ERSTE BANK a.d.,
NOVI SAD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

CONTENTS

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This is English translation of the Report originally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ERSTE BANK A.D., NOVI SAD

Report on Financial Statements

We have audited the accompanying financial statements of Erste Bank a.d., Novi Sad (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing and regulations of the National Bank of Serbia governing financial reporting of banks, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

PIB: 101824091 • Matični broj: 17155270 • Upisan i unet osnovni kapital: 35.075,01 EUR
Registarski broj 47839 kod Agencije za privredne registre
Poslovni račun 255-0009930101000-91 kod Privredne Banke Beograd AD

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing and regulations of the National Bank of Serbia governing financial reporting of banks.

Other matter

The financial statements of the Bank for the year ended 31 December 2009 were audited by another auditor who expressed an unmodified audit opinion on those statements on 9 March 2010.

Belgrade, 23 March 2011

Mirjana Kovačević
Authorized auditor
Ernst & Young Beograd d.o.o.

ERSTE BANK AD NOVI SAD

INCOME STATEMENT
for the year ended 31 December 2010

(in 000 RSD)	Note	2010	2009
Interest income	4	4.772.385	4.741.524
Interest expense	4	1.682.931	1.937.657
Net interest income	4	**3.089.454**	**2.803.867**
Fee and commission income	5	1.521.269	1.642.432
Fee and commission expense	5	315.487	457.661
Net fee and commission income	5	**1.205.782**	**1.184.771**
Net foreign exchange (losses)/gains	6	2.376.009	1.721.370
Gains from dividends and stake		34	102
Other operating income	7	48.134	24.773
Net expenses on indirect write-off of lending and provisioning	8	738.945	611.315
Wages, compensations of wages and other personal expenses	9	1.333.592	1.266.740
Depreciation expenses	10	150.988	135.839
Operating and other expenses	11	1.859.018	1.665.746
Income from change in value of assets and liabilities	12	4.112.783	2.962.576
Expenses on change in value of assets and liabilities	13	1.680.225	1.183.898
Profit from regular operations		**317.410**	**391.181**
Profit before tax		**317.410**	**391.181**
Profit tax	14	-	2.715
Profit from created deferred tax assets and reduction of deferred tax liabilities	14	756	2.811
Profit		**318.166**	**391.277**

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

Novi Sad, 23 March 2011

Approved by

Vlasta Putnik Chef Financial Officer	Suzan Tanriyar Executive Board Member	Slavko Carić Executive Board President

ERSTE BANK AD NOVI SAD

BALANCE SHEET
as of 31 December 2010

(in 000 RSD)	Note	2010	2009
ASSETS			
Cash and cash equivalents	15	2.966.282	5.561.582
Callable deposits and credits	16	7.538.391	6.051.084
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	17	252.164	209.185
Loans, advances and deposits	18	43.808.647	30.220.438
Securities (excluding own shares)	19	5.452.569	7.211.761
Equity investments	19	47	47
Other lending	20	674.942	1.186.886
Intangible assets	21	198.678	89.223
Property, plant and equipment and investment property		809.406	889.240
Non-current assets held for sale and discontinued operations		-	-
Deferred tax assets		-	-
Other assets	22	430.520	575.420
Losses in excess of capital		-	-
Total assets		**62.131.646**	**51.994.866**
LIABILITIES			
Transaction deposits	23	7.778.885	6.541.543
Other deposits	24	25.482.005	23.986.784
Borrowings	25	15.282.006	8.215.278
Interest, fees and commissions payable and change in fair value of derivatives	26	32.432	2.518
Provisions	27	333.661	322.976
Tax liabilities	14	12.752	5.807
Deferred tax liabilities	14	8.495	8.696
Other liabilities	28	1.942.093	1.979.967
Total liabilities		**50.872.329**	**41.063.569**
EQUITY			
Equity	29	10.164.475	10.164.475
Reserves from profit	29	736.001	344.724
Revaluation reserves	29	23.620	20.702
Unrealized losses on securities available for sale	29	3.685	5.763
Profit	29	338.906	407.159
Total equity		**11.259.317**	**10.931.297**
Total liabilites and equity		**62.131.646**	**51.994.866**
Off-balance sheet items	30	**26.585.881**	**26.583.809**

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

Novi Sad, 23 March 2011

Approved by

Vlasta Putnik
Chef Financial Officer

Suzan Tanriyar
Executive Board Member

Slavko Carić
Executive Board President

ERSTE BANK a.d. NOVI SAD 21

CASH FLOW STATEMENT
for the year ended 31 December 2010

(in 000 RSD)	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**6.257.601**	**6.329.502**
Inflow from interest	4.680.502	4.694.219
Inflow from fees and commissions	1.502.524	1.620.347
Inflow from other operating income	74.541	14.834
Inflow from dividends and share in profit	34	102
Cash outflow from operating activities	**5.086.347**	**5.787.293**
Outflow from interest	1.464.411	2.151.778
Outflow from fees and commissions	306.477	457.700
Outflow from gross salaries, benefits and other personal expenses	1.334.006	1.266.298
Outflow from taxes, contributions and other duties charged to income	257.666	258.701
Outflow from other operating expenses	1.723.787	1.652.816
Net cash inflow from operating activities before increase or decrease in placements and deposits	**1.171.254**	**542.209**
Decrease in placements, and increase in deposits taken	**4.456.851**	**3.310.467**
Decrease in loans and placements with banks and customers	-	3.310.467
Decrease in securities at fair value through income statement, tradeable investment and short-term securities held to maturity	1.724.287	
Increase in deposits with banks and customers	2.732.564	
Increase in placements, and decrease in deposits taken	**12.792.623**	**4.804.138**
Increase in loans and placements with banks and customers	12.792.623	-
Increase in securities at fair value through income statement, tradeable investment and short-term securities held to maturity	-	3.971.060
Decrease in deposits with banks and customers	-	833.078
Net cash outflow from operating activities before profit tax	**7.164.518**	**951.462**
Profit tax paid	-	4.818
Net cash outflow from operating activities	**7.164.518**	**956.280**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**36.977**	**2.854**
I nflow from investment in long-term securities	36.977	
Inflow from sale of share	-	2.854
Cash outflow from investing activities	**208.001**	**960.629**
Outflow for investment in long-term securities	-	831.794
Outflow for purchase of share	770	-
Outflow for purchase of intangible assets and fixed assets	207.231	128.835
Net cash outflow from investing activities	**171.024**	**957.775**

ERSTE BANK AD NOVI SAD

CASH FLOW STATEMENT
for the year ended 31 December 2010

(in 000 RSD)	2010	2009
CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**8.988.569**	**3.495.068**
Net cash inflow from subordinated liabilities	49.525	78.708
Net cash inflow from loans taken	8.939.044	1.623.512
Other inflow from financing activities	-	1.792.848
Cash outflow from financing activities	**1.872.317**	**-**
Other outflow from financing activities	1.872.317	-
Net cash inflow from financing activities	**7.116.252**	**3.495.068**
CASH AT THE BEGINNING OF THE YEAR	**5.561.582**	**5.701.939**
NET INCREASE IN CASH	-	1.581.013
NET DECREASE IN CASH	219.290	-
POSITIVE EXCHANGE RATE DIFFERENTIALS	5.877.682	4.337.566
NEGATIVE EXCHANGE RATE DIFFERENTIALS	8.253.692	6.058.936
CASH AT THE END OF THE REPORTING PERIOD	**2.966.282**	**5.561.582**

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

Novi Sad, 23 March 2011

Approved by

Vlasta Putnik
Chef Financial Officer

Suzan Tanriyar
Executive Board Member

ERSTE BANK a.d. NOVI SAD 21

Slavko Carić
Executive Board President

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Share capital	Other capital	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves	Profit	Unrealized losses on securities available for sale	Total
Balance as at 1 January 2009	**10.040.000**	**10.329**	**124.475**	**-**	**15.638**	**347.268**	**-**	**10.537.710**
Adjusted opening balance as at 1 January 2009	10.040.000	10.329	124.475	-	15.638	347.268	-	10.537.710
Total increase in the 2009	-	-	-	344.724	5.655	397.000	8.500	738.879
Total decrease in the 2009	-	10.329	-	-	591	337.109	2.737	345.292
Balance as at 31 December 2009	**10.040.000**	**-**	**124.475**	**344.724**	**20.702**	**407.159**	**5.763**	**10.931.297**
Total increase 2010	-	-	-	391.277	8.347	323.024	555	722.093
Total decrease in 2010	-	-	-	-	5.429	391.277	2.633	394.073
Balance as at 31 December 2010	**10.040.000**	**-**	**124.475**	**736.001**	**23.620**	**338.906**	**3.685**	**11.259.317**

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

Novi Sad, 23 March 2011

Approved by

Vlasta Putnik
Chef Financial Officer

Suzan Tanriyar
Executive Board Member

Slavko Carić
Executive Board President

1. CORPORATE INFORMATION

The primary statements, which were also submitted to the Serbian Business Registers Agency on 23 February 2011, and the notes to the financial statements which were prepared on 23 March 2011 together form the complete set of financial statements of the Bank which were approved by the management of the Bank on 23 March 2011.

Erste Bank a.d., Novi Sad (hereinafter referred to as "the Bank") was founded on 25 December 1989, under the name of Novosadska banka a.d., Novi Sad. At the beginning of August 2005, subsequent to the successful finalization of privatization process, it became a member of Erste Bank Group.

In accordance with the Decision of the Business Registers Agency no. BD 101499/2005 dated 21 December 2005, the change of the previous name Novosadska banka a.d., Novi Sad to Erste Bank a.d. Novi Sad was registered.

The Bank's shareholders are EGB (Erste Group Bank) CEPS HOLDING GMBH, Vienna, with 74% interest and Steiermärkische Bank und Sparkassen AG, Graz, with 26% interest in the Bank's share capital.

The Bank is registered in the Republic of Serbia for the following activities: payment transaction services in the country and abroad, loan and deposit activities in the country, payment cards transactions, transaction with securities of dealer operations. In accordance with the Law on Banks, the Bank operates on the principles of stable and secure business.

The Bank's Head Office is in Novi Sad, no. 5 Bulevar Oslobođenja. The Bank operates through 62 branches and 11 sub-branches.

The Bank had 992 employees as at 31 December 2010 (31 December 2009: 960 employees).

The Bank's registration number is 08063818. Its tax identification number is 101626723.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Financial Statements

The accompanying financial statements for 2010 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 and 11/2009), Law on Banks ("Official Gazette of the Republic of Serbia", no. 107/05 and 91/2010) and the respective decisions issued by the National Bank of Serbia that are 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), International Financial Reporting Standards (IFRS) and Interpretations of Standards.

IAS, IFRS and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee as at 1 January 2009 have been officially adopted by the Republic of Serbia Ministry of Finance Decision on publication of International Financial Reporting Standards (decision number 401-00-1380/2010-16) and published in the Official Gazette of the Republic of Serbia no. 16 dated 5 October 2010.

Any new or amended IFRS and IFRIC interpretations issued subsequent to 1 January 2009 have not been applied in the preparation of the accompanying financial statements.

Furthermore, the accompanying financial statements have been prepared in the form prescribed by the Rulebook on format and contents of financial statements for banks (latest Official Gazette of the Republic of Serbia No: 74/2008, 3/2009, /correction 12/2009/ and 5/2010). These Rulebooks determine the legal definition of a complete set of financial statements, which contain departures from IAS 1 Presentation of Financial Statements regarding the presentation of certain financial statement items.

As a result of the abovementioned, the Bank's management has not included an explicit and unreserved statement of compliance of the accompanying financial statements with the requirements of all standards and interpretations issued by International Accounting Standards Board, which comprise International Financial Reporting Standards.

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.

These financial statements are presented in Republic of Serbia Dinars ("RSD") and all values are rounded to the nearest thousand (RSD'000) except when otherwise indicated.

The accompanying financial statements have been prepared under the going concern principle.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (continued)

(a) New Standards, Amendments and Interpretation to Published Standards effective in the Current Reporting Period

The amendments that are result of IFRS standards improvements presented below, had no effect on accounting policies, financial position and operations of the Bank:

- IFRS 1– First-time Adoption of IFRS (Amendments) is effective as of 1 January 2010;
- IFRS 2- Group Cash-settled Share-based Payment Arrangements effective as of 1 January 2010.;
- IFRS 3 (revised)- Business Combinations and complementary Amendments to IAS 27 "Consolidated and Separate Financial Statements" effective as of 1 July 2009 and include appropriate amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39;.
- IAS 39 - Financial Instruments: Recognition and Measurement- Eligible hedged items effective as of 1 July 2009;
- IFRIC 17- "Distributions of Non-cash Assets to Owners" effective as of 1 July 2009.
- IFRIC – 18- "Transfers of Assets from Customers effective" as of 1 July 1009

Improvements to IFRS Published in May 2008:

- IFRS 5 (Amendment)- Non-current Assets Held for Sale and Discontinued Operations– effective as of 1 January 2010.

Published in April 2009:

- IFRS 2– Share-based Payment;
- IAS 1 – Presentation of Financial Statements;
- IAS 7– Lease;
- IAS 38– Intangible assets;
- IAS 39 – Financial Instruments: Recognition and Measurement;
- IFRS 9 – Reassessment of Embedded Derivatives.

Published standards, which are not yet effective on the date of the financial statements, are presented bellow. This is a list of issued standards and interpretations, which the Bank is expected to be applicable in the future. The Bank intends to adopt these standards when they take effect.

IAS 24 Disclosure of related parties (Amendment)

The amended standard becomes effective for reporting periods as of 1 January 2011 and later. It clarifies the definition of related parties by simplifying the identification of such relations and eliminate inconsistencies in its application. The revised standard introduces a partial exemption from the requirement for disclosure of related parties of the Government. The Bank does not expect any impact on its financial position and operations. Earlier adoption is permitted either for the partial exemption for persons related to the Government either for the entire standard.

IAS 32 Financial Instruments: Presentation- Classification of pre-emptive rights

Amendment to standard IAS 32 becomes effective for annual reporting periods as of 1 February 2010 and later, amending the definition of financial liability in order to classify pre-emptive rights (and some options and warrants) as equity instruments in cases where the rights are granted pro rata to all existing owners of the same class of non-derivative equity instruments of entities, or to receive a fixed number of equity instruments of entity for a fixed amount in any currency. This amendment will have no impact on the Bank, after the initial application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (continued)

(a) New Standards, Amendments and Interpretation to Published Standards effective in the Current Reporting Period (continued)

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 represents the first phase of the International Accounting Standards Board's work on replacing IAS 39, which is used for classification and measurement of financial assets and liabilities as defined in IAS 39. This standard is applicable for annual reporting periods as of 1 January 2013. In later stages the Board will deal with the devaluation and hedge accounting.

Completion of this project is expected in the middle of 2011. Adoption of the first stage of IFRS 9 will primarily affect the classification and measurement of financial assets of the Bank. The Bank currently estimates the effect of adopting IFRS 9, but effect of adoption will depend primarily on the Bank's assets on the date of adoption, so it is not practical to quantify this effect.

IFRIC 14 - Excess amounts in relation to the minimum amount of financing requirement (Amendment)

Amendment to IFRS 14 is applicable for annual reporting periods as of 1 January 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of net pension assets. The amendment allows the entity to treat early payments as an asset. It is expected that this amendment will have no impact on the Bank's financial statements.

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 becomes effective as of 1 July 2010. The Interpretations clarfy that when equity instruments issued to a creditor to extinguish all or part of a financial liability are recognised initially, an entity shall measure them at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured. If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished.

The resulting gain or loss is recognized in the income statement. The adoption of this interpretation will not affect the Bank's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (continued)

(b) **Standards and Interpretations which are published but not adopted**

IFRS 7 Financial Instruments: Disclosures, as part of a comprehensive review of off-balance items (as amended)

IFRS 7 becomes effective for annual reporting periods as of 1 July 2011 or after that date. The purpose of these amendments is to enable users of financial statements to enhance understanding of the transfer of financial assets (eg, securitization), including understanding the possible effects of risks that may remain in the legal entity that has transferred financial assets. The amendments also require additional disclosure if a disproportionate amount of the transfer is done at the end of the reporting period.

Improvements to IFRS (published in May 2010)

International Accounting Standards Board has issued improvements to IFRS, a comprehensive review of amendments to IFRS. Amendments have not been applied since they will become effective for reporting periods as of 1 July 2010 or 1 January 2011. The Amendments are:

- IFRS 3- Business Combinations;
- IFRS 7- Financial Instruments: Disclosures;
- IAS 1- Presentation of Financial Statements;
- IAS 27- Consolidated and Separate Financial Statements; and
- IFRIC 13- Customer Loyalty Programmes.

Due to these amendments the Bank does not expect any effect on the financial position or operations.

2.2. Comparative Figures

The comparative figures represent the audited financial statements of the Bank for the year ended 31 December 2009 which were audited by another audit firm (BDO d.o.o., Beograd).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Interest Income and Expenses

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

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as available for sale, 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. The calculation of the effective interest rate takes into account all contractual terms of the financial instrument, except fees and incremental costs that are related to loan approval, but no future credit losses.

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 based on a propoportion of loan remained, which is the effective yield method and does not materially differ from straight-line basis.

Interest is suspended from interest income to off-balance, in the case when the Bank estimates that there are problems in collectability of certain loans and advances.

2.4. Fee and Commission Income and Expense

The Bank earns/pays fee and commission income from rendering and using banking services. Fees and commissions are generally recognized on an accrual basis when the service has been provided, i.e. rendered.

Fees and commission income are earned from a diverse range of banking services provided to clients. Fee income can be divided into the two following categories:

/i/ Fee Income Earned from Services that are provided Over a Certain Period of Time

Fees earned for the provision of services over time are accrued over that period.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as deferrals and transferred to the income statement as interest income during the due period of financial instruments.

/ii/ Fee Income from Providing Transaction Services

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

/iii/ Dividend Income

Revenue is recognized when the Bank's right to receive the payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Foreign Currency Translation

Balance Sheet and Income Statement items stated in the financial statements are valued by using the currency of the primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousands 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. Monetary assets and liabilities denominated in foreign currency as at the balance sheet date are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at that date (Note 35).

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses (Note 6).

Income or expenses arising upon the translation of financial assets and liabilities with contacted 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 12 and 13).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official middle exchange rate of the National Bank of Serbia prevailing at the balance sheet date.

2.6 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 recognized in the Bank's balance sheet 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, i.e. the date the assets is delivered to the counterparty.

"Day 1" Profit

When the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value ("Day 1" profit) in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

Derecognition of Financial Assets and Financial Liabilities

Financial assets cease to be recognized when the Bank loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. When the Bank has transferred its rights to receive cash flows from an asset or has entered into a passthrough 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 recognized 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.

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 recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Classification of Financial Instruments

The Bank's management determines the classification of its investments at initial recognition. Classification of financial instruments upon initial recognition depends on the purposes for which financial instruments have been obtained and their characteristics.

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, held-to-maturity securities, loans and receivables and available-for-sale securities.

The subsequent measurement of financial assets depends on their classification as follows:

2.6.1. 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.

The management did not classify financial instruments, on initial recognition, into the category of the financial assets recorded at fair value through profit or loss.

Financial assets are classified as held for trading if they have been primarily acquired for generating profit from short-term price fluctuations or are derivatives. Trading securities are stated in the balance sheet at fair value.

Securities held for trading comprise Government savings bonds and Republic of Serbia treasury bills.

All realized or unrealized gains and losses arising upon measurement and sale of financial assets at fair value are stated in the Income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.2. 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.

Held-to-maturity investments include discounted bills and other debt securities.

After initial recognition, securities held-to-maturity are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment or impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

The Bank performs individual assessment in order to determine whether there is objective evidence on impairment of the investment into securities held-to-maturity.

If there are objective evidence that such securities have been impaired, 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 and stated in the income statement as impairment losses on financial assets (Note 8).

If, in a subsequent year, the amount of the estimated impairment loss decreases as a consequence of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced and effects are credited to the income statement.

Interest income is calculated using the effective interest rate, and is recorded in „interest income“. Fees that are part of the effective yield from these instruments are accrued and recorded as deferrals. They are subsequently recognized in the income statement during the useful life of the instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.3. Loans and Advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances are recognized when cash is advanced to borrowers. Loans and receivables are initially recognized at fair value.

After the initial recognition, loans and advances to banks and customers are subsequently measured at the outstanding amount of placements taking into account all discounts and premiums in acquisition, less any allowance for impairment. Interest income and receivables in respect of these instruments are recorded and presented under interest income, i.e., interest receivables. Interest which is part of effective yield on these instruments is recognised as deferred income and credited to the income statement as interest income over the life of a financial instrument.

Loans in dinars, with contracted foreign currency clause, i.e. dinar-euro and dinar-usd foreign exchange rates, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated applying the foreign currency clause is disclosed within loans and advances. 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 Loans and Other Financial Assets

In accordance with the internal policy of the Bank, the Bank 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.

In assessing of impairment for placements with banks and loans and advances to customers valued at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.3. Loans and Advances (continued)

Impairment of Loans and Other Financial Assets (continued)

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 its recoverable value, being the present value of estimated future cash flows, discounted at the original effective interest rate for that particular financial asset. If a loan has a variable interest rate, current interest rate is applied.

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 the collateral. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics and the Bank's internal grading system by an asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of contracted cash flows and 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 currently. The Bank regularly reviews the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the loan is reduced through the use of an allowance account and the amount of the impairment loss arising from impairment of loans and receivables, as well as other financial assets measured at amortized cost, is recognized in the income statement as impairment losses on financial assets (Note 8). Loans together with the associated allowance for impairment are written off when there is no realistic prospect of future recovery and when 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 8).

A write-off is made when all or part of a claim is deemed uncollectible, and when all collaterals have been activated, pursuant to a court decision, or based on decisions made by the Shareholders' Assembly or the Executive Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.4. Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of 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.

2.6.5. Available-for-sale Securities

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". Available-for-sale securities include other legal entities' equity instruments and debt securities.

Subsequent to the initial measurement, these securities are measured at fair value. The fair values of securities quoted in active markets are based on current bid prices. Unrealised gains and losses are recognised directly in revaluation reserves, until such a security is sold, collected or otherwise realized, or until it is impaired. In case of disposal of securities or their impairment, gains or losses, previously recognised in equity, are recognised in the income statement.

Equity instruments represent investments in other legal entities that do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are inappropriate and unworkable. Therefore, available-for-sale investment equity securities are measured at cost, less any allowance for impairment.

Dividends earned whilst holding available-for-sale financial instruments are recognized in the income statement as "dividend income and income from equity investments" when the right of the payment has been established.

For investments in shares and other securities available for sale, at the balance sheet date, the Bank assesses if there is significant evidence of impairment of one or more investments. The Bank records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost.

When there is evidence of impairment, the cumulative loss, assessed as the difference between cost and fair value, decreased for any impairment of investment that have been recognized in the income statement, is removed from equity and recognized in the income statement. Impairments of investments are not reversed through the income statement; subsequent increases of fair value, after recognition of impairment, are credited to equity. Impairments of investments, which are not quoted in an active market and whose fair value cannot be determined with certainty, are measured as the difference between the book value and current value of expected future cash flows, and are recognized in the income statement and are not reversed before derecognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.5. Available-for-sale Securities (continued)

In case of debt securities that are classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If there is an increase in fair value through next year, and if that increase might objectively refer to an event that happened after the impairment loss has been recognized in the income statement, the impairment loss is reversed through profit or loss.

2.6.6. Issued Financial Instruments and Other Financial Liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

The subsequent measurement of financial liabilities depends on their classification as follows:

Deposits from Other Banks and Customers

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

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 the indisputable right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

Operating Liabilities

Trade payables and other short-tem operating liabilities are stated at nominal value.

2.7. Offsetting Financial Assets and Financial Liabilities

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Special reserves for 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 Bank Balance Sheet Assets and Off-balance Sheet Items ("Official Gazette of the Republic of Serbia", no. 129/2007, 63/2008,104/2009 and 30/2010).

All receivables (balance sheet and off-balance sheet exposure) from a single borrower are classified in categories from A to D in accordance with the assessment of their recoverability. Individual credit exposures are evaluated based upon the assessment of the borrower's financial position and creditworthiness, timely settlement of obligations towards the bank and quality of the 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%).

In its enactments, the Bank defined in more detail criteria for the calculation of special reserves for estimated losses within the percentage bands from the Decision. The criteria include past due status in the settlement of obligations, financial position and analysis of financial performance, adequacy of cash flow and adequacy of collaterals.

Special reserves for estimated losses are reduced by 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 2.6.3. and charged to the income statement (Note 8).

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 29(a)/v/).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances on the Bank's dinars current accounts and cash in hand (both in dinars and foreign currency), cheques and foreign currency current accounts held with other domestic banks and foreign banks (Note 15).

2.10. Repurchase Agreements ("Repo Transactions")

Securities bought under agreements to repurchase at a specified future date ('repos') are recognized in the balance sheet.

The corresponding cash given, including accrued interest, is recognized in the balance sheet. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement.

2.11. Intangible Assets

Intangible assets are measured at cost, less accumulated amortization and impairment losses, if any.

Intangible assets comprise licenses and other intangible assets. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least once a year, at the financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embeded in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Amortization of intangible assets is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

Software licenses	10 years
Other intangible assets	4 years

The amortization cost on intangible assets with finite lives is recognized in the income statement (Note 10).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. Tangible Assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses, if any.

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 charged to income statement of the financial period in which they are incurred.

Depreciation is provided for on a straight-line basis to the cost of fixed assets, using the following prescribed annual rates, in order to write them off over their useful lives:

Buildings	40 years
Computer equipment	4 years
Other equipment	5 to 10 years

Changes in the expected useful lives of assets are accounted for as changes in the accounting estimates.

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. The depreciation charge is recognised as an expense for the period in which incurred.

Gains from the disposal of property and equipment are credited directly to other income, whereas any losses arising on the disposal of property and equipment are charged to other operating expenses.

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 14(c)).

2.13. Impairment of Non-financial Assets

In accordance with the 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Leases

The determination of whether an arrangement is a lease, or contains lease elements, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets.

(a) Finance Lease - 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.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

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 in the income statement as an interest expense.

(b) Operating Lease -Bank as a Lessee

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 charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

2.15. 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 of provisions are considered, determined and, if necessary, adjusted at each balance sheet date. Provisions are measured at the present value of estimated future cash outflows necessary to settle the liabilities arising thereof, using the discount rate which reflects the current market estimate of the value of money and risks related to the liability.

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. They are disclosed in the financial statements (Note 33), unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Employee Benefits

(a) Employee Taxes and Contributions for Social Security - Defined Benefit Plans

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 obliged 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. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

(b) Other Employee Benefits - Retirement Benefits and Jubilee Awards

In accordance with the Labour Law, there is a mandatory retirement indemnity equal to 3 average monthly salaries realized in the Republic of Serbia in the month prior to the month of retirement or equal to 3 average salaries in the Bank earned in the month prior to retirement or to payment, or equal to 3 monthly salaries earned by the employee in the month prior to payment- depending on what is more favourable for an employee.

In addition, in accordance with the collective agreement, a qualifying employee is entitled to jubilee awards for ten, twenty and thirty years of service held in the Bank. Jubilee awards are paid in the amount of one, two or three average salaries realized in the Bank in the three months prior to the date of payment, depending on how long the continuing work for the employer lasted.

Expenses and liabilities for the plans are not funded. Liabilities for fees and related expenses are recognized in the amount of present value of estimated future cash flows using the actuarial method of projected unit cost.

Actuarial gains and losses and past service costs are recognized in the income statement when incurred, while actuarial gains and losses in respect of retirement benefits upon retirement are recognized in the equity.

(c) Short-Term accrued vacation pay

Unused days of vacation may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of unused days of vacation is recognized in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as at the balance sheet date. In the instance of non-accumulating unused days of vacation, no liability or expense is recognized until the time of the absence.

2.17. Equity

Equity consists of share capital (ordinary shares), share premium, reserves from profit, revaluation reserves and profit for the current year and previous years (Note 29(a)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18. Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of payment guarantees and performance bonds, letters of credit, acceptances and other warranties. Financial guarantees are contracts which oblige the issuer of a guarantee to perform the payment or compensate the loss to the holder of a guarantee, incurred if a certain creditor fails to settle its liabilities in due time as required under the terms of the contract.

Financial guarantees are initially recognized in the financial statements at fair value as at the date the guarantee is given. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of the guarantee.

Any increase in the liability relating to the financial guarantees is recognized in the income statement. The premium received is recognized in the income statement within net fees and commissions income on a straight-line basis over the life of the guarantee.

2.19. 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, estimated on the basis of the prior year Tax return. Income tax at the rate of 10% is payable based on the profit disclosed in the Tax return.

In order to arrive at the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year, as shown in the Tax return. The tax return is submitted to the 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, tax credits are recognized in the amount equal to 20% of the investment in property and equipment made, and can be used for setting off against future current tax liability in the amount that cannot exceed 50% of current tax liability. The tax credits in respect of investments in property and equipment can be used in the next ten years.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than five ensuing years (until 2009: 10 years).

Deferred Income Tax

Deferred income taxes are provided for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively-enacted rates 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Taxes and Contributions (continued)

Deferred Income Tax (continued)

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.

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 apply in the year when the asset is realised or the liability is settled.

Current and deferred taxes are recognized as income or expense and are included in net profit/(loss) for the period.

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

(b) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Bank's operating result, include property taxes, value added tax, employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other operating expenses (Note 11).

2.20. Earnings per Share

Basic earning per share is calculated by dividing the net profit (loss) attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

Pursuant to the Serbian Business Registers Agency Decision no. BD. 243088/2006 dated 22 December 2006, the Bank is registered as 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".

2.21. 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 30(a)). The Bank bears no risk in respect of repayment of these placements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires the Bank's management to make estimates and 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 at the date of 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 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.

(a) Impairment of Financial Assets

The Bank 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, and impairment losses are incurred, if, and only if, there is objective evidence of impairment as a result of one or more events that have 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 (see Note 2.6.3.).

The Bank reviews its loan portfolio 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 observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers of a Bank, or national or local economic conditions that correlate with defaults on assets of the Bank.

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

(b) Determination of Fair Value of Financial Instruments

The fair value of financial instruments traded in active markets as at the balance sheet date is based on their quoted market prices, without any deductions for transaction costs. For all other financial instruments not listed in an active market, the fair value is determined using the appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

When market inputs are not available, they are determined by estimates that include a certain degree of assumptions in the estimate of fair value. Valuation models reflect the current market conditions before or after the measurement date. Consequently, all valuation techniques are revised periodically, in order to appropriately reflect the current market conditions.

(c) Impairment of Equity Investments

The Bank deems equity investments available for sale to be impaired when there is a documented (market data) or estimated decrease in the fair value of these assets below their cost.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) Useful Lives of Intangible and Tangible Assets

The determination of the useful lives of intangible and tangible assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad 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.

The impact of any changes in these assumptions could be material to the Bank's financial position, and the results of its operations. As an example, if the Bank was to shorten the average useful life by 1%, this would result in additional depreciation and amortization expense of approximately RSD 1.513 thousand for the twelve-month period.

(e) Impairment of Non-Financial Assets

At each balance sheet date, 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 management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

(f) Provisions for Litigation

The Bank is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Bank routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonable estimated losses.

Reasonable estimates involve judgements 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, and prior experience.

A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available.

Matters that are either possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(g) Deferred Tax Assets

Deferred tax assets are recognized for all tax losses and/or to the extent to which taxable profit will be available against which the unused tax losses /credits can be utilized.

Significant estimates of the management is necessary to determine the amount of deferred tax asset which can be recognized, based on the period in which it was created and the amount of future taxable profits and the tax policy planning strategy (Note 14(c)).

(h) 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 fluctuations in the number of employees. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 27 to the financial statements.

4. INTEREST INCOME AND EXPENSE

	2010 RSD thousand	2009 RSD thousand
Interest income		
- Banks	274.510	1.167.427
- Public companies	99.127	49.932
- Other companies	1.793.007	1.515.452
- Entrepreneurs	98.139	101.428
- Public sector	632.019	571.693
- Retail customers	1.711.985	1.259.420
- Foreign entities	82.165	488
- Agricultural sector	80.555	75.684
- Other customers	878	-
Total	**4.772.385**	**4.741.524**
Interest expense		
- Banks	204.243	293.261
- Public companies	3.507	3.359
- Other companies	190.969	360.061
- Entrepreneurs	308	564
- Public sector	122.642	515.169
- Retail customers	723.514	567.854
- Foreign entities	432.540	194.980
- Other customers	5.208	2.409
Total	**1.682.931**	**1.937.657**
Net interest income	**3.089.454**	**2.803.867**

For impaired financial assets revenue recognition of accrued interest is suspended and interest income is recognized when collected.

Interest income and expenses by type of financial instruments are presented as follows:

	2010 RSD thousand	2009 RSD thousand
Interest income		
Loans	3.907.194	3.282.498
REPO transactions	60.380	711.395
Treasury bills of the Ministry of Finance	572.640	557.353
Obligatory reserve	45.241	88.250
Treasury bills of the National Bank of Serbia	-	72.808
Deposits	92.075	4.303
Securities	779	-
Other placements	94.076	24.916
Total	**4.772.385**	**4.741.524**
Interest expense		
Loans	430.704	78.150
Deposits	1.252.227	1.859.507
Total	**1.682.931**	**1.937.657**
Net interest income	**3.089.454**	**2.803.867**

5. FEE AND COMMISSION INCOME AND EXPENSE

	2010 RSD thousand	2009 RSD thousand
Fee and commission income		
Domestic payment transaction services	335.333	271.731
International payment transaction services	68.277	48.065
Foreign exchange transactions	267.246	501.412
Loans	304.883	340.643
Debit and credit cards operations	159.873	142.931
Guarantees and other warranties	114.720	126.864
Other fees and commission	270.937	210.786
Total	**1.521.269**	**1.642.432**
Fee and commission expense		
Domestic payment transaction services	30.016	27.267
International payment transaction services	7.786	8.080
Foreign exchange transactions	158.246	337.018
Loans	47.638	29.437
Debit and credit cards operations	36.275	24.077
Other fees and commission	35.526	31.782
Total	**315.487**	**457.661**
Net fee and commission income	**1.205.782**	**1.184.771**

6. NET FOREIGN EXCHANGE LOSSES

	2010 RSD thousand	2009 RSD thousand
Foreign exchange gains	5.877.682	4.337.566
Foreign exchange losses	(8.253.691)	(6.058.936)
Net foreign exchange losses	**(2.376.009)**	**(1.721.370)**

7. OTHER OPERATING INCOME

	2010 RSD thousand	2009 RSD thousand
Income from sales of fixed and intangible assets	244	3.290
Other operating income	43.185	16.983
Other income from operating activities	4.705	4.500
Total	**48.134**	**24.773**

8. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS

Expenses from indirect write-offs of placements and provisions	**2010 RSD thousand**	**2009 RSD thousand**
Impairment losses on financial assets:		
- interest, fees and sales receivables (Note 17)	(106.978)	(331.630)
- loans and advances (Note 18(d))	(4.615.102)	(4.378.396)
- securities (Note 19)	(127.932)	(347.361)
- other placements (Note 20)	(36.082)	(173.814)
- other assets (Note 22)	(45.749)	(34.198)
	(4.931.843)	**(5.265.399)**
Provisions for losses on off-balance sheet assets (Note 27)	(1.047.170)	(1.455.874)
Provisions for litigation (Note 27)	(3.828)	(19.897)
	(1.050.998)	**(1.475.771)**
Total	**(5.982.841)**	**(6.741.170)**
Income from reversal of indirect write-offs of placements and provisions		
Reversal of impairment losses on balance sheet assets:		
- interest, fees and sales receivables (Note 17)	113.984	329.168
- loans and advances (Note 18(d))	3.782.963	3.734.251
- securities (Note 19)	138.154	324.993
- other placements (Note 20)	41.212	32.875
- other assets (Note 22)	23.520	40.897
	4.099.833	**4.462.184**
Release of provision for losses on off-balance sheet assets (Note 27)	1.038.332	1.603.239
Release of provision for litigation (Note 27)	23.000	'
Income from collected suspended interest	82.731	64.432
Total	**5.243.896**	**6.129.855**
Impairment losses and provisions, net	**(738.945)**	**(611.315)**

9. SALARIES AND OTHER PERSONNEL EXPENSES

	2010 RSD thousand	**2009 RSD thousand**
Net salaries	815.100	773.729
Tax and contributions payable on behalf of employees	319.421	302.548
Severance payments, jubilee awards, bonuses and holiday allowance	187.698	175.666
Other personnel expenses	11.373	14.797
Total	**1.333.592**	**1.266.740**

10. DEPRECIATION AND AMORTIZATION EXPENSE

	2010 RSD thousand	2009 RSD thousand
Depreciation and amortization expense:		
- tangible assets (Note 21)	109.948	118.026
- intangible assets (Note 21)	41.040	17.813
Total	**150.988**	**135.839**

11. OTHER OPERATING EXPENSES

	2010 RSD thousand	2009 RSD thousand
Professional services	428.479	299.733
Donations and sponsorships	38.773	57.985
Advertising, marketing and representation	275.687	201.396
Telecommunication services and postage	57.250	52.541
Insurance premiums	111.303	84.322
Rental cost	330.933	369.778
Material	89.425	79.782
Taxes and contributions	74.777	77.540
Maintenance of tangible assets and software	150.253	143.203
Losses on sale and disposal of fixed and intangible assets	24.707	3.798
Payroll contributions payable by the employer	192.183	181.716
Per diems and travel expenses	51.365	43.801
Education and counseling	11.270	11.330
Other expenses	22.613	58.821
Total	**1.859.018**	**1.665.746**

12. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2010 RSD thousand	2009 RSD thousand
Income from changes in value of placements and receivables	3.855.461	2.802.849
Income from changes in value of securities	8.515	17.001
Income from changes in value of liabilities	151.955	130.818
Income from changes in value of derivatives	96.852	11.908
Total	**4.112.783**	**2.962.576**

13. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2010 RSD thousand	2009 RSD thousand
Losses from changes in value of placements and receivables	1.278.556	952.428
Losses from changes in value of securities	6.443	9.670
Losses from changes in value of liabilities	280.629	209.892
Losses from changes in value of derivatives	114.597	11.908
Total	**1.680.225**	**1.183.898**

14. INCOME TAX

(a) Components of Income Tax

Components of income tax/(expenses) are:

	2010 RSD thousand	2009 RSD thousand
Current income tax	-	(2.715)
Income from deferred tax assets and decrease of deferred tax liabilities	756	2.811
Total income tax	**756**	**96**

The outstanding balance of prepaid current income tax amounts to RSD 2.488 thousand, since the abovementioned amount was paid during 2010 as an advance payment for the current income tax liability for 2009.

(b) Reconciliation of the Tax Expense Recognized in the Income Statement and Profit Before Tax Multiplied by the Statutory Income Tax Rate

	2010 RSD thousand	2009 RSD thousand
Profit before tax	**317.411**	**391.181**
Income tax at the rate of 10%	**31.741**	**39.118**
Tax effects of expenses not recognised for the tax purposes	34.909	15.531
Effects of usage of tax loss carry forwards with respect to deferred tax assets that were not recognized	(64.263)	(54.055)
Dividend income deductible for tax purposes	(1)	(8)
Tax credits on investments in tangible assets	-	(2.714)
Other	(3.142)	2.032
Total income tax reported in the Income Statement	**(756)**	(96)

14. INCOME TAX (continued)

(c) Deferred Tax Liabilities

Deferred tax liabilities are recognized for all taxable temporary differences between the carrying amounts of property and equipment and intangible assets reported in the financial statements and their tax base, as well as for temporary differences arising from changes in fair value of securities available-for-sale.

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

	2010 RSD thousand	2009 RSD thousand
Balance as at 1 January	**8.696**	**11.585**
Effects of temporary differences in respect of depreciation credited to the income statement	(756)	(2.811)
Deferred tax credited to equity	555	(78)
Balance as at 31 December	**8.495**	**8.696**

(d) Unrecognized Deferred Tax Assets

As at 31 December 2010 the Bank did not recognize deferred tax assets of RSD 405,950 thousand (31 December 2009: RSD 466.254 thousand) from unused tax losses carried forward of RSD 354.324 thousand (31 December 2009: 418 587 thousand) and unused tax credits carry forwards of RSD 51.426 thousand (31 December 2009: RSD 47,667 thousand).

The Bank did not recognize the aforementioned deferred tax assets due to uncertainty as to the existence of a sufficient amount of future taxable income against which deferred tax assets could be utilised, and because of prudence in respect of legislation changes.

Rights to tax loss and credit carryforwards, presented in the amount of unrecognized deferred tax assets in the amounts stated below, expire in the following years:

RSD thousand

	Unused tax assets from carried forward tax losses 2010	Unused tax assets from carried forward tax credits 2010	Total 2010	Unused tax assets from carried forward tax losses 2009	Unused tax assets from carried forward tax credits 2009	Total 2009
Up to 1 year	-	-	-	11.939	-	11.939
From 1 to 5 years	96.216	-	96.216	-	-	-
Over 5 years	258.108	51.626	309.734	406.648	47.667	454.315
Total	**354.324**	**51.626**	**405.950**	**418.587**	**47.667**	**466.254**

15. CASH AND CASH EQUIVALENTS

	2010 RSD thousand	2009 RSD thousand
In dinars		
Gyro account	557.471	2.211.453
Cash on hand	726.437	740.990
Cash equivalents	1.156.216	322.124
	2.440.124	**3.274.567**
In foreign currency		
Current accounts held with foreign banks	183.552	1.490.252
Foreign currency cash on hand	342.585	796.744
Cash equivalents	21	19
	526.158	**2.287.015**
Balance as at 31 December	**2.966.282**	**5.561.582**

Cash equivalents include Republic of Serbia treasury bills with maturity date of up to 3 months.

Pursuant to the National Bank of Serbia's Decision on Required Reserves of Banks held with the National Bank of Serbia ("Official Gazette of the Republic of Serbia", no. 12/2010 and 78/2010), the Bank is required to calculate and allocate the obligatory reserves in dinars to its gyro account held with the National Bank of Serbia amounting to 5% (2009: 10%) of the average daily balance of dinars during the preceding calendar month.

The obligatory reserve in dinars calculated for the period from 18 December 2010 to 17 January 2011 amounted to RSD 868.035 thousand and it was in accordance with the aforementioned Decision of the National Bank of Serbia.

The interest rate on the average balance of the obligatory reserve in Dinars set aside equalled 2,50% annually during 2010.

16. REVOCABLE DEPOSITS AND LOANS

	2010 RSD thousand	2009 RSD thousand
In dinars		
Repo placements with the National Bank of Serbia	451.102	1.302.097
In foreign currency		
Obligatory reserve with the National Bank of Serbia	7.087.289	4.748.987
Balance as at 31 December	**7.538.391**	**6.051.084**

The obligatory reserve in foreign currency represents the minimal reserve in foreign currency allocated in accordance with the National Bank of Serbia's (NBS) decision on Required Reserves of Banks held with the NBS ("Official Gazette of the Republic of Serbia", no. 12/2010 and 78/2010), which prescribes that banks are required to calculate and allocate the obligatory reserves of 25% (2009: 45%) of the average daily balance of foreign currency deposits and of domestic currency deposits indexed in currency clause during the preceding calendar month.

Pursuant to the National Bank of Serbia's Decision on Required Reserves of Banks held with the National Bank of Serbia ("Official Gazette of the Republic of Serbia", no. 12/2010 and 78/2010), the Bank calculates obligatory reserve at the level of 100% of funds in foreign currency relating to required reserves of leasing companies kept on special accounts with bank are required reserves calculated by banks in respect of liabilities under foreign currency balances held by leasing companies in special purpose accounts with banks in accordance with the decision stipulating the obligation for leasing companies to keep reserve balances.

The calculated obligatory reserve in foreign currency for December 2010 amounted to EUR 66.929 thousand and leasing required reserve relating to leasing companies in foreign currency amounted to EUR 250 thousand. The obligatory reserve in foreign currency was in compliance with the aforementioned Decision of the National Bank of Serbia.

Foreign currency obligatory reserve has increased due to change in the Decision of NBS. The Decison has been changed in a way that deposits with foreign currency clause form part of the basis for the calculation of obligatory reserves in foreign currency and according to the previus Decision they formed basis for calculation of obligatory reserve in Dinars.

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

Receivables from repo transactions amounting to RSD 451.102 thousand as at 31 December 2010 relate to purchase of treasury bills from the National Bank of Serbia with maturity period to 14 days, bearing an interest rate of 11,50% per annum.

17. INTEREST, FEES AND COMMISSION RECEIVABLE, CHANGES IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES

	2010 RSD thousand	2009 RSD thousand
In dinars		
Interest and fees receivable:		
- Banks	5.876	8.657
- Public companies	8.337	3.679
- Other companies	200.509	164.006
- Entrepreneurs	13.127	12.416
- Public sector	446	216
- Retail customers	42.285	27.160
- Foreign entities	805	5
- Agriculture	2.520	2.862
- Other customers	12.192	2
Receivables from sales	6.195	31.895
	292.292	**250.898**
In foreign currency		
Interest and fees receivable:		
- Banks	5	16
- Other companies	102.552	191.936
- Entrepreneurs	48	44
- Foreign entities	42	5
- Other customers	16.469	-
	119.116	**192.001**
Gross receivables	**411.408**	**442.899**
Less: Allowance for impairment	(159.244)	(233.714)
Balance as at 31 December	**252.164**	**209.185**

17. INTEREST, FEES AND COMMISSION RECEIVABLE, CHANGES IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES (continued)

Movements in allowance for impairment of interest and fees receivable and receivables from sales during the year are as follows:

	2010 RSD thousand	2009 RSD thousand
Interest and fee receivables		
Balance as at 1 January	233.037	228.939
Charge for the year	106.978	331.384
Reversal of impairment losses	(113.297)	(328.968)
Write-offs of allowance	(74.489)	-
Foreign exchange differences	7.015	1.682
Balance as at 31 December	**159.244**	**233.037**
Receivables from sales		
Balance as at 1 January	677	610
Charge for the year	-	246
Reversal of impairment losses	(687)	(200)
Foreign exchange differences	10	21
Balance as at 31 December	**-**	**677**
Total		
Balance as at 1 January	233.714	229.549
Charge for the year (Note 8)	106.978	331.630
Reversal of impairment losses (Note 8)	(113.984)	(329.168)
Write-offs of allowance	(74.489)	-
Foreign exchange differences	7.025	1.703
Balance as at 31 December	**159.244**	**233.714**

18. LOANS AND ADVANCES

(a) Summary per Type of Customers of Loans and Advances

RSD thousand

	2010			2009		
In dinars	**Short-term**	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
Loans and advances:						
- Banks	164.968	6.353	**171.321**	409.101	121.228	**530.329**
– Public companies	760.888	53.813	**814.701**	364.438	17.011	**381.449**
– Other companies	10.520.789	10.339.599	**20.860.388**	7.481.220	7.548.773	**15.029.993**
– Entrepreneurs	319.949	520.430	**840.379**	311.362	497.550	**808.912**
– Public sector	18	227.946	**227.964**	4	220.475	**220.479**
– Retail customers	1.072.197	15.768.519	**16.840.716**	757.454	11.978.022	**12.735.476**
– Foreign entities	14	-	**14**	9	-	**9**
– Agriculture	115.075	537.681	**652.756**	83.793	585.590	**669.383**
– Other customers	399.548	13.414	**412.962**	-	-	**-**
Total	**13.353.446**	**27.467.755**	**40.821.201**	**9.407.382**	**20.968.649**	**30.376.031**
In foreign currency Loans and advances:						
- Banks	304.065	20.160	**324.225**	563.382	-	**563.382**
– Other companies	934.169	974.036	**1.908.205**	1.529.013	899.047	**2.428.060**
– Public sector	1.011	13.137	**14.148**	850	11.908	**12.758**
– Foreign entities	4.657.746	-	**4.657.746**	351.588	-	**351.588**
– Other customers	248.065	-	**248.065**	-	-	**-**
Total	**6.145.056**	**1.007.333**	**7.152.389**	**2.444.833**	**910.955**	**3.355.788**
Gross loans and advances	**19.498.502**	**28.475.088**	**47.973.590**	**11.852.215**	**21.879.604**	**33.731.819**
Less: Allowance for impairment (Note 18(d)):						
– Individually assessed			(2.501.019)			(1.130.052)
– Collectively assessed			(1.663.924)			(2.381.329)
Balance as at 31 December			**43.808.647**			**30.220.438**

Loans with foreign currency clause are presented in the summary of loans and advances in dinars.

18. LOANS AND ADVANCES (continued)

(b) Maturity Structure of Loans and Advances

The maturity of gross loan portfolio, based on the remaining period on the balance sheet date to the contractual maturity date, as at 31 December 2010 and 31 December 2009, is as follows:

	2010 RSD thousand	2009 RSD thousand
Loans in arrears (overdue receivables)	8.771.414	3.878.122
Up to 30 days	1.345.003	948.819
From 1 to 3 months	604.901	684.632
From 3 to 12 months	8.777.184	6.340.641
Over 1 year	28.475.088	21.879.604
	47.973.590	**33.731.819**

Maturity structure of loans in arrears is as follows:

	2010 RSD thousand	2009 RSD thousand
Up to 30 days	5.203.196	643.579
From 1 to 3 months	296.055	202.088
From 3 to 12 months	462.938	712.792
Over 1 year	2.809.225	2.319.663
	8.771.414	**3.878.122**

18. LOANS AND ADVANCES (continued)

(c) Industry Concentration of Loans and Advances

As at 31 December 2010 and 31 December 2009, the gross loan portfolio is concentrated on the following sectors:

	2010 RSD thousand	2009 RSD thousand
Trading	4.880.137	4.652.793
Manufacturing	8.209.665	6.396.901
Construction	3.367.130	1.965.761
Production and supply with electrical energy	269.124	99.146
Services and tourism	5.416.439	4.039.412
Agriculture and food processing	1.440.799	661.959
Retail customers	16.840.730	12.735.485
Domestic and foreign banks and other financial organizations	5.153.292	1.445.299
Public sector	242.112	233.237
Agricultural	652.756	669.383
Other customers	661.027	23.531
Entrepreneurs	840.379	808.912
	47.973.590	**33.731.819**

(d) Movements in Allowance for Impairment of Loans and Advances

Movements in allowance for impairment of loans and advances during the year are as follows:

	2010 RSD thousand	2009 RSD thousand
Balance as at 1 January	3.511.381	2.910.463
Charge for the year (Note 8)	4.615.102	4.378.396
Reversal of impairment losses (Note 8)	(3.782.963)	(3.734.251)
Write-offs of allowances	(574.086)	(323.255)
Foreign exchange differences	395.509	280.020
Balance as at 31 December	**4.164.943**	**3.511.381**

19. SECURITIES (EXCLUDING TREASURY SHARES)

	2010 RSD thousand	2009 RSD thousand
In dinars		
Securities available-for-sale	154.617	172.656
Securities at fair value through profit or loss	899.363	975.871
Securities held-to-maturity:		
-Treasury bills of the Republic of Serbia	2.900.881	4.482.445
-discounted corporate bills	1.624.094	1.783.985
	5.578.955	**7.414.957**
In foreign currency		
Securities held-for-trading	48.229	1.356
Securities available-for-sale	22.927	20.719
	71.156	**22.075**
Total securities	**5.650.111**	**7.437.032**
Less: Allowance for impairment	(197.542)	(225.271)
Balance as at 31 December	**5.452.569**	**7.211.761**

Movements in allowance for impairment during the year are as follows:

	In RSD thousand 2010	2009
Balance as at 1 January	225.271	306.793
Charge for the year (Note 8)	127.932	347.123
Reversal of impairment losses (Note 8)	(138.154)	(324.993)
Foreign exchange differences	7.929	(53.749)
Other movements	(25.436)	(50.141)
Balance as at 31 December	**(197.542)**	**225.271**

Equity investments as at 31 December 2010 amount to RSD 47 thousand and have not changed since the previous year (31 December 2009: RSD 47 thousand), and therefore has not been disclosed in a separate note.

20. OTHER PLACEMENTS

	2010 RSD thousand	2009 RSD thousand
In dinars		
Factoring	671.501	1.177.132
Receivables for guarantees paid	192.646	174.030
Other placements	9.008	8.052
	873.155	**1.359.214**
In foreign currency		
Other placements	7.280	23.726
	7.280	**23.726**
Gross other placements	**880.435**	**1.382.940**
Less: Allowance for impairment	(205.493)	(196.054)
Balance as at 31 December	**674.942**	**1.186.886**

Other placements in dinars as at 31 Decembar 2010 in the amount of RSD 873.155 thousand mostly relate to factoring (RSD 671.501 thousand).

Allowance for impairment of other placements as at 31 December 2010 mostly relates to allowance for impairment of overdue receivables for guarantee (RSD 161.189 thousand).

Movements in allowance for impairment of other placements during the year are as follows:

	2010 RSD thousand	2009 RSD thousand
Balance as at 1 January	196.054	9.814
Charge for the year (Note 8)	36.082	173.814
Reversal of impairment losses (Note 8)	(41.212)	(32.875)
Write-offs of allowance	(6.041)	-
Foreign exchange differences	20.610	45.301
Balance as at 31 December	**205.493**	**196.054**

21. TANGIBLE AND INTANGIBLE ASSETS

RSD thousand

	Land and buildings	Equipment	Leased equipment	Construction in progress	Total tangible assets	Intangible assets
COST						
Balance as at 1 January 2009	**760.872**	**701.955**	**7.270**	**640**	**1.470.737**	**76.886**
Additions	-	-	-	79.086	79.086	38.241
Transfers	8.790	77.566	(7.270)	(79.086)	-	11.508
Disposals and write-offs	(1.013)	(36.997)			(38.010)	
Balance as at 31 December 2009	**768.649**	**742.524**	**-**	**640**	**1.511.813**	**126.635**
Additions	751	-	-	54.189	54.940	56.269
Transfers	7.173	47.016	-	(54.189))	-	94.226
Disposals and write-offs		(117.367)	-		(117.367)	(475)
Balance as at 31 December 2010	**776.573**	**672.173**	**-**	**640**	**1.449.386**	**276.655**
ACCUMULATED DEPRECIATION AND AMORTIZATION						
Balance as at 1 January 2009	**162.135**	**366.815**	**7.107**	**-**	**536.057**	**19.599**
Depreciation and amortization (Note 10)	19.088	98.775	163	-	118.026	17.813
Disposals and write-offs	(306)	(23.934)	(7.270)	-	(31.510)	-
Balance as at 31 December 2009	**180.917**	**441.656**	**-**	**-**	**622.573**	**37.412**
Depreciation and amortization (Note 10)	19.287	90.661	-	-	109.948	41.040
Disposals and write-offs	-	(92.541)		-	(92.541)	(475)
Balance as at 31 December 2010	**200.204**	**439.776**	**-**	**-**	**639.980**	**77.977**
Net book value as at:						
- 31 December 2010	**576.369**	**232.396**	**-**	**640**	**809.405**	**198.678**
- 31 December 2009	**587.732**	**300.867**	**-**	**640**	**889.239**	**89.223**

The Bank did not pledge any buildings as collateral for borrowings.

Due to incomplete cadastrial records the Bank does not have title deeds for buildings with a net book value of RSD 65.042 thousand (31 December 2009: RSD 66.731 thousand). The Bank's management has taken all necessary measures in order to obtain the title deeds.

The net book value of equipment as at 31 December 2010 mostly relates to computer and telecommunication equipment and office furniture. The net book value of intangible assets as at 31 December 2010 mostly relates to software and licenses.

The Bank's management concluded that there were no indications of impairment of the tangible and intangible assets as at 31 December 2010.

22. OTHER ASSETS

	2010 RSD thousand	2009 RSD thousand
in Dinars		
Other receivables:		
-Advances paid	4.678	48
-Receivables from employees	4.196	26.014
- Inventories	54.049	53.712
- Other receivables	97.736	64.321
Accruals:		
- Accrued interest	241.847	208.628
- Other accruals	32.324	16.806
	434.830	**369.529**
In foreign currency		
Other receivables:		
-Advances paid	20.184	16.793
-Receivables from employees	-	27
- Other receivables	46.662	43.645
Accruals:		
- Accrued interest	3.018	9.548
- Accrued interest expenses	52.691	235.525
	122.555	**305.538**
Gross other assets	**557.385**	**675.067**
Less: Allowance for impairment	(126.865)	(99.647)
Balance as at 31 December	**430.520**	**575.420**

Movements in allowance for impairment of other assets during the year were as follows:

	2010 RSD thousand	2009 RSD thousand
Balance as at 1 January	99.647	135.652
Charge for the year (Note 8)	45.749	34.198
Reversal of impairment losses (Note 8)	(23.520)	(40.897)
Foreign exchange differences	4.989	(29.306)
Balance as at 31 December	**126.865**	**99.647**

23. TRANSACTION DEPOSITS

RSD thousand

	2010			2009		
	In dinars	**In foreign currency**	**Total**	**In dinars**	**In foreign currency**	**Total**
Other banks	2.829	-	2.829	2.969	-	2.969
Financial organizations	288.417	1.502.377	1.790.794	349.734	536.394	886.128
Companies	1.561.069	716.036	2.277.105	2.305.062	725.631	3.030.693
Public companies	28.716	1	28.717	61.598	-	61.598
Public sector	1.295	-	1.295	7.821	-	7.821
Entrepreneurs	370.446	-	370.446	352.789	-	352.789
Retail customers	1.104.240	1.395.074	2.499.314	1.091.109	862.887	1.953.996
Agriculture	117.355	-	117.355	119.927	-	119.927
Foreign entities	53.062	173.436	226.498	28.556	88.260	116.816
Other customers	377.081	87.451	464.532	8.806	-	8.806
Balance as at 31 December	**3.904.510**	**3.874.375**	**7.778.885**	**4.328.371**	**2.213.172**	**6.541.543**

24. OTHER DEPOSITS

RSD thousand

	2010			**2009**		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In dinars						
Saving deposits:						
- Retail customers	261.571	29.774	291.345	364.659	34.535	399.194
- Foreign entities	9.169	-	9.169	4.450	6.240	10.690
Specific purpose deposits	514.027	640.009	1.154.036	45.676	334.469	380.145
Other deposits	5.158.473	3.990	5.162.463	5.310.789	4.302	5.315.091
Total	**5.943.240**	**673.773**	**6.617.013**	**5.725.574**	**379.546**	**6.105.120**
In foreign currency						
Saving deposits:						
- Retail customers	6.769.686	6.255.019	13.024.705	5.145.574	2.843.507	7.989.081
- Foreign entities	48.337	253.941	302.278	31.259	128.631	159.890
Specific purpose deposits	364.697	807.752	1.172.449	244.586	976.179	1.220.765
Other deposits	3.192.902	1.172.658	4.365.560	5.035.700	3.476.228	8.511.928
Total	**10.375.622**	**8.489.370**	**18.864.992**	**10.457.119**	**7.424.545**	**17.881.664**
Balance as at 31 December	**16.318.862**	**9.163.143**	**25.482.005**	**16.182.693**	**7.804.091**	**23.986.784**

24. OTHER DEPOSITS (continued)

Structure of other deposits by customer type is as follows:

	2010 RSD thousand	2009 RSD thousand
Banks	1.282	17
Financial organizations	2.391.279	2.839.747
Public companies	30	15.000
Public sector	26.254	46.033
Companies	6.724.994	5.177.284
Retail customers	15.194.697	13.541.442
Foreign banks	23.335	1.890.181
Foreign entities	452.125	355.594
Entrepreneurs	33.415	5.294
Agriculture	42	305
Other customers	634.552	115.887
Balance as at 31 December	**25.482.005**	**23.986.784**

25. BORROWINGS

RSD thousand
2010

	Overnight	Borrowings	Other financial liabilities	Total
In dinars				
Deposits:				
Banks	300.000	3.545	-	303.545
	300.000	**3.545**	**-**	**303.545**
In foreign currency				
Deposits:				
Banks	-	-	260	260
Other companies	-	-	88.058	88.058
Public sector	-	4.079.783	993	4.080.776
Retail customers	-	-	6.579	6.579
Foreign entities	-	10.785.045	17.290	10.802.335
Other customers	-	-	453	453
	-	**14.864.828**	**113.633**	**14.978.461**
	300.000	**14.868.373**	**113.633**	**15.282.006**

25. BORROWINGS (continued)

RSD thousand
2009

	Overnight	Borrowings	Other financial liabilities	Total
In dinars				
Deposits:				
Banks	1.100.000	5.317	-	1.105.317
	1.100.000	**5.317**	**-**	**1.105.317**
In foreign currency				
Deposits:				
Banks	-	-	30	30
Other companies	-	-	1.954.628	1.954.628
Public sector	-	809.016	16.583	825.599
Retail customers	-	-	790	790
Foreign entities	-	4.314.995	13.919	4.328.914
	-	**5.124.011**	**1.985.950**	**7.109.961**
	1.100.000	**5.129.328**	**1.985.950**	**8.215.278**

As at 31 December 2010 the major portion of outstanding liabilities arise from borrowings in foreign currency from Erste GCIB Finance I.B.V., Holland in the amount of RSD 10.785.045 thousand (31 December 2009: RSD 4.314.995 thousand) and EIB loans in the amount of RSD 4.079.783 thousand (31 December 2009: RSD 809.016 thousand).

Other short-term liabilities in foreign currency amounting to RSD 113.633 thousand as at 31 December 2010 mostly relate to liabilities for forwards contracts for purchase of foreign currencies.

26. INTEREST AND FEES PAYABLE AND CHANGES IN FAIR VALUE OF DERIVATIVES

	2010 RSD thousand	2009 RSD thousand
Interests and fees payable:		
In dinars		
-Interest and fee		
-Banks	93	297
-Other companies	-	260
-Entrepreneurs	9	6
-Public sector	9.180	-
-Foreign entities	23.060	1.955
-Other customers	90	-
	32.432	**2.518**
Balance as at 31 December	**32.432**	**2.518**

27. PROVISIONS

	2010 RSD thousand	2009 RSD thousand
Provision for off-balance sheet exposures (a)	159.750	138.722
Provisions for long-term employee benefits (b):		
- retirement benefits	62.099	59.547
- jubilee awards	94.412	82.707
Provisions for litigation (c)	17.400	42.000
Balance as at 31 December	**333.661**	**322.976**

a) According to the Bank's internal policy, provisions for commitments and other risky off balance sheet items (guarantees, acceptances, undrawn credit facilities etc.) are evaluated when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank's commitments.

Evidence based on which the Bank performs the individual assessment of impairment are: payments effected on the Bank's accounts with respect to commitments arising from guarantees, bills of guarantees, etc., late payments for other liabilities, and the customers has been classified in accordance with the Bank's internal classification criteria into R category (bad placements).

Individual assessment of impairment of off-balance sheet items is performed in the same manner as for the balance sheet assets. Commitments and other risky off-balance sheet items, for which the Bank does not expect any outflow of resources and/or it estimates that in the case of an outflow of resources all receivables will be fully collected, the Bank collectively assesses them for impairment, in a similar way as for balance sheet items.

27. PROVISIONS (continued)

(b) Provision for retirement benefits has been recorded in the Bank's financial statements on the basis of an independent actuary's calculation as at the balance sheet date, and it is stated in the amount of present value of the defined benefit obligation, determined by discounting estimated future outflows. The discounted rate used by the actuary was 6,50%, representing the adequate rate under IAS 19 "Employee Benefits", in the absence of a developed market for high quality corporate bonds. Provision was determined in line with the Bank's Collective agreement and the assumption of average salary increase rate of 8% per annum.

(c) The Bank has recognized a provision for legal claims filed against the Bank, for which the Bank's expert team expects a negative outcome (see Note 33(b)).

Movements in provisions during the year are as follows:

	2010 RSD thousand	2009 RSD thousand
Provisions for off-balance sheet exposures		
Balance as at 1 January	138.722	274.298
Charge for the year (Note 8)	1.047.170	1.455.874
Reversal of provision (Note 8)	(1.038.332)	(1.603.239)
Other changes	12.190	11.789
	159.750	**138.722**
Provisions for long-term employee benefits - retirement benefits and jubilee awards		
Balance as at 1 January	142.254	147.432
Interest expenses and current service costs	24.322	21.077
Benefits paid during the year	(8.151)	(26.133)
Actuarial losses relating to jubilee awards	2.944	2.887
Actuarial (gains)/losses relating to retirement benefits	(4.858)	(3.009)
	156.511	**142.254**
Provisions for litigation		
Balance as at 1 January	42.000	336.105
Charge for the year (Note 8)	3.828	19.897
Amounts utilized during the year	(5.428)	(314.002)
Reversal of provisions	(23.000)	-
	17.400	**42.000**
Balance as at 31 December	**333.661**	**322.976**

Utilized provisions for litigation in the amount of RSD 5.428 thousand mostly relate to payments due to litigation costs under the verdict of the Supreme Court in Belgrade in the dispute with SL Pivara Vrsac a.d., Vrsac in the amount of RSD 2.462 thousand. Another major payment was related to the lost dispute with ex-employee of the Novosadska Bank in the amount of RSD 1.056 thousand. During 2010 the Bank reversed provisions for litigation in the amount of RSD 23.000 thousand (final decision of the Supreme Court in favor of the Bank), so at the end of the year, after the final assessment, provisions amounted to RSD 17.400 thousand.

28. OTHER LIABILITIES

	2010 RSD thousand	2009 RSD thousand
In dinars		
Trade payables	1.818	7.866
Advances received	3.900	3.453
Net salaries and compensations	2.838	3.180
Taxes, contributions and other duties	536	568
Accruals and deferrals:		
- Interest accrued	32.855	37.376
- Deferred interest income	121.846	200.882
- Deferred loan origination fees	244.506	179.212
- Accrued liabilities for unused holidays	108.698	148.838
- Other accruals	124.059	88.462
Other liabilities	32.372	130.941
	673.428	**800.778**
In foreign currency		
Advances received	3.691	5.252
Subordinated liabilities	1.085.124	1.035.599
Accruals:		
- Interest accrued	178.901	136.782
- Other	746	1.124
Other liabilities	203	432
	1.268.665	**1.179.189**
Balance as at 31 December	**1.942.093**	**1.979.967**

Outstanding balance of subordinated liabilities as at 31 December 2010 and 31 December 2009 is as follows:

RSD thousand

Creditor	Currency	Contracted amount	Maturity date	Interest rate	31 December 2010	31 December 2009
EGB CEPS HOLDING GMBH	EUR	10.800.000	20.12.2015.	Euribor+2,4% p,a,	1.085.124	1.035.599
Ukupno		**10.800.000**			**1.085.124**	**1.035.599**

Subordinated liabilities relate to a subordinated long-term loan granted by EGB CEPS HOLDING GMBH, Vienna on 20 December 2005. The subordinated loan was granted in the amount of EUR 10.800.000 for the period of 10 years with a 5 year grace period and interest rate equal to quarterly EURIBOR increased by 2,4% per annum. In accordance with the Agreement, loan principal is repayable in 21 quarterly repayments and the first repayment is due upon the end of the grade period.

The Bank can include its subordinated liabilities into its Tier 2 capital (Note 32.9) in an amount not exceeding 50% of Tier 1 capital, subsequent to the National Bank of Serbia's determination that the conditions for granting the approval to include the subordinated liabilities into Tier 2 capital are fulfilled, based on the documentation and the Agreement provided by the Bank. The Supervision Department of the National Bank of Serbia issued the aforementioned approval on 9 December 2005.

29. EQUITY

(a) Equity Structure

The Bank's equity structure is presented as follows:

	2010 RSD thousand	2009 RSD thousand
Share capital - ordinary shares /i/	10.040.000	10.040.000
Share premium /ii/	124.475	124.475
Special reservs for estimated losses /iii/	736.001	344.724
Revaluation reserves /iv/	19.935	14.939
Retained earnings	20.740	15.882
Profit for the year	318.166	391.277
Balance as at 31 December	**11.259.317**	**10.931.297**

/i/ Share capital

As at 31 December 2010, the subscribed and paid share capital of the Bank comprised 1.004.000 ordinary shares, with a nominal value of RSD 10.000 (31 December 2009: 1.004.000 ordinary shares, with nominal value of RSD 10.000). In 2010 and 2009, there were no changes in share capital.

The major shareholder of the Bank is EGB CEPS HOLDING GMBH, Vienna holding 74 % of the shares as at 31 December 2010. The shareholder structure of the Bank as at 31 December 2010 is as follows:

Shareholder	Number of shares	In %
EGB CEPS HOLDING GMBH, Vienna	742.960	74,00
Steiermärkische Bank und Sparkassen AG, Graz	261.040	26,00
Total	**1.004.000**	**100,00**

29. EQUITY (continued)

/ii/ Share Premium

Share premium amounting to RSD 124.475 thousand as at 31 December 2010 and 31 December 2009 resulted from a positive difference between the selling price of the shares and their nominal value.

/iii/ Reserves from Profit

Reserves from profit amount to RSD 736.001 thousand as at 31 December 2010. Reserves from profit amounted to RSD 344.724 thousand as at 31 December 2009. Reserves from profit increased by RSD 391.277 thousand from the retained earnings from 2009, in accordance with the General Assembly's Decision dated 25 March 2010.

/iv/ Revaluation Reserves

Revaluation reserves amount to RSD 19.935 thousand as at 31 December 2010 (31 December 2009: RSD 14.939 thousand), have been established as a result of fair value adjustments of securities available-for-sale, as adjusted for the effects of deferred taxes arising from revaluation of these securities.

/v/ Special Reserves for Estimated Losses

Special reserves for estimated losses arising from credit risk contained in the Bank's loan portfolio are calculated in accordance with the National Bank of Serbia's 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 at 31 December 2010, required special reserves against estimated losses on balance sheet assets and off-balance sheet items, after being reduced for allowances for impairment of balance sheet assets and provision for losses for off-balance sheet items, and calculated in accordance with the aforementioned Decision of the National Bank of Serbia (Note 2.9.), amounts to RSD 3.706.005 thousand (31 December 2009: RSD 2.268.714 thousand). The shortfall amount of the special reserves for estimated losses, subsequent to the transfer of retained earnings from 2009 amounts to RSD 2.970.005 thousand (31 December 2009: RSD 1.923.990 thousand). In accordance with the National Bank of Serbia regulations, the Bank has no right to make payments of dividends before these reserves are covered.

29. EQUITY (continued)

(b) Capital Adequacy and Performance Indicators - Compliance with Legal Regulations

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 the relevant decisions of National Bank of Serbia brought on the basis of the aforementioned law. As at 31 December 2010, the Bank was in compliance with all prescribed performance indicators. The Bank's performance indicators as at 31 December 2010 are as follows:

Performance indicators	Prescribed	Realized
1. Capital	Minimum EUR 10 million	EUR 83.696.171
2. Capital adequacy ratio	Minimum 12%	17,63
3. Permanent investments indicator	Maximum 60%	5,94
4. Related parties exposure	Maximum 20%	5,33
5. Indicator of large and the largest permissible loans	Maximum 400%	37,22
6. Liquidity ratio:		
- in the first month of the reporting period	Minimum 1	1,48
- in the second month of the reporting period	Minimum 1	1,90
- in the third month of the reporting period	Minimum 1	2,08
7. Foreign currency risk indicator	Maximum 20%	1,49
8. Exposure to a group of related parties	Maximum 25%	17,12
9. Exposure to an entity related to the Bank	Maximum 5%	0,90
10. Bank's investments in legal entities which are not in the finacial sector	Maximum 10%	0,19

30. OFF-BALANCE SHEET ITEMS

	2010 RSD thousand	2009 RSD thousand
Funds managed on behalf of third parties (a)	668.474	527.757
Guarantees and other irrevocable commitments (b)	8.819.732	12.270.385
Derivatives (c)	2.777.694	401.069
Other off-balance sheet items (d)	14.319.981	13.384.598
Balance as at 31 December	**26.585.881**	**26.583.809**

(a) Funds Managed on Behalf of Third Parties

	2010 RSD thousand	2009 RSD thousand
Placements on behalf of third parties in dinars:		
- short-term	4.471	6.437
- long-term	664.003	521.320
Balance as at 31 December	**668.474**	**527.757**

The major portion of short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 3.804 thousand. The major portion of long-term funds managed on behalf of third parties relate to long-term loans to agricultural in the amount of RSD 143.765 thousand and citizens' housing loans insured with NKOSK of RSD 520.239 thousand.

(b) Guarantees and Other Irrevocable Commitments

	2010 RSD thousand	2009 RSD thousand
In dinars		
Payment guarantees	1.237.932	1.272.265
Performance bonds	2.234.832	953.104
Avals and acceptances	75.672	63.312
Irrevocable commitments for undisbursed loans and placements	4.094.136	3.777.755
Other contingencies and commitments	9.890	13.330
	7.652.462	**6.079.766**
In foreign currency		
Payment guarantees	163.015	176.681
Performance bonds	506.267	232.535
Irrevocable commitments for undisbursed loans and placements	87.487	228.855
Letters of credit	408.919	5.552.548
Other irrevocable commitments	1.582	-
	1.167.270	**6.190.619**
Balance as at 31 December	**8.819.732**	**12.270.385**

30. OFF-BALANCE SHEET ITEMS (continued)

(b) Guarantees and Other Irrevocable Commitments (continued)

Irrevocable committments usually have fixed expiry dates or other stipulations with respect to expiry dates. Since irrevocable committments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Bank monitors maturity periods of credit committments because longer-term commitments have a greater degree of loan risk than short-term committments.

As at 31 December 2010, provision for guarantees and other irrevocable commitments amounts to RSD 159.750 thousand (31 December 2009: RSD 138.722 thousand).

(c) Derivatives

Derivatives in the amount of RSD 2.777.694 thousand as at 31 December 2010 completely relate to receivables for foreign exchange swaps (FX swaps) from EGB CEPS HOLDING GMBH, Vienna.

Derivatives in the amount of RSD 401.069 thousand as at 31 December 2009 also completely relate to receivables for foreign exchange swaps (FX swaps) from EGB CEPS HOLDING GMBH, Vienna.

	2010 RSD thousand	2009 RSD thousand
Derivatives	2.777.694	401.069
Balance as at 31 December	**2.777.694**	**401.069**

(d) Other off-balance sheet items

	2010 RSD thousand	2009 RSD thousand
Suspended interest receivables	1.171.751	390.600
Foreign currency sale and purchase	7.168.657	2.518.137
LORO guarantees	333.889	5.191.480
Received counter guarantees	352.576	9.981
Records of public foreign currency saving bonds	2.678.225	2.803.502
Other	2.614.883	2.470.898
Balance as at 31 December	**14.319.981**	**13.384.598**

31. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with shareholders and other related parties in the ordinary course of business.

(a) The Bank enters into transactions with the Parent Company- majority shareholder EGB CEPS HOLDING GMBH AG, Vienna and other members of Erste Group. Outstanding balance of receivables and payables as at 31 December 2010 and 31 December 2009, as well as income and expenses, resulting from transactions with shareholders and other Bank's related parties are as follows:

RSD thousand

	31 December 2010		31 December 2009	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Receivables				
Cash and cash equivalents	140.519	-	43.404	-
Interest, fees and commissions receivable	339	1	5	1
Loans and advances	4.657.746	253	351.588	112
Other placements	5.309	8.524	-	7.601
Other assets	2.020	33.429	579	34.084
	4.805.933	**42.207**	**395.576**	**41.798**
Payables				
Transaction deposits	33.504	102.690	7.140	159.879
Other deposits	3.768	1.560.924	1.848.180	2.484.047
Borrowings		10.785.044		4.314.996
Interest, commissions and fees payable	-	13.466	23.261	21.568
Provisions	-	35		38
Other payables	1.108.611	19.010	1.036.163	23.500
	1.145.883	**12.481.170**	**2.914.744**	**7.004.028**
Off-balance sheet items				
Guarantees and other warranties	116.621	**2.565**	10.677	**-**
Irrevocable commitments	-	2.796	81.075	5.657
Other off-balance sheet items	2.777.693	-	6.696.894	30.301
	2.894.314	**5.361**	**6.788.646**	**35.958**

31. RELATED PARTY DISCLOSURES (continued)

In RSD thousand

	2010		2009	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	164.344	1.989	2.496	1
Interest expense	(46.460)	(405.209)	(102.554)	(127.698)
Fee and commission income	14.484	1.935	7.447	2.529
Fee and commission expense	(34.454)	(771)	(28.555)	(5.194)
Other operating income	-	1.163	618	3.347
Operating and other expenses	(23.853)	(356.659)	(37.250)	(283.843)

Fees on crossborder loans in the year ended 31 December 2010 amounted to RSD 209,727 thousand (2009.: RSD 262,153 thousand).

Crossborder loans gives opportunity to the customers to borrow directly from aborad, whereby all activities in the approval process and adminstration of loans are perfomed by Erste Bank AD, Novi Sad. Crossboreder loan provides customer with more favourable terms of borrowing and the Bank earns fee income on related services.

(a) As at 31 December 2010 and 31 December 2009, the Bank had no impaired placements with related parties.

(b) In its regular course of operations, the Bank enters into business relationships and arrangements with the members of the Executive Board, other key personnel, at common market conditions. Balances at the end of the year and effects of those transactions are presented as follows.

In RSD thousand

	Balance as at 31 December 2010	Income/ (expense) 2010	Balance as at 31 December 2009	Income/ (expense) 2009
Overdrafts, credit cards, cash and consumer loans	1.641	8.851	4.049	7.811
Housing loans	54.492	-	52.120	-
Other placements and receivables	1.447	67	2.112	92
Total allowances for impairment	322	-	384	-
Deposits	60.883	2.802	35.043	5.617

(c) Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2010 and 2009, are presented in the table below:

	2010 RSD thousand	2009 RSD thousand
Salaries of the members of the Executive Board	39.904	38.436
Remunerations to the members of the Board of Directors	9.935	9.037
Total	**49.839**	**47.473**

32. RISK MANAGEMENT

32.1. Introduction

Risk is inherent in banking activities, but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls.

Due to the nature of its activities, the Bank is exposed to the following major risks: credit risk, liquidity risk and market risk (which includes the interest risk, currency risk and other market risks). The Bank is also subject to operating risk and the risk of its exposure to one entity or a group of related entities, risk of the Bank's investments in other legal entities and property and equipment, as well as the impact of risk related to the country of origin of the entity to which the Bank is exposed, and which the Bank continuously monitors.

Risk management in Bank is a comprehensive process that includes identification, analysis, rating and control of all forms of business risks (credit, interest rate, foreign exchange and other market risk exposure, investment and operating risk). The aim of the risk management process is to establish an adequate system for identifying, measuring, assessing and monitoring the risks the Bank is exposed to in its business operations, as well as an adequate response in order to minimize potential adverse effects to the Bank's capital and financial performance.

The Bank has adopted policies and procedures that provide control and application of internal by-laws of the Bank related to risk management, as well as procedures related to the Bank's regular reporting in relation to the risk management. The processes of risk management are critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/her responsibilities. This system of risk management provides timely notification of the management of all risks that are present or may occur, and provides adequate and timely response in the case of the same.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

The Board of Directors and the Executive Board are ultimately responsible for identifying and controlling risks. In addition, the Bank has established separate independent bodies for managing and monitoring risks.

Risk Management is committed to the following organs/bodies:

Board of Directors and Executive Board

The Board of Directors and Executive Board are responsible for the overall risk management approach and for approving the risk strategies and principles. Their decisions are made on the basis of Assets and Liabilities Management Committee proposals and other proposals of other relevant organs/bodies of the Bank.

Assets and Liability Management Committee

Assets and Liability Management Committee (ALMC) has overall responsibility for the development of a comprehensive risk management strategy and implementation of the principles, framework, policies and limits. ALMC is responsible for fundamental findings in respect of risks and for managing and monitoring of relevant decisions related to risk, principally for interest rates, foreign exchange and other market risks.

32. RISK MANAGEMENT (continued)

32.1. Introduction (continued)

Risk Management Department

The Risk Management Department is responsible for the implementation and maintenance of procedures related to risk, which provides independent control of the process. Consequently, tasks of the Risk Management Department include the following:

- Assessment and measurement of the Bank's exposure to all types of risks;
- Analysis and reports on the risks' significance, their causes and consequences;
- Risks assessment of new products;
- Development and application of quantitative models for risk management as an element in the process of business decision-making;
- Monitoring of parameters that influence the position of the Bank's exposure to risks;
- Generating the propositions to the Bank's exposure limit by certain types of risks and their control; and
- Creating risk management policies and procedures in accordance with the valid legislation, the requirements of Erste Group and the Bank's specific needs.

Strategic Risk Control Unit

The Strategic Risk control unit was established in November 2010 and includes four departments:

- Department for portfolio and other strategic risks management,
- Department for quantitative analysis and modeling,
- Department for market risk and liquidity risk management,
- Department for operational risk and other specific risks management.

The Strategic Risk control unit within the Risk Management Department is responsible for monitoring compliance with the principles, policies and limits defined by the Bank, and also implementation of new methodologies and models primarily in the context of Basel II standards and management of credit portfolio. This primarily involves monitoring of market risks and monitoring of risks resulting from the new products' implementation and complex transactions. This unit also provides complete risk coverage in terms of monitoring, control and reporting.

Assets and Liability Management Unit

The Assets and Liability Management Unit is responsible for managing the Bank's assets and liabilities, as well as the overall financial structure and is accountable to the Executive Board. Furthermore, it is primarily responsible for the Bank's liquidity and financing. The Assets and Liability Management Unit prepares daily, weekly and monthly reports related to the assets and liability management for the needs of the Bank management and external users, as well as a report for the needs of the ALM Committee.

32. RISK MANAGEMENT (continued)

32.1. Introduction (continued)

Internal Audit

Risk management processes throughout the Bank are audited at least annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with such procedures. Internal audit discusses the results of all assessments with the Bank management and reports its findings and recommendations to the Audit Committee.

Risk Management and Reporting System

The Bank's risks are measured using a method which reflects both the expected losses that are likely to arise in regular circumstances and unexpected losses, which are an estimate of the ultimate losses based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment in which Bank operates. The Bank also runs the method of "worst case scenarios" that might arise in case of the extreme events for which probability of occurrence is remote.

Monitoring and controlling risks is primarily based on establishing of limits and procedures. The limits reflect the business strategy and market environment of the Bank, as well as the level of risks the Bank is willing to accept. The Bank also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information complied from all operating activities are being examined and processed in order to identify, analyse and control new risks. This information is presented and explained to the Board of Directors, Executive Board, ALMC and heads of all business units. Such reports contain the total credit exposure, investment forecasts, departure from established limits, market risk measurement, liquidity ratios and changes of risk profiles. Reports are prepared and sent on a daily, weekly or monthly basis or upon management's request. The most important reports are reports about the daily dinar and foreign exchange liquidity, the five-daily liquidity and open foreign exchange position. The Bank's enior management assesses the adequacy of the allowance for credit losses. The Bank quarterly presents comprehensive report on risks to the Board of Directors that includes all relevant information needed to estimate the risks the Bank is exposed to.

Special reports on risk management are prepared for each level in the Bank to ensure that all business units have access to comprehensive, necessary and updated information.

Reports on Dinar and foreign exchange liquidity, the balance of open foreign exchange positions and other relevant information are being prepared and sent to the members of the Executive Board on daily basis and as per their special request.

32.2. 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.

The Bank's business policy requires and predicts the maximum protection of its credit risk exposure.

32. RISK MANAGEMENT (continued)

32.2. Credit Risk (continued)

By its internal by-laws, policies and procedures, the Bank has implemented the adequate system of credit risk management so as to reduce the credit risk to an acceptable level.

In accordance with the Bank's Risk management policy, Credit Policy and Procedures for managing the credit risk, the process of credit risk management for individual placements and risks at the portfolio level, i.e., the procedures of identification, measurement and monitoring (control) of placements, especially those with increased risk levels, has been defined.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, geographical areas and industries, as well as by monitoring exposures in relation to these limits.

The Bank's credit risk is caused by the debtor's credit capacity, good credit history, as well as quality of collateral, and is being indentified, estimated and monitored in accordance with the internal by-laws for credit risk management, as well as in accordance with decisions that regulate the classification of the balance sheet assets and off-balance sheet items and capital adequacy.

The Risk Management Department identifies, measures and evaluates the credit risk to the debtor's creditworthiness and its credit history, as well as the quality of collateral. The process of monitoring the quality of loan enables the Bank to assess the potential losses as a result of which is exposed to risk and to take corrective measures.

Credit-related Risks

The Bank issues guarantees and letters of credit to its customers, and, consequently, it has a contingent liability to perform payments in favour of third parties. Thus, the Bank is exposed to credit-related risks, which can be mitigated by processes and procedures used for mitigating credit risks.

Loan Concentration Risks

The concentration risk is the risk of incurring losses due to an excessive volume of placements into a certain group of debtors. The concentration occurs when a significant number of debtors belong to the similar industry or the same geographical area or when they have similar economic characteristics, which may affect their ability to settle their contractual obligations in case of changes in economic, political or some other circumstances that affect them equally. In order to minimize the credit risk, safety measures are established through defining levels of exposures and credit limits.

Derivative Financial Instruments

Derivative financial instruments lead to the Bank's exposure to credit risk in case their fair value is positive. Such credit risk is limited by determining the maximum far value of the total derivatives' portfolio, as well as determination of the maximum positive fair value of each individual transaction. As at 31 December 2010, the Bank had foreign exchange swaps (FX swap) with EGB CEPS HOLDING GMBH, Vienna amounting to EUR 12.902 thousand, USD 750 thousand, i.e. RSD 1.357.112 thousand. The approved limit in the trading book arising from the swap with EGB CEPS HOLDING GMBH is EUR 30.000 and the Bank is within the limit.

32. RISK MANAGEMENT (continued)

32.2. Credit Risk (continued)

(a) Maximum Exposure to Credit Risk by Balance Sheet and Off-balance Sheet Items

The breakdown of maximum credit risk exposure, presented gross, before allowances for impairment and collateral held, as at 31 December 2010 and 31 December 2009 is as follows:

	2010 RSD thousand	2009 RSD thousand
Exposure to credit risk by balance sheet items:		
Interest, fees and commission receivable, changes in fair value of derivatives and other receivables	406.099	442.899
Loans and advances	43.315.843	33.380.231
Securities (excluding own securities)	1.801.638	1.977.360
Equity investments	2.163	2.163
Other placements	880.436	736.922
Other assets	243.929	217.665
Balance as at 31 December	**46.650.108**	**36.757.240**
Exposure to credit risk by off-balance sheet items:		
Payment guarantees	1.400.947	1.448.946
Performance bonds	2.741.099	1.185.639
Uncovered letters of credit	407.046	5.543.208
Avals and acceptances	75.672	63.312
Irrevocable commitments	4.181.624	4.006.610
Other off-balance sheet items	11.472	13.330
Balance as at 31 December	**8.817.860**	**12.261.045**
Total exposure to credit risk as at 31 December	**55.467.968**	**49.018.285**

The abovementioned amounts do not include assets that are not classified in accordance with the Decision on the Classification of assets and off-balance sheet items in the amount of RSD 38.823.718 thousand.

Where financial instruments are recorded at fair value, the amounts presented above correspond to the current credit risk exposure, but not the maximum risk exposure that might arise in the future as a result of changes in fair value.

Concentration of risk is managed by setting the limits by individual debtor, geographical area and industry sector.

The maximum credit exposure to any client or group of related debtors as at 31 December 2010 amounted to RSD 1.708.342 thousand (31 December 2009: RSD 7.079.535 thousand), without deductions (collateral or other means of credit risk protection), i.e., an amount of RSD 163.474 thousand (31 December 2009: RSD 2.074.897 thousand), net of collateral.

32. RISK MANAGEMENT (continued)

32.2. Credit Risk (continued)

(a) Maximum Exposure to Credit Risk by Balance Sheet and Off-balance Sheet Items (continued)

A breakdown of maximum credit risk exposure (gross risk balance and off-balance assets subject to classification), as at 31 December 2010 and 31 December 2009, before taking into account collateral held or other credit enhancements, is analyzed by geographical area and is as follows:

RSD thousand

	Placements with banks	Loans and advances to customers and other placements	Equity investments and securuties	Interests, fees and other assets	Guarantees and other commitments	Total 2010
Serbia	278.317	43.900.266	1.803.801	650.028	8.365.143	**54.997.555**
European Union	2.020	-	-	-	116.621	**118.641**
Other countries	15.676	-	-	-	336.096	**351.772**
Total	**296.013**	**43.900.266**	**1.803.801**	**650.028**	**8.817.860**	**55.467.968**

RSD thousand

	Placements with banks	Loans and advances to customers and other placements	Equity investments and securuties	Interests, fees and other assets	Guarantees and other commitments	Total 2009
Serbia	1.088.023	33.021.092	1.979.523	660.564	12.261.045	**49.010.247**
European Union	8.038	-	-	-	-	**8.038**
Total	**1.096.061**	**33.021.092**	**1.979.523**	**660.564**	**12.261.045**	**49.018.285**

32. RISK MANAGEMENT (continued)

32.2. Credit Risk (continued)

(a) Maximum Exposure to Credit Risk by Balance Sheet and Off-balance Sheet Items (continued)

The Bank's credit risk exposure analysis, by industry sectors, before and after taking into account collateral held and other credit enhancements, as at 31 December 2010 and 31 December 2009 is as follows:

RSD thousand

	Gross maximum exposure 2010	Net maximum exposure 2010	Gross maximum exposure 2009	Net maximum exposure 2009
Retail	17.924.735	11.881.446	13.778.562	6.469.829
Processing industry and mining	12.160.832	7.836.839	14.549.889	6.978.444
Trade	7.441.790	4.507.503	6.872.403	4.406.791
Energy	656.115	540.995	113.709	11.937
Agriculture, hunting, fishing and forestry	1.802.390	1.361.115	857.772	288.138
Civil engineering	3.946.318	2.505.413	3.053.383	1.739.527
Traffic and communications, tourism, hospitality and services	4.321.541	3.704.580	6.678.831	5.103.160
Entrepreneurs	995.896	692.107	875.837	400.130
Agriculturalist	658.354	528.126	672.884	139.286
Banks	783.277	415.938	1.096.061	1.096.061
Other financial institutions	214.613	100.259	92.532	91.265
Other	4.562.107	2.548.576	376.422	358.011
Total	**55.467.968**	**36.622.897**	**49.018.285**	**27.082.579**

32. RISK MANAGEMENT (continued)

32.2. Credit Risk (continued)

(b) Portfolio Quality

The Bank manages the quality of its financial assets using the internal classification of placements. The following tables present the quality of portfolio (gross placements and off-balance sheet exposure) by types of placements, and based on the Bank's classification system, as at 31 December 2010 and 31 December 2009:

RSD thousand

	Neither past due nor individually impaired					
	High quality level	**Standard quality level**	**Sub standard quality level**	**Past due and collectively impaired**	**Individually impaired**	**Total 2010**
Placements to banks	3.204	278.930	-	160	14.725	**297.019**
Placements to customers						
Corporate customers	4.922.112	2.553.021	3.248	407.566	925.136	**8.811.083**
Small size and medium size companies	8.642.918	4.284.342	625.596	1.098.792	2.678.527	**17.330.175**
Entrepreneurs	620.344	41.553	14.912	151.150	26.250	**854.209**
Retail customers	15.537.144	199.551	252.362	1.422.910	141.854	**17.553.821**
Securities and equity investments	1.284.667	338.202	23.428	7.214	150.290	**1.803.801**
Guarantees and Acceptances	2.531.985	1.567.614	97.773	912	19.434	**4.217.718**
Letters of credit	133.721	273.325	-	-	-	**407.046**
Unused commitments	3.472.069	694.695	6.359	8.501	-	**4.181.624**
Other off balance sheet items	10.957	515	-	-	-	**11.472**
Total	**37.159.121**	**10.231.748**	**1.023.678**	**3.097.205**	**3.956.216**	**55.467.968**

Under *Neither past due nor individually impaired* are all exposures that are per Internal methodology on impariment of financial assets classified from 1 (low credit risk) to 8 (high credit risk) but are not past due. Individually impaired exposures are those exposures that are classified into R category (default) according to the Internal methodology on impariment of financial assets and that are materialy sifinificant. Past due and collectively impaired includes all default exposures that are not materially significant and all non-default clients that are past due.

32. RISK MANAGEMENT (continued)

32.2. Credit Risk (continued)

(b) Portfolio Quality (continued)

RSD thousand

	Neither past due nor individually impaired					
	High quality level	**Standard quality level**	**Sub standard quality level**	**Past due and collective impaired**	**Individually impaired**	**Total 2009**
Placements to banks	10.112	958.650	-	12.593	-	**981.355**
Placements to customers						
Corporate customers	3.116.760	1.614.536	5	777.198	404.801	**5.913.300**
Small size and medium size companies	5.307.313	3.514.582	294.541	3.600.980	892.461	**13.609.877**
Entrepreneurs	660.881	13.101		128.647	23.996	**826.625**
Retail customers	12.206.504	101.954	9.214	1.027.098	101.790	**13.446.560**
Securities and equity investments	521.442	1.242.372	2.537	213.172	-	**1.979.523**
Guarantees and acceptances	1.838.645	812.050	19.025	18.257	9.921	**2.697.898**
Letters of credit	5.333.104	210.104	-	-	-	**5.543.208**
Unused commitments	3.257.137	740.496	1.965	7.012	-	**4.006.610**
Other off balance sheet items	11.159	2.170	-	-	-	**13.329**
Total	**32.263.057**	**9.210.015**	**327.287**	**5.784.957**	**1.432.969**	**49.018.285**

32. RISK MANAGEMENT (continued)

32.2. Credit Risk (continued)

(b) Portfolio Quality (continued)

Ageing analysis of loans and advances to customers past due

The ageing analysis of loans and advances to customers past due and collectively impaired but not impaired as at 31 December 2010 and 31 December 2009 is presented in the tables below:

RSD thousand

2010	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2010
Placements to banks	-	-	160	**160**
Placements to customers:				
- Corporate customers	266.131	144.496	1.681	**412.308**
- Small size and medium size companies	393.226	559.916	149.458	**1.102.600**
- Entrepreneurs	97.479	14.481	39.190	**151.150**
- Retail customers	482.572	235.571	712.844	**1.430.987**
Balance as at 31 December	**1.239.408**	**954.464**	**903.333**	**3.097.205**

In RSD thousand

2009	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2009
Placements to banks	25.846	-	176	**26.022**
Placements to customers:				
- Corporate customers	291.505	438.739	98.803	**829.047**
- Small size and medium size companies	1.004.628	746.875	2.016.046	**3.767.549**
- Entrepreneurs	53.221	47.364	28.062	**128.647**
- Retail customers	272.779	199.750	561.163	**1.033.692**
Balance as at 31 December	**1.647.979**	**1.432.728**	**2.704.250**	**5.784.957**

Collateral and Other Credit Enhancements

The amount and type of the collateral required depends on an assessment of the credit risk of each customer. Types of collateral with respect to each placement are determined by the analysis of customers' creditworthiness, type of exposure to the credit risk, placements' maturity, as well as the amount of the particular loan. Using its internal methodology, the Bank determines the types of collateral and the parameters of their valuation. Standard collateral accepted by the Bank is as follows: real estate mortgages, deposits, as well as bank guarantees or guarantees of the Republic of Serbia. The Bank's management monitors the movements in the fair value of collateral, demands additional collateral in accordance with the relevant contracts and controls the fair value of collateral arrived at by perceiving the adequacy of the allowance for impairment.

32. RISK MANAGEMENT (continued)

32.2. Credit Risk (continued)

(b) Portfolio quality (continued)

Collateral and Other Credit Enhancements (continued)

At the moment of loan approval, and in order to insure the secondary source of loan repayment, the Bank takes collateral in accordance with the estimated credit risk and catalogue of collateral that defines types of collateral. The fair value of collateral is regularly monitored and updated.

Assessment of Impairment of Financial Assets

The main considerations for the loan impairment assessment include: whether any payments of principal or interest are overdue for more than 90 days, or there are any known difficulties in the debtors' cash flows, credit rating downgrades or breaches of the original terms of the contract. The Bank performs the impairment assessment at two levels: individual and collective.

- **Individual Impairment Assessment**

The Bank determines an allowance for each individually significant loan or placement. Items considered when determining the amount of allowance for impairment include the sustainability of the customer's business plan, ability to improve performance once a financial difficulty has arisen, the availability of other sources of financial support, the realisable value of collateral and its timing, the availability of other financial support, the possibility of collection of overdue receivables, as well as the timing of the expected cash flows. The impairment losses are evaluated at least quarterly, unless unforeseen circumstances require more frequent assessment.

- **Collective Impairment Assessment**

Allowances for impairment are assessed and established collectively 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 quarterly, and more frequently, if required.

Impairment losses are estimated by taking into consideration the following information: historical losses at the portfolio level, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment allowance; moreover, the time when impaired asset would be collected or recovered.

Financial guarantees and letters of credit are assessed and provisions are made in similar manner as for loans.

- **Special Reserves for Estimated Losses**

For both 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 (see Note 2.8.). Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans.

32. RISK MANAGEMENT (continued)

32.2. Credit Risk (continued)

(c) Default Loans

In accordance with the applied internal policy "Internal rules of assessment of clients and calculating reserves" the Bank pays special attention to default loans by monitoring the total outstanding balance and the trend of these amounts in order to prompt respond to the collection of receivables or on the other hand, adequate determination of the impairment. Default loans are monitored at the Bank level, regional level and in accordance with the product criteria (for individuals) and the industrial sector the customers belongs to, as well as the maturity structure (for corporate clients and entrepreneurs). Days of delay, restructuring, insolvency or liquidation as well as other indicators that may indicate a reduced recoverability of placement are taken into consideration when determining the default occurrence.

As at 31 December 2010, default loans amounted to RSD 5.006.860 thousand (31 December 2009: RSD 4.391.467 thousand). The impairment loss of default loans recognized in the balance sheet amounted to RSD 3.830.347 thousand (31 December 2009: RSD 3.515.625 thousand).

Additionally, default off-balance sheet items amounted to RSD 27.202 thousand as at 31 December 2010 (31 December 2009: RSD 33.544 thousand), while the related provisions for those items amounted to RSD 24.171 thousand (31 December 2009: RSD 19.066 thousand).

(d) Rescheduled Loans

In accordance with the Bank's methodology and IFRS 7, the Bank pays special attention to placements that are subject of rescheduling due to the increased level of credit risk.

Under these claims the Bank considers loans and investments for which restructuring and changes in initial conditions of the contract were carried out due to inability of the client to meet its obligations under the defined contract terms and conditions due to problems in business and deterioration in financial indicators, which is a significant deterioration in credit standing.

As at 31 December 2010, gross rescheduled loans and placements, that are in default status and have been rescheduled for reasons to avoid default, amounted to RSD 466.410 thousand (31 December 2009: RSD 209.644 thousand).

32.3. Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank would not be able to discharge its liabilities when they fall due. To reduce or to limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows in Dinars and foreign currency and the availability of high grade collateral which could be used to secure additional funding, if required. The Bank manages its assets and liabilities in such a way that it can meet its due liabilities at all time, as well as to have customers disposing their funds held with the Bank in accordance with agreed terms.

The Committee for Managing Assets and Liabilities and the Commission for Liquidity (OLC Committee) are responsible for monitoring liquidity risk, managing the liquidity risk and for recommending to the Executive Board the measures and activities to maintain the liquidity, adjustment of the maturity structure, financing plan for reserves and other measures important for the financial stability of the Bank.

32. RISK MANAGEMENT (continued)

32.3. Liquidity Risk and Funding management (continued)

Apart from monitoring of this indicator, CFP defines other indicators and their limits, as well as persons/department in charge of monitoring and reporting thereon. A short summary of movements of these indicators is being presented every two weeks at the OLC Committee meeting, or more frequently, if the limits presented in CFP are breached.

The Bank maintains a portfolio of highly liquid securities and diverse assets that can be easily converted to cash in the event of unforeseen and adverse fluctuations of the Bank's cash flows. In addition, the Bank maintains obligatory reserves in Dinars and in foreign currency in accordance with requirements of the National Bank of Serbia.

The level of liquidity is expressed using the liquidity ratio which is determined as the proportion of the sum of the liquid assets of the first and second level (cash, assets on accounts with other banks, deposits with the National Bank of Serbia, receivables in the process of realisation, irrevocable credit lines approved to the Bank, quoted financial instruments and other receivables due within a month) and the sum of liabilities on demand without determined maturity date and liabilities with fixed maturity up to a month. In 2010 and 2009, the Bank had an indicator of daily liquidity exceeding the legally-prescribed levels.

The aforementioned ratio in 2010 and 2009 is as follows:

	2010	2009
Average during the period	1,86	1,26
Highest	2,19	1,38
Lowest	1,42	1,11
As at 31 December	1,62	1,31

32. RISK MANAGEMENT (continued)

32.3. Liquidity Risk and Funding Management (continued)

Maturity Analysis of Financial Liabilities

The table below presents the ageing analysis of the Bank's financial liabilities as at 31 December 2010 and 31 December 2009 on the basis of contractual not discounted payments.

The Bank expects that the major part of the customers will not withdraw their deposits when they fall due.

RSD thousand

2010	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2010
Borrowings and deposits	13.917.225	6.962.946	11.591.356	14.041.339	2.030.030	**48.542.896**
Interest and fees payable	9.377	40.063	403.514	1.629.597	405.060	**2.487.611**
Subordinated liabilities	-	54.256	162.769	868.099	-	**1.085.124**
Balance as at 31 December	**13.926.602**	**7.057.265**	**12.157.639**	**16.539.035**	**2.435.090**	**52.115.631**

RSD thousand

2009	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2009
Borrowings and deposits	9.425.086	13.127.325	9.806.974	5.339.106	1.045.112	**38.743.603**
Interest and fees payable	42.250	96.073	483.325	685.525	112.424	**1.419.597**
Subordinated liabilities	-	-	49.314	986.285	-	**1.035.599**
Balance as at 31 December	**9.467.336**	**13.223.398**	**10.339.613**	**7.010.916**	**1.157.536**	**41.198.799**

32. RISK MANAGEMENT (continued)

32.3. Liquidity Risk and Funding Management (continued)

Maturity Analysis of Financial Liabilities (continued)

The table below presents the ageing analysis of guarantees, letters of credit and other irrevocable commitments:

RSD thousand

2010	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2010
Guarantees, acceptance and letters of credit	340.701	39.031	838.985	1.353.248	1.956.284	187.461	**4.715.710**
Irrevocable commitments	16.173	39.152	96.988	1.536.730	1.967.544	447.435	**4.104.022**
Balance as at 31 December	**356.874**	**78.183**	**935.973**	**2.889.978**	**3.923.828**	**634.896**	**8.819.732**

RSD thousand

2009	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2009
Guarantees, acceptance and letters of credit	4.976.069	55.792	908.899	826.758	1.411.953	61.636	**8.241.107**
Irrevocable commitments	466.409	23.524	135.534	1.578.374	1.507.765	308.332	**4.019.938**
Balance as at 31 December	**5.442.478**	**79.316**	**1.044.433**	**2.405.132**	**2.919.718**	**369.968**	**12.261.045**

The Bank expects that not all of the contingent liabilities and irrevocable commitments will be withdrawn before they expire.

32. RISK MANAGEMENT (continued)

32.3. Liquidity Risk and Funding Management (continued)

Maturity Mismatch Analysis

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date. The following table presents the Maturity Mismatch report as at 31 December 2010:

RSD thousand

ASSETS	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2010
Cash and cash equivalents	2.199.054	194.470	572.758	-	-	-	**2.966.282**
Revocable deposits and loans	7.538.391	-	-	-	-	-	**7.538.391**
Interest and fees receivable, sales, changes in fair value of derivatives and other receivables	245.969	-	-	6.195	-	-	**252.164**
Loans and advances	9.525.872	386.142	3.035.759	9.525.546	11.924.137	9.411.191	**43.808.647**
Securities	206.826	372.301	724.661	3.386.533	741.025	21.223	**5.452.569**
Equity investments	-	-	-	-	-	47	**47**
Other placements	28.033	84.453	175.118	195.626	191.712	-	**674.942**
Intangible assets	-	-	-	-	-	198.678	**198.678**
Tangible assets	-	-	-	-	-	809.406	**809.406**
Other assets	61.011	69.228	299.197	-	-	1.084	**430.520**
Total assets	**19.805.156**	**1.106.594**	**4.807.493**	**13.113.900**	**12.856.874**	**10.441.629**	**62.131.646**
LIABILITIES AND EQUITY							
Transaction deposits	7.778.885	-	-	-	-	-	**7.778.885**
Other deposits	5.731.477	3.236.941	3.719.234	11.591.354	976.848	226.151	**25.482.005**
Borrowings	406.862	6.771	-	-	13.064.491	1.803.882	**15.282.006**
Interest and fees payable and changes in fair value of derivatives	32.432	-	-	-	-	-	**32.432**
Provisions	-	-	-	333.661	-	-	**333.661**
Tax liabilities	-	-	-	12.752	-	-	**12.752**
Deferred tax liabilities	-	-	-	8.495	-	-	**8.495**
Other liabilities	408.725	36.768	320.268	308.230	868.102	-	**1.942.093**
Total liabilities	**14.358.381**	**3.280.480**	**4.039.502**	**12.254.492**	**14.909.441**	**2.030.033**	**50.872.329**
Total equity	**-**	**-**	**-**	**-**	**-**	**11.259.317**	**11.259.317**
Total liabilities and equity	**14.358.381**	**3.280.480**	**4.039.502**	**12.254.492**	**14.909.441**	**13.289.350**	**62.131.646**
Maturity mismatch/net liquidity gap as at:							
-31 December 2010	**5.446.775**	**(2.173.886)**	**767.991**	**859.408**	**(2.052.567)**	**(2.847.721)**	
-31 December 2009	**826.899**	**(1.673.197)**	**1.738.853**	**1.590.333**	**3.164.411**	**(5.647.299)**	

32. RISK MANAGEMENT (continued)

32.4. Market Risk

In its ordinary course of business, the Bank is exposed to the following market risks: interest rate risk, foreign currency risk and other market risks.

Market risk management is defined by policies, procedures and regulations approved by the Board of Directors and in accordance with the risk management strategy at the level of Erste Group, as well as all relevant laws and by-laws of the Republic of Serbia. Audit of policies, procedures and regulations is being done in accordance with needs, and, at least, once a year.

Market risk is managed by the Asset and Liability Management Committee, Asset and Liability Management Unit and the Risk Control Unit.

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, i.e., Asset and Liability Management Unit. This Unit and the Risk control unit monitor changes in open foreign currency position and other relevant indicators of the Bank's exposure to market risks on daily basis.

The Asset and Liability Management Unit prepares monthly reports to the Asset and Liability Management Committee at least once a month. The Risk Management Unit monitors market risk through defined limits, risk from introduction of new products and complex transactions. Assets and Liability Managing Committee has an advisory role and gives recommendations to the Executive Board for adoption.

32.4.1. Interest Rate Risk

Interest risk is the risk of the occurrence of an adverse impact on the financial result and the Bank's capital due to changes in market interest rates. The Bank is exposed to this risk based on items from the banking book, and it assesses the aforementioned risk in total and per each significant foreign currency for whose definition it has established criteria. In accordance with these criteria, the Bank considers RSD and EUR to be materially significant currencies.

In determining interest rates the Bank considers market interest rates and their movements. Interest rate changes result in increases or decreases in interest margins. Interest risk management has as its goal the optimisation of this influence, increasing the net interest revenue on one side and economic value of capital at the other side.

The Asset and Liability Management Committee manages maturity matching of assets and liabilities based on the Erste Group strategy, macroeconomic analysis and forecasts of the Bank's liquidity, interest trends analysis for different segments of assets and liabilities.

32. RISK MANAGEMENT (continued)

32.4. Market Risk (continued)

32.4.1. Interest Rate Risk (continued)

The following table shows Reprising Gap report, i.e. the Bank's exposure to the interest rate risk as at 31 December 2010.

The table includes the Bank's assets, liabilities and currency swap as off-balance sheet items are categorized by the earlier of contractual re-pricing or maturity dates.

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Non interest bearing	Total
Cash and cash equivalents	-	-	-	-	-	1.069.044	1.069.044
Correspondent accounts	10.517	21.032	31.548	17.209	103.249	-	183.555
Obligatory reserve	557.471	-	-	-	-	7.087.289	7.644.760
Securities	932.378	819.197	1.830.389	1.260.158	157.254	-	4.999.376
Loans and advances to banks	5.371.491	-	-	-	-	8.489	5.379.980
Loans and advances to customers	23.230.490	1.363.339	1.228.914	1.914.636	13.175.104	441.263	41.353.746
Other assets	-	-	-	-	-	1.501.186	1.501.186
FX Swap-off-balance sheet item	*261.232*	*838.017*	*786.160*	-	-	-	*1.885.409*
Total assets	**30.363.579**	**3.041.585**	**3.877.011**	**3.192.003**	**13.435.607**	**10.107.271**	**64.017.056**
Due to Banks	320.000	1.085.124	-	-	3.544	41.988	1.450.656
Due to FI	10.786.037	3.329.571	750.214	-	-	-	14.865.822
Transaction deposits	1.113.776	1.102.467	1.653.700	902.018	5.412.109	-	10.184.070
Saving deposits	6.527.526	3.709.123	4.265.193	7.325.323	1.188.269	-	23.015.434
Other liabilities	-	-	-	-	-	1.356.348	1.356.348
Equity	-	-	-	-	-	11.259.317	11.259.317
FX Swap-off-balance sheet item	*268.112*	*870.000*	*803.460*	-	-	-	*1.941.572*
Total liabilities and equity	**19.015.451**	**10.096.285**	**7.472.567**	**8.227.341**	**6.603.922**	**12.657.653**	**64.073.219**
Net exposure to interest rate risk:							
-31 December 2010	**11.348.128**	**(7.054.700)**	**(3.595.556)**	**(5.035.338)**	**6.831.685**	**(2.550.382)**	
-31 December 2009	**3.595.614**	**(2.055.003)**	**(3.679.086)**	**(1.289.924)**	**15.497.779**	**(12.069.381)**	

32. RISK MANAGEMENT (continued)

32.4. Market Risk (continued)

32.4.1. Interest Rate Risk (continued)

Interest rate risk is also monitored by sensitivity analysis- scenario analysis, i.e. by observing the effect of interest rate fluctuations to the Bank's income and expenses.

The following table presents the income statement's sensitivity to the reasonably possible changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of predicted changes in interest rates on net interest income in one year on financial assets and liabilities based on interest rates as at 31 December 2010 and 31 December 2009.

RSD thousand

Currency	Change in percentage	Income statement sensitivity 2010	Change in percentage	Income statement sensitivity 2009
Increase of percentage:				
RSD	1%	68.878	1%	43.570
EUR	1%	(23.963)	1%	(48.184)
Decrease of percentage:				
RSD	1%	(68.878)	1%	(43.570)
EUR	1%	24.027	1%	48.184

32.4.2. Foreign Exchange Risk

Foreign currency risk is the risk of change of the value of financial instruments and occurrence of adverse effect to the Bank's financial result and equity due to the fluctuations in foreign exchange rates. The banking operations in different foreign currencies cause the exposure to fluctuation in foreign exchange rates.

The Bank manages foreign exchange risk, striving to prevent adverse effects of changes of cross-currency rates and foreign exchange rates comparing to the dinar (foreign currency losses) on the Bank's financial result, as well as on customers' ability to repay loans in foreign currency.

For the purposes of protection against the foreign currency risk, the Bank monitors the changes in foreign currency exchange rate on the financial market on a daily basis, carries out the policy of low level exposure to foreign currency risk and contracts the foreign currency clause with its customers.

The Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign currency risk, as well as risk by specific currencies. The Risk control unit daily monitors movements in indicators of foreign exchange risk. The positions are monitored on a daily basis to ensure positions are maintained within established limits. In accordance with the National Bank of Serbia's requirements, the Bank regularly maintains its foreign currency position - foreign exchange risk indicator within maximal regulatory limits, determined in proportion to capital, in accordance to which the Bank is obligated to ensure that its total net open foreign currency position does not exceed 20% of its regulatory capital.

32. RISK MANAGEMENT (continued)

32.4. Market Risk (continued)

32.4.2. Foreign Exchange Risk (continued)

During 2010, the Bank continuously paid attention to keep the foreign currency risk indicator within the prescribed limit. The foreign currency indicator, at the end of each working day, was lower than 20% comparing to the Bank's capital.

The following table presents the Bank's exposure of foreign currency risk as at 31 December 2010.

RSD thousand

Position	EUR	USD	CHF	Other currencies	Total	Gold and other precious metals
Net spot position	**(1.243.205)**	**(42.225)**	**(3.238)**	**9.950**	**(1.278.718)**	**-**
Assets in foreign currency	39.864.801	481.429	1.974.775	109.473	**42.430.478**	**-**
Liabilities in foreign currency	41.108.006	523.654	1.978.013	99.523	**43.709.196**	-
Net forward positions (2.1 - 2.2)	**1.361.121**	**(59.460)**	**-**	**-**	**1.301.661**	-
Long position	1.361.121	-	-	-	**1.361.121**	-
Short position	-	59.460	-	-	**59.460**	-
Long open position	117.916	-	-	13.984	**131.900**	-
Short open position	-	101.685	3.238	4.034	**108.957**	-
Net open foreign currency position	-	-	-	-	**108.957**	-
Regulatory capital	-	-	-	-	**9.278.280**	-

Foreign exchange risk ratio	
– 31 December 2010	**1,17**
– 31 December 2009	**1,49**

The following table presents the Bank's exposure to foreign currency risk as at 31 December 2010 and 31 December 2009 of its non-trading assets and liabilities.

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

32. RISK MANAGEMENT (continued)

32.4. Market Risk (continued)

32.4.2. Foreign Risk (continued)

Negative values refer to potential decreases in the income statement or equity, while the positive values refer to its increases.

RSD thousand

Currency	Changes in the exchange rate (%) 2010	Effect to the income statement before taxation 2010	Changes in the exchange rate (%) 2009	Effect to the income statement before taxation 2009
EUR	2%	(26.637)	2%	(1.767)
CHF	2%	(65)	2%	(230)
USD	2%	(999)	2%	(433)

32. RISK MANAGEMENT (continued)

32.4. Market Risk (continued)

32.4.2. Foreign Risk (continued)

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2010. The table includes assets and liabilities at their carrying amounts.

RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currency	Total in local currency	Total
ASSETS							
Cash and cash equivalents	365.090	30.603	20.993	109.472	**526.158**	2.440.124	**2.966.282**
Revocable deposits and loans	7.087.289	-	-	-	**7.087.289**	451.102	**7.538.391**
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	141.654	2	2.527	-	**144.183**	107.981	**252.164**
Loans and advances	30.882.382	441.006	1.950.883	-	**33.274.271**	10.534.376	**43.808.647**
Securities	831.680	6.902	-	-	**838.582**	4.613.987	**5.452.569**
Equity investmens	-	-	-	-	**-**	47	**47**
Other placemens	446.850	-	-	-	**446.850**	228.092	**674.942**
Intangible assets	-	-	-	-	**-**	198.678	**198.678**
Tangible assets	-	-	-	-	**-**	809.406	**809.406**
Other assets	109.856	2.917	372	-	**113.145**	317.375	**430.520**
Total assets	**39.864.801**	**481.430**	**1.974.775**	**109.472**	**42.430.478**	**19.701.168**	**62.131.646**
LIABILITIES AND EQUITY							
Demand deposits	3.699.892	108.552	46.354	19.576	**3.874.374**	3.904.511	**7.778.884**
Other deposits	22.906.763	373.461	72.715	70.452	**23.423.391**	2.058.614	**25.482.005**
Borrowings	13.106.564	3.684	1.858.866	9.348	**14.978.462**	303.544	**15.282.007**
Interest and fees payable and changes in fair value of derivatives	9.180	-	-	-	**9.180**	23.252	**32.432**
Provisions	88.629	7.742	-	-	**96.371**	237.290	**333.661**
Tax liabilities	-	-	-	-	**-**	12.752	**12.752**
Deferred tax liabilities	-	-	-	-	**-**	8.495	**8.495**
Other liabilities	1.385.608	37.957	77	148	**1.423.790**	518.303	**1.942.093**
Total liabilities	**41.196.636**	**531.396**	**1.978.012**	**99.524**	**43.805.568**	**7.066.761**	**50.872.329**
Total equity	**-**	**-**	**-**	**-**	**-**	11.259.317	**11.259.317**
Total liabilities and equity	**41.196.636**	**531.396**	**1.978.012**	**99.524**	**43.805.568**	**18.326.078**	**62.131.646**
Net foreign currency position as at:							
- 31, December 2010	**(1.331.835)**	**(49.966)**	**(3.237)**	**9.948**	**(1.375.090)**		
- 31, December 2009	**(363.231)**	**(34.819)**	**188.967**	**(5.564)**	**(214.647)**		

Balances with F/X clause have been reported under related F/X currency.

32. RISK MANAGEMENT (continued)

32.5. Exposure Risk

The Bank's exposure risk includes the risk of its exposure to a single party or a group of related parties, as well as its exposure risk to a party related to the Bank.

Monitoring the Bank's exposure to this risk is a compulsory part of the procedures in the phase of granting loans in the sense that the committee which approves the Bank's placements has the information regarding the total amount of the Bank's exposure to a to a single party or a group of related parties in proportion to the Bank's regulatory capital.

During 2010, the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities anticipated by the relevant procedures and decisions on loan approval, the Bank kept the adequacy of its placements and investments in line with the performance indicators prescribed by the National Bank of Serbia (see Note 29(b)).

In accordance with the Risk management policies, the Bank's management approves the exposures and limits, i.e. the loan concentration on certain legal entities or a group of related parties, and persons related to the Bank.

The procedures of exposure risk management are the subject of internal audit and the compliance control function.

32.6. Investment Risk

The Bank's investment risks include equity investments of the Bank in the other legal entities' capital and in tangible assets.

In accordance with the National Bank of Serbia legislation, the level of the Bank's investment and the level of regulatory capital is being monitored in order to ensure that the Bank's investments in a single non-financial sector entity and in property and equipment do not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in tangible assets can not exceed 60% of its regulatory capital.

The Bank's investment risk exposure arising on investments into other legal entities and property and equipment is monitored by the organisational unit or the Bank's body competent for procurement of tangible assets and investing in legal entities familiar with the current exposure and the amount of capital for the purposes of acting in timely manner in accordance with the prescribed limits.

During 2010, the Bank maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Bank of Serbia.

The procedures of exposure risk management are the subject of internal audit and the compliance control function.

32. RISK MANAGEMENT (continued)

32.7. Country Risk

Country risk is the risk related to the country of origin of a counterparty the Bank is exposed to and includes adverse effects which may influence the financial result and capital of the Bank, as the Bank might not be able to collect receivables from this counterparty, as a result of political, economical or social situation in the country of its origin.

The Bank mostly grants funds to the customers from the Republic of Serbia, while it is exposed to the country risk in the portion of assets it keeps on the accounts with foreign banks.

The Bank monitors its exposure on geographic basis by applying the limits determined by the parent bank and based on country ratings.

The Bank's exposure to the country risk is low, due to insignificant participation of nonresidents in the total loan portfolio of the Bank.

The Bank minimizes the country risk by implementing the policy of placing funds abroad, mainly by depositing assets (short-term) with the first-class foreign banks.

32.8. Operational Risk

Operational risk is the risk of the adverse effects on the Bank's financial result and equity due to failures in performance of system failure, human errors, frauds or unforeseen external events.

The Bank cannot expect to eliminate all operational risks, but through a rigorous control framework and by monitoring and responding to potential risks, the Bank is able to manage the risk. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank has adopted operational risk management policies that regulate the Bank's exposure to operational risks, i.e., active risk management for reducing these risks on an acceptable level which can be controlled. To ensure consistent identification and classification of all cases of operational risks, the Bank has classified cases of operational risks in accordance with the Decision on risk management by banks issued by the National Bank of Serbia ("Official Gazette of the Republic of Serbia", no. 129/2007, 63/2008 and 112/2008).

All cases of operational losses are categorized towards the first level of loss cause and separated on the second and third level. The classification allows:

- Establishment of priorities over losses and taking necessary actions;
- Improvement of the capacity for risk analysis;
- Enables the creation of a standardized information base; and
- Compliance with the requirement of Basel II guidelines and the National Bank of Serbia.

32. RISK MANAGEMENT (continued)

32.8. Operational Risk (continued)

Operational risk events are collected in a single database. The Bank reduces the operational risks by other activities such as BCM project (project of management of business continuity), whereby the Bank will introduce a plan for providing continuity of operations and business plan in case of unexpected events, self-assessment of risks conducted during the outsourcing of a portion of business operations, as well as continuous monitoring and reporting on the development of operational risk and operational risk assessment that may occur.

The Bank plans to implement monitoring of key risk indicators which will represent the overall framework of management and control of operational risk.

The Bank is insured from the usual risks and specific banking risks through the Program of insurance from operational risks. The usual risks include damages to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Bank's internal and external frauds and technological risks.

32.9. Capital Management

The Bank permanently manages its capital, which is a broader concept than "capital" on the face of the balance sheet, in order to:

- Comply with the capital requirements set by the National Bank of Serbia;
- To ensure the possibility of a long-term going concern of operations with providing of profit to shareholders and benefits to other stakeholders; and
- To provide a solid capital base to support the development of its business.

The Bank manages the capital structure and performs adjustments in accordance with changes in economic conditions and risk related to the Bank's operations. The Bank's management monitors regularly the Bank's capital adequacy ratios and other ratios established by the National Bank of Serbia and delivers quarterly reports on achieved values of ratios.

In accordance with the Law on Banks and relevant decisions of the National Bank of Serbia, banks are obliged to maintain minimal capital in the amount of EUR 10 million, in Dinar counter value translated at the official median exchange rate, a capital adequacy ratio of at least 12%, as well as to comply the volume and structure of its operations with ratios prescribed by the Decision on risk management ("Official Gazette of the Republic of Serbia", no. 129/2007, 63/2008 and 112/2008) and the Decision on capital adequacy ("Official Gazette of the Republic of Serbia", no. 129/2007 and 63/2008).

The Decision on the capital adequacy of banks, adopted by the National Bank of Serbia, establishes the method of calculating the capital adequacy. The Bank's total capital comprises Tier 1 and Tier 2 capital, and by prescribed deductible items, while the risk weighted on balance sheet assets and off-balance sheet items are determined in accordance with the prescribed risk ratios for all types of assets.

Tier 1 capital is defined by the aforementioned Decision and must be at least 50% of the total capital. The capital adequacy ratio of the Bank is equal to the ratio of the Bank's capital and the sum of the risk-weighted assets, capital requirement in relation to foreign currency risk which is multiplied by the reciprocal value of the capital adequacy indicators (the prescribed 12%) and capital requirements in relation to other market risks multiplied with the reciprocal value of the capital adequacy indicators.

32. RISK MANAGEMENT (continued)

32.9. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as at 31 December 2010 and 31 December 2009, as well as the capital adequacy ratio:

	2010 RSD thousand	2009 RSD thousand
Regulatory capital		
Tier 1 capital		
Paid portion of the share capital comprising ordinary and preference share capital, excent cumulative preference shares	10.040.000	10.040.000
Share premium related to ordinary and preference shares, except cumulative preference shares	124.475	124.475
All types of Bank`s reserves formed from retained earnings after tax, except general banking risks` reserve	736.001	344.724
Portion of retained earnings	20.740	15.882
Intangible assets	(198.678)	(89.223)
	10.722.539	**10.435.858**
Tier 2 capital		
Portion of revaluation reserves related to tangible assets and equity instruments	19.934	14.939
Subordinated liabilities	1.085.124	1.035.599
	1.105.058	**1.050.538**
Total Tier 1 and Tier 2 capital	**11.827.597**	**11.486.396**
Deductible items:		
Shortfall amount of the special reserves for potential losses	(2.997.801)	(1.923.990)
Total (1)	**8.829.796**	**9.562.406**
Risk weighted assets		
Balance sheet	45.979.966	33.055.998
Off-balance sheet	4.359.650	4.956.575
Derivatives that are not traded on the stock exchange	2.848	-
Exposure to price risk	49.448	-
Open foreign currency position	131.900	141.088
Total (2)	**50.523.812**	**38.153.661**
Capital adequacy (1/2 x 100)	***17,48***	***25,06***

32. RISK MANAGEMENT (continued)

32.10. Fair Value of Financial Assets and Liabilities

It is a policy of the Bank to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their carrying amounts.

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot be reliably determined in the absence of an active market. The Bank's management assesses its overall risk exposure, and in instances in which it estimates that the book value of assets may not have been realized, it recognizes a provision.

In the opinion of the Bank's management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

Financial Instruments whose Fair Value approximates Their Carrying Value

It is assumed that the carrying values of liquid financial assets and liabilities or with short-term maturities (up to 3 months) approximate their fair value. This assumption also relates to demand deposits, savings deposits without maturity period and financial instruments with variable interest rates.

Fixed-rate Financial Instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity.

For quoted debt instruments the fair values are calculated based on quoted market prices. For those instruments issued where quoted market prices are not available, a discounted cash flow model based on current interest rate yield curve appropriate for the remaining term to maturity is used.

Financial Instruments Measured at Fair Value

Financial instruments, such as securities available for sale, are measured at fair value based on available market information, i.e., quoted market prices.

	Level 1	Level 2	Level 3	Total
Held for trading financial assets	**42.917**	**1.061.204**	**-**	**1.104.122**
Treasury bills of the Republic of Serbia	-	1.061.204	-	**1.061.204**
Listed bonds	42.917	-	-	**42.917**
Available for sale financial assets	**31.263**	**36.193**	**-**	**67.456**
Listed shares	22.739	-	-	**22.739**
Investment funds units	8.524	-	-	**8.524**
Unlisted shares	-	36.165	-	**36.165**
Other investments	-	28	-	**28**

33. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Bank has entered into commercial leases on computer equipment and vehicles.

The future minimum lease payments under operating non-cancellable leases are as follows:

	2010 RSD thousand	2009 RSD thousand
Up to 1 year	94.348	75.200
From 1 to 5 years	143.755	99.598
	238.103	**174.798**

(b) Litigation

The final outcome of the legal proceedings still in progress is uncertain. As disclosed in Note 27 to the financial statements, as at 31 December 2010 the Bank recognized a provision of RSD 17.400 thousand (31 December 2009: RSD 42.000 thousand) for potential losses that might arise as a result of the adverse outcome of litigation. The Bank's management considers that no material losses will arise from the remaining litigations still in course, other than those provided for.

The Bank is subject to a number of lawsuits, as a plaintiff so as to collect its receivables. All disputed receivables from corporate and retail customers have been fully provided for.

(c) Tax Risks

The tax system in the Republic of Serbia is undergoing continuous amendments. The tax period in the Republic of Serbia is opened during the period of 5 years. In different circumstances, tax authorities could have a different approach to some problems, and could detect additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are fairly presented.

34. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 20 of the Law on Accounting and Auditing, the Bank performed reconciliation of receivables and payables with its debtors and creditors, and it maintains credible documentation on the circularization process.

The Bank submitted the confirmations to its customers and debtors with the outstanding balance of receivables/payables as at 30 November 2010. Based on the exchanged confirmations, the following receivables and payables remained unreconciled:

The total amount of disputed confirmations in the amount of RSD 571.990 thousand relates to:

- Loans and receivables in the amount of RSD 523.113 thousand; and
- Accounts payable in the amount of RSD 48.877 thousand.

The underlying reason for disputed confirmations (for accounts payable RSD 48.877 thousand and loans and receivables RSD 345.144 thousand) is the method of posting and recording interest, fees and commissions and payments.

Returned confirmations, due to incorrect addresses, comprise receivables amounting to RSD 177.969 thousand.

The total amount of reconciled receivables is RSD 27.896.840 thousand.

35. EXCHANGE RATES

The official exchange rates for major currencies, determined on the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies as at 31 December 2010 and 31 December 2009 into Serbian Dinars (RSD) were as follows:

		RSD
	2010	**2009**
EUR	105,4982	95,8888
USD	79,2802	66,7285
CHF	84,4458	64,4631

36. SUBSEQUENT EVENTS

There have been no significant events subsequent to the reporting date, which would require adjustments and/or disclosures in the notes to the accompanying financial statements of the Bank as at and for the year ended 31 December 2010.

Novi Sad, 23 March 2011

Approved by the management of Erste Bank a.d., Novi Sad

Vlasta Putnik Head of Accounting and Finance Department	Suzan Tanriyar Member of the Executive Board	Slavko Carić President of the Executive Board

ERSTE BANK a.d. 21 NOVI SAD