Banca Intesa a.d. Beogad

Financial Statements for the year ended 31 December, 2009

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ERNST & YOUNG

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This is an English translation of the report originally issued in Serbian language (for management purposes only)

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BANCA INTESA A.D. BEOGRAD

We have audited the accompanying financial statements of Banca Intesa a.d., Beograd (hereinafter referred as to: "the Bank"), which comprise the balance sheet as of 31 December 2009, 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.

The financial statements of the Bank as of and for the period ended 31 December 2008 were audited by another auditor, whose Report dated 23 March 2009, expressed an unqualified audit opinion on those financial statements.

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 and regulations of the National Bank of Serbia governing financial reporting of banks. 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, of the financial position of the Bank as of 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 and regulations of the National Bank of Serbia governing financial reporting of banks.

Belgrade, 22 March 2010

Mirjana Perendija Kovačević
Authorized auditor

PREDUZEĆE ZA REVIZIJU ERNST & YOUNG BEOGRAD, d.o.o.

INCOME STATEMENT for the year ended 31 December 2009

	Note	2009 *RSD thousand*	2008 *RSD thousand*
Interest income	3	24,890,502	21,584,582
Interest expense	3	(9,700,919)	(8,347,626)
Net interest income		**15,189,583**	**13,236,956**
Fee and commission income	4	6,324,046	5,828,430
Fee and commission expense	4	(1,573,732)	(1,437,485)
Net fee and commission income		**4,750,314**	**4,390,945**
Net gain on sell of securities at fair value through profit and loss		2,713	6,051
Net gain on sell of securities available for sale		198,078	108,465
Net foreign exchange (losses) / gains	5	(7,162,454)	(8,793,505)
Gains from dividends and shares		790	236
Other operating income	6	167,363	152,598
Net losses on impairment and provisions	7	(5,643,547)	(4,183,400)
Costs of salaries, fringe benefits and other personal expenses	8	(3,651,489)	(3,496,147)
Depreciation costs	9	(840,827)	(864,389)
Operating expenses	10	(4,720,902)	(4,531,368)
Income from assets and liabilities valuation adjustments	11	15,120,381	22,195,577
Expenses from assets and liabilities valuation adjustments	12	(6,732,080)	(11,813,322)
Profit before tax		**6,677,923**	**6,408,697**
Income tax	13	(466,084)	(300,379)
Profit from created deferred tax assets and reduction of deferred tax liabilities	13	5,792	18,245
Loss from reduction deferred tax assets and creation of deferred tax liabilities	13	(205,324)	(234,064)
PROFIT AFTER TAX		**6,012,307**	**5,892,499**

Notes on the following pages form part of these Financial statements.

Belgrade, 22 March 2010

Approved by

Rada Radović Head of Finance and Accounting Department	Giancarlo Miranda Deputy President of Executive Board	Draginja Đurić President of Executive Board

Banca Intesa ad. Beograd 3

BALANCE SHEET as at 31 December 2009

	Note	2009 *RSD thousand*	2008 *RSD thousand*
ASSETS			
Cash and cash equivalents	15	23,163,886	32,288,288
Revocable deposits and loans	16	75,035,256	37,112,238
Interest, commissions and fees receivable	17	1,721,131	1,308,508
Loans, advances and deposits	18	181,075,737	165,524,335
Securities (excluding own shares)	19	11,572,773	254,392
Stakes	20	948,068	13,076
Other investments	21	4,260,122	4,255,220
Intangible assets	22	571,385	480,707
Tangible assets and investment property	23	6,651,561	6,879,007
Deferred tax assets	13	-	205,324
Other assets	24	2,938,618	1,879,619
Total assets		**307,938,537**	**250,200,714**
LIABILITIES			
Transaction deposits	25	63,897,605	53,009,252
Other deposits	26	144,440,627	88,951,814
Borrowings	27	30,700,608	47,993,228
Securities issued	28	785,305	19,825
Interest, commissions and fees payable	28	3,685	142,534
Provisions	29	2,444,344	2,316,955
Tax liabilities		92,405	158,445
Liabilities from profit		103,603	181,204
Deferred tax liabilities	13	2,353	8,145
Other liabilities	30	15,681,964	13,498,624
Total liabilities		**258,152,499**	**206,280,026**
Equity			
Equity	31	28,446,332	28,446,332
Reserves from profit	31	14,768,086	8,875,587
Revaluation reserves	31	560,043	708,332
Unrealized losses arising on securities available for sale	31	730	2,062
Profit / (Losses up to the level of capital)		6,012,307	5,892,499
Total capital		**49,786,038**	**43,920,688**
Total liabilities		**307,938,537**	**250,200,714**
Off - balance sheet items	32	**160,855,955**	**132,893,895**

Notes on the following pages form part of these Financial statements.

Belgrade, 22 March 2010

Approved by

Rada Radović Head of Finance and Accounting Department	Giancarlo Miranda Deputy President of Executive Board	Draginja Đurić President of Executive Board

Banca Intesa a.d. Beograd 3

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2009

	2009 RSD thousand	2008 RSD thousand
Share capital		
Balance at the beginning of year	18,477,400	15,752,700
Issue of shares	-	2,724,700
Balance at the end of year	**18,477,400**	**18,477,400**
Share premium		
Balance at the beginning of year	9,957,774	2,989,941
Issue of shares	-	6,967,833
Balance at the end of year	**9,957,774**	**9,957,774**
Other capital		
Balance at the beginning of year	11,158	11,158
Change	-	-
Balance at the end of year	**11,158**	**11,158**
Revaluation reserves		
Balance at the beginning of year	708,332	584,333
Gains on fair value adjustments of AFS	81,332	123,999
Decrease of reserves as a result of fair value adjustments of AFS	(23,456)	-
Disposal of financial assets available for sale	(206,155)	-
Balance at the end of year	**560,043**	**708,332**
Unrealized losses on securities held as available for sale		
Balance at the beginning of year	(2,062)	-
Gains on fair value adjustments of AFS	(2,483)	(2,062)
Losses on fair value adjustments of AFS	3,815	-
Balance at the end of year	**(730)**	**(2,062)**
Reserves from profit and other reserves		
Balance at the beginning of year	8,875,587	6,522,199
Allocation of retained earnings	5,892,499	2,353,388
Balance at the end of year	**14,768,086**	**8,875,587**
Retained earnings		
Balance at the beginning of year	5,892,499	3,172,296
Allocation to reserves from profit and other reserves	(5,892,499)	(2,353,388)
Loss coverage	-	(818,908)
Current year profit	6,012,307	5,892,499
Balance at the end of year	**6,012,307**	**5,892,499**
Accumulated loss		
Balance at the beginning of year	-	(818,908)
Allocation of retained earnings	-	818,908
Balance at the end of year	**-**	**-**
Total equity	**49,786,038**	**43,920,688**

Notes on the following pages form part of these Financial statements.

Belgrade, 22 March 2010

Approved by

Rada Radović	Giancarlo Miranda	Draginja Đurić
Head of Finance and Accounting Department	Deputy President of Executive Board	President of Executive Board

Banca Intesa ad Beograd 3

STATEMENT OF CASH FLOWS for the year ended 31 December 2009

	2009 *RSD thousand*	2008 *RSD thousand*
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflows from operating activities	**31,025,833**	**28,155,669**
Interest	22,673,616	19,286,046
Fees	6,446,641	6,031,780
Other operating income	1,904,786	2,837,607
Dividend and other share income	790	236
Outflows of cash from operating activities	**(20,772,019)**	**(18,024,093)**
Interest	(7,332,605)	(5,562,536)
Fees	(1,738,485)	(1,546,627)
Salaries and other personal expenses	(4,214,515)	(4,144,684)
Taxes and contributions paid	(322,512)	(594,402)
Other operating expenses	(7,163,902)	(6,175,844)
Net cash inflow from operating activities before increase or decrease in placements and deposits	**10,253,814**	**10,131,576**
Decrease in placements and increase in taken deposits	**(26,228,444)**	**(19,490,598)**
Decrease in securities at fair value through income statement, Investments available for sale and short-term securities held to maturity	-	(1,451,116)
Decrease in deposits with banks and other clients	(26,228,444)	(18,039,482)
Increase in placements and decrease in taken deposits	**53,816,509**	**15,662,767**
Increase in loans and placements to banks and other clients	44,643,856	15,662,767
Increase in securities at fair value through income statement, Investments available for sale and short-term securities held to maturity	9,172,653	-
Net cash inflow / (outflow) from operating activities before tax	**(17,334,251)**	**13,959,407**
Income tax paid	(543,685)	(162,443)
Net cash inflow / (outflow) from operating activities	**(17,877,936)**	**13,796,964**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**208,222**	**128,941**
Inflow from sales of stakes	206,853	118,089
Inflow from sales of intangible and tangible fixed assets	1,369	10,852
Cash outflow from investing activities	**(1,947,548)**	**(2,154,902)**
Outflow from purchase of stakes	(957,871)	-
Outflow from purchase of intangible and tangible fixed assets	(989,677)	(2,141,719)
Outflow from purchase of investment property	-	(13,183)
Net cash (outflow) / inflow from investing activities	**(1,739,326)**	**(2,025,961)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**10,305,995**	**10,862,763**
Inflow from capital increase	-	9,692,533
Inflow from short-term borrowings received, net	10,294,550	1,166,511
Inflow from securities	11,445	3,719
Cash outflows from financing activities	**-**	**-**
Net cash inflow from financing activities	**10,305,995**	**10,862,763**

STATEMENT OF CASH FLOWS for the year ended 31 December 2009 (continued)

	2009 *RSD thousand*	2008 *RSD thousand*
Total net inflow of cash	67,768,494	58,637,971
Total net outflow of cash	(77,079,761)	(36,004,205)
Net increase / (decrease) in cash	**(9,311,267)**	**22,633,766**
Cash at the beginning of year	**32,288,288**	**9,305,761**
Exchange rate gains	297,382	711,536
Exchange rate losses	(110,517)	(362,775)
Cash at the end of year	**23,163,886**	**32,288,288**

Notes on the following pages form part of these Financial statements.

Belgrade, 22 March 2010

Approved by

Rada Radović Head of Finance and Accounting Department	Giancarlo Miranda Deputy President of Executive Board	Draginja Đurić President of Executive Board

Banca Intesa a.d. Beograd 3

1. CORPORATE INFORMATION

Banca Intesa Beograd a.d. Beograd (hereinafter referred to as the "Bank") was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD, Beograd dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permition for the foundation of Delta banka DD, Beograd.

On 16 October 1991, the Bank was duly registered with the Commercial Court in Belgrade and subsequently commenced its operations. On 7 June 1995, a new Memorandum on Association was concluded, with a new Article of Association adopted at the General Assembly meeting held on 10 July 1995, whereby reconciliation of the Bank's acts with the provisions of the Law on Banks and other financial organizations was made.

In 2005, the Bank's shareholders sold the majority of their shares in the Bank to Intesa Holding international S.A. After this ownership change, the Bank has two shareholders, out of which Intesa Holding International S.A., Luxemburg (including Intesa Sanpaolo S.p.A.) owns more than 90% of the Bank's share capital.

Pursuant to the General Manager's Decision no. 18600 dated 7 November 2005, the Approval of National Bank of Serbia and the Decision of the Agency for Commercial Registries no. BD 98737/2005 dated 29 November 2005, the Bank changed its previous name into Banca Intesa a.d. Beograd.

In accordance with the Decision of the Agency for Commercial Registries no. BD. 159633/2006 dated 5 October 2006, the abovementioned alteration and the change of legal form of the Bank into a closed joint-stock company were registered.

The Bank is authorized and registered with the National Bank of Serbia for performing payment transactions, loan and deposit activities in the country and clearing and settlement transaction services abroad. In accordance with the provisions of the Law on Banks, the Bank operates on the principles of liquidity, safety and profitability.

During the year ended 31 December 2007, the legal status change of merger by absorption was carried out, whereby the acquirer was Banca Intesa a.d. Beograd, and the acquired bank was Panonska banka a.d. Novi Sad. On 26 July 2007, the Decisions on signing of the letter of intent to perform the legal status change of merger by absorption and launch relating activities were passed at the meetings of the Board of Directors of both Banca Intesa a.d. Beograd and Panonska banka a.d. Novi Sad. Draft of the Agreement on merger was prepared and adopted by the Boards of Directors of both banks at the meetings held on 29 October 2007.

Upon registration of the procedure of merger by absorption with the Agency for Commercial Registers, the Bank as the acquirer and the legal successor has continued to operate under its existing business name, while the acquired bank – Panonska banka a.d. Novi Sad ceased its operations without liquidation process, and its shares were withdrawn and cancelled.

In accordance with article 384 of the Law on business companies of the Republic of Serbia, 30 September 2007 was determined as the date of merger that is the date when all operations of Panonska banka a.d. Novi Sad were considered as taken over by the Bank. The legal status change of merger by absorption was carried out in such a way that the acquired bank – Panonska banka a.d. Novi Sad transferred all assets and liabilities as of 30 September 2007 to the Bank as the acquirer in exchange for share issue to the shareholders of the acquired bank by the Bank acquirer.

1. CORPORATE INFORMATION (continued)

In accordance with the valuation performed, the shares were exchanged in such way that shareholders of the acquired bank received 1 ordinary share of the Bank acquirer in exchange for 38 ordinary shares of the acquired bank. In order to exchange the total number of shares of Panonska banka a.d. Novi Sad, the Bank issued additional 26.166 ordinary shares, with nominal value of RSD 100,000.00 and consequently after the merger, the Bank's share capital amounted to RSD 15,752,700,000.00, divided into 157,527 ordinary shares with nominal value of RSD 100,000.00 per share.

Shareholders of the acquired bank in the merger have become the shareholders of Banca Intesa a.d. Beograd, with the appropriate number of ordinary shares, and they have the same status, rights and obligations as the shareholders of the Bank, with the right to participate in profit distribution of the Bank acquirer starting from 1 January 2008.

Since there were no significant differences in the accounting policies applied in the preparation of the financial statements of both banks, neither adjustments to net assets nor adjustments to net results for 2007 of the Bank were made as a consequence of the accounting for the merger by absorption.

The Agreement on merger by absorption was adopted at the Bank's Assembly meeting held on 17 December 2007.

At 31 December 2009, the Bank operated through its Head Office located in Belgrade, Milentija Popovica 7b, with its associated organizational divisions in Belgrade, 6 regional centres and 208 branches.

The Bank had 2,979 employees at 31 December 2009 (31 December 2008: 3,027 employees).

The Bank's registration number is 7759231. The Bank's tax identification number is 100001159.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation and presentation of financial statements

The accompanying financial statements have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia, no. 46/2006, 111/2009), the Law on Banks (Official Gazette of the Republic of Serbia, no. 107/2005) and the respective decisions issued by the National Bank of Serbia based on the aforementioned legislation. Pursuant to the Law on Accounting and Auditing, banks are obliged to maintain, prepare and present their financial statements in accordance with the International Accounting Standards (IAS), i.e. International Financial Reporting Standards (IFRS").

Pursuant to the Resolution of Minister of Finance of Republic of Serbia no. 401-00-11/2008-16 dated 18 January 2008 ("Official Gazette of the Republic of Serbia", no. 16/2008), International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations are issued respectively by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), which are effective at the date of preparation of the financial statements 31 December 2009, have been published.

The accompanying financial statements have been prepared under the historical cost convention, except for the measurement at fair value of securities held for trading as well as securities available for sale.

The accompanying financial statements include receivables, liabilities, operating results, changes in equity and the Bank's cash flow, excluding its subsidiary – Intesa Leasing d.o.o., Beograd. The Bank also prepares consolidated financial statements separately, in accordance with the respective accounting regulations of the Republic of Serbia.

The Bank's financial statements are stated in thousand of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Bank. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

In the preparation of these financial statements, the Bank has adhered to the principal accounting policies further described in Note 2.

The accounting policies and accounting estimates applied in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2008, except for the adoption of new Standards and Interpretations noted below, whose application did not have any effect neither on the financial position nor on performance of the Bank.

The accompanying financial statements are presented in the format prescribed by the "Rulebook on the Format and Contents of Positions in the Forms of the Financial Statement of Banks" ("Official Gazette of the Republic of Serbia", no. 74/2008, 3/2009 and 12/2009) and "Rulebook on changes of the Rulebook on the Format and Contents of Positions in the Forms of the Financial Statement of Banks" ("Official Gazette of the Republic of Serbia", no. 5/2010) which in some respects differ from the presentation of certain amounts as required under IAS 1 "Presentation of Financial Statements". Accordingly, the accompanying financial statements do not fully comply with IFRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Comparative Figures

The comparative figures represent financial statements of the Bank as of and for the year ended 31 December 2008, audited by BDO BC Excel d.o.o. Belgrade.

As disclosed in Note 1 to the financial statements, on 30 September 2007, the Bank made the legal status change of merger by absorption of Panonska banka a.d. Novi Sad. As of that date, the financial statements of the Bank as the legal successor resulted from merger of individual items of assets, liabilities, income and expenses recognized in the financial statements of both banks. The financial statements as of and for the year ended 31 December 2007 were presented as that the Bank operated as a single entity, and comparative financial information were presented accordingly with exclusion of transactions between the banks.

In addition, in order to conform the presentation of prior year figures to the current reporting period as prescribed by the new "Rulebook on the Chart of Accounts and the Contents of Accounts in the Chart of Accounts for Banks"("Official Gazette of the Republic of Serbia", no. 98/2007, 57/2008 and 3/2009), the Bank accordingly reclassified the amounts reported in the financial statements as of and for the year ended 31 December 2007.

2.3. Significant Accounting Estimates and Judgments

Use of Estimates

The preparation and presentation of the financial statements requires the Bank's management to make estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period.

These estimations and related assumptions are based on information available as of the date of the preparation of the financial statements. Actual results could differ from those estimates. These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the income statement in the periods in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of Financial Assets

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis.

In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any reliable evidence indicating that there is a measurable decrease in the estimated future cash flows from a loan portfolio before the decrease can be identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers toward the Bank, or national or local economic conditions that correlate with defaults on assets of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant Accounting Judgments and Estimates (continued)

***Impairment of Financial Assets* (continued)**

The Bank's management performs estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly, in order to reduce any differences between estimated and actual losses.

Useful Lives of Intangible Assets, Property and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

Due to the significant share of tangible and intangible assets in total assets of the Bank, the impact of each change in these assumptions could materially affect the Bank's financial position as well as the results of its operations.

Impairment of Non-Financial Assets

At the end of each reporting period, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

An impairment review requires from management to make subjective judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Provisions for legal proceedings

The Bank is subject to a number of legal proceedings arising from daily operations that relate to commercial, contractual and employment matters, which are resolved and considered during regular business activity. The Bank regularly estimates probability of negative outcomes to these matters as well as the amounts of probable or reasonable estimated losses.

Reasonable estimates include judgment made by management after considering information including notifications, settlements, estimates performed by legal department, available facts, identification of other potentially responsible parties and their ability to contribute as well as prior experience.

Provision for legal proceedings is recognized when it is probable that an obligation exists for which a reliable estimation can be made of the obligation after careful analysis of the individual matter (see Note 29). The required provision may change in the future due to occurrence of new events or obtaining additional information. Matters that are either contingent liabilities or do not meet the recognition criteria for provision are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant Accounting Judgments and Estimates (continued)

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized. Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognized, based on the period in which they occurred and the amount of future taxable profits as well as on the strategy of tax policy planning (Note 13(c)).

Retirement and Other Post-Employment Benefits to Employees

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term ones, significant uncertainties influence the outcome of the estimation. Additional information is disclosed in Note 29.

2.4. Interest Income and Expenses

Interest income and expense, including penalty interest and other income and other expenses from interest bearing assets as well interest bearing liabilities are recognized on an accrual basis based on obligatory terms defined by a contract signed between the Bank and a customer.

For all interest-bearing financial instruments, except for those classified as available-for-sale or designated at fair value through profit or loss, interest income and expense are recognized within "Interest income" and "Interest expense" in the income statement using the effective interest method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

From the moment of start of legal actions, the Bank calculates suspended interest on total receivables (including principal, interest and costs) instead of regular interest. Transfer of total interest overdue to the suspended interest in off-balance before the moment of charges being filed could be prescribed by special decisions of the Bank's authorities.

Suspended interest is calculated and recorded as off-balance sheet item until final settlement of dispute.

2.5. Fee and Commission Income and Expenses

Fees and commissions originating from banking services are generally recognized on an accrual basis when the service has been provided.

Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other banking services.

Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and amortized to interest earned on loans and advances over the life of the loan using the straight-line method, which approximates the effective yield.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Foreign Currency Translation

Balance Sheet and Income Statement items stated in the financial statements are valued by using currency of the Bank's primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousand of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date (Note 37).

Gains or losses on foreign exchange arising upon the translation of balance sheet items are credited or debited as appropriate, to the income statement, as Gains or losses on foreign exchange transactions and translations (Note 5).

Gains or losses arising upon the translation of financial assets and liabilities with contracted foreign currency clause are credited or debited as appropriate, to the income statement, as gains/losses from changes in value of assets and liabilities (Notes 11 and 12).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official median exchange rate prevailing at the balance sheet date.

2.7. Financial Instruments

All financial instruments are initially recognized at fair value (usually equal to the consideration paid) including any directly attributable incremental costs of acquisition or issue, except for financial assets and financial liabilities at fair value through profit and loss.

Financial assets and financial liabilities are recorded in the balance sheet of the Bank on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, which is the date the asset is delivered to the counterparty.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. Management of the Bank determines the classification of its investments at the time of initial recognition.

2.7.1. Financial Assets at Fair Value through Profit or Loss

This category includes two sub-categories: financial assets held for trading and those designated at fair value through profit or loss.

Financial assets are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term and generating profit from short-term price fluctuations. These assets are stated at fair value in the balance sheet.

Financial instruments held for trading comprise financial derivatives, government's savings bonds and shares of other banks.

All realized or unrealized gains and losses from changes in fair value of trading securities are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.1. Financial Assets at Fair Value through Profit or Loss (continued)

During 2007, the Bank introduced several types of financial instruments which met definition of financial derivatives according to IAS 39 "Financial Instruments: Recognition and Measurement" and for which basic underlying variable is foreign exchange rate. Derivatives used by the Bank are FX swap and FX forward contracts. For the accounting purposes, and in accordance with the requirements of IAS 39, the derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value, while all fair value changes are recorded in the income statement under unrealized foreign exchange gains and losses.

Derivatives are initially recognised when the Bank becomes a party to agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as asset or liability. The initial recognition of fair value applies to the cases when there is available market price for the same or a similar derivative on an organised market, and when the price differentiates from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognised fair value, since there is no active market for similar derivatives in the country. When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognise in the balance sheet (as assets or liabilities) and the income statement (initially positive or negative fair value) the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques. In accordance with the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognised at the end of each month, and the effect of changes in fair value are recognised in the income statement as unrealised foreign exchange gains or losses. Derivatives are recognised as assets or liabilities depending whether their fair value is positive or negative. Derivatives are derecognised at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at the date of execution. At that moment, ultimate effect of foreign exchange differences is recorded against realised foreign exchange differences, and all previously recognised changes in fair value (through unrealised foreign exchange differences) are reversed.

Since there is neither an active market for derivatives in Serbia nor a possibility to determine fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries having developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value which would be achieved on an active market.

The methodology incorporates market factors (median exchange rate, interest rates and similar) and it is consistent with generally accepted methodologies for valuation of derivatives. At least once a month, the Bank performs back-testing and calibration of the implemented methodology using market variables and alternative methods of calculation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All loans and receivables are recognized in balance sheet when cash is advanced to borrowers. Loans and receivables are initially recognized at fair value. After the initial recognition, loans are measured at amortized cost using interest rate method, less allowance for loan impairment and any amounts written off.

Interest income and receivables in respect of these instruments are recorded and presented under interest income and interest, fees and commissions receivable, respectively. Fees which are part of effective yield on these instruments are recognised as deferred income and credited to the income statement as interest income over the life of a financial instrument using the straight-line method, which approximates the effective yield.

The Bank negotiates a consumer price index and foreign currency clause with the beneficiaries of the loans. Loans and receivables in dinars, with contracted consumer price index and foreign currency clause, i.e. dinar-euro and dinar-usd foreign exchange rate, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated from consumer price index and foreign currency clause applied is disclosed within loans and receivables. Foreign currency clause represents embedded derivatives that are not accounted for separately from the host contract, since the economic characteristics and risks of this embedded derivative are closely related to the economic characteristics and risks of the host contract. Income and expenses resulting from the application of foreign currency clause are recorded in the income statement, as gains/losses from changes in value of assets and liabilities.

Impairment of financial assets and provisions for risks

The Bank, in accordance with internal policy, assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.2. Loans and Receivables (continued)

Impairment of financial assets and provisions for risks (Continued)

When assessing impairment of loans and placements with banks and customers, the Bank first assesses assets which are individually significant in order to identify if there is any impairment indicator, and as well the Bank collectively assesses financial assets which are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes an asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account, while impairment losses on loans and advances and other financial assets carried at amortized cost are charged to the income statement (Note 7). Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement (Note 7).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling that collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist at the balance sheet date. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A write off is made when all or part of a claim is deemed uncollectible, pursuant to a court decision, or based on decisions made by the Bank's authorized bodies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.3. Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to activate collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2.7.4. Securities Held-to-Maturity

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

Securities held-to-maturity are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. The amount of impairment loss for investments held to maturity is calculated as the difference between the investments' carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate.

2.7.5. Available-for-Sale Investment securities

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available-for-sale".

They comprise shares and investments in shares of other banks and companies.

Upon initial measurement, these instruments are measured at fair value. Investments in shares that are not quoted, and whose value cannot be determined with certainty, are measured at cost. The fair values of quoted investments in active markets are based on current bid prices. Unrealised gains and losses are recognised directly in revaluation reserves, in equity. In the case of disposal of assets, accumulated gains or losses, previously recognised in equity, are recognised in gains or losses from sales of securities in the income statement. For all estimated risks that investments in shares and other securities available-for-sale will not be collected, the Bank recognises allowances for impairment.

Securities available for sales also include treasury bills of Republic of Serbia with maturity over 3 months.
Interest income on treasury bills of the Republic of Serbia are calculated and recognized monthly.

Dividend income in respect of investments in shares of other legal entities, and income from investments in equity instruments of other legal entities are recognised as income at the moment of their collection.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.5. Available-for-Sale Investment securities (continued)

In case of debt instruments classified as available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized costs. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. In the case of equity investments classified as available for sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment bellow its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through income statement, increases in the fair value after impairment are recognised directly in equity.

2.7.6. Deposits from Other Banks and Customers

All deposits from other banks and customers and other interest-bearing borrowings are initially recognized at the fair value of the consideration received including transaction cost, except for financial liabilities through profit and loss. After initial recognition, interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method.

2.7.7. Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Borrowings are classified as current liabilities, unless the Bank has indisputable right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.7.8. Operating Liabilities

Obligations towards suppliers and other short-term operating liabilities are measured at the amount of the consideration received.

2.8. Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.9. Special Reserves for Estimated Losses on Bank Balance Sheet Assets and Off-balance Sheet Items

Special reserves against potential losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia's "Decision on the Classification of the Bank Balance Sheet Assets and Off-balance Sheet Items" ("Official Gazette of the Republic of Serbia", no. 129/2007, 63/2008 and 104/2009).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9. Special Provisions against Potential Losses on Bank Balance Sheet Assets and Off-balance Sheet Items (continued)

All receivables from a single borrower (balance sheet and off-balance sheet exposure) are classified in categories A to D in accordance with the assessment of their recoverability. Individual credit exposures are evaluated based upon the borrower's character and payment record, which correspond to the number of days past due, overall financial position, the prospects for support from any creditworthy guarantors and where applicable the realizable value of any collateral.

In accordance with the classification of receivables and pursuant to the aforementioned Decision, the amount of the special reserves against potential losses is calculated by applying the following percentages: A (0%), B (5%-10%), V (20%- 35%), G (40%-75%) and D (100%).

Through its internal act, the Bank has defined the criteria and methodology for determining special provisions against potential losses within percentages prescribed by the National Bank of Serbia decision, in line with the assessment of individual credit risk exposure based on borrower's defaults in contractual payments of principal or interest, financial position, adequacy of cash flows and quality and value of collateral.

Special reserves for estimated losses are reduced by and up to the amount of allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the Bank's accounting policy disclosed in Note 2.7.2. and charged to the income statement (Note 7).

After being reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, special reserves for estimated losses are created from retained earnings pursuant to the Bank's Assembly decision, and recorded at a special loan loss provision account within reserves. In the event that the Bank's retained earnings are insufficient to cover the estimated amount of special reserves for potential losses in a particular year, the difference is to be disclosed as the shortfall amount of such reserve (see Note 31(a)).

2.10. Cash and Cash Equivalents

For the purposes of the Cash flow statement, cash and cash equivalents comprise cash at current account and cash on hand (in Dinars and in foreign currency), gold and other precious metals, cheques and current accounts in foreign currency held with other domestic banks and foreign banks as well as treasury bills of the Republic of Serbia with maturity up to 3 months.

2.11. Reverse Repurchase Agreements ("Repo transactions")

Securities purchased under agreements to sell at a specified future date ('repos') are recognized in the balance sheet.
The corresponding cash paid is recognized in the balance sheet. The difference between the purchase and repurchase price is treated as interest income and is accrued over the life of the agreement.

2.12. Investments in Subsidiaries

Subsidiary is a legal entity in which the Bank possesses a stake of more than 50 percent, or otherwise holds more than half of voting rights, or the right to manage the financial (business) policy of the subsidiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. Investments in Subsidiaries (continued)

As of 31 December 2009, the Bank owned 98.7% of capital of Intesa Leasing d.o.o., Beograd. Equity investment in the aforementioned subsidiary is stated at cost, less allowance for impairment (Note 20).

In accordance with IAS 27 "Consolidated and Separate Financial Statements", the Bank prepares consolidated financial statements. In preparing consolidated financial statements, the Bank combines its financial statements and the financial statements of its subsidiary line by line by adding together same items of assets, liabilities, equity, income and expenses. All intra-group balances and transactions, including income, expenses and unrealized gains, are eliminated in full.

2.12.1. Investments in associates

In accordance with IAS 28 "Investments in Associates", investments in associates are investments in entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.
Investments in associates are classified as financial assets available for sales and are recognized at cost less allowance for impairment.

In 2009, the Bank invested funds in Investment funds management company "Intesa Eurizon Asset Management" a.d. Beograd, and is entitled to 40% of total shares of the company.

2.13. Intangible Assets

Intangible assets consist of software, licenses and intangible assets under construction. Intangible assets are carried at cost less any accumulated amortization.

Licenses are initially recognized at cost. They have limited useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method in order to fully write off the cost of these assets over their estimated useful lives (from 5 to 10 years).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (from 2 to 5 years).

Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the cost of the software development employees and an appropriate portion of relevant overheads.

Intangible assets are amortized over their estimated useful lives:

Licenses and similar rights	10% - 20%
Software	20% - 50%

Intangible assets also include not amortized assets since they are not yet in use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Property and Equipment and Investment Property

As of 31 December 2009, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.
Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are recognized in the income statement of the financial period in which they are incurred.

The Bank owns property as investments to generate profits from rents and/or increases in property value on the market. Investment property is stated at cost less accumulated depreciation.

Depreciation and amortization are provided for on a straight-line basis to the cost or revalued value of property, plant, equipment and intangible assets, using the following prescribed annual rates, in order to write them off over their useful lives:

Buildings	2.5%
Computer equipment	20%
Furniture and other equipment	7% - 25%
Investment property	2.5%

In determining the basis for depreciation, the depreciable values of assets equal their cost or revalued amount, since the Bank assesses the residual values of assets as nil.

Calculation of depreciation and amortization of property and equipment commences at the beginning of month following the month when an asset is put into use. Assets under construction are not depreciated. Depreciation and amortization charge are recognised as expenses for the period when incurred.

The useful lives of the assets are reviewed periodically, and adjusted if necessary at each balance sheet date. Change in the expected useful life of an asset is considered as a change in an accounting estimate.

Gains or losses from the disposal of property and equipment are credited or debited in the income statement, included in Other operating income or Other operating expenses, respectively.

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes. Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 13(d)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Impairment of Non-financial Assets

In accordance with adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.16. Finance Leases

Bank as a Lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in property and equipment with the corresponding liability to the lessor included in other liabilities.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in interest expense.

It is regulated by the Agreement on leasing that the Bank can, but it does not have to, obtain ownership of the leased item after the expiration of the Agreement on leasing.

2.17. Operating Leases

A lease is classified as an operating lease if it does not transfer to the Bank substantially all the risks and rewards incidental to ownership.

The total payments made under operating leases are included in Other operating expenses in the income statement using a straight-line basis over the period of the lease.

2.18. Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognised in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognised initially for. Provisions are not recognised for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements (Note 35), unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements. Contingent assets are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Equity

Shareholders' equity consists of share capital (ordinary shares), other capital, share premium, reserves and retained earnings.

Dividends on ordinary shares are recognized as a liability and deducted from equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are disclosed as an event after the balance sheet date.

2.20. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

(b) Termination Benefits arising from Restructuring

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Other Employee Benefits - Retirement Benefits

In accordance with the Labour Law and article 33 of the General collective agreement, the Bank is obligated to pay retirement benefits in the amount equal to 3 average salaries in the moment of payment, while this amount cannot be lower than 3 average salaries in the Bank in the moment of payment or 3 average salaries realized in the Republic of Serbia, according to the latest data published by statistical office of the Republic, if that is favourable for the employee. The entitlement to these benefits usually depends on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Long-term provision for retirement benefits is calculated by independent actuary. The liability recognized in the balance sheet is the present value of the defined benefit obligation, determined by discounting estimated future outflows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax represents an amount that is calculated and paid in accordance with the effective Law on Corporate Income Tax of the Republic of Serbia. During the year, the Bank pays income tax in monthly instalments, based on the prior year Tax return. Final tax base used for calculating income tax at the prescribed rate of 10% is disclosed in the Tax return.

In order to determine the amount of the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year, as disclosed in the current year Tax return. Tax return is submitted to Tax authorities 10 days after the submission of the financial statements, i.e. until the 10 March of the following year.

In accordance with the Law on Corporate Income Tax of the Republic of Serbia, when investing in fixed assets tax credit is recognized in the amount equal to 20% of the investment, and this tax credit may not exceed 50% of computed tax for the year in which this investment was made. Unused portion of tax credit may be transferred to the future income tax account, but not more than 10 years.

Deferred Income Tax

Deferred tax is provided for using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted at the balance sheet date are used to determine the deferred income tax amount.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries and associates when deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Taxes and Contributions (continued)

(a) Income taxes (continued)

Deferred Income Tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be effective in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current and deferred taxes are recognized as income or expense and are included in the profit for the period.

Deferred income taxes related to items that are recorded directly in equity are also recorded in equity.

(b) Taxes and Contributions Not Related to Operating Result

Taxes and contributions that are not related to the Bank's operating result include property taxes, VAT, employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and local tax regulations. These taxes and contributions are included within other operating expenses (Note 10).

2.22. Funds Managed on Behalf of Third Parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 32(a)). The Bank is not exposed to any risk in respect of repayment of these placements.

3. INTEREST INCOME AND INTEREST EXPENSE

		RSD thousand
	2009	**2008**
Interest income		
Loans, advances and other placements:		
– Other banks	178,325	31,819
– National Bank of Serbia	3,838,742	6438,317
– Enterprises	12,842,569	9,040,966
– Public sector	1,104,481	397,687
– Other customers	241,510	116,967
– Foreign entities	81,057	81,147
– Retail customers	6,603,818	5,477,679
Total	**24,890,502**	**21,584,582**
Interest expense		
– Other banks	524,883	597,902
– National Bank of Serbia	26	296
– Enterprises	3,395,399	2,820,209
– Public sector	873,436	473,825
– Other customers	103,519	179,550
– Foreign entities	1,450,610	1,954,015
– Retail customers	3,353,046	2,321,829
Total	**9,700,919**	**8,347,626**
Net interest income	**15,189,583**	**13,236,956**

4. FEE AND COMMISSION INCOME AND EXPENSE

		RSD thousand
	2009	**2008**
Fee and commission income		
Fee for banking services:		
- Domestic payment transaction services	1,889,954	1,850,650
- International payment transaction services	237,385	318,601
- Loan operations	161,301	3,053
- Cards operations	1,995,070	1,894,527
	4,283,710	**4,066,831**
Commissions in respect of issued guaranties and letter of credits	841,600	579,988
Other fee and commission	1,198,736	1,181,611
Total	**6,324,046**	**5,828,430**
Fee and commission expense		
Fee for payment transaction services:		
– Domestic	155,239	135,846
– International	22,745	25,976
National Bank of Serbia's fee and commission	25,468	20,089
Credit Bureau's fees	25,289	20,481
Fee for cards operations	1,305,314	1,204,467
Other fees and commissions	39,677	30,626
Total	**1,573,732**	**1,437,485**
Net fee and commission income	**4,750,314**	**4,390,945**

Other fees and commission income mostly relate to: fees for the maintenance of current accounts in the amount of RSD 867,630 thousand, and fees for payment slips, EDB and Telekom Srbija amounting to RSD 130,817 thousand.

5. NET FOREIGN EXCHANGE (LOSSES)/GAINS

		RSD thousand
	2009	**2008**
Foreign exchange gains	69,779,766	118,714,305
Foreign exchange losses	76,942,220	127,507,810
Net exchange(losses)/gains	**(7,162,454)**	**(8,793,505)**

6. OTHER OPERATING INCOME

	2009	RSD thousand 2008
Recovery of receivables previously written-off	3,536	5,435
Rental income	16,592	9,242
Gains on sales of property and equipment, and surpluses	1,557	6,050
Reimbursed expenses	3,818	3,027
Other income	141,860	128,844
Total	**167,363**	**152,598**

7. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS, NET

(a) Debited/ (Credited) to the Income Statement

	2009	RSD thousand 2008
Additions to allowances for impairment of financial assets and provisions:		
Impairment losses on balance-sheet assets	**9,283,212**	**9,051,081**
Provisions for off-balance sheet items	**932,679**	**714,048**
Provisions for:		
- long-term employee benefits	20,821	164,586
- litigations	46,337	336,309
- other liabilities – arising from VAT	33,384	27,997
	100,542	**528,892**
Total	**10,316,433**	**10,294,021**
Reversal of impairment losses		
Reversal of impairment losses on balance sheet assets	3,664,182	5,066,993
Suspended interest	59,457	38,286
	3,723,639	**5,105,279**
Release of provision for losses on off-balance sheet assets	**715,866**	**571,516**
Release of provisions for:		
- Long-term employee benefits	127,507	314,475
- Litigations	105,874	119,351
Total	**4,672,886**	**6,110,621**
Impairment losses and provisions, net	**5,643,547**	**4,183,400**

7. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS, NET (continued)

(b) Movements in the Allowance for Impairment of Financial Assets and Provisions

Movements in the allowance for impairment of loans and other financial assets and provisions during the year ended 31 December 2009 were as follows:

RSD thousand

	Cash and cash equivalents (Note 15)	Interest and fee receivable (Note 17)	Loans and advances (Note 18)	Securities (Note 19)	Equity investments (Note 20)	Other placements (Note 21)	Other assets (Note 24)	Provisions (Note 29)	Total
Balance as at 31 December 2008		**652,030**	**10,410,759**	**17,522**	**202,485**	**212,991**	**39,719**	**2,316,955**	**13,852,461**
Additions	1,575	609,794	8,007,949	-	8	622,986	40,900	1,033,221	10,316,433
Reversals	-	(160,659)	(3,002,558)	(2,060)	(201,634)	(225,875)	(71,396)	(949,247)	(4,613,429)
FX losses on impairment for financial assets	-	47,453	567,013	-	-	48,480	-	62,491	725,437
FX gains on impairment of financial assets	-	(19,069)	(329,572)	-	-	(26,809)	-	(19,076)	(394,526)
Transfer to off-balance (Note32d)	-	(114,389)	(1,690,965)	-	-	-	-	-	(1,805,354)
Balance as at 31 december 2009	**1,575**	**1,015,160**	**13,962,626**	**15,462**	**859**	**631,773**	**9,223**	**2,444,344**	**18,081,022**

8. SALARIES, WAGES AND OTHER PERSONAL EXPENSES

	2009	RSD thousand 2008
Net salaries	2,506,351	2,322,002
Tax on employee benefits	390,128	363,168
Contributions on employee benefits	556,566	523,776
Other personal expenses	198,444	287,201
Total	**3,651,489**	**3,496,147**

9. DEPRECIATION AND AMORTIZATION EXPENSE

	2009	RSD thousand 2008
Amortization		
-intangible assets (Note 22)	113,482	158,136
-property, equipment and investment property (Note 23)	727,345	706,253
Total	**840,827**	**864,389**

10. OTHER OPERATING EXPENSES

	2009	RSD thousand 2008
Material and energy and spare parts	354,178	415,068
Professional services	669,321	510,909
Advertising, marketing and representation	461,683	556,670
Mail and telecommunication expenses	292,678	278,872
Insurance premiums	528,649	390,472
Maintenance of property and equipment	314,346	288,795
Rental cost	714,633	503,725
Fees and commission	139,820	158,980
Taxes and contributions	694,719	644,755
Physical-technical security	144,873	112,776
General and administrative expenses	123,510	376,012
Direct write-off of receivables	51,641	237,653
Losses on disposals of property, equipment and intangible assets	18,457	11,227
Other expenses	212,394	45,454
Total	**4,720,902**	**4,531,368**

11. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

		RSD thousand
	2009	**2008**
Gains from changes in value of loans and advances	14,947,475	21,946,923
Gains from changes in value of securities	9,364	4,006
Gains from changes in value of other financial assets	710	1,453
Gains from changes in value of liabilities	162,832	243,195
Total	**15,120,381**	**22,195,577**

12. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

		RSD thousand
	2009	**2008**
Losses from changes in value of loans and advances	6,287,073	11,168,058
Losses from changes in value of derivatives	-	2
Losses from changes in value of other financial assets	-	2,432
Losses from changes in value of liabilities	445,007	642,830
Total	**6,732,080**	**11,813,322**

13. INCOME TAX

(a) Components of Income Tax

The components of income tax expense are:

	2009	RSD thousand 2008
Current income tax	466,084	300,379
Deferred tax income	(5,792)	(18,245)
Deferred tax expense	205,324	234,064
Total income tax	**665,616**	**516,198**

(b) Reconciliation of total amount of income tax stated in the income statement with the amount of profit before tax multiplied by prescribed tax rate is as follows:

	2009	RSD thousand 2008
Profit before tax	6,677,923	6,408,697
Adjusted profit before tax	**6,677,923**	**6,408,697**
Income tax at the rate of 10%	**667,792**	**640,870**
Tax effect of expenses not recognised for the tax purposes	17,737	56,100
Tax credit on investment in property and equipment	(39,392)	(66,346)
Unrecognized deferred tax assets with respect to tax credits	-	(120,614)
Other	19,479	6,187
Income taxes stated in the income statement	**665,616**	**516,197**
Effective tax rate	***9.97%***	***8.05%***

For the purpose of determining income taxes for the year ended 31 December 2009, the Bank increased the tax base by the amounts of provisions charged to the income in the total amount of RSD 100,542 thousand, which includes the following items:

- Provision for litigations in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in the amount of RSD 46,336 thousand;
- Provision for restructuring in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in the amount of RSD 5,958 thousand;
- Provisions for retirement benefits in accordance with to IAS 19 "Employee Benefits" in the amount of RSD 14,864 thousand, and
- Provisions for tax liabilities RSD 33,384 thousand.

13. INCOME TAXES (continued)

(c) Deferred Tax Assets

Deferred tax assets related to the unused tax credits for investment into property and equipment from previous years has been fully used in current year.

Movements in deferred tax assets during the year were as follows:

		RSD thousand
	2009	**2008**
Balance as at 1 January	**205,324**	**439,388**
Utilized tax credits	(205,324)	(234,064)
Balance as at 31 December	**-**	**205,324**

(d) Deferred Tax Liabilities

Deferred tax liabilities entirely relate to the taxable temporary differences with respect to difference between the carrying value of property, equipment and intangible assets and their tax base.

Movements in deferred tax liabilities during the year were as follows:

		RSD thousand
	2009	**2008**
Balance as at 1 January	**8,145**	**26,390**
Effects of temporary differences in amortization credited to the income statement	(5,792)	(18,245)
Balance as at 31 December	**2,353**	**8,145**

14. EARNINGS PER SHARE

Pursuant to the Serbian Business Registers Agency Decision no. BD 159633/2006 dated 5 October 2006, the Bank became a closed joint-stock company, and therefore it is not obliged to calculate and disclose the earning per share as required by IAS 33 "Earning per Share".

15. CASH AND CASH EQUIVALENTS

		RSD thousand
	2009	**2008**
In Dinars		
Gyro account	16,260,116	27,267,990
Cash on hand	1,675,509	2,023,557
Treasury bills of National Bank of Serbia	-	1,153,747
Bonds of Ministry of Finance of Republic of Serbia with maturity up to 90 days	3,507,600	-
	21,443,225	**30,445,294**
In foreign currency		
Current accounts held with foreign banks	251,760	519,858
Foreign currency cash on hand	1,398,256	1,270,651
Other monetary assets	39,761	27,929
	1,689,777	**1,818,438**
Gold and precious metals	32,459	24,556
Gross balance as at 31 December	**23,165,461**	**32,288,288**
Minus: Allowance for impairment (Note 7(b))		
- in foreign currency	(1,575)	-
	(1,575)	**-**
Balance as at 31 December	**23,163,886**	**32,288,288**

In accordance with the National Bank of Serbia's Decision on banks' obligatory reserve held with the National Bank of Serbia, the Bank is obligated to calculate and allocate the obligatory reserve in Dinars to their account with National Bank of Serbia amounting to 10% (2008: 10%) of the average daily balance of deposits in Dinars during the preceding calendar month. Apart from this, banks calculate obligatory reserve in Dinars at the rate of 45% on the average daily balance of deposits in Dinars indexed in foreign currency during the preceding calendar month, as well as on the average daily balance of liabilities in Dinars for deposits and loans from foreign countries. Apart from mentioned above, banks calculate obligatory reserve in Dinars at the rate of 5% of the average daily balance of term deposits with maturity over 1 month in Dinars during preceding calendar month. Additionally, obligatory reserve in Dinars includes 20% of obligatory reserve in foreign currency denominated in Dinars.

As at 31 December 2009 obligatory reserve in Dinars amounted to RSD 14,655,854 and was in accordance with afore mentioned National Bank of Serbia's Decision and is included in Gyro account.

Average interest rate on the amount of obligatory reserve in Dinars, which does not exceed the amount calculated obligatory reserve, was 2.5% p.a. in 2009.

16. REVOCABLE DEPOSITS AND LOANS

		RSD thousand
	2009	**2008**
In Dinars		
Reverse repurchase agreements with the National Bank of Serbia	35,500,000	10,000,000
	35,500,000	**10,000,000**
In foreign currency		
Obligatory reserve with the National Bank of Serbia	39,535,256	27,112,238
	39,535,256	**27,112,238**
Balance as at 31 December	**75,035,256**	**37,112,238**

In accordance with National Bank of Serbia's Decision on Banks' obligatory reserve held with the National Bank of Serbia, the Bank calculates and allocates obligatory reserve in foreign currency based on average daily balance of deposits in foreign currency during the preceding calendar month. Obligatory reserve is calculated at the rate of 45% (2008: 45%) of the average daily balance of foreign currency deposits during the preceding calendar month.

The amount of obligatory reserve is reduced by the amount of long-term housing loans secured with the National Insurance Corporation as well as by the amount of loans granted in accordance with Government program. Apart from this, banks calculate obligatory reserve denominated in foreign currency at the rate of 40% on the basis of liabilities for foreign currency savings held with a bank, at the rate of 20% on the basis of average daily carrying amount of foreign currency subordinated liabilities as well as at the rate of 100% on the basis of average daily carrying balance of deposits in foreign currency for the previous month kept by the leasing companies at the special account held with a bank and at the rate of 0% on the positive difference between the foreign currency base, comprised of deposits and loans from abroad from the preceding calendar month and the month of September 2008. Out of the total calculated obligatory reserve in foreign currency, 80% is allocated in EUR while the remaining 20% is allocated in Dinars on the gyro account.

The National Bank of Serbia does not pay interest on obligatory reserves in foreign currency.

As at 31 December 2009, the Bank's obligatory reserve in foreign currency was in compliance with the aforementioned Decision of the National Bank of Serbia.

Reverse repurchase agreements are stated as placements or borrowings. They represent purchase and sale of securities where the contractual parties agreed that securities are sold by a seller to a buyer at purchase cost as of the date of transaction, while at the same time the buyer is obligated to resell the same securities to the seller, who is obligated to pay the agreed repurchase price.

Reverse repurchase agreements amounting to RSD 35,500,000 thousand as at 31 December 2009 relate to purchase of treasury bills from the National Bank of Serbia with maturity period ranging from 12 to 14 days, and bearing an interest rate from 9.5% to 10.0% per annum.

17. INTEREST AND FEE RECEIVABLES, RECEIVABLES FROM SALES, CHANGES IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES

		RSD thousand
	2009	**2008**
In Dinars		
Interest and fee receivables:		
- Other banks	11,116	11,988
- National Bank of Serbia	14,250	22,148
- Enterprises	1,842,049	1,448,184
- Public sector	22,720	23,444
- Retail customers	621,296	349,919
- Foreign entities	195	237
- Other customers	25,724	5,986
Receivables from sales	4,255	7,898
Receivables from changes in fair value of derivatives	78,493	-
	2,620,098	**1,869,804**
In foreign currency		
Interest and fee receivables:		
- Other banks	85	56
- Enterprises	93,046	73,923
- Public sector	23	173
- Retail customers	13,569	11,417
- Foreign entities	7,413	4,836
- Other customers	2,057	329
	116,193	**90,734**
Gross receivables	**2,736,291**	**1,960,538**
Minus: Allowance for impairment (Note 7(b))		
- in Dinars	(963,194)	(627,689)
- in foreign currency	(51,966)	(24,341)
	(1,015,160)	**(652,030)**
Balance as at 31 December	**1,721,131**	**1,308,508**

18. LOANS AND ADVANCES

Loans and advances by type of customer:

RSD thousand

	2009			2008		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In Dinars						
Loans and placements to:						
- Other banks	1,331,355	1,286,152	2,617,507	852,289	1,588,666	2,440,955
- Enterprises	64,939,959	56,766,023	121,705,982	54,017,728	46,428,905	100,446,633
- Retail customers	3,458,855	48,551,600	52,010,455	10,840,403	34,555,779	45,396,182
- Public sector	42,698	7,263,724	7,306,422	61,518	5,876,196	5,937,714
- Foreign entities	490	233,213	233,703	664	164,536	165,200
- Other customers	1,562,383	702,146	2,264,529	26,831	-	26,831
Total in RSD	**71,335,740**	**114,802,858**	**186,138,598**	**65,799,433**	**88,614,082**	**154,413,515**
In foreign currency						
Loans and placements to:						
- Other banks	1,300	11,248	12,548	444,223	31,179	475,402
- Enterprises	1,112,636	5,760,520	6,873,156	2,856,725	4,867,900	7,724,625
- Retail customers	17,278	425,543	442,821	293,690	-	293,690
- Public sector	4,316	-	4,316	2,983	-	2,983
- Foreign entities	743,682	594,511	1,338,193	12,475,706	549,326	13,025,032
- Other customers	3,182	225,549	228,731	(153)	-	(153)
Total in foreign currencies	**1,882,394**	**7,017,371**	**8,899,765**	**16,073,174**	**5,448,405**	**21,521,579**
Gross loans and advances	**73,218,134**	**121,820,229**	**195,038,363**	**81,872,607**	**94,062,487**	**175,935,094**
Minus: Allowance for impairment (Note 7(b))	(9,123,738)	(4,838,888)	(13,962,626)	(6,684,676)	(3,726,083)	(10,410,759)
Balance as at 31 December	**64,094,396**	**116,981,341**	**181,075,737**	**75,187,931**	**90,336,404**	**165,524,335**

Loans and advances to other banks in foreign currency relate to short-term placements in EUR deposited with foreign banks for period from 3 to 7 days, bearing interest at rates ranging from 0.1% to 1.82% per annum.

Short-term loans have been granted to corporate customers for financing business activities in trading, manufacturing, construction, agriculture and food processing industry as well as for other purposes, at the rates ranging from 8% to 24% per annum for loans in Dinars, and from 4.4% to 14% per annum for loans indexed by a foreign currency clause or indexed in foreign currency.

Long-term loans to corporate customers in Dinars indexed by a foreign currency clause or indexed in foreign currency bear interest at the rates ranging from 4.9% to 10% per annum.

18. LOANS AND ADVANCES (continued)

Short-term retail loans, which comprise consumer loans and cash loans, have been granted with a 30% participation and interest rates ranging from 0.87% to 2.21% monthly, while in case of loans secured by foreign currency cash deposit rates were ranging from 0.55% to 1.87% per month.

Interest rate on permitted overdrafts on citizens' current accounts has been 2.8% per month up to 1 May 2009, while after this date the Bank accrues interest on non-permitted overdrafts on citizens' accounts at the rate of 5% per month.

Long-term retail loans have been granted for purchase of consumer goods, renovating, adaptation and purchase of business and residential space for a period from 2 up to 20 years, bearing interest at the rates ranging from 0.75% to 2.21% per month, depending on the purpose of the loans.

19. SECURITIES

RSD thousand

	2009			2008		
	Securities at fair value through profit or loss	**Securities available-for-sale**	**Total**	**Securities at fair value through profit or loss**	**Securities available-for-sale**	**Total**
Securities and other placements:						
– Investments in shares	-	52,308	52,308	-	125,075	125,075
– Debt securities issued by the Government of the Republic of Serbia	77,495	11,485,551	11,563,046	139,372	-	139,372
	77,495	**11,537,859**	**11,615,354**	**139,372**	**125,075**	**264,447**
Fair value adjustments	(24,672)	(2,447)	(27,119)	(45,851)	53,318	7,467
	(24,672)	**(2,447)**	**(27,119)**	**(45,851)**	**53,318**	**7,467**
Gross securities	**52,823**	**11,535,412**	**11,588,235**	**93,521**	**178,393**	**271,914**
Less: Allowance for impairment (Note 7(b))	-	(15,462)	(15,462)	-	(17,522)	(17,522)
Balance as at 31 December	**52,823**	**11,519,950**	**11,572,773**	**93,521**	**160,871**	**254,392**

20. EQUITY INVESTMENTS

		RSD thousand
	2009	**2008**
In Dinars		
Investments in subsidiaries:		
- Intesa Leasing d.o.o., Beograd - 98.7% of capital	947,941	214,574
Minus: Allowance for impairment (Note 7(b))	-	(201,634)
	947,941	**12,940**
Investments in shares of other legal entities:		
Alma Mons d.o.o., Novi Sad	30	30
Bankor Consulting Group d.o.o., Novi Sad	267	267
Pan Trgovina d.o.o., Novi Sad	466	466
Nikola Tesla d.o.o., Subotica	162	162
Veeda d.o.o., Vranje	29	29
Poslovni Inkubator Beocin d.o.o., Beocin	32	33
Minus: Allowance for impairment (Note 7(b))	(859)	(851)
	127	**136**
Balance as at 31 December	**948,068**	**13,076**

Based on Decision made by General assembly of the Bank dated 27 March 2009, the Bank increased its share capital with Intesa Leasing d.o.o. Beograd in the amount of RSD 935 million (EUR 9.9 mil) which resulted in increased equity investment from 51% to 98.7%.

Other founder, CIB Leasing, Hungary, did not participate in share capital increasing and its share decreased from 49% to 1.3%.

21. OTHER PLACEMENTS

		RSD thousand
	2009	**2008**
In Dinars		
Factoring	1,772,266	1,799,544
Overdue placements in respect of guarantees and avals	491,583	208,254
Placements in respect of assigned receivables	561,908	666,822
Discounted bills	1,840,615	1,679,358
	4,666,372	**4,353,978**
In foreign currency		
Covered letters of credit and guarantees	259	-
Other placements	225,264	114,233
	225,523	**114,233**
Gross placements	**4,891,895**	**4,468,211**
Less: Allowance for impairment (Note 7(b))		
- in Dinars	(630,188)	(212,446)
- in foreign currency	(1,585)	(545)
	(631,773)	**(212,991)**
Balance as at 31 December	**4,260,122**	**4,255,220**

22. INTANGIBLE ASSETS

RSD thousand

	Licences	Software	Intangible assets in progress	Total
COST				
Balance as at 1 January 2008	240,647	521,321	323,541	1,085,509
Additions during the year	-	44,494	63,016	107,510
Transfers	-	-	(300,464)	(300,464)
Disposals	(19,810)	-	-	(19,810)
Balance as at 31 December 2008	**220,837**	**565,815**	**86,093**	**872,745**
Additions during the year	124	238,975	208,240	447,339
Disposals and other movements	-	(199,208)	(243,179)	(442,387)
Balance as at 31 December 2009	**220,961**	**605,582**	**51,154**	**877,697**
ACCUMULATED AMORTIZATION				
Balance as at 1 January 2008	50,134	183,768	95,264	329,166
Amortization (Note 9)	24,919	133,217	-	158,136
Transfers	-	-	(95,264)	(95,264)
Balance as at 31 December 2008	**75,053**	**316,985**	**-**	**392,038**
Amortization (Note 9)	23,963	89,519	-	113,482
Transfers	-	-	-	-
Disposals	-	(199,208)	-	(199,208)
Balance as at 31 December 2009	**99,016**	**207,296**	**-**	**306,312**
Net book value as at:				
- 31 December 2009	**121,945**	**398,286**	**51,154**	**571,385**
- 31 December 2008	**145,784**	**248,830**	**86,093**	**480,707**

23. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

RSD thousand

	Land and buildings	Equipment and Equipment under finance lease	Leasehold improve-ments	Construction in progress	Total property and equipment	Investment property
COST						
Balance as at 1 January 2008	4,125,949	3,447,326	-	41,061	7,614,336	
Additions	1,338,579	81,770	-	465,011	1,885,360	-
Transfers from construction in progress	-	331,455	128,442	(459,897)	-	-
Transfers (from)/to	(13,183)	(22,554)	22,554	-	(13,183)	13,183
Transfers from intangible assets	-	-	300,464	-	300,464	-
Disposals	-	(178,611)	(4,282)	-	(182,893)	-
Balance as at 31 December 2008	**5,451,345**	**3,659,386**	**447,178**	**46,175**	**9,604,084**	**13,183**
Additions	-	-	-	522,649	522,649	-
Transfers from construction in progress	163,149	272,365	85,005	(520,519)	-	-
Transfers (from)/to	(7,530)	-	-	-	(7,530)	7,530
Disposals	-	(357,952)	(39,611)	-	(397,563)	-
Balance as at 31 December 2009	**5,606,964**	**3,573,799**	**492,572**	**48,305**	**9,721,640**	**20,713**
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2008	455,535	1,650,961	-	-	2,106,496	-
Depreciation (Note 9)	102,947	538,661	64,316	-	705,924	329
Transfer (from)/to	(1,216)	(22,554)	22,554	-	(1,216)	1,216
Transfers from intangible assets	-	-	95,264	-	95,264	-
Disposals		(165,471)	(4,282)	-	(169,753)	-
Balance as at 31 December 2008	**557,266**	**2,001,597**	**177,852**	**-**	**2,736,715**	**1,545**
Depreciation (Note 9)	104,272	531,334	90,382	-	725,988	1,357
Disposals	-	(335,203)	(39,610)	-	(374,813)	-
Balance as at 31 December 2009	**661,538**	**2,197,728**	**228,624**	**-**	**3,087,890**	**2,902**
Net book value as at: 31 December 2009	**4,945,426**	**1,376,071**	**263,948**	**48,305**	**6,633,750**	**17,811**
31 December 2008	**4,894,079**	**1,657,789**	**269,326**	**46,175**	**6,867,369**	**11,638**

As at 31 December 2009, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

As at 31 December 2009, the carrying value of equipment under finance lease amounts to RSD 33,371 thousand (31 December 2008: RSD 38,476 thousand).

The Bank's management concluded that, using the external and internal sources of information in accordance with IAS 36 "Impairment of Assets", there were no indications of impairment of the property and equipment in use at the balance sheet date.

24. OTHER ASSETS

		RSD thousand
	2009	**2008**
Receivables from employees	7,215	7,108
Receivables for taxes paid in advance, except income taxes	1,024	863
Advances paid	31,910	88,428
Other receivables from operations	1,411,761	1,431,553
Assets received on foreclosed loans	18,838	18,838
Other assets	63,438	31,469
Accrued interest income:		
– in Dinars	76,146	113,143
– in foreign currency	50,640	47,625
Other accrued income in foreign currency	15,231	18,105
Deferred interest expenses in foreign currency	1,071,112	-
Other deferred expenses:		
– in Dinars	139,439	129,798
– in foreign currency	61,010	32,330
Other accruals in Dinars	77	77
Gross other assets	**2,947,841**	**1,919,338**
Less: Allowance for impairment (Note 7(b))	(9,223)	(39,719)
Balance at 31 December	**2,938,618**	**1,879,619**

Other receivables from operations amounting to RSD 1,411,761 thousand as at 31 December 2009 mostly relate to receivables in Dinars with respect to payment cards – Other receivables in Dinars as per other card issuers – Master Card in the amount of RSD 87,074 thousand and VISA in the amount of RSD 808,200 thousand, as well as withdrawals at ATMs of the Bank in the amount of RSD 287,860 thousand.

Deferred interest expenses in foreign currency in the amount of RSD 1,071,112 thousand relates to deposits with retail customers where in advance payment of interest is agreed.

25. TRANSACTION DEPOSITS

RSD thousand

	2009			2008		
	RSD	Foreign currency	Total	RSD	Foreign currency	Total
Other banks	89,637	31,974	**121,611**	81,918	47,715	**129,633**
Financial institutions	815,906	42,466	**858,372**	158,574	86,017	**244,591**
Voluntary pension funds	1,394	22,749	**24,143**	11,565	-	**11,565**
Insurance companies	375,283	379,299	**754,582**	180,958	87,792	**268,750**
Corporate	20,692,976	9,443,249	**30,136,225**	21,238,225	10,074,920	**31,313,145**
Public sector	49,299	46,556	**95,855**	3,880	84	**3,964**
Retail	5,488,680	23,952,107	**29,440,787**	4,462,066	14,615,677	**19,077,743**
Foreign banks	2,694	14,211	**16,905**	2,669	19,421	**22,090**
Other foreign entities	70,965	795,209	**866,174**	66,474	776,535	**843,009**
Other customers	1,265,582	317,369	**1,582,951**	1,229	1,093,533	**1,094,762**
Balance as of 31 December	**28,852,416**	**35,045,189**	**63,897,605**	**26,207,558**	**26,801,694**	**53,009,252**

Transaction deposits are placed with the interest ranging from 0.5% to 8.6% per annum, depending on the currency and the amount of deposit.

The Bank pays interest on retail transaction deposits in RSD at the rate of 3% per annum. Retail transaction deposits bear interest at the rate of 0.3% (until August 1, 2009: 1%) per annum for deposits in EUR, while interest rate ranging from 0.5% to 1.5% per annum is paid on deposits in other currencies.

26. OTHER DEPOSITS

RSD thousand

	2009			2008		
	Short term	Long term	Total	Short term	Long term	Total
In RSD						
Saving deposits:						
– Retail	787,139	3,777	**790,916**	617,088	4,729	**621,817**
– Foreign entities	7,187	-	**7,187**	7,914	-	**7,914**
Specific purpose deposits	1,359,664	881,313	**2,240,977**	1,195,564	1,594,107	**2,789,671**
Other deposits	27,932,531	42,290	**27,974,821**	23,041,992	32,612	**23,074,604**
Total in RSD	**30,086,521**	**927,380**	**31,013,901**	**24,862,558**	**1,631,448**	**26,494,006**
In foreign currency						
Savings deposits:						
– Retail	44,855,672	4,358,841	**49,214,513**	38,095,138	2,737,493	**40,832,631**
– Foreign entities	1,079,993	27,470	**1,107,463**	634,524	38,674	**673,198**
Special purpose deposits	5,365,020	3,759,724	**9,124,744**	4,492,517	4,941,567	**9,434,084**
Other deposits	53,979,062	944	**53,980,006**	11,510,221	7,674	**11,517,895**
Total in foreign currency	**105,279,747**	**8,146,979**	**113,426,726**	**54,732,400**	**7,725,408**	**62,457,808**
Balance as of 31 December	**135,366,268**	**9,074,359**	**144,440,627**	**79,594,958**	**9,356,856**	**88,951,814**

Term deposits in RSD and foreign currency are placed with interest rates ranging from 1.8% to 11% per annum, depending on the currency and the period that funds have been deposited for.

Special purpose deposits placed by corporate and retail customers are non interest-bearing.

Retail short-term deposits in RSD bear interest at rates ranging from 9.0% to 14% per annum, depending on the period that the funds have been deposited for. The interest rates on the retail short-term deposits in foreign currency range from 1.0% do 8.0% per annum, depending on the currency and the period the funds have been deposited for.

Retail long-term deposits in foreign currency bear interest at rates ranging from 4.0% to 8.0% per annum for deposits in EUR, i.e. at rates rangning from 2.3% to 4.0% per annum for other currencies, depending on the period that the funds have been deposited for.

The structure of other deposits by type of customers is as follows:

RSD thousand

	2009	2008
Banks	11,052,463	2,962,508
Enterprises	32,070,713	26,156,791
Retail customers	232,394	3,884,407
Foreign entities	32,603,892	35,209
Public sector	5,381,445	710,294
Other customers	613,920	843,290
Balance as of 31 December	**81,954,827**	**34,592,499**

27. BORROWINGS

RSD thousand

	2009			2008		
	Short term	**Long term**	**Total**	**Short term**	**Long term**	**Total**
In RSD						
Borrowings:						
- Other Banks	-	9,890	9,890	410,000	40,204	450,204
Total in RSD	**-**	**9,890**	**9,890**	**410,000**	**40,204**	**450,204**
In foreign currency						
Borrowings:						
– Corporate	-	-	-	335,622	-	335,622
– Public sector	-	1,450,873	1,450,873	-	1,236,757	1,236,757
– Foreign entities	-	28,624,385	28,624,385	29,146,054	16,581,880	45,727,934
Other financial liabilities	615,460	-	615,460	242,711	-	242,711
Total in foreign currency	**615,460**	**30,075,258**	**30,690,718**	**29,724,387**	**17,818,637**	**47,543,024**
Balance as of 31 December	**615,460**	**30,085,148**	**30,700,608**	**30,134,387**	**17,858,841**	**47,993,228**

Interest rates on long-term borrowings in RSD range from 0.5% to 5.5% per annum.

Interest rates on long-term borrowings in foreign currency range from EURIBOR 3M – 0.01% to EURIBOR 6M + 4.5%, depending on the date of the loan approval and the currency.

As of 31 December 2009, the outstanding liabilities arising from borrowings from foreign banks, which are presented within borrowings from foreign entities in foreign currency, amount to RSD 28,624,385 thousand (31 December 2008: RSD 16,581,880 thousand).

Major portion of these borrowings in amount of RSD 22,407,352 thousand (31 December 2008: RSD 14,695,805 thousand) relates to loans granted to the Bank by the members of Intesa Sanpaolo Group, are presented as follows:

RSD thousand

Creditor	**Currency**	**Amount**	**Maturity Date**	**Interest rate**	**2009**	**2008**
Intesa Sanpaolo S.p.A., Italy	EUR	50,000,000	09.11.2010.	3M Euribor +1.6%p.a.	4,794,440	4,430,050
Intesa Sanpaolo S.p.A., Italy	EUR	5,000,000	13.01.2016.	3M Euribor – 1 b.p.	186,450	196,891
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	13.01.2014.	3M Euribor – 1 b.p.	599,305	664,507
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	21.12.2014.	3M Euribor –1 b.p.	599,305	664,507
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	21.12.2016.	3M Euribor –1 b.p.	671,222	708,808
Intesa Sanpaolo S.p.A., Italy	EUR	10.000.000	03.12.2015.	3M Euribor	719,166	775,259
Intesa Sanpaolo S.p.A., Italy	EUR	5.000.000	25.07.2018.	3M Euribor + 1 b.p.	431,500	443,006
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	07.11.2016.	3M Euribor	839,027	886,010
Intesa Sanpaolo S.p.A., Italy	EUR	500	19.12.2014.	3M Euribor	39,954	44,300
Intesa Sanpaolo S.p.A., Italy	EUR	2.000.000	13.01.2016.	3M Euribor – 1 b.p.	149,160	157,513
Intesa London	EUR	19.500.000	27.12.2011.	6M Euribor +1.00% p.a.	1,869,832	1,727,719
Intesa London	USD	7.205.000	08.01.2010.	6M Libor +0.75% p.a.	480,779	453,195
Vseobecna Uverova banka A.S., Slovakia	EUR	40,000,000	03.05.2011.	3M Euribor +1.3% p.a.	3,835,552	3,544,040
Intesa Sanpaolo S.p.A., Italy	EUR	15,000,000	20.08.2029	3M Euribor +0.9% p.a.	1,438,332	-
Intesa Sanpaolo S.p.A., Italy	EUR	60,000,000	09.06.2014	3M Euribor +358 b.p.	5,753,328	-
Balance as of 31 December					**22,407,352**	**14,695,805**

28. SECURITIES ISSUED, INTEREST, FEE AND CHANGES IN FAIR VALUE OF DERIVATIVES

Securities issued

		RSD thousand
	2009	**2008**
Short term deposits of other entities in RSD – forward covered within 3 months	767,450	16,730
Short term securities issued in foreign currency (draft cheques)	17,855	3,095
Total	**785,305**	**19,825**

b) Interest and fee payables and derivatives fair value

		RSD thousand
	2009	**2008**
In RSD		
Interest and fee payables:		
– Banks	179	529
– Corporate	1,736	1,699
– Public sector	829	2,162
– Other	27	674
Payables arising from the change in derivatives value	914	134,027
	3,685	**139,091**
In foreign currency		
Interest and fee payables:		
– Banks	-	**3,443**
Balance as of 31 December	**3,685**	**142,534**

29. PROVISIONS

	2009	RSD thousand 2008
Provision for off-balance sheet exposures (a)	1,743,281	1,483,053
Provision for employee benefits:		
- restructuring (b)	27,351	142,923
- long-term retirement benefits (c)	211,113	202,227
Provision for litigations (Note 35(a))	285,408	344,945
Provision for VAT liabilities	177,191	143,807
Balance as of 31 December	**2,444,344**	**2,316,955**

(a) According to the Bank's internal policy, provisioning for commitments and other risky off-balance sheet items is performed in the same manner as for balance sheet assets, i.e. off-balance sheet items are classified into recoverability categories based on the estimation of the recoverable amount of receivables, when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank's commitment, and when the objective evidence of such probability exists.

(b) Near year end the Bank has started a project of considering and analysing efficiency of business processes that could lead to decrease in number of employees (redundancies) and restructuring. As the results of project are expected in the end of first quarter of 2010, the Bank made provisions, in the same manner as previous years, based on estimated the number of employees that could be redundant. For the purpose of estimation, available laws and internal acts have been used (Labour Law and Collective agreement).

(c) Long-term provision for retirement benefits and jubilee awards has been recorded in the Bank's financial statements on the basis of an independent actuary's calculation, and it is stated in the amount of present value of defined benefit obligation, determined by discounting estimated future outflows, decreased by the amount of prior period's provisions for past service cost. The discounted rate used by the actuary was 8%, representing the adequate rate under IAS 19 "Employee Benefits", in the absence of a developed market for high quality corporate bonds. The provision was determined in accordance with the provision of the Bank's Rulebook and the assumption on average salary increase rate of 5% per annum over the period the provision has been established for.

30. OTHER LIABILITIES

	2009	RSD thousand 2008
Net salaries and compensations	129,575	112,933
Taxes, contributions and other duties payable, excluding income tax liability	89,671	78,167
Trade payables	792,943	729,227
Advances received	59,842	94,418
Other liabilities	1,317,764	769,770
	2,389,795	**1,784,514**
Accruals and deferred income		
Accrued interest expenses:		
– in RSD	315,378	292,071
– in foreign currency	640,904	917,392
Accrued interest – other expenses:		
Deferred income on loan origination fees		
– in RSD	656,285	593,649
Other deferred income:		
– in RSD	494,564	43,833
Other deferrals:		
– in RSD	607,005	78,241
– in foreign currencies	525	519
	2,714,661	**1,925,705**
Subordinated liabilities (a)	**10,547,768**	**9,746,110**
Finance lease liabilities (b)	**29,740**	**42,295**
Balance as of 31 December	**15,681,964**	**13,498,624**

30. OTHER LIABILITIES (continued)

(a) Outstanding balance and structure of subordinated liabilities as of 31 December 2009 and 2008 are as follows:

RSD thousand

Creditor	Currency	Amount	Maturity Date	Interest Rate	31 December 2009	31 December 2008
International Finance Corporation (IFC), Washington, USA	EUR	60,000,000	15.12.2012.	6M Euribor + 2.25% p.a.	5,753,328	5,316,060
Intesa Holding International S.A., Luxembourg	EUR	50,000,000	12.03.2012.	3M Euribor + 1.8% p.a.	4,794,440	4,430,050
Balance as of 31 December					**10,547,768**	**9,746,110**

(b) Finance liabilities for leased equipment as of 31 December 2009 and 2008 are as follows:

RSD thousand

	2009		2008	
Minimal lease payments	**Present value**	**Future value**	**Present value**	**Future value**
Within 1 year	16,346	17,874	33,432	35,193
Between 1 and 5 years	13,394	14,805	8,863	9,684
Balance as of 31 December	**29,740**	**32,679**	**42,295**	**44,877**

31. EQUITY

(a) Equity structure

The Bank's equity as of 31 December 2009 consist of share capital, other capital, share premium, reserves from profit, revaluation reserves and profit for the year.

The structure of the Bank's equity is presented as follows:

		RSD thousand
	2009	**2008**
Share capital – ordinary shares	18,477,400	18,477,400
Other capital	11,158	11,158
Share premium	9,957,774	9,957,774
Reserves from profit	14,768,086	8,875,587
Revaluation reserves and unrealized gains from available-for-sale securities	559,313	706,270
Profit for the year	6,012,307	5,892,499
Balance as of 31 December	**49,786,038**	**43,920,688**

/i/ Share capital

As disclosed in Note 1 to the financial statements, before 30 September 2007, the Bank and Panonska banka a.d. Novi Sad operated as two independent banks and both of them issued new shares during the year ended 31 December 2007.

The calculation of the share exchange ratio upon the merger of two banks was carried out in accordance with the both Banks' management decision and, subsequently, new share capital structure of the Bank as the successor was established.

Subsequent to the merger, the shareholders' structure of the Bank as of 31 December 2007 was as follows:

Shareholder	**Number of shares**	**In %**
Intesa Holding International S.A., Luxembourg	122,166	77.552
International Finance Corporation (IFC), Washington, USA	9,195	5.837
Intesa Sanpaolo S.p.A., Italy	26,157	16.605
Elnos Agrovojvodina	9	0.006
Total	**157,527**	**100**

31. EQUITY (continued)

(a) Equity structure (continued)

/i/ Share capital (continued)

As of 31 December 2007, the Bank's share capital consisted of 157,527 of ordinary shares with nominal value of RSD 100 thousand per share.

In 2008, the Bank increased its share capital throughout two new issues of shares in the total amount of RSD 9,692,532 thousand. The shares were subscribed and paid by the Bank's existing shareholders.

On its session held on 6 March 2008, the Shareholders' Assembly passed the Decision on the 4th issue of ordinary shares without public offer, in order to increase the share capital. Total volume of this share issue amounted to RSD 4,300,000,000.00 i.e. 12,088 ordinary shares with nominal value of RSD 100,000.00 per share.

Shares were sold at the price of RSD 355,725.00, comprising the nominal value of RSD 100,000.00 and share premium amounting to RSD 255,733.00.

Shares of the 4th issue were acquired by the Bank's existing shareholders, as presented in the table below:

Shareholder	Number of shares
Intesa Holding International S.A., Luxembourg	9,079
International Finance Corporation (IFC), Washington, USA	683
Intesa Sanpaolo S.p.A., Italy	1,944
Total	**11,706**

On its session held on 31 March 2008, the Bank's Shareholders' Assembly passed the Decision on 5th issue of ordinary shares without public offer, in order to increase the share capital. Total volume of this share issue amounted to RSD 6,300,031,430.00, i.e. 17,710 ordinary shares with nominal value of RSD 100,000.00 per share. Shares were sold at the price of RSD 355,725.00, comprising the nominal value of RSD 100,000.00 and share premium amounting to RSD 255,725.00.

Shares of the 5th issue were acquired by the Bank's existing shareholders and are presented as follows:

Shareholder	Number of shares
Intesa Holding International S.A., Luxembourg	12,485
International Finance Corporation (IFC), Washington, USA	3,056
Total	**15,541**

As of 31 December 2009 the total number of the Bank's registered shares was 184,774 ordinary shares with nominal value of RSD 100,000 per share.

31. EQUITY (continued)

(a) Equity structure (continued)

/i/ Share capital (continued)

The major shareholder of the Bank is Intesa Holding Intrenational S.A., Luxembourg, with the interest of 77.787% in the share capital as of 31 December 2009. The shareholders structure of the Bank as of 31 December 2009 is presented as follows:

Shareholder	Number of shares	In %
Intesa Holding International S.A., Luxembourg	143,730	77.787
International Finance Corporation (IFC),Washington, USA	12,934	7.00
Intesa Sanpaolo S.p.A., Italy	28,101	15.208
Agrovojvodina Elnos a.d., Novi Sad	9	0.005
Total	**184,774**	**100,00**

/ii/ Share premium

Share premium in amount of RSD 9,957,774 thousand as of 31 December 2009 is the result of the Bank's status change, i.e. the merger of Panonska banka a.d. Novi Sad in the amount of RSD 2,989,941 thousand, as well as the result of the 4th and the 5th issues of ordinary shares without public offer, as presented below:

- Share premium in the total amount of RSD 2,993,611 thousand resulted as difference between the 4th share issuance price amounting to RSD 355,733.00 and the nominal value of RSD 100,000.00 per share; and
- Share premium in the total amount of RSD 3,974,222 thousand resulted as difference between the 5th share issuance price amounting to RSD 355,725.00 and the nominal value of RSD 100,000.00 per share.

31. EQUITY (continued)

(a) Equity structure (continued)

/iii/ Reserves from profit

Reserves from profit are presented as follows:

		RSD thousand
	2009	**2008**
Special reserves for estimated losses	28,530,891	17,397,618
Shortfall amount of special reserves for estimated losses	(13,762,805)	(8,522,031)
Balance as of 31 December	**14,768,086**	**8,875,587**

Shortfall amount of special reserves for estimated loan losses is calculated as required by the Decision on Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items ("Official Gazette of the Republic of Serbia", no. 129/2007, 63/2008 and 104/2009). As of 31 December 2009 special reserves for estimated losses for balance sheet assets and off-balance sheet items after deductions of allowance for impairment of balance sheet assets and off-balance sheet items calculated in accordance with above mentioned Decision (Note 2.9.) amounts to RSD 28,530,891 thousand.

Pursuant to the proposal of the Board of Directors, the retained earnings for 2009 amount to RSD 6,012,307 thousand is entirely used for coverage of the shortfall amount of the special reserves for estimated losses.

The final Decision on profit distribution, upon the proposal by the Board of Directors, is to be passed by the Shareholders' Assembly on its ordinary annual session, subsequent to the adoption of the financial statements for the year ended 31 December 2009.
The shortfall amount of the special reserves for estimated losses, subsequent to the transfer of profit for the year 2009, amounts to RSD 7,750,498 thousand (31 December 2008: RSD 2,629,532 thousand).

The Bank can not distribute dividends to the shareholders if there is a shortfall amount of special reserves.

/iv/ Revaluation Reserves and Unrealized Gains from Available-for-Sale Securities

Revaluation reserves and unrealized gains from available-for-sale securities in amount of RSD 559,313 thousand as of 31 December 2009 (31 December 2008: RSD 706,270 thousand), comprises positive effects of the performed indipendent appraisal of buildings as at 1 January 2004 and fair value adjustments of available-for-sale securities.

		RSD thousand
	2009	**2008**
Effects of buildings' appraisal	559,125	559,125
Effects of fair value adjustments of securities available-for-sale	918	149,207
Unrealized gains from available-for-sale securities	(730)	(2,062)
Balance as of 31 December	**559,313**	**706,270**

31. EQUITY (continued)

(b) Capital Adequacy and Performance Indicators – Compliance with Legal Requirements

The Bank is obliged to reconcile the scope and the structure of its operations and risky placements with the performance indicators prescribed by the Law on Banks and relevant decisions of National Bank of Serbia passed on the basis of the aforementioned Law.

As of 31 December 2009, the Bank was in compliance with all prescribed performance indicators.

The Bank's performance indicators were as follows:

Performance indicators	**Prescribed values**	**Realized values**	
		As of 31 December 2009	**As of 31 December 2008**
1. Capital	Minimum EUR 10 milion	46,231,627	48,051,632
2. Capital adequacy ratio	Minimum 12%	17.67%	18.79%
3. Permanent investments indicator	Maximum 60%	14.40%	14.33%
4. Related parties' exposure	Maximum 20%	9.84%	8.97%
5. Indicator of large and largest permissible loans	400%	20.03%	26.73%
6. Liquidity ratio	Minimum 1	1.35	1.28
7. Foreign currency risk indicator	Maximum 30%	1.00%	3.98%

32. OFF-BALANCE SHEET ITEMS

	2009	RSD thousand 2008
Funds managed on behalf of third parties (a)	1,418,442	1,415,101
Guarantees and other irrevocable commitments (b)	86,097,068	93,534,746
Other off-balance sheet items-derivatives (c)	12,735,712	7,717,600
Other off-balance sheet items (d)	60,604,733	30,226,448
Balance as of 31 December	**160,855,955**	**132,893,895**

(a) Funds Managed on Behalf of Third Parties

	2009	RSD thousand 2008
Placements managed on behalf of third parties:		
- short-term	78,628	424,331
- long-term	1,339,814	990,770
Balance as of 31 December	**1,418,442**	**1,415,101**

(b) Guarantees and Other Irrevocable Commitments

	2009	RSD thousand 2008
Payment guarantees:		
- in dinars	13,838,404	12,839,629
- in foreign currency	15,514,681	20,105,430
	29,353,085	**32,945,059**
Performance guarantees:		
- in RSD	9,613,954	8,799,136
- in foreign currency	1,677,615	1,343,365
	11,291,569	**10,142,501**
Uncovered letters of credit in foreign currency	2,377,838	1,479,072
Avals and Acceptances	486,325	637,560
Other guarantees	**79,108**	**66,451**
Other irrevocable commitments for undisbursed loans	42,509,143	48,264,103
	45,452,414	**50,447,186**
Balance as of 31 December	**86,097,068**	**93,534,746**

32. OFF-BALANCE SHEET ITEMS (continued)

(b) Guarantees and Other Irrevocable Commitments (continued)

Irrevocable commitments for undisbursed credit facilities represent unused portions of approved loans that cannot be cancelled unilaterally, such as: overdrafts, revolving loans to corporate clients, multi-purpose revolving loans, purchases and sales of foreign currencies from banks in forward transactions.

c) Other off-balance sheet items - Derivatives

RSD thousand

	2009	2008
SWAP contract payables (nominal amount) – sale of EUR	5,553,854	3,909,730
SWAP contract receivables (nominal amount) – purchase of USD	5,138,095	3,774,000
SWAP contract receivables (nominal amount) – purchase of AUD	95,709	-
SWAP contract receivables (nominal amount) – purchase of CAD	57,009	-
SWAP contract receivables (nominal amount) – purchase of GBP	311,049	-
SWAP contract receivables (nominal amount) – purchase of SEK	37,377	-
Covered currency forward contract payables (nominal amount) – sale of EUR	767,110	17,140
Covered currency forward contract receivables (nominal amount) – purchase of RSD	767,450	16,730
Covered currency forward contract payables (nominal amount) – sale of USD	4,004	-
Covered currency forward contract receivables (nominal amount) – purchase of RSD	4,055	-
Balance as of 31 December	**12,735,712**	**7,717,600**

Fair Value of Financial Derivates

RSD thousand

	Valuation techniques of entry value unavailable on the market	2009	2008
Financial assets			
Net positive fair value of covered currency forward contract	2,043	2,043	-
Net positive fair value of currency forward contract	51	51	-
Net positive fair value of currency SWAP contract (far leg)	76,400	76,400	133,761
Financial liabilities			
Net negative fair value of covered currency forward contract	914	914	266

32. OFF-BALANCE SHEET ITEMS (continued)

d) Other off-balance sheet items

	2009	RSD thousand **2008**
Foreign currency savings' bonds	908,758	998,550
Transfer from balance (Note 7 (b))	1,805,354	-
Other off-balance sheet items	57,890,621	29,227,898
Balance as of 31 December	**60,604,733**	**30,226,448**

The major portion of other off-balance sheet items in amount of RSD 35,500,000 comprises of purchased National Bank of Serbia treasury bills – reverse REPO transactions.

33. RELATED PARTY DISCLOSURES

A number of banking transactions with shareholders and other related parties take place in the ordinary course of business. These transactions were carried out on commercial terms and conditions and at market rates.

(a) The Bank enters into business relationship with its Parent company – major shareholder Intesa Holding International S.A., Luxembourg and other members of Intesa Sanpaolo Group.

Outstanding balance of receivables and liabilities as of 31 December 2009 and 2008, as well as income and expenses for the years then ended, resulting from transactions with the shareholders and other Bank's related parties within Intesa Sanpaolo Group are presented as follows:

33. RELATED PARTY DISCLOSURES (continued)

RSD thousand

2009	Intesa Holding International, Luxembourg	Intesa Sanpaolo S.p.A., Italy	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgarde	Vseobecna Uverova banka A.S., Slovakia	Banka Koper d.d., Slovenia	Pravex Bank Comm.bank	Intesa Sanpaolo Banka D.D. Bosna and Herzegovina	Intesa Sanpaolo Card d.o.o., LJubljana	Banca Infrastrutture Innovazione e Sviluppo S.p.A., Italy
Fair value – derivatives		76,400	-	-	-	-	-	-	-	-
Total placements	-	535,808	1,477	1,154,887	-	-	-	-	-	-
Other receivables	-	10,273	-	2,939	-	-	12,862	-	-	854
Total receivables	**-**	**622,481**	**1,477**	**1,157,826**	**-**	**-**	**12,862**	**-**	**-**	**854**
Loans and deposits payables	4,794,774	51,209,214	-	1,835,972	3,853,383	-	-	-	-	-
Other payables	-	222,578	6,325	-	-	-	-	-	81,496	-
Total payables	**4,794,774**	**51,431,792**	**6,325**	**1,835,972**	**3,853,383**	**-**	**-**	**-**	**81,496**	**-**
Interest income	-	3,358	-	60,389	-	-	-	-	-	-
Fees and commission income	-	18,435	434	292	-	-	-	-	-	-
Other income	-	164,115		2,515	-	-	-	-	-	-
Total income	**-**	**185,908**	**434**	**63,196**	**-**	**-**	**-**	**-**	**-**	**-**
Interest expense	161,157	635,280	-	78,525	110,896	-	-	5,131	-	-
Fees and commission expense	-	14,738	12,396	-	-	77,082	-	-	81,496	-
Other expenses	-	345,503	8,906	-	-	2,770	-	-	-	-
Total expenses	**161,157**	**995,521**	**21,302**	**78,525**	**110,896**	**79,852**	**-**	**5,131**	**81,496**	**-**

33. RELATED PARTY DISCLOSURES (continued)

RSD thousand

2008.	Intesa Holding International, Luxembourg	Intesa Sanpaolo S.p.A., Italy	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgarde	Vseobecna Uverova banka A.S., Slovakia	Banka Koper d.d., Slovenia	Pravex Bank Comm.bank	Intesa Sanpaolo Banka D.D. Bosna and Herzegovina
Total placements	-	11,814,625	6,311	1,527,811	-	-	-	-
Other receivables	-	5,236	-	2,486	-	-	1,537	-
Total receivables	**-**	**11,819,861**	**6,311**	**1,530,297**	**-**	**-**	**1,537**	**-**
Loans and deposits payables	4,430,637	40,374,040	-	730,228	3,596,752	-	-	-
Fair value - derivatives	-	133,761	-	-	-	-	-	-
Other payables	-	292,383	2,300	-	-	8,394	-	-
Total payables	**4,430,637**	**40,800,184**	**2,300**	**730,228**	**3,596,752**	**8,394**	**-**	**-**
Interest income	-	3,023	-	84,754	-	-	-	-
Fees and commission income	-	17,694	523	85	-	-	-	-
Total income	**-**	**20,717**	**523**	**84,839**	**-**	**-**	**-**	**-**
Interest expense	278,822	837,521	-	3,176	208,482	-	-	2,848
Fees and commission expenses	-	10,683	17,414	-	-	94,520	-	-
Other expenses	-	433,398	8,015	-	-	1,982	-	-
Total expenses	**278,822**	**1,281,602**	**25,429**	**3,176**	**208,482**	**96,502**	**-**	**2,848**

33. RELATED PARTY DISCLOSURES (continued)

The aforementioned receivables and liabilities, as well as income and expenses incurred from transactions with the related parties from Intesa Sanpaolo Group arose in the ordinary course of business.

Interest on assets and liabilities in transactions with related parties are at common commercial rates. Receivables from related parties are unsecured. There are no guarantees provided by the Bank to its related parties, or received by the Bank from the above related parties.

The Bank issued more guarantees in favour of related parties on loans granted by related parties to the Banks clients.

As of 31 December 2009 and 2008, the Bank did not make any provision for doubtful debts relating to transactions with related parties.

(b) Gross salaries and other benefits of the Executive Board's members and other key personnel of the Bank, including the Board of Directors' members, during 2008 and 2007, are presented as follows:

		RSD thousand
	2008	**2008**
Remuneration to the members of the Executive Board and management of the Bank	105,122	72,279
Total	**105,122**	**72,279**

c) Loans and placements to members of Executive and Management board, and other key personnel of the Bank as well as their deposits are presented in the following table:

		RSD thousand
	2009	**2008**
Placements	432,077	325,470
Impairment	5,764	3,685
Balance as of 31 December	**426,313**	**321,785**
Deposits		
Balance as of 31 December	**232,022**	**115,514**

34. RISK MANAGEMENT

Risks are inherent in the Bank's activities and cannot be eliminated completely. It is important to manage these risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, legislators. Risk management is the process of permanent identifying, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating the risk. The adequate system of risk management is critical element in ensuring the Bank's stability and profitability of its operations.

The Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk, foreign currency, risk, operational risk, risk of exposure toward single entity (concentration risk), or a group of related entities, risk of investments and risk related to the county of origin of the entity to which the Bank is exposed.

The Board of Directors and the Executive Board are responsible for implementation of the adequate risk management system and its consistent application.

The Bank's Board of Directors determines the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring the risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors.

The Committee for monitoring business activities (Audit Committee) analyses and adopts the proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of the adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

Risk Management Department has been established in the Bank in order to implement a special and unique system for risk management as well as to enable a functional and organizational segregation of risk management activities from regular business activities.

The Bank has developed the comprehensive risk management system by introducing the policies and procedures, as well as the limits for the risk levels acceptable for the Bank.

The Bank's organization parts authorized for risk management constantly monitor changes in the legislative provisions, while analizing its influence on the risks at the entity level of the Bank. They take necessary measures to bring the Bank's business activities and procedures in accordance with new procedures within the scope of controlled risk. In additon, introduction of new services is followed by necesarry market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

34. RISK MANAGEMENT (continued)

34.1. Credit risk

Credit risk is the risk that credit beneficiaries will not be able to fulfil contractual obligations to the Bank, whether fully or partially. By its internal acts, policies and procedures, the Bank has implemented the adequate system of credit risk management, as well as reducing the credit risk to an acceptable level. The Bank manages the credit risk through setting the credit risk limits, establishing acceptable credit limits for individual customers or for the group of customers.

The credit risk is managed by the Bank at a counter-party specific level, group of related parties, and on the total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates the credit worthiness of each client both at the moment of application of the loan as well as through a subsequent regular and continuous performance analysis. The analysis of the client's credit worthiness, timely settlement of liabilities in the past, the value of collateral on the individual level and for each transaction, is performed in the Credit Management Department.

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for covering the risk, concentration risk (large exposures), portfolio credit risk, the level of capital necessary for coverage all credit risks is performed by the Risk Management Department. Credit Management Department and the Risk Management Department are independent in the Bank.

Principles prescribed by the National Bank of Serbia legislation as well as the Bank's internal procedures are applied in these analysis in order to anticipate potential risks that can arise in terms of a client's inability to settle its liabilities when they fall due.

In that sense, an assessment of the required reserve level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, monthly portfolio analysis, are carried out. The analysis entails measuring the adequacy of provision/reserves according to clients' types, risk types, sub-portfolios and total portfolio of the Bank.

Making decisions on exposure to credit risk is performed based on the proposals provided by the Credit Management Department. The terms for approval of each corporate loan are determined individually depending on the client type, loan's purpose, estimated creditworthiness and current market position. Type of collateral that accompany each loan are also determined according to a client credit worthiness analysis, type of credit risk exposure, term of the placement as well as the amount of a particular loan. Conditions of loan approvals to retail clients and entrepreneurs are determined through defining standard conditions for different type of products. Risk price for standard types of products is calculated according to the analysis of credit costs of the Bank per each type of product.

Due to the fact that this risk is significant for the Bank, dispersion in authorities in respect of decision making process on granting activities has been made. This dispersion is provided with the prescribed limits up to which authorized person or management bodies may decide. Organizational parts passing the decisions with respect to loan approvals, with different levels of authorisations, are: Branch managers, Regional Managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, the approval of the parent bank is necessary.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

The Bank manages the credit risk by setting up limits with respect to period, amount and results of the individual customer's credit worthiness, by diversification of loans to a larger number of customers and contracting foreign exchange clause and index-linking to a consumer price index in order to maintain the real value of loans.

Furthermore, the Bank manages the credit risk through assesment and analysis of received collaterals, by providing allowance for impairment of financial assets, provision for off-balance sheet items, as well as by determining the adequate price of a loan which covers the risk of a particular placement.

In addition to clients' credit worthiness, the risk limits are also determined based on different types of collateral. Risk exposure toward a single debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. Total risk exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analysed before the transaction.

Loan Concentration Risk

The concentration risk is the risk of incurring losses due to an excessive volume of placements into a certain group of debtors. Groups of debtors can be defined by different categories: geographical sectors, industries, countries, related parties or economic groups, etc. The Bank manages and controls the concentration risk by limiting and monitoring the exposure toward certain groups, predominantly by countries and economic groups.

Derivative Financial Instruments

Derivative financial instruments lead to the Bank's exposure to credit risk in case their fair value is positive for the Bank. Such credit risk is limited by determining the maximum fair value of the total derivatives' portfolio as well as by determining the maximum positive fair value of each individual transaction.

Risks similar to credit risk

The Banks issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of the third parties. In this way the Bank is exposed to risks similar to credit risks, which can be mitigated by the same control processes and policies used for credit risk in respect of loans and advances.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

Collateral and Other Instruments of Credit Risk Protection

The amount and type of the collateral required depends on an assessment of the credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of customer's credit worthiness, type of exposure to the credit risk, placement's maturity as well as the amount itself.

Contractual authorisation as well as bills of exchange are provided by customers as standard collaterals while, depending on the assessment, additional collaterals may be required, such as real estate mortgages, movable property pledges, partial or entire coverage of placements with deposits, guarantees issued by other bank or legal entity, adequate securities, or joint contracting and several debtorship of another legal entity which then becomes the joint and several debtor.

In cases of real estate mortgages or movable property pledges, the Bank always obtains valuations of the assets carried out by the approved appraiser, in order to reduce the potential risk to the lowest rate. Decisions on placements to retail clients and small business (entrepreneurs) are mostly based on appraisal of standardised, previously defined conditions, using the scoring model with the additional analysis of the credit analysts.

Assessment of Impairment of Financial Assets

The main factors considered for financial assets impairment assessment include: overdue of payments of principal or interest, identified weakness in the cash flows of customers, internal credit rating downgrades, or breach of original terms of the contract. The Bank performs assessment of impairment at two levels, individual and collective.

Individual assessment of impairment

The Bank performs individual assessment of impairment for each individually significant loan or advance (exceeding EUR 50.000) if it is in the status of default (overdue more than 90 days), i.e. if there is objective evidence that the loan has been impaired.

The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to the contract with clients, taking into consideration the assessment of financial position and credit worthiness of the client, the realisable value of collateral, as well as the timing of the expected cash flows from realisation of collaterals, etc. Projected cash flows are discounted using the effective interest rate to their present value. Impairment loss is measured as the difference between the carrying amount of loan and its estimated recoverable amount, being the present value of the expected future cash flows. Individual assessment of the impairment of placements is performed at least semi-annually.

If new information becomes available that, as estimated by credit analysts, have an effect on the client's credit worthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

Assessment of Impairment of Financial Assets (continued)

Collective Assessment of Impairment

Collective Assessment of impairment is performed for loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated monthly with separate review of each sub-portfolio, which represents a specific group of loans and advances with similar characteristics.

The collective assessment of impairment takes into account impairment that is likely to be present in the Bank's portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated based on migration matrices and the probability of collection of receivables overdue more than 90 days. Migration matrices and probabilities are determined based on monitoring the multiannual migrations of internal rating of the clients in the Bank's portfolio.

Special Reserves for Estimated Losses

Both for corporate and retail loans, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates special reserves for estimated losses as defined by the Decision on the Classification of Banks Balance Sheet Assets and Off Balance Sheet Items. Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans and advances.

(a) Maximum Exposure to Credit Risk

Breakdown of maximum credit risk exposure, before taking into account collaterals held or other credit enhancements, as of 31 December 2009 and 2008, grouped by geographical locations, is presented as follows:

RSD thousand

	Accounts with NBS, other banks and placements with banks	Loans and advances to customers	Equity investments and securities	Interests, fees and other assets	Guarantees and other commit-ments	Total 2009.
Serbia	***1,570,845***	***196,631,142***	***998,788***	***4,344,684***	***85,861,983***	***289,407,442***
Belgrade	1,562,908	103,664,918	973,421	3,124,467	46,935,294	156,261,008
Vojvodina	4,264	48,258,760	25,338	576,849	20,768,191	69,633,402
Rest of Serbia	3,673	44,707,464	29	643,368	18,158,498	63,513,032
Other countries	***54,884***	***1,010,586***	-	***6,169***	***235,085***	***1,306,724***
European Union	13,968	932,237	-	5,715	21,015	972,935
Other European Countries	40,729	53,443	-	358	209,270	303,800
Rest of the world	187	24,906	-	96	4,800	29,989
Total	1,625,729	197,641,728	998,788	4,350,853	86,097,068	290,714,166

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(a) Maximum exposure to credit risk (continued)

RSD thousand

	Accounts with NBS, other banks and placements with banks	Loans and advances to customers	Equity investments and securities	Interests, fees and other assets	Guarantees and other commit-ments	Total 2008.
Serbia	***2,179,181***	***162,428,358***	***377,294***	***5,792,433***	***93,513,685***	***264,290,951***
Belgrade	2,177,314	76,034,439	355,888	2,986,546	43,677,708	125,231,895
Vojvodina	1,847	43,677,894	21,377	1,609,932	27,653,420	72,964,470
Rest of Serbia	20	42,716,025	29	1,195,955	22,182,557	66,094,586
Other countries	***1,269,248***	***640,679***	***-***	***3,665***	***21,061***	***1,934,653***
European Union	1,234,911	612,415	-	3,488	13,685	1,864,499
Other European Countries	31,404	13,792	-	123	4,438	49,757
Rest of the world	2,933	14,472	-	54	2,938	20,397
Total	**3,448,429**	**163,069,037**	**377,294**	**5,796,098**	**93,534,746**	**266,225,604**

Analysis of Bank's exposure to credit risk, by industry sectors, before and after taking into account collaterals and other hedging funds, as of 31 December 2009 and 2008 is presented in the table below:

RSD thousand

	Gross maximum exposure 2009.	Net maximum exposure 2009.	Gross maximum exposure 2008.	Net maximum exposure 2008.
Retail customers	67,705,584	49,266,822	60,391,514	31,668,636
Processing industry	62,734,470	50,655,976	58,254,639	46,054,839
Trade	60,103,000	50,896,883	55,131,689	44,816,408
Mining and energetic	8,479,590	8,153,093	6,938,113	6,703,709
Agriculture, hunting, fishing and forestry	9,243,129	7,697,686	8,797,707	6,742,179
Civil engineering	26,143,399	19,623,035	27,594,837	19,253,810
Traffic and communications	15,697,391	14,361,113	10,434,000	9,338,450
Services, tourism and hospitality	1,360,909	1,161,373	1,273,695	1,053,225
Other	37,620,967	31,887,256	33,960,981	29,662,520
National Bank of Serbia and other banks	1,625,727	1,625,727	3,448,429	1,559,088
Total	**290,714,166**	**235,328,964**	**266,225,604**	**196,852,864**

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Portfolio Quality

The Bank manages the quality of its financial assets using the internal classification of placements. The following table presents the quality of gross portfolio (including off-balance sheet exposure) as of 31 December 2009, by types of placements and based on the Bank's grading system:

RSD thousand

	Neither past due nor impaired			Due or individually impaired	Total 2009.
	High quality level	Standard quality level	Sub-standard quality level		
Banks	2,280,433	-	-	1,532	2,881,965
Customers:					
Corporate customers	55,672,083	7,864,742	-	6,373,854	69,910,679
Small size and medium size companies	92,849,309	37,417,884	-	20,548,745	150,815,938
Mortgage loans to retail customers	20,355,374	1,882,627	-	984,608	23,222,609
Other placements to retail customers	35,033,785	2,624,096	-	6,825,094	44,482,975
Total	**206,190,984**	**49,789,349**	**-**	**34,733,833**	**290,714,166**

The following table presents the quality of gross portfolio (including off-balance sheet exposure) as of 31 December 2008, by types of placements and based on the Bank's grading system:

RSD thousand

	Neither past due nor impaired			Due or individually impaired	Total 2008.
	High quality level	Standard quality level	Sub-standard quality level		
Banks	3,448,429	-	-	-	3,448,429
Customers:					
Corporate customers	81,810,151	22,251,235	-	467,607	104,528,993
Small size and medium size companies	79,904,749	15,989,878	-	1,962,041	97,856,668
Mortgage loans to retail customers	16,895,689	1,098,955	-	650,135	18,644,779
Other placements to retail customers	35,133,926	2,811,474	-	3,801,335	41,746,735
Total	**217,192,944**	**42,151,542**	**-**	**6,881,118**	**266,225,604**

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Portfolio Quality (continued)

Ageing Analysis of Loans and Advances to Customers Past Due but Not Impaired

The ageing analysis of loans and advances to customers past due but not impaired as of 31 December 2009 and 2008 is presented in the tables below:

					RSD thousand
	Up to 30 days	**From 31 to 60 days**	**From 61 to 90 days**	**Over 90 days**	**Total**
Loans to customers:					
Corporate customers	1,351,087	7,961	600,548	55,929	2,015,525
Small business and SME	1,103,590	480,974	304,214	1,612,910	3,501,688
Mortgage loans to retail customers	1,610	756	394	4	2,764
Other placements to retail customers	86,290	24,144	15,963	9,037	135,434
Balance as of 31 December 2009	**2,542,577**	**513,835**	**921,119**	**1,677,880**	**5,655,411**

					RSD thousand
	Up to 30 days	**From 31 to 60 days**	**From 61 to 90 days**	**Over 90 days**	**Total**
Loans to customers:					
Corporate customers	693,879	221,405	62,768	124,925	1,102,977
Small business and SME	799,266	921,724	296,633	123,170	2,140,793
Mortgage loans to retail customers	10,797	1,709	442	52	13,000
Other placements to retail customers	77,676	16,030	6,565	17,274	117,545
Balance as of 31 December 2008	**1,581,618**	**1,160,868**	**366,408**	**265,421**	**3,374,315**

Fair value of collateral arising from the aforementioned past due but not impaired loans and advances to customers amounts to 442,463 thousand of Dinars as of 31 December 2009.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Portfolio Quality (continued)

Assessment of impairment of financial assets

The structure of balance sheet assets and off-balance sheet items as of 31 December 2009 and the related allowance for impairment, i.e. provision, which are determined in accordance with the Bank's internal methodology disclosed in Note 2.7.2., is presented as follows:

RSD thousand

	Individual assessment		Collective assessment		Total	
	Classified balance sheet assets	Allowance for impairment	Classified balance sheet assets	Allowance for impairment	Classified balance sheet assets	Allowance for impairment
Retail	1,678,157	346,180	51,713,534	4,298,601	53,391,691	4,644,781
Corporate	42,918,965	7,253,439	103,229,237	2,998,669	146,148,202	10,252,108
Entrepreneurs	59,603	30,866	4,284,274	295,075	4,343,877	325,941
A (1+2+3)	44,656,725	7,630,485	159,227,045	7,592,345	203,883,770	15,222,830
	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision
Retail	13,833	473	14,300,061	314,477	14,313,894	314,950
Corporate	19,239,456	747,596	51,908,429	671,112	71,147,885	1,418,708
Entrepreneurs	1,000	1,000	1,367,617	8,623	1,368,617	9,623
B (1+2+3)	19,254,289	749,069	67,576,107	994,212	86,830,396	1,743,281
Total (A+B)	63,911,014	8,379,554	226,803,152	8,586,557	290,714,166	16,966,111

Portfolio quality indicators

1) The ratio of overdue loans and advances amounts to **6.72%** as of 31 December 2009(31. December 2008: 4.80%). This ratio indicates the proportion of outstanding balance of loans overdue more than 90 days in relation to the total loans and advances of the Bank. The ratio takes into consideration all loans overdue more than 90 days, not only the due portion of the loans.
2) The ratio of bad and doubtful loans amounts to **3.71%** as of 31 December 2009(31. December 2008: 4.57%). This ratio indicates the proportion of outstanding balance of loans classified into the last two categories (doubtful and bad) in relation to the total loans and advances of the Bank.
3) The ratio of annual write-off amounts to **1.75%** as of 31 December 2009(31. December 2008: 1.73%). This ratio indicates the proportion of annual write-off of loans in relation to the total loans and advances of the Bank.
4) The ratio of credit exposure amounts to **11.44%** as of 31 December 2009(31. December 2008: 8.57%). This ratio indicates the proportion of net outstanding balance of loans overdue more than 90 days (gross balance of loans less allowance for impairment) in relation to the regulatory capital. The ratio takes into consideration total loans and advances of the Bank, not only the due portion of the loans.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(c) Default receivables

The Bank gives special attention to default receivables by monitoring their total outstanding balance and the trend of these receivables. Default receivables are monitored at the Bank level, regional level and in accordance with the product criteria (for retail customers) and the industrial sector the customers belongs to, as well as the maturity structure (for corporate customers and entrepreneurs).

Breakdown of default receivables as of 31 December 2009 is presented in the table below:

	Corporate and entrepreneurs		Retail customers		Banks	
Organizational unit/ Regional centre	**Assets in '000 RSD**	**Default receivables**	**Assets in '000 RSD**	**Default receivables**	**Assets in '000 RSD**	**Default receivables**
Pančevo	17,571,646	996,976	7,290,105	780,527	169	-
Novi Sad	15,742,273	1,226,700	8,250,319	435,536	353	-
Beograd	86,718,510	5,742,301	22,225,608	1,141,460	1,444,528	-
Niš	7,136,250	480,636	4,482,842	251,963	59	-
Kragujevac	11,044,513	747,545	6,039,095	376,462	138	-
Užice	11,566,788	812,994	5,103,722	298,447	180	-
Total	**149,779,980**	**10,007,152**	**53,391,691**	**3,284,395**	**1,445,427**	**-**

Allowance for impairment of above mentioned default assets amounts to RSD 7,920,800 thousand (59.2%).

As of 31 December 2009, restructured loans amounted to RSD 3,587,735 thousand.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management

Liquidity risk relates to the risk that the Bank does not have enough liquidity reserves for settling liabilities when they fall due and for covering the unexpected deposit outflows and non-deposit liabilities. The liquidity issue is presented as the deficit in reserves as well as difficult or impossible acquisition of highly liquid assets at a reasonable market price.

Liquidity risk is measured by permanent monitoring and analysis of the maturity structure of assets and liabilities through appropriate reports and indicators: report on structural maturity mismatch, indicator of structural maturity mismatch and the so called Rules - Rule 1 and Rule 2, short-term liquidity gaps and liquidity indicators prescribed by the National Bank of Serbia.

The Risk Management Department is responsible for measuring and monitoring of the liquidity and for the regular preparation of reports which present the effects of the migration of various Bank's categories of assets and liabilities to the Bank's liquid asset position. The Risk Management Department reports on liquidity to the parent bank and ALCO Committee. Furthermore, the Risk Management Department provides support to the Treasury Department within the field of statistical analysis and testing the assumptions on the behaviour of certain assets and liabilities items affecting cash inflows and outflows.

Objectives of liquidity management comprise:

- Planning of cash inflows and outflows;
- Implementation and monitoring of liquidity indicators;
- Measurement and monitoring of the Bank's liquidity;
- Measurement of liquidity gaps and the estimation of deposit stability; and
- Preparation of the Reports for the management.

Liquidity ratio prescribed by the National Bank of Serbia represents the relation between the liquid assets and current liabilities. Liquid assets include all receivables and assets items due within one month. Current liabilities represent all the Bank's liabilities due within one month.

This liquidity indicator cannot be less than 1 (the average liquidity indicator for all work days in a month), or less than 0.9 for more than three consecutive work days or 0.8 – when calculated for a single work day.

	2009.	2008.
As at 31 December	1.35	1.28
Average for the period	1.28	1.69
Highest	1.53	2.38
Lowest	1.12	1.23

All balance sheet and off-balance sheet items are classified in certain maturity intervals according to the remaining maturity in report on structural maturity mismatch. The most demanding part of the report is the determination of the maturity of those balance sheet and off-balance sheet items with non-defined maturity (sight deposits, credit cards, overdrafts, statutory reserves in Dinars and in foreign currency, etc.). At least once per year, the Risk Management Department determines the ratios of the behaviour of these balance sheet items and applies them upon the distribution of items by maturity intervals.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents contractual maturity mismatch report as of 31 December 2009:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over five years	With non-defined maturity	Total
ASSETS									
Cash and cash equivalents	19,920,621	2,995,250	249,590	-	-	-	-	(1,575)	23,163,886
Revocable deposits and loans	75,035,256	-	-	-	-	-	-	-	75,035,256
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	-	1,721,131	1,721,131
Loans and advances to customers	23,343,377	21,003,324	19,514,034	33,731,670	13,974,437	39,987,467	31,037,335	(1,515,907)	181,075,737
Securities (excluding treasury shares)	326,653	3,541,030	4,615,740	3,089,350	-	-	-	-	11,572,773
Equity investments	-	-	-	-	-	-	-	948,068	948,068
Other placements	1,834,307	1,316,635	347,386	149,854	144,208	515,672	28,622	(76,562)	4,260,122
Intangible assets	-	-	-	-	-	-	-	571,385	571,385
Property, equipment and investment property	-	-	-	-	-	-	-	6,651,561	6,651,561
Deferred tax assets	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	2,938,618	2,938,618
TOTAL ASSETS	**120,460,214**	**28,856,239**	**24,726,750**	**36,970,874**	**14,118,645**	**40,503,139**	**31,065,957**	**11,236,719**	**307,938,537**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over five years	With non-defined maturity	Total
LIABILITIES									
Transaction deposits	63,897,605	-	-	-	-	-	-	-	63,897,605
Other deposits	66,622,313	31,131,347	9,687,730	27,511,316	2,986,921	6,247,942	253,058	-	144,440,627
Borrowings	648,584	5,442	15,697	5,377,763	5,715,746	12,306,456	6,015,461	615,459	30,700,608
Securities issued	-	767,450	-	-	-	-	-	17,855	785,305
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	-	3,685	3,685
Provisions	-	-	-	-	-	-	-	2,444,344	2,444,344
Tax liabilities	-	-	-	-	-	-	-	92,405	92,405
Liabilities from profit	-	-	-	-	-	-	-	103,603	103,603
Deferred tax liabilities	-	-	-	-	-	-	-	2,353	2,353
Other liabilities	9,801	4,842	1,780	7,452	1,439,490	9,109,436	-	5,109,163	15,681,964
TOTAL LIABILITIES	**131,178,303**	**31,909,081**	**9,705,207**	**32,896,531**	**10,142,157**	**27,663,834**	**6,268,519**	**8,388,867**	**258,152,499**
TOTAL EQUITY	-	-	-	-	-	-	-	49,786,038	**49,786,038**
TOTAL LIABILITIES AND EQUITY	**131,178,303**	**31,909,081**	**9,705,207**	**32,896,531**	**10,142,157**	**27,663,834**	**6,268,519**	**58,174,905**	**307,938,537**
MATURITY MISMATCH	**(10,718,089)**	**(3,052,842)**	**15,021,543**	**4,074,343**	**3,976,488**	**12,839,305**	**24,797,438**	**(46,938,187)**	**-**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents contractual maturity mismatch report as of 31 December 2008:

RSD thousand

31 December 2008	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over five years	With non-defined maturity	Total
ASSETS									
Cash and cash equivalents	31,038,288	600,000	650,000	-	-	-	-	-	32,288,288
Revocable deposits and loans	18,801,850	2,901,135	1,967,714	6,114,172	749,784	5,656,211	921,372	-	37,112,238
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	-	1,308,508	1,308,508
Loans and advances to customers	29,723,772	8,934,354	14,162,455	35,168,635	8,384,726	32,488,181	36,662,212	-	165,524,335
Securities (excluding treasury shares)	93,521	-	-	-	-	-	-	160,871	254,392
Equity investments	-	-	-	-	-	-	-	13,076	13,076
Other placements	1,663,119	892,498	684,554	644,604	21,626	292,527	8,709	47,583	4,255,220
Intangible assets	-	-	-	-	-	-	-	480,707	480,707
Property, equipment and investment property	-	-	-	-	-	-	-	6,879,007	6,879,007
Deferred tax assets	-	-	-	-	-	-	-	205,324	205,324
Other assets	-	-	-	-	-	-	-	1,879,619	1,879,619
TOTAL ASSETS	**81,320,550**	**13,327,987**	**17,464,723**	**41,927,411**	**9,156,136**	**38,436,919**	**37,592,293**	**10,974,695**	**250,200,714**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

RSD thousand

31 December 2008	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over five years	With non-defined maturity	Total
LIABILITIES									
Transaction deposits	53,009,252	-	-	-	-	-	-	-	53,009,252
Other deposits	21,349,379	24,199,772	9,417,225	25,884,973	1,286,386	6,684,881	129,198	-	88,951,814
Borrowings	30,329,643	-	119,074	485,967	1,899,696	11,828,234	3,330,614	-	47,993,228
Securities issued	-	-	-	-	-	-	-	19,825	19,825
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	-	142,534	142,534
Provisions	-	-	-	-	-	-	-	2,316,955	2,316,955
Tax liabilities	-	-	-	-	-	-	-	158,445	158,445
Liabilities from profit	-	-	-	-	-	-	-	181,204	181,204
Deferred tax liabilities	-	-	-	-	-	-	-	8,145	8,145
Other liabilities	-	-	-	-	-	9,746,110	-	3,752,514	13,498,624
TOTAL LIABILITIES	**104,688,274**	**24,199,772**	**9,536,299**	**26,370,940**	**3,186,082**	**28,259,225**	**3,459,812**	**6,579,622**	**206,280,026**
TOTAL EQUITY	-	-	-	-	-	-	-	**43,920,688**	**43,920,688**
TOTAL LIABILITIES AND EQUITY	**104,688,274**	**24,199,772**	**9,536,299**	**26,370,940**	**3,186,082**	**28,259,225**	**3,459,812**	**50,500,310**	**250,200,714**
MATURITY MISMATCH	**(23,367,724)**	**(10,871,785)**	**7,928,424**	**15,556,471**	**5,970,054**	**10,177,694**	**34,132,481**	**(39,525,615)**	**-**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The negative gap in the interval up to one month occurs primarily as a consequence of conservative assumption that all demand deposits will be withdrawn in this interval. The practice has shown that this scenario is highly unlikely even in the liquidity crisis situation.

Ratios of maturity mismatch are calculated based on the data from Maturity mismatch report, so called Rule 1 and Rule 2 indicators. Rule 1 indicates coverage of fixed investments with Bank's capital; Rule 2 indicates coverage of long-term investments with long-term funds.

For the purpose of the calculation of structural maturity mismatch indicators, the short-term is defined as a period up to 18 months, middle-term as a period between 18 months to 5 years while long-term is defined as a period over 5 years.

Rule 1:

Investments in property and equipment + equity investments ≤ Bank's equity

Rule 2:

Long-term receivables ≤ Surplus of equity from Rule 1 + Long-term liabilities + 0.5 (Middle-term liabilities – Middle-term receivables) + 0.25 (Short-term liabilities to customers + Short-term liabilities to banks).

RSD thousand

	31.12.2009.	31.12.2008.
Rule 1	**30,613,638**	**36,867,734**
Tangible assets	6,651,561	6,879,007
Investments in equity securities	12,520,840	173,947
Equity	49,786,038	43,920,688
Rule 2	**52,796,662**	**39,641,747**
Long-term assets	31,065,957	37,592,294
Surplus of equity from Rule 1	30,613,637	36,867,734
Long-term liabilities	6,268,519	3,459,812
Middle-term liabilities	27,663,834	28,259,225
Middle-term assets	40,503,139	38,436,919
Short-term liabilities to clients (customers and banks)	213,600,465	167,981,367

The ratio of aggregate maturity mismatch amounts to - 27.66%. This ratio indicates the mismatch between receivables and payables due within 3 months in relation to the regulatory capital of the Bank. Furthermore, this ration also implies a cautious assumption that all demand and short-term deposits will flow out within the period of 3 months, which never happens in practice.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The Bank has good maturity match of assets and liabilities which is presented in above mentioned ratios.

All Bank's long-term investments are financed through the equity (Rule 1), while all long-term placements are financed through long-term funds (Rule 2).

34.3. Market risk

In its ordinary course of business, the Bank is exposed to the fluctuations in market variables which might affect the Bank's income in a positive or a negative way. The Bank is exposed to the following market risks:

- Interest rate risk,
- Foreign currency risk,
- Risk of changes in price of goods.

The Bank is not exposed to risk of changes in price of goods. This risk is negligible and only relates to the position in precious metals (predominantly gold) amounting to EUR 340 thousand.

Trading book comprises items in financial instruments and goods held for trading or with the intention of protecting of other elements in the trading book. In order to be treated as a part of the trading book, a financial instrument has to be free of any provisions which would limit its trade and its use for the hedging purposes.

The Risk Management Department is responsible for the measurement, monitoring, control and reporting on the aforementioned risks.

Market risks are measured using the following tools: sensitivity analysis, scenario analysis, monitoring of the fair value of the portfolio, calculation of the Value at risk (VAR) measures.

Market risks are limited by the primary and secondary limits. The primary limit is the Value at risk (VAR) limit, while the secondary limits restrict the maximal amount of the position in the trading book or the maximal mismatch (both maturity and interest rate mismatch) between assets and liabilities.

34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.1. Interest rate risk

Interest risk is the risk of the decreasing of profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to the interest rate risk depends on the ratio of the interest-sensible assets and interest-sensible liabilities.

Interest rate risk is calculated separately in the banking book and in the trading book. In the trading book only Value at risk (VaR), duration and convexity are calculated, as the measures of interest rate risk exposure.

In the banking book, interest rate risk is measured and monitored by calculating the gap between interest-sensible assets and interest-sensible liabilities (Repricing Gap). Based on the determined gaps, the profit and equity sensitivity analysis is performed for certain changes in market interest rates.

In 2009, the defined limit for interest rate risk was not exceeded.

In addition, pursuant to the methodology of Intesa Sanpaolo S.p.A., Milan, the limit for daily interest rate Value at risk (VaR) calculated on the trading book was established. It is monitored on a daily basis and its value is presented in the Bank's daily reports.

The following table represents the benchmark values of the daily interest rate Value at risk in 2009.

Interest rate VaR on the trading book

		VaR (in EUR)
	2009.	**2008.**
Average	5,080	7,014
Maximum	9,224	10,273
Minimum	2,715	4,604

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

The following table represents Reprising Gap report based on earlier of contractual reprising and maturity dates, i.e. the Bank's exposure to the interest rate risk as of 31 December 2009:

RSD thousand

31 December 2009	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS									
Cash and cash equivalents	19,920,621	2,995,250	249,590	-	-	-	-	(1,575)	23,163,886
Revocable deposits and loans	35,500,000	-	-	-	-	-	-	39,535,256	75,035,256
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	-	1,721,131	1,721,131
Loans and advances	91,151,709	42,163,657	13,015,166	17,631,412	4,517,227	10,066,227	4,046,246	(1,515,907)	181,075,737
Securities (excluding treasury shares)	326,653	3,541,030	4,615,740	3,089,350	-	-	-	-	11,572,773
Equity investments	-	-	-	-	-	-	-	948,068	948,068
Other placements	2,744,899	1,187,930	222,419	29,394	24,661	98,759	28,622	(76,562)	4,260,122
Intangible assets	-	-	-	-	-	-	-	571,385	571,385
Property, equipment and investment property	-	-	-	-	-	-	-	6,651,561	6,651,561
Deferred tax assets	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	2,938,618	2,938,618
TOTAL ASSETS	**149,643,882**	**49,887,867**	**18,102,915**	**20,750,156**	**4,541,888**	**10,164,986**	**4,074,868**	**50,771,975**	**307,938,537**

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

RSD thousand

31 December 2009	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 18 months	From 18 months to 5 years	Over 5 years	Non-interest sensitive	Total
LIABILITIES									
Transaction deposits	63,897,605	-	-	-	-	-	-	-	63,897,605
Other deposits	71,705,094	26,321,556	9,624,814	27,389,816	2,986,921	6,159,368	253,058	-	144,440,627
Borrowings	648,585	23,905,968	2,545,502	-	1,590,348	976,322	418,424	615,459	30,700,608
Liabilities on securities	-	767,450	-	-	-	-	-	17,855	785,305
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	-	3,685	3,685
Provisions	-	-	-	-	-	-	-	2,444,344	2,444,344
Tax liabilities	-	-	-	-	-	-	-	92,405	92,405
Liabilities from profit	-	-	-	-	-	-	-	103,603	103,603
Deferred tax liabilities	-	-	-	-	-	-	-	2,353	2,353
Other liabilities	9,801	4,799,282	5,755,108	7,452	1,158	-	-	5,109,163	15,681,964
TOTAL LIABILITIES	**136,261,085**	**55,794,256**	**17,925,424**	**27,397,268**	**4,578,427**	**7,135,690**	**671,482**	**8,388,867**	**258,152,499**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**-**	49,786,038	**49,786,038**
TOTAL LIABILITIES AND EQUITY	136,261,085	55,794,256	17,925,424	27,397,268	4,578,427	7,135,690	671,482	58,174,905	307,938,537
PERIODICAL GAP	13,382,797	(5,906,389)	177,491	(6,647,112)	(36,539)	3,029,296	3,403,386	(7,402,930)	-
CUMULATIVE GAP	13,382,797	7,476,408	7,653,899	1,006,787	970,248	3,999,544	7,402,930		

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

The following table represents Reprising Gap report based on earlier of contractual reprising and maturity dates, i.e. the Bank's exposure to the interest rate risk as of 31 December 2008:

RSD thousand

31 December 2008	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 12 to 18 months	From 18 months to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS									
Cash and cash equivalents	23,211,917	600,000	650,000	-	-	-	-	7,826,371	32,288,288
Revocable deposits and loans	10,000,000	-	-	-	-	-	-	27,112,238	37,112,238
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	-	1,308,508	1,308,508
Loans and advances	100,274,367	23,319,240	6,672,590	13,992,275	4,048,983	11,861,252	5,355,628	-	165,524,335
Securities (excluding treasury shares)	93,521	-	-	-	-	-	-	160,871	254,392
Equity investments	-	-	-	-	-	-	-	13,076	13,076
Other placements	1,735,424	890,800	661,529	644,604	21,626	292,528	8,709	-	4,255,220
Intangible assets	-	-	-	-	-	-	-	480,707	480,707
Property, equipment and investment property	-	-	-	-	-	-	-	6,879,007	6,879,007
Deferred tax assets	-	-	-	-	-	-	-	205,324	205,324
Other assets	-	-	-	-	-	-	-	1,879,619	1,879,619
TOTAL ASSETS	**135,315,229**	**24,810,040**	**7,984,119**	**14,636,879**	**4,070,609**	**12,153,780**	**5,364,337**	**45,865,721**	**250,200,714**

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

RSD thousand

31 December 2008	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 18 months	From 18 months to 5 years	Over 5 years	Non-interest sensitive	Total
LIABILITIES									
Transaction deposits	53,009,252	-	-	-	-	-	-	-	53,009,252
Other deposits	13,523,008	19,802,388	9,417,225	25,884,973	1,286,386	6,684,881	129,198	12,223,755	88,951,814
Borrowings	30,291,584	14,114,383	2,327,431	12,856	1,241,042	5,932	-	-	47,993,228
Liabilities on securities	-	-	-	-	-	-	-	19,825	19,825
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	-	142,534	142,534
Provisions	-	-	-	-	-	-	-	2,316,955	2,316,955
Tax liabilities	-	-	-	-	-	-	-	158,445	158,445
Liabilities from profit	-	-	-	-	-	-	-	181,204	181,204
Deferred tax liabilities	-	-	-	-	-	-	-	8,145	8,145
Other liabilities	-	4,430,050	5,316,060	-	-	-	-	3,752,514	13,498,624
TOTAL LIABILITIES	**96,823,844**	**38,346,821**	**17,060,716**	**25,897,829**	**2,527,428**	**6,690,813**	**129,198**	**18,803,377**	**206,280,026**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**-**	**-**	43,920,688	**43,920,688**
TOTAL LIABILITIES AND EQUITY	**96,823,844**	**38,346,821**	**17,060,716**	**25,897,829**	**2,527,428**	**6,690,813**	**129,198**	**62,724,065**	**250,200,714**
PERIODICAL GAP	**38,491,385**	**(13,536,781)**	**(9,076,597)**	**(11,260,950)**	**1,543,181**	**5,462,967**	**5,235,139**	**(16,858,344)**	**-**
CUMULATIVE GAP	**38,491,385**	**24,954,604**	**15,878,007**	**4,617,057**	**6,160,238**	**11,623,205**	**16,858,344**		

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

The table below shows the effect of change in interest rates on the Bank's income and expenses:

Scenario	Interest rate fluctuation	Interest risk in RSD thousand
1	1%	10,068
2	2%	20,136
3	-1%	(10,068)
4	-2%	(20,136)

34.3.2. *Foreign Currency Risk*

Foreign currency risk is the risk of the occurrence of negative effect to the financial result and equity of the Bank due to changes in foreign exchange rates. The banking operations in different foreign currencies cause the exposure to fluctuation in foreign currencies exchange rates.

In accordance with the internal policy of the Bank, considering potential fluctuations in foreign currency exchange rate, the Board of Directors decides on the limit on the open foreign currency position of the Bank based on the proposal of the Risk Management Department.

The Bank's Board of Directors has established the limit on the open foreign currency position which is more conservative than the regulatory limit of the foreign currency position and which is monitored on a daily basis, in order to ensure that the Bank's currency risk exposure is maintained within established limits.

The Bank measures the foreign currency risk daily, in accordance with the methodology of the National Bank of Serbia, through the Report on the foreign currency risk indicator.

The foreign currency risk indicator is the ratio between the total open net foreign currency position and the Bank's regulatory capital (calculated in accordance with the Decision on Capital Adequacy of Banks), whereby the Bank is obliged to ensure that its total net open position does not exceed the amount of 20% of its capital.

During 2009, the Bank strictly paid attention to reconcile the foreign currency risk indicator with the prescribed limit, where this indicator was mostly at the level far below the limit.

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.2. Foreign Currency Risk (continued)

The following table shows the Bank's foreign currency risk exposure as of 31 December 2009:

RSD thousand

Foreign currency position as at 31 December 2009	EUR	CHF	USD	Other currencies	Total in foreign currency	Total in RSD	Total
ASSETS							
Cash and cash equivalents	1,271,957	192,410	116,035	109,375	1,689,777	21,474,109	23,163,886
Revocable deposits and loans	39,535,256	-	-	-	39,535,256	35,500,000	75,035,256
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	112,751	60	3,322	60	116,193	1,604,938	1,721,131
Loans and advances	145,226,359	3,537,865	1,691,025	485	150,455,734	30,620,003	181,075,737
Securities (excluding treasury shares)	52,823	-	-	-	52,823	11,519,950	11,572,773
Equity investments	-	-	-	-	-	948,068	948,068
Other placements	983,748	14,181	259	151,141	1,149,329	3,110,793	4,260,122
Intangible assets	-	-	-	-	-	571,385	571,385
Property, equipment and investment property	-	-	-	-	-	6,651,561	6,651,561
Deferred tax assets	-	-	-	-	-	-	-
Other assets	1,236,810	113	7,660	90	1,244,673	1,693,945	2,938,618
TOTAL ASSETS (I)	**188,419,704**	**3,744,629**	**1,818,301**	**261,151**	**194,243,785**	**113,694,752**	**307,938,537**
LIABILITIES							
Transaction deposits	32,267,218	665,088	1,609,482	503,400	35,045,188	28,852,417	63,897,605
Other deposits	109,025,533	2,988,355	4,681,093	164,186	116,859,167	27,581,460	144,440,627
Borrowings	30,132,118	262	548,880	9,457	30,690,717	9,891	30,700,608
Securities issued	-	-	-	17,855	17,855	767,450	785,305
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	3,685	3,685
Provisions	-	-	-	-	-	2,444,344	2,444,344
Tax liabilities	-	-	-	-	-	92,405	92,405
Liabilities from profit	-	-	-	-	-	103,603	103,603
Deferred tax liabilities	-	-	-	-	-	2,353	2,353
Other liabilities	11,658,044	3,404	24,348	2,296	11,688,092	3,993,872	15,681,964
TOTAL LIABILITIES	**183,082,913**	**3,657,109**	**6,863,803**	**697,194**	**194,301,019**	**63,851,480**	**258,152,499**
TOTAL EQUITY	-	-	-	-	-	49,786,038	49,786,038
TOTAL LIABILITIES AND EQUITY (II)	**183,082,913**	**3,657,109**	**6,863,803**	**697,194**	**194,301,019**	**113,637,518**	**307,938,537**
Financial derivatives affecting the foreign currency position, recorded in the off balance sheet (III)	**(6,320,965)**	**-**	**5,134,091**	**501,114**	**(685,760)**	**-**	**-**
Net foreign currency position (I - II+ III)	**(984,174)**	**87,520**	**88,589**	**65,071**	**(742,994)**	**57,234**	**-**

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.2. Foreign Currency Risk (continued)

The following table shows the Bank's foreign currency risk exposure as of 31 December 2008:

RSD thousand

Foreign currency position as at 31 December 2009	EUR	CHF	USD	Other currencies	Total in foreign currency	Total in RSD	Total
ASSETS							
Cash and cash equivalents	1,470,226	115,916	112,158	120,138	1,818,438	30,469,850	32,288,288
Revocable deposits and loans	27,112,238	-	-	-	27,112,238	10,000,000	37,112,238
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	245,562	10,525	1,603	44	257,734	1,050,774	1,308,508
Loans and advances	115,543,398	1,217,508	3,599,553	337,911	120,698,370	44,825,965	165,524,335
Securities (excluding treasury shares)	146,386	95,939	-	-	242,325	12,067	254,392
Equity investments	-	-	-	-	-	13,076	13,076
Other placements	525,983	-	24,653	31,665	582,301	3,672,919	4,255,220
Intangible assets	-	-	-	-	-	480,707	480,707
Property, equipment and investment property	-	-	-	-	-	6,879,007	6,879,007
Deferred tax assets	-	-	-	-	-	205,324	205,324
Other assets	142,386	4,854	406	343	147,989	1,731,630	1,879,619
TOTAL ASSETS (I)	**145,186,179**	**1,444,742**	**3,738,373**	**490,101**	**150,859,395**	**99,341,319**	**250,200,714**
LIABILITIES							
Transaction deposits	24,499,789	1,418,003	571,090	312,812	26,801,694	26,207,558	53,009,252
Other deposits	62,429,326	3,067,647	502,586	110,718	66,110,277	22,841,537	88,951,814
Borrowings	44,128,300	787,168	2,650,637	11,191	47,577,296	415,932	47,993,228
Securities issued	-	-	-	3,095	3,095	16,730	19,825
Interest and fees payable and changes in fair value of derivatives	3,443	-	-	-	3,443	139,091	142,534
Provisions	-	-	-	-	-	2,316,955	2,316,955
Tax liabilities	-	-	-	-	-	158,445	158,445
Liabilities from profit	-	-	-	-	-	181,204	181,204
Deferred tax liabilities	-	-	-	-	-	8,145	8,145
Other liabilities	11,203,768	23,266	3,089	1,351	11,231,474	2,267,150	13,498,624
TOTAL LIABILITIES	**142,264,626**	**5,296,084**	**3,727,402**	**439,167**	**151,727,279**	**54,552,747**	**206,280,026**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**43,920,688**	**43,920,688**
TOTAL LIABILITIES AND EQUITY (II)	**142,264,626**	**5,296,084**	**3,727,402**	**439,167**	**151,727,279**	**98,473,435**	**250,200,714**
Financial derivatives affecting the foreign currency position, recorded in the off balance sheet (III)	**(3,926,870)**	**3,774,000**	**-**	**-**	**-**	**-**	**-**
Net foreign currency position (I – II+ III)	**(1,005,317)**	**(77,342)**	**10,971**	**50,935**	**(867,884)**	**867,884**	**-**

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.2. *Foreign Currency Risk (continued)*

Furthermore, the Bank has developed internal methodology for measuring the foreign currency risk, which implies that VaR is calculated and monitored on a daily basis with 99% confidence interval. VaR is the highest possible loss the Bank could suffer in normal market conditions with the probability of 99%. Basel II prescribes that the capital requirement for foreign currency risk can be also measured using the internal model, i.e. VaR concept. In this case the capital requirement is determined by calculating the higher of the last 10-day VaR, or the average 10-day VaR, multiplied by the multiplier of the model's reliability (at least 3). The Risk Management Department monitors the VaR limit on a daily basis and reports to the Executive Board and the parent bank.

The table below presents the benchmark amounts of the foreign currency VaR in 2009 and 2008:

VaR (in EUR) Foreign currency VaR	2009.	2008.
Average	50,263	83,745
Maximum	445,024	601,031
Minimum	523	3,149

The following table presents the impact of changes in foreign exchange rate on Bank's profit:

		RSD thousand
	2009	2008
Scenario	Impact on the profit	Impact on the profit
10% depreciation of RSD	(74,299)	(102,075)
20% depreciation of RSD	(148,599)	(204,150)

The analysis presented calculates the effect of reasonable changes in the exchange rate with other variables held constant.

Currency	Changes in the exchange rate (%) 2009	Effect on the income statement before taxation 2009 RSD thousand	Changes in the exchange rate (%) 2008	Effect on the income statement before taxation 2008 RSD thousand
EUR	8.22	(80,899)	11.82	(116,329)
CHF	8.52	7,457	24.17	21,154
USD	6.09	5,395	17.07	15,122

34. RISK MANAGEMENT (continued)

34.4. Operational Risk

Operational risk is the risk of negative effects on the Bank's financial result and equity due to failures in performance of operating activities, human mistakes, system errors and external factors influence.

The function of operational risk management process is to identify, assess, control and minimise the possibility of occurrence and effect of net losses. The Bank cannot eliminate all operational risks, but it can, trough the processes of recording and analysing the operational risks identify the failures in its processes, products and procedures. Hence, the Bank's improvement of its processes, products and procedures can decrease frequency and negative influence of operational losses on its operations and profitability. An important aspect of the operative risk management is updating the management on significant operative risks in timely manner, as well as permanent education of all employees included in the process of collecting data on operational risks and comprehensive development of the awareness on the importance of identification, measurement, control and mitigation of operational risks.

Data on operational risks are gathered from all organisational parts of the Bank. Data is classified and analysed, while the methods of risk mitigation and its impact reduction are recommended.

Once per year the Bank performs its own risks assessment, based on a certain number of scenarios, where the members of the Executive Board assess the frequency of the operative occurrences, their influence and the existing level of controls, from the field they are responsible for. Also, members of the Executive Board evaluate risk factors in the business environment, where the importance and impact of some risk factors are estimated, as well as the level of control and management of risk, and suggestions of measures to mitigate the possible impact of certain risk factors are made. By combining the results of the Bank's risk assessment and statistics of historical cases of operational risks, a clear picture of the Bank's exposure to operational risks is obtained.

34.5. Exposure Risk

The Risk Management Department monitors, measures and reports to the Bank's boards on the Bank's exposure to a single client or a group of clients, risk of investment in other legal entities as well as in fixed assets, country risk to which the Bank is exposed as well as operational risk. In 2009, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by the relevant procedures and decisions on credit approval and investments in financial and non-financial assets, that ensured compliance of the Bank's placements and investments with indicators prescribed by the National bank of Serbia.

The exposure risks include the risk of the Bank's exposure to a single client or a group of related clients, as well as exposure risk toward related parties of the Bank.

In accordance with the Risk management policy, the Bank's management defines exposure limits, i.e. the concentration of placements to single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant Bank's authorities strive to ensure the compliance of the Bank's exposure to the prescribed limits, i.e., exposure to a single client or a group of related clients does not exceed 25% of the Bank's equity, total amount of all large exposures do not exceed 400% of the Bank's equity, total exposure to a related party does not exceed 5% of the Bank's equity and total exposure to all related parties of the Bank does not exceed 20% of the Bank's equity.

34.6. Investment Risks

Investment risks include the risk of investment in other legal entities and investment in fixed assets. In accordance with the National bank of Serbia legislation, the Risk Management Department monitors the Bank's investments and reports to the Board of Directors. The Department also ensures that the Bank's investment in a single non-financial sector entity does not exceed 10% of the Bank's equity and that total Bank's investments in non-financial entities and fixed assets do not exceed 60% of the Bank's equity.

34. RISK MANAGEMENT (continued)

34.7. Country Risk

Country risk relating to the country of origin of the Bank's client includes negative effects which may influence financial result and equity of the Bank, as the Bank might not be able to collect receivables from such a client, as a result of political, economical or social conditions in the client's origin country.

The Bank's exposure to the country risk is low, due to insignificant share of non-residents in the total loan portfolio of the Bank.

34.8. Capital Management

The objective of the Bank's capital management is to maintain the ability of conducting the business in the indefinite period in the foreseeable future, in order to maintain the optimal structure of the capital in order to decrease the costs of capital as well as to ensure dividends for the shareholders.

The Bank permanently manages its capital in order to:

- Ensure compliance with the capital requirements set by the National bank of Serbia;
- Ensure adequate level of capital in order to enable conducting the business as a going concern; and
- Maintain capital at the level that will ensure future development of the business.

The capital adequacy, as well as the exercise of the Bank's capital, is monitored on a monthly basis by the Bank's management. The National bank of Serbia has defined the following capital limits:

- The minimal amount of the capital of EUR 10 million;
- Capital adequacy ratio of 12%.

The Bank's total capital comprises Tier 1 and Tier 2 capital, and deductible items:

- Tier 1 capital include: share capital from ordinary shares, share premium, reserves from profit, retained earnings/accumulated losses, capital gains/losses on repurchase of treasury shares as well as intangible assets and repurchased treasury shares (excluding cumulative preference shares) as Tier 1 deductible items.
- Tier 2 capital include: share capital from preference shares, share premium on preference shares, revaluation reserves related to fixed assets and equity investments, reserves from profit for general banking risks up to 1.25% of risk-weighted assets, subordinated liabilities up to 50% of Tier 1 capital, and repurchased treasury preference shares as Tier 2 capital deductible item.
- Deductible items are: shortfall amount of the special reserves for potential losses, equity investments in banks or other financial organization exceeding 10% of its capital, and 10% of the investing bank capital, and the amount of the Tier 2 capital of the Bank which exceeds its Tier 1 capital.

34. RISK MANAGEMENT (continued)

34.8. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as of 31 December 2009 and 2008, as well as the capital adequacy ratio:

		RSD thousand
	2009	**2008**
Regulatory capital		
Tier 1 capital	48,640,103	42,722,553
Tier 2 capital	6,312,641	7,971,552
	54,952,744	**50,694,105**
Shortfall amount of the special reserves for potential losses	(7,750,498)	(2,629,532)
Equity investment in Intesa Leasing d.o.o. Beograd and Intesa Eurizon Assets Management Beograd	(970,619)	(12,941)
Total (1)	**46,231,627**	**48,051,632**
Risk weighted balance sheet assets and off-balance sheet items		
Balance sheet assets	216,474,033	192,099,322
Off-balance sheet items	44,591,097	61,703,742
Unquoted derivatives	27,008	7,548
Foreign currency risk exposure	464,282	1,910,412
Price risk exposure	73,752	62,557
Total (2)	**261,630,172**	**255,783,581**
Capital adequacy ratio (1/2 x 100)	**17.67%**	**18.79%**

34. RISK MANAGEMENT (continued)

34.9. Fair Value of Financial Assets and Liabilities

The Bank's policy is to disclose information on the fair value of assets and liabilities for which official market records are available and when the fair value significantly differs from the carrying amount.

Sufficient market experience, or stability and liquidity for the purchase and sale of receivables and other financial assets and liabilities do not exist in the Republic of Serbia, due to the fact that official market information is not always available. Consequently, fair value cannot be reliably determined in the absence of an active market. The Bank's management estimates its overall risk exposure and provides allowances for losses in case it assess that the carrying amount of asset is not collectable.

The Bank's financial instruments carried at amortized cost mostly have short maturity terms and/or bear variable interest rates that reflect current market conditions. Consequently, the Bank considers that carrying amount of financial instruments approximates their fair value. The fair value of loans and placements to customers is equal to their carrying value, decreased by related allowance for impairment. Available for sale investments include treasury bills of the Republic of Serbia and equity instruments. Available for sale investments are carried at fair value, except equity instruments that do not have a quoted market price in an active market and whose value cannot be reliable determined that are carried at cost less estimated allowances for impairment. Fair value of quoted securities is based on current offer prices. Fair value of treasury bills is based on discount value that gradually, until maturity, increases by the amount of accrued interest. However, since there is no secondary market of these securities, it is not possible to determine the market value of discount. Therefore, so far treasury bills are recognized at nominal value, while interest is accrued and recognized monthly. Deposits from other banks and customers are mostly on demand and short-term with variable market interest rates; therefore, the Bank's management is of the opinion that their carrying amount in balance sheet is equal to their fair value.

The Bank's management believes that the carrying amounts in the accompanying financial statements reflect the value that is the most valid and the most useful for the reporting purpose.

35. CONTINGENT LIABILITIES

(a) Legal proceedings

As of 31 December 2009, the Bank represents the defendant in a certain number of legal proceedings. Total estimated amount of claims is RSD 298,224 thousand (31 December 2008: RSD 381,937 thousand), including penalty interests and fees.

The final outcome of the ongoing legal proceedings is uncertain. As disclosed in Note 29 to the financial statements as of 31 December 2009, the Bank recognized provisions for potential losses that could arise from the aforementioned litigations in total amount of RSD 285,408 thousand (31 December 2008: RSD 344,945 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The Bank is subject to a number of lawsuits as a plaintiff for collection of receivables. For all disputed receivables from corporate and retail customers, the Bank in full make provision by charging of the current and prior years result.

(b) Tax Risks

Tax system of the Republic of Serbia is in process of continuous review and amendments. Tax period in the Republic of Serbia is considered to be open in five years. In different circumstances, tax authorities could have different approach to some matters, and could determine additional tax liabilities together with related penalty interest and fees. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are fairly presented.

36. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 20 of the Law on Accounting and Auditing, the Bank performed reconciliation of liabilities and receivables with its debtors and creditors as at 31 December 2009, and maintained reliable documentation.

Most of the unreconciled outstanding balances of receivables in the amount of RSD 500,642 thousand refer to purchase of short-term receivables - factoring. Legal entities generally do not change in the accounting records the client toward which they have an obligation, regardless of the fact that the client has ceded the receivables to the Banks pursuant to the Sale of Receivables Agreement.

The remaining portion of unreconciled receivables in the amount of RSD 160,113 thousand relates to:

- RSD 14,284 thousand mostly relates to the maturity mismatch between the clients and the Bank, when recording receivables arising from issued guarantees and acceptances. The Bank records the decrease in its receivables based on the official letter from the Development Fund on the settlement of an instalment or liability, regardless of the fact that such instalment or liability was settled twenty days before.
- RSD 13,511 thousand mostly relates to accrued interest
- RSD 106,086 thousand relates to disputable receivables from Eltim doo Beograd
- RSD 10,186 thousand denied by the client " Lazovic" doo Beograd
- RSD 11,020 thousand denied by the client DP „Inova" Kokin brod in bankruptcy
- RSD 5,025 thousand relates to the recording of principal and foreign exchange gains and losses on placements in local currency and other fees.

37. EXCHANGE RATES

The official foreign exchange rates of the National Bank of Serbia determined on the Interbank Foreign Currency Market, used for translation of balance sheet items denominated in foreign currencies as at 31 December 2009 and 2008 into Serbian Dinars (RSD) were as follows:

		In RSD
	2009	2008
EUR	95.8888	88.6010
USD	66.7285	62.9000
CHF	64.4631	59.4040

38. SUBSEQUENT EVENTS

There have been no significant events subsequent to the balance sheet date, which would require disclosures in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2009.

Banca Intesa a.d. 3 Beograd

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