Interest, fees and commission receivables in dinars</i> | | |
| - interest | 1,620,656 | 1,152,939 |
| - fees | 110,394 | 101,589 |
| Receivables from sales in dinars | 80 | - |
| Other receivables on sales in dinars - rent | 255,974 | 135,287 |
| Less: Allowance for impairment in dinars | <u>(1,085,640)</u> | <u>(775,138)</u> |
| | <u>901,464</u> | <u>614,677</u> |
| <i>Interest, fees and commission receivables in foreign currency</i> | | |
| - interest | 305,400 | 267,106 |
| - fees | 11 | 3,863 |
| Less: Allowance for impairment in foreign currency | <u>(270,009)</u> | <u>(226,932)</u> |
| | <u>35,402</u> | <u>44,037</u> |
| TOTAL | <u><u>936,866</u></u> | <u><u>658,714</u></u> |

TRANSLATION

25. GRANTED LOANS AND DEPOSITS

| In thousands of RSD | 31 December | |
|--|--------------------|--------------------|
| | <u>2009.</u> | <u>2008.</u> |
| <i>Loans granted in dinars</i> | | |
| - transaction deposits | 4,330,257 | 4,370,402 |
| Customer loans | 5,762,627 | 3,877,617 |
| Loans for operating assets | 21,771,975 | 21,012,799 |
| Export loans | 4,854,755 | 1,580,433 |
| Investment loans | 17,399,922 | 15,914,808 |
| Housing loans | 19,257,795 | 15,589,844 |
| Other loans | 37,688,234 | 38,739,548 |
| Less: Allowance for impairment for loans in dinars | <u>(6,925,744)</u> | <u>(6,425,451)</u> |
| | <u>104,139,821</u> | <u>94,660,000</u> |
| <i>Loans granted in foreign currency</i> | | |
| - payments for goods and services import | 4,527,151 | 4,885,183 |
| Overnight loans | 9,209 | 217,508 |
| Other loans in foreign currency | 8,784,524 | 8,786,300 |
| Less: Allowance for impairment for loans in foreign currency | <u>(2,473,516)</u> | <u>(2,398,019)</u> |
| | <u>10,847,368</u> | <u>11,490,972</u> |
| <i>Granted other and defined purpose deposits in foreign currency</i> | | |
| Other deposits in foreign currency | 295,583 | 246,873 |
| Defined purpose loans in foreign currency in compliance with regulations | - | - |
| Other defined purpose deposits in foreign currency | - | - |
| Less: Allowance for impairment deposits in foreign currency | <u>(176,526)</u> | <u>(166,398)</u> |
| | <u>119,057</u> | <u>80,475</u> |
| | <u>115,106,246</u> | <u>106,231,447</u> |

Short-term loans in dinars and foreign currency are granted for period ranging from one month to one year at nominal interest rates ranging from 0.99% to 2.40% per month.

Long-term loans in dinars and foreign currency are granted for maximum period of thirty years at nominal interest rates ranging from 3.35% to 27% per annum.

TRANSLATION

Economic sector risk concentrations of loans and advances to customers is significant for following

| In thousands of RSD | 31 December | |
|---|--------------------|--------------------|
| | 2009. | 2008. |
| Agriculture, hunting, forestry, water-works and fishing | 3,939,992 | 3,553,554 |
| Metals and processing industry | 22,705,781 | 21,113,966 |
| Oil and Gas | 286,604 | 291,430 |
| Constructions | 4,909,352 | 5,222,407 |
| Trading, maintaining of vehicles and households equipment | 24,800,506 | 22,716,869 |
| Hotels, restaurants and telecommunucations | 5,418,315 | 3,382,884 |
| Financial services | 2,139,039 | 2,974,565 |
| Property – renting and other business transactions | 6,233,864 | 5,551,151 |
| Governmental institutions | 2,008,521 | 1,869,944 |
| Education, healthcare and social sector | 391,011 | 439,560 |
| Retail and entrepreneur | 37,494,232 | 34,976,276 |
| Other | 4,779,029 | 4,138,841 |
| | <u>115,106,246</u> | <u>106,231,447</u> |

Risks and Uncertainties

The Bank's management recorded allowances and provisions for all known and estimated risks as of the date of the financial statements. The Bank's loan portfolio contains a number of customers that are involved in the privatization and/or restructuring processes, which are expected to render either partial or complete recoveries of the Bank's receivables. The receivables from such customers were classified as of the most recent available information on their financial situation, and the expected course of their respective restructuring processes. In the event that such debt recovery efforts prove to be unsuccessful, the respective receivables are primarily collateralized by real estate, industrial land, buildings and equipment. In the case that the debt recovery actions undertaken by the Bank's management are unsuccessful, additional amounts of allowances for impairment and provisions for contingent liabilities would be required in the forthcoming reporting periods.

TRANSLATION

26. SECURITIES (EXCLUDING OWN SHARES)

| In thousands of RSD | 31 December | |
|--|----------------|----------------|
| | 2009. | 2008. |
| <i>In dinars</i> | | |
| Securities at fair value trough income statement | 18,576 | 18,394 |
| Securities available for sale | 385,587 | - |
| Securities held to maturity | 129,446 | 133,548 |
| Less: Allowance for impairment on securities in | (337) | (53) |
| | <u>533,272</u> | <u>151,889</u> |
| <i>in foreign currency</i> | | |
| Securities at fair value trough income statement in foreign currency | 33,237 | 216,522 |
| | <u>33,237</u> | <u>216,522</u> |
| TOTAL | <u>566,509</u> | <u>368,411</u> |

27. EQUITY INVESTMENTS

| In thousands of RSD | 31 December | |
|--|------------------|------------------|
| | 2009. | 2008. |
| Equity investments in dinars | | |
| Equity investments in associated companies in country | 140,000 | 140,000 |
| Equity investments in associated Banks abroad | 2,201,988 | 2,201,988 |
| Equity investments in banks and financial organizations | 134,169 | 138,816 |
| Equity investments in companies and other legal entities | 469,242 | 449,924 |
| Equity investments in foreign entities | 129,781 | 72,562 |
| Less: Allowance for impairment | (371,757) | (381,729) |
| | <u>2,703,423</u> | <u>2,621,561</u> |

Allowance for impairment in the amount of RSD 371.757 thousand relates to 100% impairment of equity investments for which market value can not be determined.

28. OTHER PLACEMENTS

| In thousands of RSD | 31 December | |
|--|------------------|------------------|
| | 2009. | 2008. |
| <i>Other placements in dinars</i> | | |
| Bought placements - factoring | 19,935 | 10,516 |
| Investments on accepts, guarantees and paid guaranties | 821,468 | 780,171 |
| Other placements | 1,412,986 | 1,270,253 |
| Less: Allowance for impairment on other placements in dinars | (733,123) | (812,891) |
| | <u>1,521,266</u> | <u>1,248,049</u> |
| <i>Other placements in foreign currency</i> | | |
| Investments on accepts, guarantees and paid guaranties | 178,572 | 149,075 |
| Unsecured letters of credit and other pledges | 437,369 | 435,333 |
| Oyher placements in foreign currency | 1,979,998 | 2,518,613 |
| Less: Allowance for impairment for other placements in foreign | (1,844,329) | (1,702,666) |
| | <u>751,610</u> | <u>1,400,355</u> |
| TOTAL | <u>2,272,876</u> | <u>2,648,404</u> |

On the side of placement in the RSD mostly are the nominal values dicaunted by the bills of exchange, and they are represented in the amount of 1,313,162 thousand. dinars, while in other placements in foreign currency are mostly included claims of Jugobanka AD Beograd in bankruptcy in the amount of 1,163,863 thousand dinars, with the depreciation in full.

TRANSLATION

29. INTANGIBLE ASSETS

Intangible assets

| In thousands of RSD | 31 December | |
|----------------------------------|----------------|----------------|
| | 2009. | 2008. |
| Licences and software | 429,410 | 94,337 |
| Intangible assets in preparation | 6,814 | 227,348 |
| Less: Allowance for impairment | (109,698) | (29,719) |
| | <u>326,526</u> | <u>291,966</u> |

Changes in intangible assets

| | In thousands of RSD | | | |
|--|-----------------------|----------|-------------------------------------|----------------|
| | Licences and software | Advances | Other intangible assets in progress | TOTAL |
| Cost | | | | |
| Balance as at 31 December 2008 | 94,337 | - | 227,348 | 321,685 |
| Correction of opening balance - transfer to other receivables and fixed assets | - | - | - | - |
| Modified opening balance | <u>94,337</u> | - | <u>227,348</u> | <u>321,685</u> |
| Purchase | - | - | 114,539 | 114,539 |
| Revaluation | - | - | - | - |
| Transfers from/to | 335,073 | - | (335,073) | - |
| Disposals | - | - | - | - |
| Other | - | - | - | - |
| Balance as at 31 December 2009 | <u>429,410</u> | - | <u>6,814</u> | <u>436,224</u> |
| Accumulated depreciation | | | | |
| Balance as at 31 December 2008 | 29,719 | - | - | 29,719 |
| Correction of opening balance - transfer to other receivables and fixed assets | - | - | - | - |
| Modified opening balance | <u>29,719</u> | - | - | <u>29,719</u> |
| Depreciation in 2009 | 79,979 | - | - | 79,979 |
| Revaluation | - | - | - | - |
| Disposals | - | - | - | - |
| Other | - | - | - | - |
| Balance as at 31 December 2009 | <u>109,698</u> | - | - | <u>109,698</u> |
| Net book value as at 31 December 2009 | <u>319,712</u> | - | <u>6,814</u> | <u>326,526</u> |
| 31 December 2008 | <u>64,618</u> | - | <u>227,348</u> | <u>291,966</u> |

TRANSLATION

30. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

Changes in properties, equipment and investment properties

| | In thousands of RSD | | | | TOTAL |
|--|---------------------|-----------|----------------------------|--------------------------|-----------|
| | Real Estate | Equipment | Investments in progress | Investment properties | |
| Cost | | | | | |
| Balance as at 31 December 2008 | 4,400,103 | 2,174,728 | 107,180 | 2,350,178 | 9,032,189 |
| Correction of opening balance - investments in property not owned by theBank | - | - | - | - | - |
| Modified opening balance | 4,400,103 | 2,174,728 | 107,180 | 2,350,178 | 9,032,189 |
| Purchases | - | - | 279,215 | - | 279,215 |
| Revaluation | - | - | - | - | - |
| Transfers from/to | 514,926 | 202,460 | (320,992) | (396,394) | - |
| Disposals | (54,247) | (181,486) | - | (6,155) | (241,888) |
| Other | - | - | - | - | - |
| Balance as at 31 December 2009 | 4,860,782 | 2,195,702 | 65,403 | 1,947,629 | 9,069,516 |
| Accumulated depreciation | | | | | |
| Balance as at 31 December 2008 | 429,794 | 1,170,098 | - | 140,956 | 1,740,848 |
| Correction of opening balance - investments in property not owned by theBank | - | - | - | - | - |
| Modified opening balance | 429,794 | 1,170,098 | - | 140,956 | 1,740,848 |
| Depreciation in 2009 | 116,472 | 297,515 | - | 40,499 | 454,486 |
| Revaluation | - | - | - | - | - |
| Disposals | (7,191) | (175,517) | - | (597) | (183,305) |
| Transferred | 23,680 | - | - | (23,680) | - |
| Other | - | - | - | - | - |
| Balance as at 31 December 2009 | 562,755 | 1,292,096 | - | 157,178 | 2,012,029 |
| Net book value as at 31 December 2009 | 4,298,027 | 903,606 | 65,403 | 1,790,451 | 7,057,487 |
| 31 December 2008 | 3,970,309 | 1,004,630 | 107,180 | 2,209,222 | 7,291,341 |

TRANSLATION

As at 31 December 2009 the Bank is using equipment acquired under finance lease agreements having a net book value of RSD 38.904 thousands, while finance lease liabilities amounted to RSD 29.440 thousand as at 31 December 2009.

The Bank has not pledged as collateral any of its property as at 31 December 2009.

As a result of incomplete land register books, the Bank's property stated in the amount of RSD 669.307 thousand as at 31 December 2009 has not been duly recorded in the land register. The Bank's management is undertaking actions to obtain the appropriate property registration documents.

As at 1 January 2005 the Bank booked revaluation (valuation by an independent and certified appraiser) of property. Revaluation model will be used for measurement of property in the future.

Based on opinion of expert team, the Bank decided that there is no need for independent property valuation for the year 2009.

Management of the Bank believes that present value of property and equipment as at 31 December 2009 is stated at its market value.

Based on yearly stock count, the Bank disposed fixed assets in amount of RSD 3.694 thousands.

31. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

| In thousands of RSD | 31 December | |
|-----------------------|----------------|---------------|
| | 2009. | 2008. |
| Discounted operations | 104,898 | 79,387 |
| | <u>104,898</u> | <u>79,387</u> |

Ten properties are in process of sale because it is estimated they will not be necessary for future operations of the Bank

Management of the Bank still intends to carry out the procedure for the sale of all assets that are not sold in the past year.

32. DEFERRED TAX ASSETS

Deferred tax assets include tax credit carryforwards associated with capital expenditures and taxable temporary differences associated with provision for retirement benefits and provision for litigation.

| In thousands of RSD | 31 December | |
|-------------------------------------|----------------|----------------|
| | 2009. | 2008. |
| Deferred tax assets | 172,676 | 257,682 |
| Deferred tax liabilities | (63,459) | (71,598) |
| Net deferred tax assets/liabilities | <u>109,217</u> | <u>186,084</u> |

In accordance with IAS 12 „Income tax“, section 71, deferred tax assets and liabilities are presented in net

TRANSLATION

33. OTHER ASSETS

| In thousands of RSD | 31 December | |
|---|-------------------------|-------------------------|
| | 2009. | 2008. |
| <i>Other receivables in dinars</i> | | |
| Receivables for advance payments for current assets | 3,573 | 13,014 |
| Receivables from employees | 5,182 | 1,516 |
| Receivables for prepaid taxes and reuration | 4 | 70 |
| Receivables for prepaid income tax | 101,391 | 180,520 |
| Other receivables from operations | 160,178 | 356,122 |
| Temporary accounts | 183,776 | (26,983) |
| Receivables from interbank transactions | 339,841 | 283,731 |
| Provision for other receivables | (17,181) | (19,792) |
| | <u>776,764</u> | <u>788,198</u> |
| <i>Other receivables in foreign currency</i> | | |
| Receivables from employees | 695 | 637 |
| Other receivables from operations | 389,630 | 121,648 |
| Temporary accounts | 16,998 | 1,762 |
| Receivables from interbank transactions | 218,985 | 44,489 |
| Provision for other receivables | (98,900) | (30,595) |
| | <u>527,408</u> | <u>137,941</u> |
| <i>Accruals in dinars</i> | | |
| Accrued interest | 171,058 | 99,458 |
| Other accrued income | 126 | 346 |
| Other accrued expenses | 59,103 | 84,428 |
| Other accruals | 78 | 247 |
| | <u>230,365</u> | <u>184,479</u> |
| <i>Accruals in foreign currency</i> | | |
| Accrued interest | 38,313 | 65,411 |
| Other accruals | - | 963 |
| | <u>38,313</u> | <u>66,374</u> |
| <i>Inventory</i> | | |
| Material | 9,364 | 22,832 |
| Equipment and i inventory | 2,203 | 3,604 |
| Assets acquired by a way of collecting receivables | 450,371 | 23,802 |
| Inventory in use | 141,064 | 134,826 |
| Provision for inventory | (141,061) | (134,826) |
| | <u>461,941</u> | <u>50,238</u> |
| TOTAL | <u><u>2,034,791</u></u> | <u><u>1,227,230</u></u> |

TRANSLATION

Material assets received as collection of receivables in the amount of RSD 450,371 thousand relate to:

| Description | Area in m ² | Value in 000 RSD. | Date of acquisition |
|--|------------------------|-------------------|---------------------|
| Poslovni sistem Stankom AD, obdanište, ul. Trebevička 28 | 1,958.14 | 252,418 | 17.09.2009. |
| Hotel Prezident, Čačak, ul. Bulevar oslobođenja bb | 2,278.92 | 127,035 | 21.01.2009. |
| Stambeno poslovna zgrada, Čačak, ul. Železnička bb | 272.24 | 13,433 | 21.01.2009. |
| Poslovna zgrada Palić, ul. Horgoški put 83 | | 36,952 | 06.03.2009. |
| Palić, poljoprivredno zemljište | | 5,874 | 06.03.2009. |
| Stambena zgrada, Čačak ul. Ratka Mitrovića 6 | 195 | 3,706 | 12.05.2009. |
| Oprema, Valjevo (mašine za sečenje i krojenje tkanine) | | 1,205 | 07.09.2009. |
| Lokal u Novom Pazaru, Kej skopskih žrtava 44 | 82.95 | 9,156 | 27.09.2007. |
| Gnjilica, njiva sedme klase | 26,38 ari | 211 | 11.06.2008. |
| Oprema za mlekaru, Novi Pazar | | 381 | 24.07.2008. |
| TOTAL | | 450,371 | |

For mentioned properties the Bank holds ownership that is not registered in the land registry. The Bank's management is undertaking actions to sell the mentioned property.

In accordance with NBS regulations for material assets received as collection of receivables the Bank is under obligation to dispose of them or to deploy them for its own use within twelve months of the date of acquisition. In the event that the prescribed deadline is exceeded the Bank must make a provision of 100%.

34. TRANSACTION DEPOSITS

| In thousands of RSD | 31 December | |
|-----------------------|-------------------|-------------------|
| | 2009. | 2008. |
| - in dinars | 19,466,666 | 17,357,692 |
| - in foreign currency | 12,906,536 | 8,060,590 |
| | <u>32,373,202</u> | <u>25,418,282</u> |

Transaction deposits in dinars primarily relate to transaction deposits of companies and other legal entities. According to Decision on interest rates adopted in 2009, these deposits are interest-bearing. Depending on average monthly turnover on transaction accounts interest rate fluctuates from 0,5 to 2% p.a.

Foreign currency transaction deposits of companies and non-residents are non-interest bearing, except in case of specific business arrangements.

Retail dinars a call deposits are deposited with the interest rate of 2.5% annually. Retail foreign currency call deposits are deposited at interest rates ranging from 1.0% to 1.2% per annum.

35. OTHER DEPOSITS

| In thousands of RSD | 31 December | |
|----------------------------------|-------------------|-------------------|
| | 2009. | 2008. |
| <i>Deposits in RSD</i> | | |
| Savings deposits | 1,129,736 | 1,262,845 |
| Deposits as guaranties for loans | 95,106 | 138,057 |
| Deposits with defined purpose | 165,687 | 741,197 |
| Other deposits | 25,223,784 | 29,188,719 |
| | <u>26,614,313</u> | <u>31,330,818</u> |

TRANSLATION

| | | |
|-------------------------------------|--------------------|--------------------|
| <i>Deposits in foreign currency</i> | | |
| Savings deposits | 91,218,108 | 64,720,389 |
| Deposits as guaranties for loans | 1,138,686 | 1,056,789 |
| Deposits with defined purpose | 1,175,703 | 675,444 |
| Other deposits | 14,690,749 | 9,701,694 |
| | <u>108,223,246</u> | <u>76,154,316</u> |
| TOTAL | <u>134,837,559</u> | <u>107,485,134</u> |

Short-term deposits of companies in dinars are deposited with interest rates ranging from: index interest rate minus 3.5 p.p. to reference interest rate minus 1.25 p.p. annually, depending on the maturity date.

Foreign currency short-term deposits of companies are deposited at interest rates ranging from 1% to 3.30% per month.

Short-term retail deposits in dinars are deposited at interest rates ranging from 7% to 10.00% per annum, and in foreign currency from 1.8% to 6.25% per annum.

Long-term retail deposits in dinars are deposited at interest rates ranging from 12.00% to 16.00% per annum, and in foreign currency from 3% to 7.35% per annum

Long-term deposits of companies in dinars are deposited with at interest rate defined as NBS index interest rate reduced for 1.00 pp annually, and foreign currency 1.25,% to 3.35% per annum.

36. BORROWINGS

| | | |
|---|----------------|------------------|
| | 31 December | |
| In thousands of RSD | 2009. | 2008. |
| <i>Borrowings in dinars</i> | | |
| Overnight loans | 77,464 | 1,437,243 |
| Borrowings | 3,275 | 4,367 |
| Other financial liabilities in dinrs | 164 | - |
| | <u>80,903</u> | <u>1,441,610</u> |
| <i>Borrowings in foreign currency</i> | | |
| Other financial liabilities in foreign currency | 64,416 | 10,715 |
| | <u>64,416</u> | <u>10,715</u> |
| TOTAL | <u>145,319</u> | <u>1,452,325</u> |

37. INTEREST, FEES AND COMMISSIONS PAYABLE AND CHANGE IN FAIR VALUE OF DERIVATIVES

| | | |
|--|----------------|----------------|
| | 31 December | |
| In thousands of RSD | 2009. | 2008. |
| <i>Interest and fees in dinars</i> | | |
| Interest liabilities | 160,054 | 186,143 |
| Fee and commission liabilities | 6,716 | 6,861 |
| | <u>166,770</u> | <u>193,004</u> |
| <i>Interest and fees in foreign currency</i> | | |
| Interest liabilities | 1,327 | 2,495 |
| | <u>1,327</u> | <u>2,495</u> |
| TOTAL | <u>168,097</u> | <u>195,499</u> |

TRANSLATION

| | | | |
|-----|--|----------------------|------------------|
| 38. | PROVISIONS | | |
| | In thousands of RSD | 31 December 2009. | 2008. |
| | Provision for litigation | 254,921 | 277,610 |
| | Provision for retirement benefits | 223,254 | 304,637 |
| | Provision for contingent liabilities | 448,162 | 467,783 |
| | TOTAL | 926,337 | 1,050,030 |
| | Changes in provisions | | |
| | In thousands of RSD | 31 December 2009. | 2008. |
| | Provision for litigation | | |
| | Opening balance | 277,610 | 277,610 |
| | Cancellation of provisions | (10,161) | - |
| | Provisions | (12,528) | - |
| | Closing balance | 254,921 | 277,610 |
| | Provision for retirement benefits | | |
| | Opening balance | 304,637 | 309,389 |
| | Cancellation of provision/provisions during the year | (81,383) | (4,752) |
| | Closing balance | 223,254 | 304,637 |
| | Provision for contingent liabilities | | |
| | Opening balance | 467,783 | 559,966 |
| | Cancellation of provisions | (19,621) | (92,183) |
| | Closing balance | 448,162 | 467,783 |
| 39. | TAX LIABILITIES | | |
| | In thousands of RSD | 31 December 2009. | 2008. |
| | VAT liabilities | 5,564 | 7,101 |
| | Liabilities for other taxes and contributions | 7,280 | 61,285 |
| | | 12,844 | 68,386 |

TRANSLATION

| | | | |
|-----|--|------------------|------------------|
| 40. | LIABILITIES RELATED TO PROFIT | 31 December | |
| | In thousands of RSD | 2009. | 2008. |
| | Liabilities related to profit | 46,905 | 4,040 |
| 41. | OTHER LIABILITIES | 31 December | |
| | In thousands of RSD | 2009. | 2008. |
| | <i>Other liabilities in dinars</i> | | |
| | Trade payables | 162,796 | 157,185 |
| | Received advances | 281,562 | 3,182 |
| | Financial lease liabilities | 29,440 | 54,873 |
| | Other liabilities from operations | 23,963 | 22,151 |
| | Liabilities from interbank transactions | 856,114 | 172,702 |
| | Temporary accounts | (61,876) | (16,336) |
| | | 1,291,999 | 393,757 |
| | Liabilities from temporary and occasional operations | 55 | 304 |
| | Other liabilities to employees | 5,525 | 4,142 |
| | | 5,580 | 4,446 |
| | Accrued interest liabilities | 44,405 | 40,863 |
| | Accrued responsibilities for other accounted expenditures | 41,616 | - |
| | Deferred interest income | 41,057 | 22,360 |
| | Deferred income stated at depreciation value using effective interest rate | 598,222 | 601,914 |
| | Other deferred income | 428,021 | 342,542 |
| | Other accruals | 508,962 | 353,600 |
| | | 1,662,283 | 1,361,279 |
| | <i>Other liabilities in foreign currency</i> | | |
| | Received advances | 6,274 | 4,232 |
| | Liabilities on behalf of third parties - credit lines | 4,568,506 | 3,005,119 |
| | Liabilities from interbank transactions | 354,531 | 3,862,342 |
| | Temporary account | 138,340 | 104,350 |
| | | 5,067,651 | 6,976,043 |
| | Accrued interest liabilities | 1,362,627 | 948,989 |
| | Other accrued liabilities | 80,437 | 45,061 |
| | Other accruals | - | 24,955 |
| | | 1,443,064 | 1,019,005 |
| | TOTAL | 9,470,577 | 9,754,530 |

Liabilities on the basis of received advances in dinars for the most part relating to advances received from the Development Fund for subsidizing interest rates for loans to individuals, legal persons and entrepreneurs in the amount of 179,919 thousand dinars and advances received from the Ministry of Agriculture, Forestry and Water Management in the amount of 99,605 thousand dinars.

Within the delimited interest income in dinars, an amount of 20,996 dinars represent a pre-charged interest rate subsidizing by Ministry of Economy and Regional Development for housing loans that are insured by the National Corporation for loans Insurance.

TRANSLATION

Liabilities on behalf of third parties relate to following credit lines:

- Loan from European Investment Bank, granted to Republic of Serbia for financing SME projects, as well as for financing infrastructural projects of small and medium municipalities, in the amount of RSD 1.061.785 thousands
- Loan from the Government of Republic of Italy, granted to Republic of Serbia for financing SME project in the amount of RSD 1.482.363 thousands
- Loan from European Agency for Reconstruction, granted to Republic of Serbia in the amount of RSD 23.547 thousands
- Loan to EFSE (European Fund for Southeastern Europe) in the amount of RSD 1.917.776 thousands, based on credit line granted in approximate amount of EUR 20 milion.
- Loan from Italian and German banks for financing imported goods in total amount of RSD 74.918 thousands

42. EQUITY

| In thousands of RSD | 31 December | |
|---------------------|-------------------|-------------------|
| | 2009. | 2008. |
| Share capital | 9,082,820 | 9,082,820 |
| Share premium | 7,979,714 | 7,979,714 |
| | <u>17,062,534</u> | <u>17,062,534</u> |

The Bank's share capital is formed from initial shareholders' contributions and subsequent issues of new shares. Shareholders hold the rights to manage the Bank, as well as the right to share in its profits.

As at 31 December 2009 share capital consists of 908,282 shares, with nominal value per share of RSD 10 thousands and with following breakdown:

- 870,931 ordinary shares and
- 37,351 priority shares

During 2009 preferential dividends for earlier period were paid out in the amount of RSD 48.624 thousand.

Basic earnings per share amounts to RSD 2.092 thousands or 20,92% of the nominal value of an ordinary share

The Bank did not issue any other equity instruments, so that diluted earnings per share are equal to basic earnings per share.

Capital adequacy ratio

The Bank must maintain a capital adequacy ratio of 12% as prescribed by the National Bank of Serbia, in accordance with the Basel Convention, as required for all banks. As at 31 December 2009 the Bank's capital adequacy ratio, based on financial statements prepared by the Bank's management and methodology set out in National Bank of Serbia's decisions for 2009, amounts to 14.82%,

TRANSLATION

43. RESERVE FROM PROFIT

| In thousands of RSD | 31 December | |
|--|------------------|------------------|
| | 2009. | 2008. |
| Other reserves | 360,868 | 360,868 |
| Special reserve from profit for estimated losses | 7,024,572 | 4,324,572 |
| | <u>7,385,440</u> | <u>4,685,440</u> |

| In thousands of RSD | 31 December | |
|--|------------------|------------------|
| | 2009. | 2008. |
| Movements in reserves from profit | | |
| Opening balance | 4,685,440 | 1,985,440 |
| Other capital | | |
| – distribution of retained earnings for 2007 | 2,700,000 | 2,700,000 |
| Closing balance | <u>7,385,440</u> | <u>4,685,440</u> |

44. REVALUATION RESERVES

| In thousands of RSD | 31 December | |
|---|----------------|----------------|
| | 2009. | 2008. |
| Revaluation reserves on change in value of properties | 553,818 | 574,462 |
| Revaluation reserves on change in value of securities | 163,623 | 73,917 |
| | <u>717,441</u> | <u>648,379</u> |

| In thousands of RSD | 31 December | |
|-----------------------------------|----------------|----------------|
| | 2009. | 2008. |
| Movements in revaluation reserves | | |
| Opening balance | 648,379 | 832,042 |
| Increase/decrease during the year | 69,062 | (183,663) |
| Closing balance | <u>717,441</u> | <u>648,379</u> |

Revaluation reserves relate to gains arising on increase in value of property based on the appraisal made by an independent appraiser and gains on securities available for sale.

45. Unrealized losses based on securities available for sale

| In thousands of RSD | 31. decembar | |
|--|-----------------|----------|
| | 2009. | 2008. |
| Unrealized losses based on securities available for sale | (23,324) | - |
| | <u>(23,324)</u> | <u>-</u> |

TRANSLATION

46. PROFIT

| In thousands of RSD | 31 December | |
|--|------------------|------------------|
| | 2009. | 2008. |
| Retained earnings | | |
| Retained earnings from previous years | 190,746 | 251,933 |
| Current year retained earnings | <u>1,943,544</u> | <u>2,784,857</u> |
| | <u>2,134,290</u> | <u>3,036,790</u> |
| Net profit for the year | | |
| - Net profit from business activities | 2,055,495 | 2,815,222 |
| - Profit/loss from tax effects | - | (30,365) |
| - Tax expense of period | <u>(111,951)</u> | <u>-</u> |
| | <u>1,943,544</u> | <u>2,784,857</u> |
| Movements in retained earnings from previous years | | |
| Opening balance | 251,933 | 224,937 |
| Opening balance adjustment (change in accounting policy in accordance with IAS 21) | - | - |
| Opening balance after adjustment | <u>251,933</u> | <u>224,937</u> |
| Increase for the year | | |
| - transfer from current year profit | 2,784,857 | 2,947,856 |
| - gains on disposal of fixed assets | 10,209 | 201 |
| - gains on realized revaluation reserves | 10,436 | 10,875 |
| - tax balance corrections for 2007 | - | 24,912 |
| Decrease through the year: | | |
| - dividends for preferential shares | (44,821) | (56,848) |
| - employee shares in profits | (45,000) | (200,000) |
| - transfer to reserve | (2,700,000) | (2,700,000) |
| - usage of tax credits from previous year - tax relief | (76,868) | - |
| Closing balance | <u>190,746</u> | <u>251,933</u> |

In accordance with NBS regulations gains on the disposal of revalued fixed assets in 2009 were recognized as retained earnings of previous years in the total amount of RSD 10.209 thousand.

Total provisions for assets and off-balance sheet items in accordance with NBS requirements – retained earnings (notes 13. and 48.) amount to RSD 7.634.034 thousand. From previous distributions of profit the Bank isolated the amount of RSD 7.024.572 thousand. The Bank has obligation to cover the remaining amount of RSD 609.462 thousands, through distribution of profits for 2009.

47. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

| In thousands of RSD | 31 December | |
|--|------------------|------------------|
| | 2009. | 2008. |
| Funds managed on behalf of third parties | <u>3,980,859</u> | <u>5,861,056</u> |

Funds managed on behalf of third parties primarily relate to funds from commission loans of the Republic of Serbia, the City of Belgrade and funds received from foreign donors for micro loans.

TRANSLATION

48. CONTINGENT LIABILITIES

a) Guarantees and other sureties, sureties for liabilities, assets given as collateral, irrevocable and other contingent liabilities

| In thousands of RSD | 31 December | |
|--|-------------------|-------------------|
| | 2009. | 2008. |
| <i>In dinars</i> | | |
| Guarantees and other sureties | 6,954,523 | 5,911,407 |
| Irrevocable contingent liabilities for unused loans and deposits | 3,003,692 | 4,619,237 |
| Other irrevocable contingent liabilities | 7,108,573 | 9,024,376 |
| Total | 17,066,788 | 19,555,020 |
| <i>In foreign currency</i> | | |
| Guarantees and other sureties in foreign currency | 4,599,639 | 4,777,051 |
| Irrevocable contingent liabilities for unused loans and deposits in foreign currency | 13,706 | 75,844 |
| Other irrevocable contingent liabilities in foreign currency | - | - |
| Total in foreign currency | 4,613,345 | 4,852,895 |
| TOTAL | 21,680,133 | 24,407,915 |

For mentioned guarantees and contingent liabilities the Bank made provision against potential losses in accordance with IAS 37 in the amount of RSD 448.162 thousands. This provision is recorded under liabilities and equity in the balance sheet.

According to National Bank of Serbia's regulations, relating to guarantees and contingent liabilities, the Bank is obliged to isolate from profits amount of RSD 708.394 thousands. From previous distributions of profit the Bank isolated the amount of RSD 846.564 thousands, so on the day of 31/12/2009. was carried out the abolition of the reserve from the profit for the estimated losses on off-balance sheet items in the amount of 138,170 thousand dinars transfer to reserves for estimated losses on balance sheet assets.

There were no liabilities arising on foreign currency term transactions as at 31 December 2009 and 31 December 2008

b) Litigations and claims

As at 31 December 2008 contingent liabilities for litigations and claims against the Bank amount to RSD 4.290.847 thousands. (number of cases 39 – value of individual cases above RSD 100 thousand). Management of the Bank does not expect materially significant losses in the near future arising from these litigations. The Bank made provisions for litigations and claims in the amount of RSD 254.921 thousand.

Apart from this, the Bank is involved in litigations and claims against third parties with the most significant amount being RSD 10.173.763 thousands (number of cases 364 – value of individual cases above RSD 100 thousand). Management of the Bank expects positive outcomes for the majority of cases.

TRANSLATION

49. OTHER OFF-BALANCE SHEET ITEMS

| In thousands of RSD | 31 December | |
|------------------------------------|-------------------|-------------------|
| | 2009. | 2008. |
| Receivables for suspended interest | | |
| - in dinars | 623,661 | 888,321 |
| - in foreign currency | 59,026 | 3,701 |
| Other off-balance sheet items | 39,904,803 | 28,204,264 |
| | <u>40,587,490</u> | <u>29,096,286</u> |

During the 2009, Bank had a net reduction of suspended interest in the amount of 209,335 thousand dinars, which relate on increase of 173,747 thousand dinars and decrease based on permanent write-off decisions for the amount of 333,542 thousand dinars, payment in the amount of 46,449 thousand dinars, and the effect of exchange differences in the amount of 3,091 thousand dinars.

50. COMPLIANCE WITH STATUTORY REGULATIONS

The Bank was under obligation to comply its business operations with the requirements of Law on Banks, which means to adjust the scope and structure of its risk assets to the scope prescribed by the National Bank of Serbia. As at 31 December 2009 and as at 31 December 2008 all indicators were compliant with the NBS requirements.

51. RECEIVABLES AND LIABILITIES FROM RELATED PARTIES

51.1 RECEIVABLES

| Related parties | Loans and borrowings | Interest and commission | Impairment | Net exposure | Off-balance sheet exposure | Balance as at 31.Dec.09 | Balance as at 31.Dec.08 |
|----------------------------|----------------------|-------------------------|------------|------------------|----------------------------|-------------------------|-------------------------|
| 1. Kom. banka AD Budva | 1,066,131 | 2,603 | - | 1,068,734 | 0 | 1,068,734 | 1,528,213 |
| 2. Kom.banka AD Banja Luka | 2,499 | 0 | | 2,499 | 0 | 2,499 | 3,862 |
| 3. Kombank INVEST | 0 | 0 | 0 | 0 | 200 | 200 | 18,037 |
| TOTAL | 1,068,630 | 2,603 | 0 | 1,071,233 | 200 | 1,071,433 | 1,550,112 |

51. b. LIABILITIES

| Related parties | Deposits and loans | Interest and fees | Balance as at 31.12.09. | Balance as at 31. 12. 08. |
|-----------------|--------------------|-------------------|-------------------------|---------------------------|
| Budva | 8,951 | 0 | 8,951 | 5,935 |
| 2. Kom.banka AD | 10,857 | 0 | 10,857 | 5,427 |
| 3. Kombank | 96,501 | 753 | 97,254 | 122,097 |
| TOTAL: | 116,309 | 753 | 117,062 | 133,459 |

TRANSLATION

52. SUBSEQUENT EVENTS

Realization of the XXI issue of shares - preferential convertible shares

Decision on the publish of XXI issue of shares - preference shares that can be converted into ordinary shares without a public offer, the Bank issued shares in the total volume of 4,798,190 thousand dinars, ie. 479,819 shares of individual pieces nominal value of 10 thousand dinars.

New XXI issue was realized on 20.01.2010.

Realization of this issue of preferential convertible shares, Bank has achieved emission premium in the amount of 6,601,830 thousand RSD.

After the registration of shares of XXI emission, the value of the share capital of the Bank consists of 1,388,101 shares of nominal value 10 thousand dinars with the following structure:

- 870.931 ordinary shares
- 479.819 convertible preference shares
- 37.357 preference shares

Unreconciled account balances

Based on the analysis of regular annual balance reconciliation conducted on 31 December 2009, the Bank has unreconciled account balances in the amount of RSD 1.571 thousand. Unreconciled account balances primarily relate to 16 clients against whom court proceedings have been initiated.

Unpaid preferred dividends

Unpaid preferred dividends payable in 2010 amount to:

- from 2009 RSD 44,821 thousand (12% of the nominal value of preferred shares).

53. EXCHANGE RATES

The official exchange rates for the major currencies used in the translation of the balance sheet items denominated in foreign currencies, were as follows:

| Foreign currency | Official exchange rate | |
|------------------|------------------------|---------|
| | 2009. | 2008. |
| USD | 66.7285 | 62.9000 |
| EUR | 95.8888 | 88.6010 |
| CHF | 64.4631 | 59.4040 |

54. RISK MANAGEMENT

Undertaking of risk is at the core of the banking business and is of considerable significance for continued profitability of a bank. Risk is an inseparable part of banking and is managed through a process of continual identification, measurement, monitoring, minimising and setting of risk limits and through other types of control, including reporting within the set objectives of Kpmercijalna banka ad Beograd (hereinafter: the Bank).

The basic objectives that the Bank set for the risk manages system are the following: minimising the negative effects on financial result and equity within acceptable risk levels, maintaining the required level of capital adequacy, developing the Bank's activities in accordance with business opportunities and market development with a view to gaining competitive advantage.

Objectives and principles of risk management

The risk management system is set out in the following internal regulations:

- Risk Management Objectives and Principles,
- Risk Management Policies and Procedures,
- Special Instructions for Managing Individual Risks,
- Methodology for Managing Individual Risks.

Risk Management Objectives and Principles set out:

- Specific definitions of risks that the Bank uses,
- Long-term objectives related to an acceptable risk profile and exposure,
- Approaches to individual types of risks,
- Types of risk limits that the Bank will use,
- Principles for organising risk management,
- Principles of processes for internal measurement of capital adequacy.

Beside objectives the Bank also specified the basic principles of risk management for meeting its long-term objectives:

- Organizing of operation of a separate organizational unit for risk management at Bank level.
- Establishing explicit and clear rules for managing individual types of risks, with an associated set of policies and procedures for managing individual types of risks, with appropriate activity objectives at Bank level.
- Making business decisions based on quantitative and qualitative analyses that use applicable risk parameters.
- Collection of complete, timely and trustworthy data associated with risk management and provision of adequate resources for data storage and processing.
- Development of a quantitative modelling mechanism that allows for simulation and/or analysis of performance change measurement in business and market environments for the profile of the Bank's risk exposure and further influence on the Bank's liquidity, profitability and net value.

Policies and procedures for managing individual risks define in greater detail the process of managing risks, identification, measurement, minimising and risk monitoring.

Competencies

The *Managing Board* is authorized and responsible for establishing a uniform risk management system and for monitoring such system, adopting policies and procedures for risk management, as well as monitoring whether the Bank's Executive Board acts in accordance with adopted policies and procedures.

The *Executive Board* is authorized and responsible for the process of identification, assessment (estimation), monitoring and control of risks to which the Bank is exposed, as well as for implementation of risk management policies and procedures.

The *Audit Committee* is authorized and responsible for continued monitoring of application of risk management policies and procedures, and for implementing the system of internal controls.

The *Asset Liability Committee* is authorised and responsible for monitoring the Bank's risk exposure resulting from the structure of its receivables, payables and off-balance sheet items, as well as for proposing measures for managing interest and liquidity risks.

The *Credit Committee* is responsible for maintaining the Bank's optimal exposure to credit risk, and also performs other activities set out in the Bank's internal regulations.

The *Receivables Collections Committee* is authorised and responsible for managing risk loans, reaching decisions on write-off of risk loans up to set limits of authorisation and for recommending write-off of loans to the Executive Board and Managing Board through its limits of authorisation.

The *Risk Management Organisational Unit* is authorised and responsible for risk management, professional implementation of models and methodologies for identifying, measuring, monitoring and controlling risks, and for reporting of risk exposure, as well as for implementing risk management procedures. The Loan Risk Analysis Division is part of it and provides independent assessments of loan risk in the process of loan approval, including the Workout Team charged with the collection of risk loans.

The *Asset Management Division* is responsible for managing assets and liquidity, the Bank's assets and liabilities, their overall financial structure, and is primarily responsible for the Bank's liquidity risk, interest rate risk and foreign currency risk.

The *Internal Audit Division* is authorized and responsible for continual monitoring of implementation of risk management policies and procedures at Bank level, and tests the adequacy of procedures and the Bank's compliance with them. Internal Audit reports its findings and recommendations to the Audit Committee and the Managing Board.

Risk measurement and reporting

The Bank measures risk exposure using methods that reflect expected losses that can arise under normal circumstances, and unexpected losses that represent an estimate of the ultimately realized loss based on statistical models. These models use probabilities that are based on historical experience. The Bank also simulates scenarios that could arise in the event that extreme events do actually occur for which the probability of occurrence is not very high.

Risk monitoring and control is based on limits that are set by the Bank. They in turn depend on business strategy and the business environment, as well as on the level of risk that the Bank is ready to accept.

Risk management reports are regularly submitted to: the Bank's Managing Board, the Executive Board, the Audit Committee, the Asset and Liability Committee and the Credit Committee, and they contain all the information required for risk assessment and reaching of conclusions about the Bank's risks.

Types of risk

In its business operations the Bank is exposed to the following risks in particular: credit risk, liquidity risk, market risk and operating risk. Market risk comprises currency risk, interest rate risk and other market risks.

The process of independent control of risks does not include business risks such as changes in the environment, technology and industry, which are controlled via the Bank's strategic planning process.

54.1. CREDIT RISK

Credit risk is defined as the risk that liabilities will not be settled in respect of occurred debts, where the debtor will not pay principal, interest and processing charges. Given that loaning of funds to clients is the Bank's core commercial activity, quality and timely analysis and credit risk management increase operating reliability.

Credit risk comprises:

- Default risk – the risk of loss that can arise if a debtor fails to settle liabilities toward the Bank;
- Downgrade risk – the risk of loss that can arise if risk level of a debtor is downgraded (downgraded credit rating) under assets items that are recorded in the banking book;
- Risk of change in value of assets – the risk of loss that can arise on assets items that are recorded in the banking book in the event of a drop in their market value with respect to the price at which assets were acquired;
- Exposure risks – risks that can arise from the Bank's exposure toward a single individual, a group of related parties or to entities that are associated with the Bank.

The Bank managed credit risk both at client and related party group level, and at overall portfolio level. The Bank takes measures to guard against credit risk by identifying, measuring, minimising and monitoring credit risk, both at the level of individual placements and at overall portfolio level.

The actual process of credit risk management consists of:

- assessment of credit rating and financial position of the client;
- assessment of placements collaterals;
- linking interest rates to the risk group to which the client belongs;
- application of criteria that are defined by the internal rating system and setting up of a special provision for estimated losses, including an allowance for impairments;
- setting of limits for approval of placements for particular clients;
- setting of limits for approval of placements for organisational units of the Bank, different types of investments of the Bank, as well as for industrial sectors;
- monitoring of collection of receivables during the repayment period;
- client monitoring;
- placement risk management;
- Bank portfolio management;
- internal and external reporting;
- conducting of the process of internal assessment of capital adequacy.

In its effort to manage credit risk the Bank seeks to do business with clients that have good credit rating and to acquire appropriate collaterals as security for repayment. The Bank assesses creditworthiness of each client at the time of loan application and regularly monitors its debtors, placements and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables. Loan risk analysis draws on principles prescribed by the National Bank of Serbia's regulations and the Bank's internal procedures. Application of these principles allows the Bank to foresee potential risks that could result in the client's inability to settle liabilities as they fall due, in accordance with terms of loan contract.

The Bank defined the following system of decision-making for competencies for making decisions about credit risk exposure:

- First level of decision-making – Credit Committee at branch level
- Second level of decision-making – Credit Committee at branch level, with approval from risk management organizational unit
- Third level of decision-making – Credit Committee at HQ
- Fourth level of decision-making – Executive Board (with or without approval of Managing Board, depending on level of exposure).

In decision-making related to areas for crediting, irrespective of the decision-making level, the principle of double control, so-called "four eyes principle", is observed and ensures that there is always a party that proposes and a party that approves a particular loan. For each level of decision-making, excluding the first level, the opinion of the risk management organisational unit is required.

Besides loan exposures, the Bank also has off-balance sheet exposures (various types of callable and performance guarantees, letters of credit) that carry with them contingent liabilities which the Bank has for making payments to third parties. For off-balance sheet exposures the Bank uses the same control processes and procedures as for loans risks.

The Bank defines limits of exposure per individual types of risk with the objective of limiting and minimising risks to acceptable levels for the Bank's risk profile. The Bank's exposure limits to individual borrowers are based on the assessment of a borrower's credit rating. The Bank's exposure limits at portfolio level are directed at limiting exposure concentrations in the portfolio.

Credit risk measurement is based on two parallel approaches:

- regulatory approach
- internal approach.

The approach which is based on internally developed methods assumes that the Bank manages portfolio structure in a way that objectively assesses the need for placement impairment in accordance with International Accounting Standards (IAS 39 and IAS 37), International Financial Reporting Standards and internal methodology.

The Bank has developed an internal rating system which is regularly reviewed and developed.

54.1.1. Overall credit risk exposure

The greatest credit risk for the Bank arises from realized credit arrangements, although the Bank is also exposed to the risk of off-balance sheet items that is associated with contingent and undertaken liabilities. Overall credit risk exposure is expressed as a gross amount, before minimising effects of collaterals and impairments.

Overview of overall credit risk exposure by client type is provided below:

| In thousands of RSD | | 31/12/2009 | 31/12/2008 |
|---|--|---------------------------|---------------------------|
| I. Placements | | | |
| Corporate | | 88,376,636 | 80,411,669 |
| Banks | | 3,646,698 | 4,538,757 |
| Entrepreneurs | | 1,642,511 | 1,765,995 |
| Retail | | 37,858,928 | 34,724,008 |
| | | <u>131,524,773</u> | <u>121,440,429</u> |
| II. Securities | | | |
| Securities not recorded in the trading book | | 515,032 | 133,547 |
| Equity investments | | 3,075,180 | 3,003,290 |
| | | <u>3,590,212</u> | <u>3,136,837</u> |
| III. Off-balance sheet items | | | |
| Guarantees | | 10,589,586 | 9,415,407 |
| Unused commitments | | 9,979,430 | 13,625,109 |
| Other | | 1,947,941 | 2,417,309 |
| | | <u>22,516,957</u> | <u>25,457,825</u> |
| IV. Total, gross amount : | | <u><u>157,631,942</u></u> | <u><u>150,035,091</u></u> |

Overview of total loan risk exposure by loan and client type:

| In thousands of RSD | Corporate | | Banks | | Entrepreneurs | | Retail | | Total | |
|---|-------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|--------------------|--------------------|
| | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 |
| I. Loans | | | | | | | | | | |
| Short-term loans | 28,575,819 | 21,311,147 | - | 251,036 | 549,821 | 636,444 | 2,956,086 | 3,489,783 | 32,081,725 | 25,688,411 |
| Long-term loans | 46,149,118 | 47,661,932 | 1,054,777 | 1,506,217 | 821,550 | 846,222 | 33,521,756 | 30,291,834 | 81,547,200 | 80,306,206 |
| Deposits with banks | - | - | 185,311 | 175,993 | - | - | - | - | 185,311 | 175,993 |
| Receivables due | 9,144,853 | 7,591,362 | 443,891 | 418,396 | 187,256 | 204,758 | 1,144,401 | 819,756 | 10,920,400 | 9,034,271 |
| Interest and commission | 1,829,532 | 1,326,587 | 8,378 | 8,129 | 59,144 | 46,844 | 115,595 | 109,928 | 2,012,649 | 1,491,487 |
| Other assets | 2,677,314 | 2,520,642 | 1,954,341 | 2,178,986 | 24,741 | 31,727 | 121,091 | 12,706 | 4,777,487 | 4,744,061 |
| | <u>88,376,636</u> | <u>80,411,669</u> | <u>3,646,698</u> | <u>4,538,757</u> | <u>1,642,511</u> | <u>1,765,995</u> | <u>37,858,928</u> | <u>34,724,008</u> | <u>131,524,773</u> | <u>121,440,429</u> |
| II. Securities | | | | | | | | | | |
| Securities not recorded in the trading book | 129,445 | 133,547 | 385,587 | - | - | - | - | - | 515,032 | 133,547 |
| Equity investments | 739,023 | 662,485 | 2,336,157 | 2,340,804 | - | - | - | - | 3,075,180 | 3,003,290 |
| | <u>868,468</u> | <u>796,033</u> | <u>2,721,744</u> | <u>2,340,804</u> | | | | | <u>3,590,212</u> | <u>3,136,837</u> |

III. Off-balance sheet items

| | | | | | | | | | | |
|-------------------------------|--------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|--------------------|--------------------|
| Callable guarantees | 7,002,128 | 6,234,820 | 6,260 | 7,415 | 90,908 | 24,869 | - | - | 7,099,296 | 6,267,103 |
| Performance guarantees | 3,420,294 | 3,111,761 | - | - | 16,641 | 15,939 | 53,355 | 20,604 | 3,490,290 | 3,148,304 |
| Guaranteed bills of exchange | 304,535 | 657,048 | - | - | - | - | - | - | 304,535 | 657,048 |
| Unsecured letters of credit | 656,689 | 640,801 | - | - | - | 1,851 | - | - | 656,689 | 642,652 |
| Unused commitments | 3,327,294 | 5,212,020 | 4,199 | 24,504 | 161,106 | 213,175 | 6,486,831 | 8,175,410 | 9,979,430 | 13,625,109 |
| Other off-balance sheet items | 986,716 | 1,117,609 | - | - | - | - | - | - | 986,716 | 1,117,609 |
| | <u>15,697,658</u> | <u>16,974,059</u> | <u>10,459</u> | <u>31,919</u> | <u>268,654</u> | <u>255,834</u> | <u>6,540,186</u> | <u>8,196,014</u> | <u>22,516,957</u> | <u>25,457,825</u> |
| IV. Total, gross amount: | <u>104,942,762</u> | <u>98,181,761</u> | <u>6,378,901</u> | <u>6,911,480</u> | <u>1,911,166</u> | <u>2,021,828</u> | <u>44,399,113</u> | <u>42,920,022</u> | <u>157,631,942</u> | <u>150,035,091</u> |

54.1.2. Downgrade risk

The quality of the Bank's assets is measured by the level of exposure to individual risk categories according to internal rating system criteria. The internal rating system focuses on quantitative and qualitative parameters for assigning client ratings. The rating scale consists of 5 risk categories that are subdivided into 17 subcategories. The rating scale is used in a uniform method for assigning ratings which ensures that clients with the same rating have the same credit characteristics and the same probability of default, in part or in full, over the period of one year. The basic parameters of credit risk used in determining a risk subcategory are calculated and monitored on a monthly basis.

A low level of risk implies doing business with clients with a high credit rating (risk categories 1 and 2), increased level of risk implies doing business with clients with operating difficulties that could have a negative impact on the settlement of liabilities (risk category 3), and a high level of risk characterizes clients with negative operating results and poor credit rating (risk categories 4 and 5).

The Bank guards against downgrade risk through continual monitoring of clients' business operations and identifying changes that could arise through: deterioration of a borrower's position, delays in repayment and changes in the business environment, as well as securing of appropriate collaterals.

Overall credit risk exposure per risk categories and client types, based on Internal Rating System criteria

| In thousands of RSD | Corporate | | Banks | | Entrepreneurs | | Retail | | Total | |
|-----------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|--------------------|--------------------|
| | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 |
| I. Placement | | | | | | | | | | |
| Category 1 | 8,856,969 | 10,133,377 | 1,614,617 | 745,640 | 649,743 | 177,641 | 34,480,231 | 31,260,567 | 45,601,560 | 42,317,225 |
| Category 2 | 43,909,072 | 39,754,230 | 688,389 | 2,550,342 | 669,541 | 940,568 | 586,586 | 1,086,075 | 45,853,587 | 44,331,215 |
| Category 3 | 20,853,081 | 17,113,286 | - | 20 | 41,338 | 248,767 | 392,886 | 517,983 | 21,287,305 | 17,880,057 |
| Category 4 | 1,669,187 | 2,320,583 | - | 4 | 78,744 | 216,847 | 494,481 | 678,889 | 2,242,411 | 3,216,324 |
| Category 5 | <u>13,088,328</u> | <u>11,090,193</u> | <u>1,343,693</u> | <u>1,242,750</u> | <u>203,145</u> | <u>182,171</u> | <u>1,904,743</u> | <u>1,180,493</u> | <u>16,539,908</u> | <u>13,695,608</u> |
| | <u>88,376,636</u> | <u>80,411,669</u> | <u>3,646,698</u> | <u>4,538,757</u> | <u>1,642,511</u> | <u>1,765,995</u> | <u>37,858,928</u> | <u>34,724,008</u> | <u>131,524,773</u> | <u>121,440,429</u> |
| II. Securities | | | | | | | | | | |
| Category 1 | 349,372 | 261,318 | 1,338,970 | 46,606 | - | - | - | - | 1,688,343 | 307,924 |
| Category 2 | - | - | 1,380,899 | 2,282,352 | - | - | - | - | 1,380,899 | 2,282,352 |
| Category 3 | 131,115 | 137,464 | - | - | - | - | - | - | 131,115 | 137,464 |
| Category 4 | 25,255 | 72,159 | - | - | - | - | - | - | 25,255 | 72,159 |
| Category 5 | <u>362,726</u> | <u>325,092</u> | <u>1,874</u> | <u>11,846</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>364,600</u> | <u>336,938</u> |
| | <u>868,468</u> | <u>796,033</u> | <u>2,721,744</u> | <u>2,340,804</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,590,212</u> | <u>3,136,837</u> |

III. Off-balance sheet items

| | | | | | | | | | | |
|--------------------------|--------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|--------------------|--------------------|
| Category 1 | 3,778,570 | 3,940,436 | 10,262 | 5,540 | 104,922 | 86,096 | 6,386,439 | 7,926,639 | 10,280,193 | 11,958,711 |
| Category 2 | 7,324,170 | 8,910,953 | 198 | 24,263 | 131,928 | 85,309 | 30,438 | 112,353 | 7,486,734 | 9,132,878 |
| Category 3 | 3,988,933 | 2,595,062 | - | - | 3,474 | 23,318 | 35,995 | 57,555 | 4,028,401 | 2,675,934 |
| Category 4 | 124,554 | 1,123,838 | - | 2,115 | 26,624 | 60,870 | 40,616 | 48,657 | 191,794 | 1,235,481 |
| Category 5 | 481,431 | 403,770 | - | - | 1,706 | 241 | 46,698 | 50,811 | 529,835 | 454,821 |
| | <u>15,697,658</u> | <u>16,974,059</u> | <u>10,459</u> | <u>31,919</u> | <u>268,654</u> | <u>255,834</u> | <u>6,540,186</u> | <u>8,196,014</u> | <u>22,516,957</u> | <u>25,457,825</u> |
| IV. Total, gross amount: | <u>104,942,762</u> | <u>98,181,761</u> | <u>6,378,901</u> | <u>6,911,480</u> | <u>1,911,166</u> | <u>2,021,828</u> | <u>44,399,113</u> | <u>42,920,022</u> | <u>157,631,942</u> | <u>150,035,091</u> |

Credit risk exposure by days overdue:

| In thousands of RSD 31/12/2009 | Receivables not due | Receivables overdue | | | | | Total | Total receivables |
|-----------------------------------|---------------------|---------------------|----------------|----------------|----------------|------------------|-------------------|--------------------|
| | | Up to 30 days | 31-60 days | 61-90 days | 91-180 days | over 180 days | | |
| Corporate | 77,402,251 | 1,410,150 | 376,937 | 186,884 | 361,395 | 8,639,019 | 10,974,385 | 88,376,636 |
| Banks | 3,194,429 | 2,408 | 1 | - | - | 449,860 | 452,269 | 3,646,698 |
| Entrepreneurs | 1,396,111 | 36,508 | 10,417 | 5,037 | 16,848 | 177,590 | 246,400 | 1,642,511 |
| Retail | 36,598,932 | 433,588 | 45,357 | 39,101 | 117,546 | 624,404 | 1,259,996 | 37,858,928 |
| Total: | <u>118,591,724</u> | <u>1,882,654</u> | <u>432,712</u> | <u>231,022</u> | <u>495,789</u> | <u>9,890,873</u> | <u>12,933,049</u> | <u>131,524,773</u> |
| 31/12/2008 | | | | | | | | |
| Corporate | 71,493,747 | 1,296,620 | 363,819 | 227,191 | 445,524 | 6,584,768 | 8,917,922 | 80,411,669 |
| Banks | 4,112,205 | 1,742 | 52 | 22 | 45 | 424,690 | 426,552 | 4,538,757 |
| Entrepreneurs | 1,514,393 | 58,363 | 8,847 | 3,289 | 5,768 | 175,336 | 251,602 | 1,765,995 |
| Retail | 33,794,324 | 133,324 | 38,502 | 33,339 | 83,888 | 640,632 | 929,683 | 34,724,008 |
| Total: | <u>110,914,669</u> | <u>1,490,049</u> | <u>411,220</u> | <u>263,841</u> | <u>535,225</u> | <u>7,825,426</u> | <u>10,525,759</u> | <u>121,440,429</u> |

54.1.3 Risk of change in value of assets

Impairment of placements is intended to ensure reasonable, cautious and timely registering of losses arising from loan impairments, as well as to intervene in respect of contingent liabilities with a view to protecting the Bank in the period when the loss occurs and is definitely confirmed (realised), due to inability to collect contracted amounts or through outflow of assets to settle contingent liabilities.

Impairment of placements and provisions are made when there is justification and objective proof of impairment as the result of events that occurred after initial recognition of a loan, and that have a negative effect on future cash flows associated with a loan.

Key elements in assessing impairment of placements are as follows:

- overdue payments on principal or interest,
- does the loan beneficiary have cash flow difficulties,
- has credit rating deteriorated or has a change occurred in initial terms of contract, etc.

Assessment of impairment of receivables

The Bank assesses impairment of placements on an individual and on a group basis.

Individual assessment

The Bank assesses impairment of each individually significant placement (over 6 million dinars) and considers the financial position of the loan beneficiary, sustainability of his business plan, his ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. In the even of new information coming to light that significantly alters a client's creditworthiness, value of collateral and likelihood of settlement of liabilities toward the Bank, *ad hoc* assessment of loan impairment is performed.

Group assessment

Impairment is assessed on a group basis for placements that are not individually significant and for individually significant placements and advances, when there is no objective evidence of individual impairment. Group assessment is performed monthly by groups that are determined based on internal methodology. Impairment losses are assessed by considering the following information: historical losses in the portfolio, current economic conditions, compensation of impairment.

Impairment of placements is based on assessment of expected future cash flows from doing business with a client, as well as from collateral realisation, if it is assessed that loans can be realistically settled from such assets.

Impairment of loans decreases the value of loans and is recognised as an expense in the income statement.

Overview of assessment of individual and group impairment of receivables

| In thousands of RSD | Corporate | | Banks | | Entrepreneurs | | Retail | | Securities | | Total | |
|---|-------------|-------------|-------------|-------------|---------------|------------|-------------|-------------|------------|------------|--------------|--------------|
| | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 |
| | | | | | | | | | | | | |
| I. Individual provision | | | | | | | | | | | | |
| Category 1 | - | - | - | 36 | - | - | 41,804 | - | - | - | 41,804 | 36 |
| Category 2 | 41,315,193 | 37,036,561 | 635,401 | 46 | 207,602 | 72 | 25,127 | - | 78,386 | 78,386 | 42,261,710 | 37,115,065 |
| Category 3 | 20,554,761 | 15,468,656 | - | - | 14,719 | 4 | 35,044 | - | 131,115 | 135,217 | 20,735,640 | 15,603,877 |
| Category 4 | 1,540,243 | 2,042,222 | - | - | 45,485 | 2 | 60,956 | - | - | 37,634 | 1,646,685 | 2,079,857 |
| Category 5 | 12,383,966 | 10,666,105 | 1,342,491 | 1,347,939 | 90,684 | 138,948 | 270,157 | - | 364,600 | 336,938 | 14,451,897 | 12,489,930 |
| Gross amount | 75,794,163 | 65,213,544 | 1,977,892 | 1,348,020 | 358,490 | 139,026 | 433,089 | - | 574,102 | 588,175 | 79,137,736 | 67,288,765 |
| Provision | (9,600,920) | (9,219,635) | (1,448,011) | (1,347,956) | (106,957) | (138,955) | (268,545) | - | (372,093) | (381,782) | (11,796,527) | (11,088,328) |
| Carrying amount | 66,193,243 | 55,993,909 | 529,881 | 64 | 251,533 | 71 | 164,544 | - | 202,009 | 206,393 | 67,341,209 | 56,200,437 |
| II. Group provision | | | | | | | | | | | | |
| Category 1 | 15,033 | 152,855 | - | - | 1,332 | 14,854 | 317,090 | 41,476 | - | - | 333,454 | 209,185 |
| Category 2 | 2,589,834 | 2,294,503 | - | - | 462,574 | 15,031 | 420,869 | 746,008 | - | - | 3,473,277 | 3,055,542 |
| Category 3 | 293,494 | 516,669 | - | - | 26,619 | 13,706 | 284,026 | 416,034 | - | - | 604,138 | 946,408 |
| Category 4 | 128,817 | 125,978 | - | - | 33,328 | 37,702 | 358,783 | 546,953 | - | - | 520,928 | 710,633 |
| Category 5 | 691,581 | 608,067 | - | - | 111,925 | 37,500 | 1,410,893 | 1,079,596 | - | - | 2,214,398 | 1,725,163 |
| Gross amount | 3,718,758 | 3,698,072 | - | - | 635,778 | 118,793 | 2,791,660 | 2,830,067 | - | - | 7,146,196 | 6,646,932 |
| Provision | (698,050) | (614,845) | - | - | (137,550) | (59,184) | (1,364,935) | (1,175,426) | - | - | (2,200,535) | (1,849,455) |
| Carrying amount | 3,020,708 | 3,083,226 | - | - | 498,227 | 59,609 | 1,426,725 | 1,654,641 | - | - | 4,945,661 | 4,797,476 |
| III. Unprovisioned loans overdue | | | | | | | | | | | | |
| Category 1 | 135,306 | 95,255 | 2,408 | 2 | 15,612 | 4,882 | 127,018 | 120,690 | - | - | 280,344 | 220,829 |
| Category 2 | 224 | 2,296 | - | 1,774 | 259 | 28,657 | 2,508 | 4,385 | - | - | 2,991 | 37,112 |
| Category 3 | 299 | 2,404 | - | 20 | - | 6,918 | 1,546 | 1,395 | - | - | 1,845 | 10,737 |
| Category 4 | 101 | 7,151 | - | 5 | 70 | 2,903 | 1,002 | 1,068 | - | - | 1,173 | 11,127 |
| Category 5 | 2,895 | 543 | - | 275 | 2 | 190 | 9,330 | 1,743 | - | - | 12,227 | 2,751 |
| Gross amount | 138,825 | 107,650 | 2,408 | 2,075 | 15,943 | 43,550 | 141,404 | 129,282 | - | - | 298,580 | 282,557 |

Unprovisioned loans overdue comprise:

| | | | | | | | | | | | | |
|-----------------|---------|---------|-------|-------|--------|--------|---------|---------|---|---|---------|---------|
| 0-30 days | 130,757 | 100,496 | 2,408 | 1,659 | 14,887 | 39,685 | 137,664 | 123,051 | - | - | 285,715 | 264,892 |
| 31-60 days | 2,855 | 1,781 | - | 42 | 194 | 2,688 | 702 | 2,954 | - | - | 3,750 | 7,465 |
| 61-90 days | 541 | 929 | - | 22 | 131 | - | 223 | 917 | - | - | 896 | 1,867 |
| 91-180 days | 419 | 659 | - | 23 | 244 | 4 | 566 | 677 | - | - | 1,229 | 1,363 |
| over 180 days | 4,254 | 3,784 | - | 330 | 487 | 1,173 | 2,249 | 1,683 | - | - | 6,989 | 6,970 |
| Carrying amount | 138,825 | 107,650 | 2,408 | 2,075 | 15,943 | 43,550 | 141,404 | 129,282 | - | - | 298,580 | 282,557 |

IV. Unprovisioned loans not due

| | | | | | | | | | | | | |
|-------------------------|--------------|-------------|-------------|-------------|-----------|-----------|-------------|-------------|-----------|-----------|--------------|--------------|
| Category 1 | 8,706,633 | 9,810,078 | 1,612,209 | 640,143 | 631,386 | 157,905 | 33,994,320 | 31,102,221 | 1,688,343 | 307,924 | 46,633,642 | 42,018,271 |
| Category 2 | 3,821 | 420,870 | 52,987 | 2,548,518 | 376 | 896,808 | 138,082 | 335,728 | 1,302,513 | 2,203,965 | 1,497,027 | 6,405,889 |
| Category 3 | 4,524 | 1,125,557 | - | - | - | 228,140 | 72,270 | 99,887 | - | 2,246 | 76,795 | 1,455,830 |
| Category 4 | 26 | 11,641 | - | - | - | 176,240 | 73,739 | 124,841 | 25,255 | 34,526 | 99,020 | 347,248 |
| Category 5 | 9,887 | 24,258 | 1,202 | - | 538 | 5,533 | 214,363 | 101,982 | - | - | 225,990 | 131,773 |
| Carrying amount | 8,724,890 | 11,392,404 | 1,666,398 | 3,188,661 | 632,300 | 1,464,626 | 34,492,775 | 31,764,659 | 3,016,110 | 2,548,662 | 48,532,474 | 50,359,011 |
| V. Total, gross amount: | 88,376,636 | 80,411,669 | 3,646,698 | 4,538,757 | 1,642,511 | 1,765,995 | 37,858,928 | 34,724,008 | 3,590,212 | 3,136,837 | 135,114,985 | 124,577,266 |
| VI. Provision | (10,298,970) | (9,834,481) | (1,448,011) | (1,347,956) | (244,508) | (198,139) | (1,633,480) | (1,175,426) | (372,093) | (381,782) | (13,997,062) | (12,937,785) |
| VII. Total, net amount: | 78,077,666 | 70,577,188 | 2,198,687 | 3,190,801 | 1,398,004 | 1,567,856 | 36,225,447 | 33,548,581 | 3,218,119 | 2,755,055 | 121,117,923 | 111,639,481 |

Assessment of provisions for off-balance sheet items

Assessment of provisions for off-balance sheet items (contingent liabilities) is performed when it is estimated that the expectation is fairly certain that an outflow of assets will occur for settling contingent liabilities.

In assessing provisions for contingent losses on off-balance sheet items, assets resulting from collateral realisation are recognised if it is completely certain that cash outflows for contingent liabilities will be settled from collaterals.

Provisions for losses on off-balance sheet items

| In thousands of RSD | Corporate | | Banks | | Entrepreneurs | | Retail | | Total | |
|---|------------|------------|------------|------------|---------------|------------|------------|------------|------------|------------|
| | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 |
| I. Provisions for off-balance sheet items | | | | | | | | | | |
| Category 1 | - | 1,579 | - | - | - | - | - | - | - | 1,579 |
| Category 2 | 4,916,005 | 21,086 | - | - | 65,110 | - | - | - | 4,981,115 | 21,086 |
| Category 3 | 3,698,140 | 1,698,921 | - | - | 1,763 | 6,191 | - | - | 3,699,903 | 1,705,112 |
| Category 4 | 53,183 | 796,458 | - | 2,115 | 4,142 | 4,718 | - | - | 57,325 | 803,291 |
| Category 5 | 474,603 | 352,141 | - | - | - | - | - | - | 474,603 | 352,141 |
| Carrying amount, before provision | 9,141,932 | 2,870,186 | - | 2,115 | 71,015 | 10,909 | - | - | 9,212,947 | 2,883,210 |
| Provision for losses | (448,006) | (467,194) | - | (182) | (156) | (407) | - | - | (448,162) | (467,783) |
| Carrying amount, after provision | 8,693,926 | 2,402,992 | - | 1,934 | 70,859 | 10,502 | - | - | 8,764,785 | 2,415,427 |

II. Unimpaired off-balance sheet items

| | | | | | | | | | | |
|-------------------------------|-------------------|-------------------|---------------|---------------|----------------|----------------|------------------|------------------|-------------------|-------------------|
| Category 1 | 3,778,570 | 3,938,857 | 10,262 | 5,540 | 104,922 | 86,096 | 6,386,439 | 7,927,192 | 10,280,193 | 11,957,686 |
| Category 2 | 2,408,165 | 8,889,867 | 198 | 24,263 | 66,818 | 85,309 | 30,438 | 112,393 | 2,505,619 | 9,111,832 |
| Category 3 | 290,793 | 896,141 | - | - | 1,710 | 17,126 | 35,995 | 57,555 | 328,498 | 970,823 |
| Category 4 | 71,370 | 327,380 | - | - | 22,483 | 56,153 | 40,616 | 48,657 | 134,469 | 432,189 |
| Category 5 | <u>6,828</u> | <u>51,628</u> | <u>-</u> | <u>-</u> | <u>1,706</u> | <u>241</u> | <u>46,698</u> | <u>50,217</u> | <u>55,232</u> | <u>102,086</u> |
| Carrying amount | <u>6,555,726</u> | <u>14,103,873</u> | <u>10,459</u> | <u>29,803</u> | <u>197,639</u> | <u>244,925</u> | <u>6,540,186</u> | <u>8,196,014</u> | <u>13,304,010</u> | <u>22,574,615</u> |
| III. Total, before provision: | <u>15,697,658</u> | <u>16,974,059</u> | <u>10,459</u> | <u>31,919</u> | <u>268,654</u> | <u>255,834</u> | <u>6,540,186</u> | <u>8,196,014</u> | <u>22,516,957</u> | <u>25,457,825</u> |
| IV. Provision for losses | <u>(448,006)</u> | <u>(467,194)</u> | <u>-</u> | <u>(182)</u> | <u>(156)</u> | <u>(407)</u> | <u>-</u> | <u>-</u> | <u>(448,162)</u> | <u>(467,783)</u> |
| V. Total, after provision: | <u>15,249,652</u> | <u>16,506,865</u> | <u>10,459</u> | <u>31,737</u> | <u>268,498</u> | <u>255,426</u> | <u>6,540,186</u> | <u>8,196,014</u> | <u>22,068,795</u> | <u>24,990,042</u> |

54.1.4. Default risk

Total receivables from borrowers that are overdue for longer than 90 days are considered risk placements, including placements to clients with whom changes have been noted that could significantly impact ability of settling the borrowers liabilities toward the Bank.

The Bank undertakes the following measures for settling receivables:

- Out of court settlement.
- Confiscation of goods and real-estate property in order to collect the Bank's receivables.
- Sale of receivable.
- Concluding a contracted with an interested third party.
- Reprogramming or restructuring.
- Initiation of court proceedings and other measures.

In the event that measures undertaken for settling placements, including forced collection and initiation of court proceedings, do not give the desired results, and when it is not possible to collect a receivable in full, recommendation is made for write-off of the remaining part of the Bank's receivable.

Overview of risk placements by client type:

| In thousands of RSD | 31/12/2009 | | 31/12/2008 | |
|---------------------|-------------------|------------------|-------------------|------------------|
| | Gross | Net | Gross | Net |
| Corporate | 14,884,046 | 3,974,384 | 13,901,266 | 3,721,928 |
| Banks | 1,451,030 | 1,202 | 1,240,263 | 46,862 |
| Entrepreneurs | 266,693 | 54,288 | 198,462 | 16,171 |
| Retail | <u>2,328,093</u> | <u>819,967</u> | <u>1,882,367</u> | <u>814,254</u> |
| Total: | <u>18,929,862</u> | <u>4,849,840</u> | <u>17,222,358</u> | <u>4,599,215</u> |

Risk placements comprise the Bank's total (balance sheet and off-balance sheet) receivables from clients, reduced for impairments of balance sheet assets and provisions for losses on off-balance sheet items.

Overview of risk placements per client type and risk category, based on internal rating system criteria:

| In thousands of RSD | Corporate | | Banks | | Entrepreneurs | | Retail | | Total | |
|---------------------|-------------------|------------------|------------------|---------------|----------------|---------------|------------------|----------------|-------------------|------------------|
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| 31/12/2009 | | | | | | | | | | |
| Category 4 | 672,759 | 391,445 | - | - | 62,204 | 20,513 | 488,853 | 424,153 | 1,223,816 | 836,111 |
| Category 5 | 13,865,011 | 3,240,405 | 1,451,030 | 1,202 | 204,140 | 33,438 | 1,834,382 | 391,038 | 17,354,563 | 3,666,083 |
| Other | 346,276 | 342,534 | - | - | 349 | 337 | 4,858 | 4,775 | 351,483 | 347,646 |
| Total | 14,884,046 | 3,974,384 | 1,451,030 | 1,202 | 266,693 | 54,288 | 2,328,093 | 819,967 | 18,929,862 | 4,849,840 |
| 31/12/2008 | | | | | | | | | | |
| Category 4 | 2,180,400 | 1,870,681 | - | - | 19,312 | 10,633 | 693,780 | 531,629 | 2,893,492 | 2,412,944 |
| Category 5 | 11,350,514 | 1,488,739 | 1,240,263 | 46,862 | 176,401 | 3,423 | 1,185,739 | 280,499 | 13,952,917 | 1,819,523 |
| Other | 370,352 | 362,508 | - | - | 2,749 | 2,115 | 2,848 | 2,126 | 375,949 | 366,748 |
| Total | 13,901,266 | 3,721,928 | 1,240,263 | 46,862 | 198,462 | 16,171 | 1,882,367 | 814,254 | 17,222,358 | 4,599,215 |

Indicators of asset quality:

- The ratio of risk loans amounts to 11.74% (31/12/2008: 11.88%) and represents the ratio between the balance of overdue loans by over 90 days and the balance of all loans released by the Bank. The loan portfolio includes loans approved before the Bank's reorganisation, i.e. 31 December 2004, representing so-called old loans. If these loans were excluded from risk loans, the credit risk ration would amount to 6.61%.
- The ratio of loan impairment amounts to 1.04% (31/12/2008: 1.23%) and represents the ratio between total allowance for impairment in 2009 and the total amount of loans granted.
- The loan exposure ratio amounts to 21.70% (31/12/2008: 22.45%). This ratio indicates the ratio between the net balance of overdue loans by over 90 days (balance of loans with provisions for losses) and the statutory amount of the Bank's capital. If old loans are excluded from loans that are overdue by over 90 days (risk loans approved before 31 December 2004 and their related provisions for impairment losses) the ratio amounts to 13.88%.
- The ratio of coverage of risk loans by provisions for impairment losses amounts to 68.69% (31/12/2008: 67.32%).

54.1.5. Collateral

For the purpose of guarding against credit risk exposure, beside regular monitoring of a client's business, the Bank also acquires collaterals which it uses to secure receivables and to minimize credit risk. Depending on the assessment of ability to settle contractual liabilities, the level of coverage of a placement is defined such that in case of client default, activated collateral can be used realistically to settle a receivable. The quantity and type of collateral depends on the assessed credit risk.

As a standard type of loan security the Bank receives from clients contractual authorizations for account withdrawals and bills of exchange, while additional collateral is contracted, depending on credit risk assessment:

- for corporate loans – pledges over movable and immovable property (mortgages), deposits, bank and corporate guarantees, sureties, securities, etc.
- for retail loans – residential building mortgages, deposits, guarantees of joint debtors, insurance from the National Mortgage Insurance Corporation.

Valuation of real-estate property or pledges over immovable property is based on valuation performed by a certified appraiser, with a view to reducing the potential risk of unrealistic valuation to a minimum.

The Bank monitors the market value of collaterals and, when needed, it can require additional collateral based on terms of contract.

The Bank's policy is that receivables can be settled from collaterals and proceeds can be used to reduce or repay a debt. The Bank does not use confiscated property for business purposes, except under special circumstances.

Overview of value of collaterals at fair value

| In thousands of RSD | Corporate | | Banks | | Entrepreneurs | | Retail | | Total | |
|---------------------|--------------------|--------------------|--------------|--------------|------------------|------------------|-------------------|-------------------|--------------------|--------------------|
| | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 |
| Mortgages | 205,901,745 | 169,766,471 | - | - | 2,675,220 | 2,503,995 | 27,564,901 | 22,709,429 | 236,141,866 | 194,979,896 |
| Deposits | 1,689,632 | 1,154,504 | - | - | 72,810 | 25,531 | 2,172,822 | 2,606,568 | 3,935,264 | 3,786,604 |
| Bonds | 2,969 | 5,381 | - | - | - | - | 15,035 | 12,867 | 18,004 | 18,248 |
| Guarantees | 6,452,673 | 3,028,029 | 2,289 | 2,115 | 1,870 | 1,196 | 55,901 | 32,246 | 6,512,733 | 3,063,587 |
| Pledged securities | 74,750,540 | 67,442,990 | - | - | 788 | 2,593 | 239,682 | 215,382 | 74,991,010 | 67,660,964 |
| Pledged property | 39,520,812 | 36,729,477 | - | - | 332,057 | 327,764 | 1,524,934 | 289,686 | 41,377,803 | 37,346,927 |
| Other | 50,426,007 | 37,643,975 | - | - | 261,968 | 73,578 | 9,790,678 | 7,117,330 | 60,478,653 | 44,834,882 |
| Total: | 378,744,378 | 315,770,827 | 2,289 | 2,115 | 3,344,713 | 2,934,657 | 41,363,953 | 32,983,508 | 423,455,333 | 351,691,108 |

Overview of received collaterals per loan groups at fair:

| In thousands of RSD | Corporate | | Banks | | Entrepreneurs | | Retail | | Total | |
|------------------------------------|--------------------|--------------------|------------|------------|------------------|------------------|------------------|-------------------|--------------------|--------------------|
| | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 | 31/12/2009 | 31/12/2008 |
| I. Individual provisions | | | | | | | | | | |
| Mortgages | 172,814,570 | 137,720,989 | - | - | 1,120,578 | 369,875 | 171,455 | - | 174,106,603 | 138,090,864 |
| Deposits | 1,259,528 | 970,886 | - | - | 1,918 | - | - | - | 1,261,445 | 970,886 |
| Bonds | - | 40 | - | - | - | - | - | - | - | 40 |
| Guarantees | 5,413,603 | 2,515,502 | - | - | - | - | - | - | 5,413,603 | 2,515,502 |
| Pledged securities | 74,004,389 | 66,619,141 | - | - | - | - | - | - | 74,004,389 | 66,619,141 |
| Pledged property | 32,960,699 | 30,762,222 | - | - | 226,850 | 211,830 | 1,515 | - | 33,189,064 | 30,974,052 |
| Other | 34,055,552 | 30,060,102 | - | - | 9,592 | 0 | 45,688 | - | 34,110,831 | 30,060,102 |
| Total: | 320,508,340 | 268,648,882 | - | - | 1,358,937 | 581,705 | 218,659 | - | 322,085,936 | 269,230,587 |
| II. Group provisions | | | | | | | | | | |
| Mortgages | 9,139,012 | 7,987,213 | - | - | 651,909 | 64,466 | 1,294,176 | 2,181,345 | 11,085,098 | 10,233,024 |
| Deposits | 154,140 | 69,830 | - | - | 21,894 | 1,376 | 298,406 | 293,417 | 474,440 | 364,623 |
| Bonds | 2,969 | 2,598 | - | - | - | - | 5,821 | 3,706 | 8,790 | 6,304 |
| Guarantees | 8,339 | 12,573 | - | - | 1,870 | - | 633 | 512 | 10,842 | 13,085 |
| Pledged securities | 78,490 | 349,851 | - | - | 788 | 788 | - | - | 79,278 | 350,638 |
| Pledged property | 1,660,708 | 1,297,014 | - | - | 43,262 | 5,939 | 19,996 | 13,165 | 1,723,966 | 1,316,118 |
| Other | 1,047,357 | 135,798 | - | - | 142,699 | 1,698 | 215,519 | 105,616 | 1,405,574 | 243,113 |
| Total: | 12,091,015 | 9,854,877 | - | - | 862,422 | 74,267 | 1,834,552 | 2,597,761 | 14,787,988 | 12,526,904 |
| III. Uprovisioned loans due | | | | | | | | | | |
| Mortgages | 13,420,713 | 16,600,122 | - | - | 793,436 | 948,758 | 6,036,985 | 16,158,591 | 20,251,134 | 33,707,472 |
| Deposits | 107,044 | 78,404 | - | - | 38,696 | 19,464 | 520,130 | 1,440,388 | 665,870 | 1,538,256 |
| Bonds | - | 2,743 | - | - | - | - | 3,914 | 7,157 | 3,914 | 9,900 |
| Guarantees | 76,711 | 357,905 | - | - | - | 531 | 28,771 | 5,797 | 105,483 | 364,233 |
| Pledged securities | 606,221 | 387,720 | - | - | - | 1,806 | 4,163 | 214,141 | 610,384 | 603,666 |
| Pledged property | 1,926,691 | 2,081,003 | - | - | 51,681 | 81,097 | 259,360 | 144,728 | 2,237,731 | 2,306,828 |
| Other | 3,057,685 | 4,291,665 | - | - | 85,522 | 59,312 | 2,502,645 | 5,390,583 | 5,645,851 | 9,741,561 |
| Total: | 19,195,065 | 23,799,562 | - | - | 969,334 | 1,110,969 | 9,355,967 | 23,361,385 | 29,520,366 | 48,271,916 |

IV. Unprovisioned
loans not due

| | | | | | | | | | | |
|--------------------|-------------|-------------|-------|-------|-----------|-----------|------------|------------|-------------|-------------|
| Mortgages | 10,527,449 | 7,458,148 | - | - | 109,297 | 1,120,895 | 20,062,285 | 4,369,493 | 30,699,032 | 12,948,536 |
| Deposits | 168,920 | 35,383 | - | - | 10,303 | 4,691 | 1,354,286 | 872,763 | 1,533,509 | 912,838 |
| Bonds | - | - | - | - | - | - | 5,301 | 2,005 | 5,301 | 2,005 |
| Guarantees | 954,020 | 142,050 | 2,289 | 2,115 | - | 665 | 26,496 | 25,938 | 982,806 | 170,768 |
| Pledged securities | 61,439 | 86,278 | - | - | - | - | 235,519 | 1,240 | 296,959 | 87,519 |
| Pledged property | 2,972,714 | 2,589,238 | - | - | 10,264 | 28,898 | 1,244,063 | 131,793 | 4,227,042 | 2,749,929 |
| Other | 12,265,415 | 3,156,410 | - | - | 24,156 | 12,568 | 7,026,826 | 1,621,130 | 19,316,396 | 4,790,107 |
| Total: | 26,949,957 | 13,467,507 | 2,289 | 2,115 | 154,021 | 1,167,717 | 29,954,776 | 7,024,362 | 57,061,043 | 21,661,702 |
| V. Total: | 378,744,378 | 315,770,827 | 2,289 | 2,115 | 3,344,713 | 2,934,657 | 41,363,953 | 32,983,508 | 423,455,333 | 351,691,108 |

54.1.6. Concentration risk

The Bank controls concentration risk by limiting and monitoring exposure to particular groups, above all by client and loan types, industrial sectors, geographical areas and borrower's country of origin.

Overview of credit risk exposure per client type:

| In thousands of RSD | 31/12/2009 | | 31/12/2008 | |
|----------------------------------|-------------|-------------|-------------|-------------|
| | Gross | Net | Gross | Net |
| Small companies | 4,493,139 | 3,844,940 | 5,849,375 | 5,348,640 |
| Small and medium-sized companies | 30,672,282 | 26,371,675 | 30,930,530 | 26,601,211 |
| Corporate clients | 62,418,622 | 58,341,404 | 53,353,581 | 50,080,053 |
| Banks | 6,378,901 | 4,923,528 | 6,911,480 | 5,546,009 |
| Retail | 44,399,113 | 42,765,633 | 42,920,022 | 41,744,596 |
| Other | 9,269,885 | 6,939,538 | 10,070,103 | 7,309,014 |
| Total, gross amount: | 157,631,942 | 143,186,718 | 150,035,091 | 136,629,523 |

Overview of credit risk exposure per industrial sectors:

| In thousands of RSD | Category 1 | Category 2 | Category 3 | Category 4 | Category 5 | Total | Total |
|--|------------|------------|------------|------------|------------|------------|------------|
| | | | | | | 31/12/2009 | 31/12/2008 |
| Banking sector | 3,712,974 | 2,096,335 | 928,940 | 395 | 1,352,856 | 8,091,500 | 8,376,551 |
| Sector of corporate clients, public and other companies | | | | | | | |
| • Agriculture, hunting, forestry, waterworks and fisheries | 728,188 | 2,955,661 | 760,355 | 11,716 | 770,727 | 5,226,646 | 4,910,060 |
| • Processing industries | 5,294,290 | 14,766,234 | 6,271,081 | 1,176,148 | 8,122,692 | 35,630,445 | 32,495,178 |
| • Manufacturing and supply of electrical energy, natural gas and water | 6,340 | 789,517 | 163,809 | 438 | 23 | 960,127 | 1,351,837 |
| • Construction | 1,371,778 | 3,734,578 | 1,503,588 | 16,889 | 1,273,540 | 7,900,373 | 8,862,815 |
| • Wholesale and retail | 2,716,759 | 18,348,303 | 8,610,759 | 566,051 | 1,918,781 | 32,160,654 | 29,891,649 |
| • Service industries | 457,618 | 2,554,389 | 3,267,671 | 15,106 | 597,821 | 6,892,606 | 4,890,109 |
| • Education, healthcare and social services | 10,862 | 41,662 | 3,108 | 776 | 420,189 | 476,597 | 499,046 |
| • Real-estate related activities | 423,609 | 3,874,935 | 2,820,148 | 19,900 | 681,365 | 7,819,957 | 7,769,544 |
| | 11,009,444 | 47,065,279 | 23,400,520 | 1,807,023 | 13,785,138 | 97,067,404 | 90,670,238 |

| | | | | | | | |
|---|-------------------|-------------------|-------------------|------------------|-------------------|--------------------|--------------------|
| Entrepreneurial sector | 754,666 | 801,470 | 44,812 | 105,368 | 204,851 | 1,911,166 | 2,021,828 |
| Public sector | 762,838 | 32,776 | 6,453 | 990 | 30,051 | 833,108 | 827,935 |
| Retail sector | 40,866,671 | 617,024 | 428,881 | 535,096 | 1,951,442 | 44,399,113 | 42,920,022 |
| Foreign client sector (excluding banks) | 421,910 | 4,007,159 | - | 6,199 | 64,687 | 4,499,955 | 4,213,488 |
| Sector of other clients | 41,594 | 101,178 | 637,215 | 4,388 | 45,319 | 829,695 | 1,005,027 |
| Total, gross amount: | 57,570,096 | 54,721,220 | 25,446,822 | 2,459,460 | 17,434,344 | 157,631,942 | 150,035,091 |

Depending on general economic trends and trends in individual industrial sectors, the Bank diversifies its investments in industrial sectors that are resistant to the effects of negative trends in the economy.

Overview of credit risk exposure by regions:

| In thousands of RSD | Corporate | | Banks | | Entrepreneurs | | Retail | | Total | |
|---------------------|--------------------|-------------------|-------------------|------------------|-------------------|----------------|-------------------|------------------|--------------------|-------------------|
| | Total receivables | Risk loans | Total receivables | Risk loans | Total receivables | Risk loans | Total receivables | Risk loans | Total receivables | Risk loans |
| 31/12/2009 | | | | | | | | | | |
| Serbia | 94,269,728 | 13,742,798 | 6,378,901 | 1,451,030 | 1,598,468 | 219,173 | 34,341,080 | 1,992,626 | 136,588,176 | 17,405,626 |
| Vojvodina | 10,672,638 | 1,141,248 | - | - | 312,570 | 47,510 | 9,241,881 | 321,991 | 20,227,089 | 1,510,749 |
| Kosovo | 396 | - | - | - | 128 | 11 | 816,152 | 13,476 | 816,677 | 13,486 |
| Total: | 104,942,762 | 14,884,046 | 6,378,901 | 1,451,030 | 1,911,166 | 266,693 | 44,399,113 | 2,328,093 | 157,631,942 | 18,929,861 |
| 31/12/2008 | | | | | | | | | | |
| Serbia | 88,276,300 | 13,113,571 | 6,911,480 | 1,240,263 | 1,691,313 | 136,185 | 33,600,926 | 1,594,428 | 130,480,019 | 16,084,447 |
| Vojvodina | 9,905,021 | 787,695 | - | - | 330,396 | 62,277 | 8,341,968 | 277,699 | 18,577,385 | 1,127,671 |
| Kosovo | 439 | - | - | - | 119 | - | 977,129 | 10,240 | 977,687 | 10,240 |
| Total: | 98,181,761 | 13,901,266 | 6,911,480 | 1,240,263 | 2,021,828 | 198,462 | 42,920,022 | 1,882,367 | 150,035,091 | 17,222,358 |

54.2. LIQUIDITY RISK

Liquidity risk represents the risk of occurrence of negative effects on the Bank's financial result and capital as a result of the Bank's inability to settle its matured liabilities. Liquidity risk relates to:

- Risk associated with sources of funds – represents the risk that the Bank will not be able to settle liabilities due to withdrawal or inability to renew of sources of funds;
- Liquidity market risk – represents the risk that the Bank will encounter difficulties in transforming assets items into cash, due to changes in the market or due to insufficient market depth.

The basic objective of managing liquidity risk is to maintain liquidity levels in order to be able to settle the Bank's liabilities as they fall due. Objectives of liquidity management include daily measurement and settlement of all financial liabilities, creation of liquidity reserves and avoidance of additional expenses associated with borrowing costs and with the sale of assets. With a view to minimising liquidity risk the Bank diversifies its sources of assets, manages cash flows, and monitors future cash flows and liquidity on a daily level. An important component of managing liquidity is assessment of market approach and analysis of different financing options.

The Liquidity Committee and the Asset Liability Committee are responsible for managing liquidity risk within their competencies, along with other boards/committees whose decisions can impact the Bank's exposure to this risk.

Liquidity risk management in the Bank is based on the following principles:

- Liquidity management of significant currencies;
- Measurement and management of net sources of funds;
- Managing market sources;
- Resolving temporary and long-term liquidity crises, in compliance with the Plan for Liquidity Management in Crisis Situations.

The liquidity management process comprises:

- Liquidity risk identification;
- Liquidity risk measurement and assessment;
- Minimising of liquidity risk;
- Monitoring of liquidity risk;
- Liquidity risk reporting.

In identifying liquidity risks the Bank identifies in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure, as well as liquidity risk exposure resulting from new business products and activities.

The Bank measures liquidity risk exposure through regular monitoring of the statutory liquidity ratio and movements in maturities of deposits and loans, i.e. GAP and ratio analysis, as well as through preparation of responses to different cash flow scenarios.

Minimising liquidity risk consists of keeping this risk at a level that is acceptable to the Bank's risk profile. With a view to successful liquidity risk management the Bank continually controls movements in the liquidity ratio in order to ensure timely undertaking of measures for maintaining liquidity risk within set internal and external limits.

Liquidity risk monitoring consists of the process of analysing the balance, changes and trends in liquidity risk exposure, monitoring of compliance with internally set limits, as well as monitoring of defined measures for minimising the Bank's liquidity risk exposure. The Bank has a Liquidity Management Plan for Crisis Situations which ensures business continuity in the event of occurrence of serious disruptions in operation. Depending on the sequence of unwanted events the Bank can be faced with a moderate or serious liquidity crisis which when it applies activities and measures defined by this Plan.

Liquidity risk reporting consists of an internal and external system of reporting. In accordance with the Decision on Liquidity Risk Management, in the event of incompliance with minimum statutory liquidity ratio requirements the Bank is required to inform the National Bank of Serbia the next working day. The liquidity indicator during 2009 remained above the minimum statutory requirement threshold.

The Bank's liquidity level is monitored daily via the statutorily prescribed liquidity ratio, which represents the ratio between the sum of liquid receivables of the first and second order (cash, cash on accounts held with other banks, deposits with the National Bank of Serbia, receivables in the process of collection, irrevocable lines of credit granted to the Bank, financial instruments quoted on the stock exchange and other receivables of the Bank that are due in under one month) and the sum of call deposit liabilities without a contractual date of maturity and liabilities with a contractual date of maturity that fall due within one month of the date of calculation of the liquidity ratio, such that it:

- amounts to at least 1.0 – when calculated as the average of all working days,
- amounts to at least 0.8 – when calculated for the working day,
- cannot be below 0.9 for longer than three consecutive days.

The statutorily prescribed liquidity ratio during the year was as follows:

| | 2009 | 2008. |
|--------------------|------|-------|
| As at 31 December | 2.71 | 2.09 |
| Average for period | 1.82 | 2.83 |
| Maximum for period | 2.18 | 4.84 |
| Minimum for period | 1.52 | 1.55 |

Maturity structure of assets and liabilities as at 31 December 2009:

| In thousands of RSD | up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | TOTAL |
|--|-------------------|---------------------|---------------------|-------------------|-------------------|--------------------|
| Assets | | | | | | |
| Cash and cash equivalents | 27,387,157 | - | - | - | - | 27,387,157 |
| On call deposits and loans | 46,651,225 | - | - | - | - | 46,651,225 |
| Interest, fees and sales receivables | 936,866 | - | - | - | - | 936,866 |
| Loans and deposits | 15,542,438 | 9,310,232 | 35,135,272 | 34,212,886 | 20,905,418 | 115,106,246 |
| Securities (excluding own issued) | 51,813 | - | 514,696 | - | - | 566,509 |
| Equity investments | - | - | - | - | 2,703,423 | 2,703,423 |
| Other placements | 1,144,790 | 507,894 | 620,192 | - | - | 2,272,876 |
| Intangible assets | - | - | - | 326,526 | - | 326,526 |
| Fixed assets and investment properties | - | - | - | - | 7,057,487 | 7,057,487 |
| Non-current assets held for sale | - | - | 104,898 | - | - | 104,898 |
| Deferred tax assets | - | - | 109,217 | - | - | 109,217 |
| Other assets | 1,524,519 | 591 | 450,493 | 59,111 | 77 | 2,034,791 |
| Total assets (I) | 93,238,808 | 9,818,717 | 36,934,768 | 34,598,523 | 30,666,405 | 205,257,221 |
| Equity and liabilities | | | | | | |
| Transaction deposits | 32,373,202 | - | - | - | - | 32,373,202 |
| Other deposits | 40,128,928 | 35,243,331 | 48,041,477 | 10,961,196 | 462,627 | 134,837,559 |
| Loans | 145,155 | - | - | - | 164 | 145,319 |
| Liabilities from securities | - | - | - | - | - | - |
| Liabilities for interest and fees | 168,097 | - | - | - | - | 168,097 |
| Provisions | - | - | - | 926,337 | - | 926,337 |
| Tax liabilities | 12,844 | - | - | - | - | 12,844 |
| Liabilities from profit | 46,905 | - | - | - | - | 46,905 |
| Liabilities – assets that are discontinued | - | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - |
| Other liabilities | 3,938,524 | 3,513 | 975,126 | 3,983,885 | 569,529 | 9,470,577 |
| Total equity | - | - | - | - | 27,276,381 | 27,276,381 |
| Total equity and liabilities (II) | 76,813,655 | 35,246,844 | 49,016,603 | 15,871,418 | 28,308,701 | 205,257,221 |
| Discrepancy (I-II) as at 31.12.2009 | 16,425,153 | (25,428,127) | (12,081,835) | 18,727,105 | 2,357,704 | - |
| Discrepancy as at 31.12.2008 | 743,628 | (32,253,778) | (4,305,499) | 33,790,677 | 2,024,972 | - |

The overview on maturity structure of assets and liabilities presents balance sheet items that are divided by specified maturities from balance sheet date to contractual date of maturity, whereby items are classified by the remaining period to maturity. Therefore a conservative assumption was used where all transaction and call deposits would be withdrawn within one month. Bank Management is of the opinion that diversity of deposits by number and type of depositors, as well as previous experience of the Bank offer a sound basis for the opinion that deposits represent a long-term and stable source of financing, and in this respect significant outflow of assets that could jeopardize the Bank's liquidity is not expected.

54.3. MARKET RISK

Market risk represents the possibility of occurrence of negative effects on the Bank's financial result and equity due to changes in market variables and comprises interest rate risk, currency risk and other market risks. The Bank is exposed to market risks arising on items in the trading book and banking book.

The Bank is exposed to interest rate risk, currency risk, risk of securities fluctuations, counterparty risk and risk of settlement related to trading book items. The trading book contains balance sheet and off-balance sheet assets and liabilities related to financial instruments that the Bank holds for sale or for hedging of other financial instruments that are kept in the book, and which are not subject to trading limitations, nor to limitations on hedging of such items.

54.3.1. Interest rate risk

Interest rate risk represents the possibility of occurrence of negative effects on the Bank's financial result and equity due to interest rate fluctuations.

The objectives of the Bank's policies related to interest rate risk management are to maximise return at specified risk levels, to minimise negative effects on financial result, to maintain the economic value of capital and to develop the Bank's activities in accordance with business opportunities and market development, all with the objective of realising a competitive advantage.

The Asset and Liability Committee is responsible for interest rate risk management related to the structure of balance sheet and off-balance sheet items, including other competent committees whose decisions could impact the Bank's exposure to this risk.

Interest rate risk management is based on the following principles:

- Diversification of interest bearing receivable and payables;
- Scheduling of setting of interest rates and maturities of receivables, payables and off-balance sheet items with defined limits;
- Operation within prescribed limits.

One of the key aspects is the Bank's focus on the interest margin, given that all fluctuations in the margin of internal return represent a potential indicator of interest rate risk, where the Bank manages this margin through credit and deposit pricing. Interest rate risk management allows the Bank to have stability in changes in interest rates on assets and liabilities.

Interest rate risk management consists of:

- Identification of interest rate risk;
- Measurement and assessment of interest rate risk;
- Minimising of interest rate risk;
- Monitoring of interest rate risk;
- Interest rate risk reporting.

Identification of interest rate risk consists of determining the causes and factors that lead to the occurrence of interest rate risk, which includes determining of interest rate risk exposure, as well as interest rate risk exposure arising from new business products and activities. The Bank identifies interest rate risk exposure by determining the mismatch between items denominated in significant currencies and total amount of all currencies it operates with.

The Bank measures interest rate risk exposure by using GAP analysis, ratio analysis and interest rate fluctuations scenarios. Measurement of interest rate risk using GAP analysis is based on analysis of matching between interest sensitive assets and liabilities per periods when interest rate is set (for items with market sensitive interest rates) and between maturities (for items with variable and fixed interest rates). The Bank has defined internal limits and ensures that interest rate exposure is kept within these limits.

The Bank manages interest rate risk in its operations by using the following methods:

- Daily monitoring of interest rate fluctuations on domestic and foreign markets;
- Matching of maturities of placements and sources of funding.

Minimising of interest rate risk consists of maintaining this risk at a level that is acceptable for the Bank's risk profile. The bank calculates and monitors limits of the Bank's maximum exposure to interest rate risk with a view to maintaining interest rate risk at a level that is acceptable to the Bank. Also, the Bank undertakes measures to guard against interest rate risk with a view to maintaining interest rate risk within adopted limits.

Monitoring of interest rate risk consists of the process of analysing the balance, changes and trends in interest rate risk exposure, monitoring of compliance with internally set limits, as well as monitoring of defined measures for minimising the Bank's interest rate risk exposure.

Interest rate risk reporting consists of an internal system of reporting to competent boards/committees and the Bank's interest rate risk management bodies.

The interest rate risk GAP as at 31 December 2009 was as follows:

| In thousands of RSD | up to 1 month | 1 – 3 months | 3 – 12 months | 1 – 5 years | Over 5 years | Non-interest sensitive | TOTAL |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|------------------------|--------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | 18,600,592 | - | - | - | - | 8,786,565 | 27,387,157 |
| On call deposits and loans | 11,500,000 | - | - | - | - | 35,151,225 | 46,651,225 |
| Interest, fees and sales receivables | - | - | - | - | - | 936,866 | 936,866 |
| Loans and deposits | 28,191,225 | 5,382,386 | 25,802,695 | 27,047,491 | 28,682,449 | - | 115,106,246 |
| Securities (excluding own) | - | - | 129,109 | - | - | 437,400 | 566,509 |
| Equity investments | - | - | - | - | - | 2,703,423 | 2,703,423 |
| Other placements | 583,289 | 479,456 | 707,315 | 19,796 | - | 483,020 | 2,272,876 |
| Intangible assets | - | - | - | - | - | 326,526 | 326,526 |
| Fixed assets and investment | - | - | - | - | - | 7,057,487 | 7,057,487 |
| Non-current assets held for sale | - | - | - | - | - | 104,898 | 104,898 |
| Deferred tax assets | - | - | - | - | - | 109,217 | 109,217 |
| Other assets | - | - | - | - | - | 2,034,791 | 2,034,791 |
| Total assets (I) | 58,875,106 | 5,861,842 | 26,639,119 | 27,067,287 | 28,682,449 | 58,131,418 | 205,257,221 |
| Equity and liabilities | | | | | | | |
| Transaction deposits | 32,373,202 | - | - | - | - | - | 32,373,202 |
| Other deposits | 44,021,519 | 31,821,030 | 47,572,051 | 10,960,332 | 462,627 | - | 134,837,559 |
| Loans | 145,155 | - | - | - | 164 | - | 145,319 |
| Liabilities from securities | - | - | - | - | - | - | - |
| Liabilities for interest and Provisions | - | - | - | - | - | 168,097 | 168,097 |
| Tax liabilities | - | - | - | - | - | 926,337 | 926,337 |
| Liabilities from profit | - | - | - | - | - | 12,844 | 12,844 |
| Liabilities – assets that are discontinued | - | - | - | - | - | 46,905 | 46,905 |
| Deferred tax liabilities | - | - | - | - | - | - | - |
| Other liabilities | 148,157 | 1,083,162 | 2,116,464 | 1,053,095 | 167,629 | 4,902,070 | 9,470,577 |
| Total equity | - | - | - | - | - | 27,276,381 | 27,276,381 |
| Total equity and liabilities (II) | 76,688,033 | 32,904,192 | 49,688,515 | 12,013,427 | 630,420 | 33,332,634 | 205,257,221 |
| Interest rate GAP (I-II) as at 31.12.2009 | (17,812,927) | (27,042,350) | (23,049,396) | 15,053,860 | 28,052,029 | 24,798,784 | - |
| Cumulative GAP | (17,812,927) | (44,855,277) | (67,904,673) | (52,850,813) | (24,798,784) | - | - |

543.2. Currency risk

Currency risk represents the possibility of occurrence of negative effects on the Bank's financial result and equity due to fluctuations in exchange rates between currencies, fluctuations in the domestic currency with respect to foreign currencies or changes in the value of gold and other precious metals. All items in the banking book and the trading book that are denominated in a foreign currency and gold, including dinar items indexed with an FX clause are exposed to currency risk.

The basic objectives of managing the Bank's currency risk is to maximise return at specified risk levels, to minimise negative effects on financial result, to maintain the required level of capital adequacy and to develop the Bank's activities in accordance with business opportunities and market development, all with the objective of realising a competitive advantage.

The Asset and Liability Committee is responsible for currency risk management related to the structure of balance sheet and off-balance sheet items, including other competent committees whose decisions could impact the Bank's exposure to this risk.

Currency risk management is based on the following principles:

- Diversification of portfolio currency structure and currency structure of liabilities;

- Reconciliation of items with set limits;
- Operation within prescribed limits.

The process of currency risk management comprises:

- Identification of currency risk;
- Measurement and assessment of currency risk;
- Minimising of currency risk;
- Monitoring of currency risk;
- Currency risk reporting.

In identifying currency risks the Bank identifies in a comprehensive and timely manner the causes that lead to the occurrence of currency risk and includes the determination of current currency risk exposure, as well as currency risk exposure resulting from new business products and activities, by items that are recorded in the banking book and the trading book. The Bank identifies currency risk exposure by tracking balances of given currencies and aggregate amounts for all currencies it operates with.

The Bank measures currency risk exposure by regularly monitoring the currency risk indicator, as well as by preparing scenarios for impacts of exchange rate fluctuations on financial result and equity.

The Bank manages currency risk daily by monitoring the currency risk indicator. The currency risk indicator is expressed in percentages as the ratio between the Bank's total foreign currency balance and the Bank's equity. The Bank's total foreign currency balance represents the higher of the absolute value of the long open foreign currency position or of the short open foreign currency position, including the absolute value of the net open foreign currency position in gold. The Bank is required to maintain its assets and liabilities such that its total net foreign currency balance (including the absolute value of the foreign currency in gold) at the end of each working day must not exceed 20% of the Bank's equity on a daily level.

Currency risk monitoring consists of analysing the balance, changes and trends in currency risk exposure, making projections of currency risk with a view to minimising exposure to this type of risk. The Bank established monitoring and supervision of matching of items with set limits, as well as monitoring of defined and undertaken measures. Continual monitoring and control of currency risk ensures timely undertaking of measures with a view to maintaining currency risk within set limits.

Currency risk reporting consists of an internal and external system of reporting. The system of internal currency risk exposure reporting consists of daily, monthly, quarterly and annual reports to competent boards/committees and the Bank's currency risk management bodies.

An overview of the total currency risk balance and currency risk ratios as at 31 December of the current and previous years is provided below:

| | 31 December | |
|-------------------------------|-------------|-----------|
| | 2009 | 2008 |
| Total currency risk balance | 3,949,357 | 3,779,242 |
| Currency risk ratio | 18.12% | 18.99% |
| Statutory currency risk limit | 20.00% | 20.00% |

During 2009 the National Bank of Serbia set currency risk exposure limits on two occasions: as of 31 January 2009 the maximum allowed currency risk exposure limit for banks was reduced from 20% to 10%, and in June 2009 the currency exposure limit was reset from 10% to 20% of equity. As at 31 December 2009 the Bank was in compliance with the National Bank of Serbia's prescribed limits.

The table below presents the Bank's currency exposure as at 31 December 2009:

| In thousands of RSD | RSD – FX clause – | | RSD – FX clause – | | CHF | RSD – FX clause – | | Other currencies | RSD | Total |
|---|----------------------|-------------------|-------------------------|---------------|------------------|----------------------|----------------|---------------------|--------------------|-------|
| | EUR | EUR | USD | USD | | CHF | CHF | | | |
| Assets | | | | | | | | | | |
| Cash and cash equivalents | 4,519,986 | – | 1,155,598 | – | 123,589 | – | 564,839 | 21,023,145 | 27,387,157 | |
| On call deposits and loans | 27,160,918 | – | 7,990,307 | – | – | – | – | 11,500,000 | 46,651,225 | |
| Interest, fees and sales receivables | 35,000 | – | 401 | – | – | – | – | 901,465 | 936,866 | |
| Loans and deposits | 10,916,833 | 81,864,308 | 49,591 | 14,882 | – | 5,215,072 | – | 17,045,560 | 115,106,246 | |
| Securities (excluding own issued) | 33,237 | – | – | – | – | – | – | 533,272 | 566,509 | |
| Equity investments | – | – | – | – | – | – | – | 2,703,423 | 2,703,423 | |
| Other placements | 314,234 | – | 437,376 | – | – | – | – | 1,521,266 | 2,272,876 | |
| Intangible assets | – | – | – | – | – | – | – | 326,526 | 326,526 | |
| Fixed assets and investment properties | – | – | – | – | – | – | – | 7,057,487 | 7,057,487 | |
| Non-current assets held for sale | – | – | – | – | – | – | – | 104,898 | 104,898 | |
| Deferred tax assets | – | – | – | – | – | – | – | 109,217 | 109,217 | |
| Other assets | 491,286 | – | 74,026 | – | 452 | – | 30 | 1,468,997 | 2,034,791 | |
| Total assets (I) | 43,471,494 | 81,864,308 | 9,707,299 | 14,882 | 124,041 | 5,215,072 | 564,869 | 64,295,256 | 205,257,221 | |
| Equity and liabilities | | | | | | | | | | |
| Transaction deposits | 8,354,301 | – | 4,312,882 | – | 164,146 | – | 75,232 | 19,466,641 | 32,373,202 | |
| Other deposits | 100,941,586 | 13,540,312 | 5,237,914 | – | 1,586,528 | 8,511 | 457,218 | 13,065,490 | 134,837,559 | |
| Loans | 62,110 | – | 1,127 | – | – | – | 1,178 | 80,904 | 145,319 | |
| Liabilities from securities | – | – | – | – | – | – | – | – | – | |
| Liabilities for interest and fees | 1,311 | – | 12 | – | 1 | – | 3 | 166,770 | 168,097 | |
| Provisions | – | – | – | – | – | – | – | 926,337 | 926,337 | |
| Tax liabilities | – | – | – | – | – | – | – | 12,844 | 12,844 | |
| Liabilities from profit | – | – | – | – | – | – | – | 46,905 | 46,905 | |
| Liabilities – assets that are discontinued | – | – | – | – | – | – | – | – | – | |
| Deferred tax liabilities | – | – | – | – | – | – | – | – | – | |
| Other liabilities | 6,367,665 | – | 109,080 | – | 21,700 | – | 12,272 | 2,959,860 | 9,470,577 | |
| Total equity | – | – | – | – | – | – | – | 27,276,381 | 27,276,381 | |
| Total equity and liabilities (II) | 115,726,973 | 13,540,312 | 9,661,015 | – | 1,772,375 | 8,511 | 545,903 | 64,002,132 | 205,257,221 | |
| Net currency position (I–II) | | | | | | | | | | |
| As at 31.12.2009 | (72,255,479) | 68,323,996 | 46,284 | 14,882 | (1,648,334) | 5,206,561 | 18,966 | 293,124 | – | |
| As at 31.12.2008 | (53,724,050) | 51,558,550 | 10,582 | (4,918) | (1,522,013) | 5,285,985 | (313,192) | (1,290,944) | – | |

58. OPERATING RISK

Operating risk represents the possibility of occurrence of negative effects on the Bank's financial result and equity due to employee errors, inadequate procedures and processes in the Bank, inadequate management of information and other systems in the Bank, as well as occurrence of unforeseen external events.

Operating risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the work place, client receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors, process management.

The Bank monitors operating risk events according to the following business lines: corporate financing, trade and sales, retail business, corporate banking, payments and calculations, agency services, asset management services and retail brokering services.

Operating risk management at the Bank is directed at achieving the following objectives: developing the Bank's activities in accordance with business opportunities and market development, as well as establishing competitive advantage of the Bank and minimising of negative effects on the Bank's financial result and equity.

The Bank monitors operating risk events daily and manages operating risks through the process of identification, measurement, minimising, monitoring and reporting of operating risk. The Bank appoints employees who are in charge of operating risk with the objective of monitoring operating risk in its every organisational part, where such employees are responsible for accuracy and timeliness of information about all operating risk events that occur in their organisational unit, as well as for keeping records about all occurred events in the operating risk database. The organisational part of the Bank which is responsible for risk management monitors and reports operating risks to the Bank's Managing Board, the Bank's Executive Board and the Audit Committee.

Measurement and assessment of operating risk at the Bank is done through quantitative and/or qualitative assessment of identified operating risk. The Bank measures operating risk exposure through event records and self-assessment. The Bank measures operating risk exposure through its record of events and self-assessments. Self-assessment consists of assessment of risk exposure by organisational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement.

The Bank cannot eliminate all operating risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The principal measure against operating risk is control, which includes effective segregation of duties, application of the "four eyes principle", consistent application of internal procedures, training of employees and special supervision by internal audit.

With a view to ensuring uninterrupted and continued operation of all important systems and processes in the Bank, and limiting losses in extraordinary situations, the Bank adopted the Business Continuity Plan.

54.5. THE BANK'S INVESTMENT RISK

The Bank's investment risk relates to the risk of investing in other entities and investment in fixed assets. In compliance with the National Bank of Serbia's requirements, the Bank's investments in a non-financial sector entity cannot exceed 10% of the Bank's equity, while its investment in a non-financial sector entity and in the Bank's fixed assets cannot exceed 60% of the Bank's equity.

54.6. EXPOSURE RISK

Exposure risk consists of exposure to:

- a single party
- a group of related parties
- to a party that is associated with the Bank.

The Bank continually identifies, measures, monitors and sets risk limits for exposure to clients, but above all exposure to a single entity or group of related entities, as well as toward the Bank's related parties. The Bank observed exposure risk compliance by undertaking appropriate activities set out in its policies and procedures, as well as in its loan approval decisions, ensuring compliance of its loans and investments with operating indicators prescribed by the National Bank of Serbia.

- The Bank's exposure to a single party or group of related parties cannot exceed 25% of the Bank's equity.

- The Bank's exposure to a party that is associated with the Bank cannot exceed 5% of the Bank's equity, except for members of the banking group that are consolidated into the financial statements based on the full consolidation method, while total exposure to the Bank's related parties cannot exceed 20% of the Bank's equity.
- The aggregate amount of the Bank's large exposures cannot exceed 400% of the Bank's equity, where a single placement per entity, per group of related parties and a related party of the Bank is significantly below the regulatory requirement.

54.7. COUNTRY RISK

Country risk represents the possibility of occurrence of negative effects on the Bank's financial result and equity due to inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin.

Political-economic risk relates to the likelihood of occurrence of losses due to the inability to collect the Bank's receivables because of a deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country.

Transfer risk relates to the probability of occurrence of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin.

Measurement of country risk is made per individual placements and at the Bank's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Bank's borrower's country of origin as defined by internationally recognized agencies, while measurement of portfolio exposure to country risk is done by grouping receivables by level of risk of the borrower's country of origin.

The Bank sets exposure limits of the Bank by countries or regions with the objective of controlling country risk.

54.8. CAPITAL MANAGEMENT

The Bank manages capital with a view to ensuring business continuity over an unlimited period of time in the foreseeable future, while at the same time maintaining optimum capital structure and minimising capital costs.

The National Bank of Serbia defined the following limits:

- The monetary amount of capital cannot drop below the equivalent dinar value of EUR 10 million;
- The capital adequacy ratio cannot be lower than 12%.

The Bank's capital represents the sum of share capital and additional capital, reduced for deductible items.

The Bank's core capital comprises:

- the paid in amount of share capital consists of common and priority shares, excluding priority cumulative shares;
- share issue premium for common and priority shares, excluding priority cumulative shares;
- all types of reserves created from profit after tax, excluding profit reserves for general banking risks;
- intangible assets relating to goodwill, licenses, patents and trademarks, including items that are deductible from core capital.

The Bank's additional capital consists of a portion of revaluation reserves that comprises fixed assets and equity investment in the Bank's portfolio.

Items that are deductible from the Bank's equity represent the sum of:

- direct and indirect investments in banks and other financial sector entities in the amount above 10% of the equity of those banks;
- amount of special reserve for estimated losses outstanding.

National Bank of Serbia's regulations specify that the capital adequacy ratio represents the ratio between the Bank's capital and the aggregate amount of risk weighted assets, foreign currency balances and capital requirements for other market risks.

Risk balance sheet and off-balance sheet assets are calculated in accordance with prescribed risk weighting for all types of balance sheet and off-balance sheet items.

| In thousands of RSD | 31 December | |
|--|--------------------|--------------------|
| | 2009 | 2008 |
| Capital | | |
| Core capital | 24,121,448 | 23,207,941 |
| Additional capital | 702,787 | 648,380 |
| Deductible items | (3,024,349) | (3,955,402) |
| Total (I) | 21,799,886 | 19,900,919 |
| Risk balance sheet and off-balance sheet assets | | |
| Balance sheet assets | 128,487,724 | 126,098,968 |
| Off-balance sheet assets | 14,675,394 | 16,485,867 |
| Currency risk exposure | 3,949,357 | 3,779,242 |
| Total (II) | 147,112,475 | 146,364,077 |
| Capital adequacy (I/II*100) | 14.82% | 13.60% |

54.9. IMPLEMENTATION OF BASEL II STANDARDS

In 2008 the Bank adopted the Plan of Implementation of Basel II Standards, set up a Team for the Implementation of Basel II Standards and performed initial GAP analysis activities. In 2009 GAP analysis was carried out to identify the gap between Basel II standards and the current risk and capital management system in place in the Bank, and on that basis the Bank identified and initiated the project for implementing standards within the period specified by the National Bank of Serbia (1 January 2011).

54.10. MACROECONOMIC ENVIRONMENT AND THE BANK'S OPERATIONS IN 2009

The effects of the crisis in Serbia were reflected in the banking sector through withdrawals of retail deposits, which impacted the liquidity of banks, fluctuations in the dinar exchange rate, a drop in economic activity, and caused the reduction in the liquidity of the economy and weakening in retail and corporate creditworthiness. A series of measures undertaken by the Serbian Government and the National Bank of Serbia in 2009 impacted the liquidity of the real sector and slowed down the escalation of credit risk.

Besides its Program of Measures for Lessening the Effects of the World Economic Crisis, the Serbian Government also adopted a package of economic incentives to spur the economy into increasing overall liquidity, stimulating domestic demand, maintaining employment, supporting the construction industry and reducing the budget deficit.

Based on the Government's program and with a view to lessening the effects of the world economic crisis on the financial sector, the National Bank of Serbia adopted a series of decisions that were fundamentally geared toward reducing credit risk pressures to which banks are exposed.

In accordance with the measures of the Serbian Government and the National Bank of Serbia, the Bank made efforts to adapt its operations to the new conditions. The Bank's objectives in the coming period are to maintain the quality of its portfolio, maintain stability and high liquidity, while ensuring an adequate level of profitability, as well as to minimise exposure to risks and to maintain capital adequacy.

Bank management holds that it is carrying out all necessary measures for ensuring sustainable growth and continuity of operation, in accordance with the conditions in which it operates. Bank management cannot measure reliably the effects of the crisis and its impact on the macroeconomic environment in Serbia in the coming period and on operation and financial result of the Bank, but holds that the Bank's continuity of operation will not be jeopardized.

Belgrade, 26 February 2010

Person Responsible for Preparing
Financial Reports

Legal Representative of the
Bank