ERSTE BANK A.D., NOVI SAD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENT

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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

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 2011, 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 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011, 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 National Bank of Serbia governing financial reporting of banks.

Belgrade, 12 March 2012

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

Stephen Fish
for Ernst & Young Beograd d.o.o.

Draško Popović
Authorized Auditor

REGISTRATION NUMBER: **08063818**
ACTIVITY CODE: **110105**
ACTIVITY CODE ACCORDING TO NEW ACTIVITY CLASSIFICATION: **6419**
TAX IDENTIFICATION NUMBER: **101626723**

NAME OF BANK OR OTHER FINANCIAL ORGANISATION: **ERSTE BANK AD NOVI SAD**
REGISTERED OFFICE: **NOVI SAD**

PROFIT AND LOSS STATEMENT
AS OF 31st DECEMBER 2011

(in RSD thousand)

Account group, account	POSITION	AOP designation	Note number	Current year	Previous year
	Ordinary operating income and expenses				
70	Interest income	201	4	5.873.469	4.772.385
60	Interest expenses	202	4	1.915.342	1.682.931
	Interest gains (201-202)	203		3.958.127	3.089.454
	Interest loss (202-201)	204		0	0
71	Fee and commission income	205	5	1.977.948	1.521.269
61	Fee and commission expenses	206	5	548.918	315.487
	Fee and commission gains (205-206)	207		1.429.030	1.205.782
	Fee and commission loss (206-205)	208		0	0
720-620	Net gains on the basis of sale of securities - fair value	209		38.046	0
620-720	Net loss on the basis of sale of securities - fair value	210		0	0
721-621	Net gains on the basis of sale of securities available for sale	211		217	0
621-721	Net losss on the basis of sale of securities available for sale	212		0	0
722-622	Net gains on the basis of sale of securities held to maturity	213		0	0
622-722	Net loss on the basis of sale of securities held to maturity	214		0	0
723-623	Net gain on the basis of participation sale	215		0	0
623-723	Net loss on the basis of participation sale	216		0	0
724-624	Net gain on the basis of sale of other placements	217		0	0
624-724	Net loss on the basis of sale of other placements	218		0	0
78	Net foreign exchange gains	219		0	0
68	Net foreign exchange loss	220	6	320.422	2.376.009
766	Dividend and participation income	221		42	34
74,76 (766,799)	Other operating income	222	7	51.094	48.134
75-65	Net gains of indirect write-offs of placements and provisions	223		0	0
65-75	Net loss of indirect write-offs of placements and provisions	224	8	883.049	738.945
63	Expences of wages and salaries, salary fees and other personal expenses	225	9	1.468.157	1.333.592
642	Depreciation expenses	226	10	172.440	150.988
64 (642), 66 (669)	Operational and other expenses	227	11	1.979.333	1.859.018
77	Income from the change of the value of assets and liabilities	228	12	5.035.462	4.112.783
67	Loss from the change of the value of assets and liabilities	229	13	4.905.549	1.680.225
	Ordinary operating gains (203-204+207-208+209-210 +211-212+213-214+215-216+217-218+219-220+221+222+223-224-225-226-227+228-229)	230		783.068	317.410
	Ordinary operating loss (204-203+208-207+210-209 +212-211+214-213+216-215+218-217+220-219-221-222+224-223+225+227+226+229-228)	231		0	0
769-669	Net gains from the operation suspended	232		0	0
669-769	Net loss from the operation suspended	233		0	0
	Result for the period; pre-tax profit (230-231+232-233)	234		783.068	317.410
	Result for the period; pre-tax loss (231-230+233-232)	235		0	0
850	Profit tax	236	14	765	0
861	Profit from created deferred tax assets and reduction of deferred tax liabilities	237	14	6.700	756
860	Loss from created deferred tax assets and reduction of deferred tax liabilities	238			0
	Profit (234-235-236+237-238)	239		789.003	318.166
	Loss (235-234+236+238-237)	240		0	0
	Earning per share	241			
	Basic earning per share	242			
	Diluted earnings per share	243			

Novi Sad

Person responsible for financial statement making

Vlasta Putnik

Executive Committee President:

Slavko Carić

Executive Committee Member:

Suzan Tanriyar

REGISTRATION NUMBER: 08063818
ACTIVITY CODE: 110105
ACTIVITY CODE ACCORDING TO NEW ACTIVITY CLASSIFICATION: 6419
TAX IDENTIFICATION NUMBER: 101626723

NAME OF BANK OR OTHER FINANCIAL ORGANISATION: ERSTE BANK AD NOVI SAD
REGISTERED OFFICE: NOVI SAD

BALANCE SHEET
AS OF 31st DECEMBER 2011

ASSETS

(in RSD thousand)

Group of accounts, account	ITEM	AOP code	Note number	CURRENT YEAR AMOUNT	PREVIOUS YEAR AMOUNT
00,05,07	Cash and cash equivalents	001	15	4.232.332	2.966.282
01,06	Loans and deposits repayable on demand	002	16	13.641.927	7.538.391
02,08	Interest and fee receivables, receivables from sale, change of fair value of derivatives and other receivables	003	17	258.985	252.164
10,11,20,21	Granted loans and deposites	004	18	45.952.772	43.808.647
12 (excluding 128),22	Securities (excluding own shares)	005	19	6.173.995	5.452.569
13,23	Participations in capital	006	19	52	47
16,26	Other placements	007	20	254.657	674.942
33	Intangible assets	008	21	295.083	198.678
34,35	Fixed assets and investment property	009	21	762.528	809.406
36	Fixed assets intended for sale and assets of operation suspended	010		0	0
37	Deferred tax assets	011		0	0
03,09,19,29,30,38	Other assets	012	22	504.608	430.520
842	Loss above capital amount	013		0	0
	TOTAL ASSETS (FROM 001 TO 013)	014		**72.076.939**	**62.131.646**

LIABILITIES

(thousands of RSD)

Account group, account	POSITION	AOP designation	Note number	CURRENT YEAR AMOUNT	PREVIOUS YEAR AMOUNT
	LIABILITIES				
400,500	Transaction deposites	101	23	8.791.459	7.778.885
from 401 to 405 from 501 to 505	Other deposites	102	24	29.896.060	25.482.005
from 406 to 409 from 506 to 509	Received loans	103	25	17.430.862	15.282.006
41,51	Liabilities against securities	104		0	0
42,52	Interest and fee liabilities, and liabilities from change of fair value of derivatives	105	26	53.720	32.432
450 do 454	Provisions	106	27	424.012	333.661
456,457	Tax liabilities	107	14	26.614	12.752
434,455	Liabilities from profit	108		0	0
46	Liabilities based on fixed assets intended for sale and liabilities based on operation suspended	109		0	0
47	Deferred tax liabilities	110	14	2.038	8.495
43 (excluding 434), 44,48,49,53,58,59	Other liabilities	111	28	3.400.893	1.942.093
	TOTAL LIABILITIES (FROM 101 TO 111)	112		**60.025.658**	**50.872.329**
80 (excluding 803) - 128	Capital	113	29	10.164.475	10.164.475
81	Reserves from profit	114	29	1.054.168	736.001
82 (excluding 823)	Revaluations reserves	115	30	26.054	23.620
823	Non-realised losses based on securities available for sale	116	31	3.929	3.685
83	Profit	117	32	810.513	338.906
84 (842)	Loss up to the level of capital	118			
	TOTAL CAPITAL (113+114+115+117-116-118)	119		**12.051.281**	**11.259.317**
	TOTAL LIABILITIES (112+119)	120		**72.076.939**	**62.131.646**
	OFF-BALANCE SHEET POSITIONS (FROM 123 TO 127)	121		**38.802.897**	**26.585.881**
90 alternatively 95	Operations on behalf of and for the account of third parties	122	30	705.529	668.474
91 (excluding 911,916) alternatively 96 (961,966)	Assumed future liabilities	123	30	11.363.221	8.819.732
911,916,932 alternatively 961,966,982	Received guarantees for liabilities	124		0	0
92 alternatively 97	Derivatives	125	30	3.579.900	2.777.694
93 (excluding 932) alternatively 98 (excluding 982)	Other off-balance sheet positions	126	30	23.154.247	14.319.981

Novi Sad

Person responsible for financial statement making

Vlasta Putnik

Executive Committee President

Slavko Carić

Executive Committee Member

Suzan Tanriyar

REGISTRATION NUMBER: **08063818**
ACTIVITY CODE: **110105**
ACTIVITY CODE ACCORDING TO NEW ACTIVITY CLASSIFICATION: **6419**
TAX IDENTIFICATION NUMBER: **101626723**

NAME OF BANK OR OTHER FINANCIAL ORGANISATION: **ERSTE BANK AD NOVI SAD**
REGISTERED OFFICE: **NOVI SAD**

STATEMENT OF CASH FOWS

in the period from 1st January to 31st December 2011

(in RSD thousand)

ITEM	AOP code	Current year amount	Previous year amount
1	2	3	4
A. CASH FLOW FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (from 302 to 305)	301	**7.819.559**	**6.257.601**
1. Interest inflow	302	5.776.981	4.680.502
2. Fee inflow	303	1.990.829	1.502.524
3. Inflow on the basis of other operating income	304	51.707	74.541
4. Inflow of dividends and participations in profit	305	42	34
II. Cash outflow from operating activities (from 307 to 311)	306	**5.639.684**	**5.086.347**
5. Interest outflow	307	1.845.927	1.464.411
6. Fee outflow	308	545.634	306.477
7. Outflow on the basis of gross salaries, salary fees, and other personal expenses	309	1.471.037	1.334.006
8. Taxes, contributions and other duties charged to income	310	247.977	257.666
9. Outflow on the basis of other operating costs	311	1.529.109	1.723.787
III Net cash inflow from operating activities before loans and deposit increase or decrease (301 minus 306)	312	**2.179.875**	**1.171.254**
IV Net cash outflow from operating activities before loans and deposit increase or decrease (306 minus 301)	313	**0**	**0**
V Decrease of loans and increase of taken deposits (from 315 to 317)	314	**5.426.629**	**4.456.851**
10. Decrease in credits and lending to banks and clients	315	0	0
11. Decrease in securities at fair value through income statement, tradable investment and short-term securities held to maturity	316	0	1.724.287
12. Increase in deposits received from banks and clients	317	5.426.629	2.732.564
VI. Increase in lending and decrease in deposits received (from 319 to 321)	318	**9.306.488**	**12.792.623**
13. Increase in credits and lending to banks and clients	319	8.559.792	12.792.623
14. Increase in securities at fair value through income statement, tradable investment and short-term securities held to maturity	320	746.696	0
15. Decrease in deposits from banks and clients	321	0	0
VII. Net cash inflow from operating activities before profit tax (312 minus 313 plus 314 minus 318)	322	**0**	**0**
VIII. Net cash outflow from operating activities before profit tax (313 plus 318 minus 312 minus 314)	323	**1.699.984**	**7.164.518**
16. Profit tax paid	324	6.371	0
17. Dividends paid	325	0	0
IX. Net cash inflow from operating activities (322 minus 323 minus 324 minus 325)	326	**0**	**0**
X. Net cash outflow from operating activities (323 minus 322 plus 324 plus 325)	327	**1.706.355**	**7.164.518**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflows from investing activities (from 329 to 333)	328	**28.896**	**36.977**
1. Long-term investment in securities	329	28.310	36.977
2. Sale of interest (stake)	330	586	0
3. Sale of intangible investment and fixed assets	331	0	0
4. Sale of investment property	332	0	0
5. Other inflows from investing activities	333	0	0
II. Cash outflows from investing activities (from 335 to 339)	334	**230.461**	**208.001**
6. Investment in long-term securities	335	0	0
7. Purchase of interest (stake)	336	0	770
8. Purchase of intangible investment and fixed assets	337	230.461	207.231
9. Procurement of investment property	338	0	0
10.Other outflows from investing activities	339	0	0
III. Net cash inflow from investing activities (328 minus 334)	340	**0**	**0**
IV. Net cash outflow from investing activities (334 minus 328)	341	**201.565**	**171.024**
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (from 343 to 348)	342	**3.541.033**	**8.988.569**
1. Capital increase	343	0	0
2. Subordinated liabilities, net	344	1.345.536	49.525
3. Credits received, net	345	2.195.497	8.939.044
4. Securities, net	346	0	0
5. Sale of own shares	347	0	0
6. Other inflows from financing activities	348	0	0
II. Cash outflows from financing activities (from 350 to 354)	349	**46.641**	**1.872.317**
7. Purchase of own shares	350	0	0
8. Subordinated liabilities, net	351	0	0
9. Credits received, net	352	0	0
10.Securities, net	353	0	0
11.Other outflows from financing activities	354	46.641	1.872.317
III. Net cash inflow from financing activities (342 minus 349)	355	**3.494.392**	**7.116.252**
IV. Net cash outflow from financing activities (349 minus 342	356	**0**	**0**
D. TOTAL NET INFLOW OF CASH (301 plus 314 plus 328 plus 342)	357	**16.816.117**	**19.739.998**
E. TOTAL NET OUTFLOW OF CASH (306 plus 318 plus 324 plus 325 plus 334 plus 349)	358	**15.229.645**	**19.959.288**
F. NET INCREASE IN CASH (357 minus 358)	359	**1.586.472**	**0**
G. NET DECREASE IN CASH (358 minus 357	360	**0**	**219.290**
H. CASH AT THE BEGINNING OF THE YEAR (Note: 15) (361, col. 3 = 001, col. 6)	361	**2.966.282**	**5.561.582**
I. EXCHANGE RATE GAINS	362	**9.309.672**	**5.877.682**
J. EXCHANGE RATE LOSSES	363	**9.630.094**	**8.253.692**
K. CASH AT END-PERIOD (Note: 15) (359 minus 360 plus 361 plus 362 minus 363) (364, col. 3 = 001, col. 5 and 364, col. 4 = 001, col. 6) (364, col. 4 = 361, col. 3)	364	**4.232.332**	**2.966.282**

Novi Sad

Person responsible for financial statement making

Vlasta Putnik

Executive Committee President

Slavko Carić

Executive Committee Member

Suzan Tanriyar

REGISTRATION NUMBER 08063818
ACTIVITY CODE 110105
ACTIVITY CODE ACCORDING TO NEW ACTIVITY CLASSIFICATION 6419
TAX IDENTIFICATION NUMBER 101626723

NAME OF BANK OR OTHER FINANCIAL ORGANISATION ERSTE BANK AD NOVI SAD
REGISTERED OFFICE NOVI SAD

STATEMENT OF CHANGES IN EQUITY
in the period from 1st January to 31st December 2011

(in RSD thousand)

No.	DESCRIPTION	AOP	Share capital (acc. 800)	AOP	Other capital (acc. 801)	AOP	Unpaid subscribed share capital (acc. 803)	AOP	Premium on issue of shares (acc. 802)	AOP	Reserves from profit and other reserves (group of accounts 81)	AOP	Revaluation reserves (group of accounts 82	AOP	Profit (group of accounts 83)	AOP	Losses up to the level of capital (acc. 840, 841	AOP	Own shares (acc. 128)	AOP	Non realised loss based on securities available for sale	AOP	Total (col. 2+3-4+5+6+7+ 8-9-10)	AOP	Losses in excess of capital (acc. 842)
	1.		2.		3.		4.		5.		6.		7.		8.		9.		10.		11.		12.		13.
1	Balance as at 1 January of the prior year 2010.	401	10.040.000	414	0	427	0	440	124.475	453	344.724	466	20.702	479	407.159	492	0	505	0	518	5.763	531	10.931.297	544	
2	Adjustment for material errors and changes in accounting policies in the prior year – increase	402		415		428		441		454		467		480		493		506		519		532	0	545	
3	Adjustment for material errors and changes in accounting policies in the prior year – decrease	403		416		429		442		455		468		481		494		507		520		533	0	546	
4	Adjusted opening balance as at 1 January of the prior year 2010. (no. 1+2-3)	404	10.040.000	417	0	430		443	124.475	456	344.724	469	20.702	482	407.159	495	0	508	0	521	5.763	534	10.931.297	547	
5	Total increase in the prior year	405	0	418	0	431		444	0	457	391.277	470	8.347	483	323.024	496		509		522	555	535	722.093	548	
6	Total decrease in the prior year	406		419	0	432		445		458	0	471	5.429	484	391.277	497		510	0	523	2.633	536	394.073	549	
7	Balance as at 31 December of the prior year 2010. (no. 4+5-6)	407	**10.040.000**	420	0	433		446	**124.475**	459	**736.001**	472	**23.620**	485	**338.906**	498	0	511	0	524	**3.685**	537	**11.259.317**	550	
8	Adjustment for material errors and changes in accounting policies in the current year – increase	408		421		434		447		460		473		486		499		512		525		538	0	551	
9	Adjustment for material errors and changes in accounting policies in the current year – decrease	409		422		435		448		461		474		487		500		513		526		539	0	552	
10	Adjusted opening balance as at 1 January of the current year 2011 (no. 7+8-9)	410	**10.040.000**	423	0	436		449	**124.475**	462	**736.001**	475	**23.620**	488	**338.906**	501	0	514	0	527	**3.685**	540	**11.259.317**	553	
11	Total increase in the current year	411		424		437		450		463	318.167	476	3.551	489	790.539	502		515		528	244	541	1.112.013	554	
12	Total decrease in the current year	412		425		438		451		464		477	1.117	490	318.932	503		516		529		542	320.049	555	
13	Balance as at 31 December of the current year 2011. (no. 10+11-12)	413	**10.040.000**	426	0	439		452	**124.475**	465	**1.054.168**	478	**26.054**	491	**810.513**	504	0	517	0	530	**3.929**	543	**12.051.281**	556	

Novi Sad

Person responsible for financial statement making
Vlasta Putnik

Executive Committee President
Slavko Carić

Executive Committee Member
Suzan Tanriyar

REGISTRATION NUMBER: 08063818
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TAX IDENTIFICATION NUMBER: **101626723**

NAME OF BANK OR OTHER FINANCIAL ORGANISATION: **ERSTE BANK AD NOVI SAD**
REGISTERED OFFICE: **NOVI SAD**

STATISTICAL ANNEX
AS OF 31st DECEMBER 2011

(in RSD thousand)

Group of accounts, account	ITEM	AOP code	CURRENT YEAR AMOUNT	PREVIOUS YEAR AMOUNT
1	2	3	4	5
630	Expenses for wages	601	721.850	681.992
631	Expenses for compensations of wages	602	137.510	133.108
632	Expenses for tax on wages and compensations of wages	603	133.178	127.238
633	Expanses for contributions for wages and compensations of wages	604	200.586	192.183
634	Expenses for fees for temporary and occasional work	605	0	245
635	Other personal expenses	606	275.033	198.826
642	Depreciation expenses	607	172.440	150.988
part 643	Insurance premium expenses	608	119.456	111.303
part 643	Compensation of employee costs	609	51.710	46.839
part 641	Rental expenses	610	322.803	317.794
644	Tax expenses	611	39.205	54.761
645	Contribution expenses	612	222.009	210.400
part 746	Rental income	613	2.535	3.226
68	Exchange rate losses	614	9.630.094	8.253.691
78	Exchange rate gains	615	9.309.672	5.877.682
30	Inventories	616	777	1.085
	Avarage number of employees based on the balance at the end of each month of the business year (integer)	617	988	989
	Number of ordinary shares	618	1.004.000	1.004.000
	Number of preference shares	619		
	Nominal value of ordinary shares	620	10.040.000	10.040.000
	Nominal value of preference shares	621		

Novi Sad

Person responsible for financial statement making

Vlasta Putnik

Executive Committee President:

Slavko Carić

Executive Committee Member:

Suzan Tanriyar

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1. CORPORATE INFORMATION

The primary statements (Balance sheet, Income statement, Statement of cash flow and Statement of changes in equity) which are also submitted to the Serbian Business Register Agency on 29 February 2012, and the notes to the financial statements which were prepared on 12 March 2012 together form the complete set of financial statements of the Bank which were approved by the management of the Bank on 12 March 2012.

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 7 business centers, 45 branches, 11 sub-branches and 3 counters.

The Bank had 988 employees as at 31 December 2011 (31 December 2010: 992 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 2011 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 as new or amended IFRS have not had the impact on accounting policies, financial position and business activities of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. Dinar (RSD) represents the functional and reporting currency. All transactions in currencies other than the functional currency are treated as transactions in foreign currencies.

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

2.2. Comparative Figures

The comparative figures represent the audited financial statements of the Bank for the year ended 31 December 2010.

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 proportion 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.5. 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). 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

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.

2.6.2. 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. RSD – EUR and RSD - 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

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, 30/2010 and 94/2011).

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 (2%), V (15%), G (30%) and D (100%) (applied percentages for 2010: 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).

The amount of special reserves for estimated losses, after reducing by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, is deducted from capital in calculating banks regulatory capital.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 embedded 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.

2.12. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. Tangible Assets (continued)

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.

2.14. 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 fulfillment 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Leases (continued)

(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 (when they occur) 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.

2.16. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Employee Benefits (continued)

(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)).

2.18. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Taxes and Contributions

(a) Income Taxes

Deferred Income Tax (continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to 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.

2.22. Segment information

The Management of the Bank monitors business units of the Bank as a unique segment for the purpose of making decisions about resource allocation and performance assessment.

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.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

(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.

(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 1,507 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 judgments 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 judgments or outcomes to these matters as well as ranges of probable and reasonable estimated losses.

Reasonable estimates involve judgments 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. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

(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

	2011 RSD thousand	2010 RSD thousand
Interest income		
- Banks	566,299	274,510
- Public companies	224,925	99,127
- Other companies	1,901,080	1,793,007
- Entrepreneurs	95,270	98,139
- Public sector	735,646	632,019
- Retail customers	2,250,565	1,711,985
- Foreign entities	28,461	82,165
- Agricultural sector	67,839	80,555
- Other customers	3,384	878
Total	**5,873,469**	**4,772,385**
Interest expense		
- Banks	189,584	204,243
- Public companies	8,372	3,507
- Other companies	308,141	190,969
- Entrepreneurs	1,224	308
- Public sector	251,046	122,642
- Retail customers	612,511	723,514
- Foreign entities	512,593	432,540
- Other customers	31,871	5,208
Total	**1,915,342**	**1,682,931**
Net interest income	**3,958,127**	**3,089,454**

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:

	2011 RSD thousand	2010 RSD thousand
Interest income		
Loans	4,712,599	3,907,194
REPO transactions	355,484	60,380
Treasury bills of the Ministry of Finance	713,406	572,640
Obligatory reserve	32,876	45,241
Deposits	33,887	92,075
Securities	-	779
Other placements	25,217	94,076
Total	**5,873,469**	**4,772,385**
Interest expense		
Loans	573,046	430,704
Deposits	1,342,296	1,252,227
Total	**1,915,342**	**1,682,931**
Net interest income	**3,958,127**	**3,089,454**

5. FEE AND COMMISSION INCOME AND EXPENSE

	2011 RSD thousand	2010 RSD thousand
Fee and commission income		
Domestic payment transaction services	355,224	335,333
International payment transaction services	82,620	68,277
Foreign exchange transactions	547,128	267,246
Loans	314,103	304,883
Debit and credit cards operations	194,033	159,873
Guarantees and other warranties	93,859	114,720
Other fees and commission	390,981	270,937
Total	**1,977,948**	**1,521,269**
Fee and commission expense		
Domestic payment transaction services	31,632	30,016
International payment transaction services	10,789	7,786
Foreign exchange transactions	382,325	158,246
Loans	59,776	47,638
Debit and credit cards operations	48,517	36,275
Other fees and commission	15,879	35,526
Total	**548,918**	**315,487**
Net fee and commission income	**1,429,030**	**1,205,782**

6. NET FOREIGN EXCHANGE LOSSES

	2011 RSD thousand	2010 RSD thousand
Foreign exchange gains	9,309,672	5,877,682
Foreign exchange losses	(9,630,094)	(8,253,691)
Net foreign exchange losses	**(320,422)**	**(2,376,009)**

7. OTHER OPERATING INCOME

	2011 RSD thousand	2010 RSD thousand
Income from sales of fixed and intangible assets	19,432	244
Other operating income	25,303	43,185
Other income from operating activities	6,359	4,705
Total	**51,094**	**48,134**

8. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS

Expenses from indirect write-offs of placements and provisions	**2011 RSD thousand**	**2010 RSD thousand**
Impairment losses on financial assets:		
- interest, fees and sales receivables (Note 17)	(154,734)	(106,978)
- loans and advances (Note 18(d))	(6,217,487)	(4,615,102)
- securities (Note 19)	(61,039)	(127,932)
- other placements (Note 20)	(199,629)	(36,082)
- other assets (Note 22)	(20,900)	(45,749)
	(6,653,789)	**(4,931,843)**
Provisions for losses on off-balance sheet assets (Note 27)	(1,254,629)	(1,047,170)
Provisions for litigation (Note 27)	(32,016)	(3,828)
	(1,286,645)	**(1,050,998)**
Total	**(7,940,433)**	**(5,982,841)**
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)	130,825	113,984
- loans and advances (Note 18(d))	5,388,843	3,782,963
- securities (Note 19)	70,169	138,154
- other placements (Note 20)	135,320	41,212
- other assets (Note 22)	3,382	23,520
	5,728,539	**4,099,833**
Release of provision for losses on off-balance sheet assets (Note 27)	1,207,639	1,038,332
Income from collected suspended interest	110,073	82,731
Release of provision for litigations (Note 27)	-	23,000
Release of other provisions (Note 27)	11,133	-
Total	**7,057,384**	**5,243,896**
Impairment losses and provisions, net	**(883,049)**	**(738,945)**

9. SALARIES AND OTHER PERSONNEL EXPENSES

	2011 RSD thousand	2010 RSD thousand
Net salaries	859,361	815,100
Tax and contributions payable on behalf of employees	333,764	319,421
Severance payments, jubilee awards, bonuses and holiday allowance	264,558	187,698
Other personnel expenses	10,474	11,373
Total	**1,468,157**	**1,333,592**

10. DEPRECIATION AND AMORTIZATION EXPENSE

	2011 RSD thousand	2010 RSD thousand
Depreciation and amortization expense:		
- tangible assets (Note 21)	107,132	109,948
- intangible assets (Note 21)	65,308	41,040
Total	**172,440**	**150,988**

11. OTHER OPERATING EXPENSES

	2011 RSD thousand	2010 RSD thousand
Professional services	471,629	428,479
Donations and sponsorships	56,226	38,773
Advertising, marketing and representation	337,580	275,687
Telecommunication services and postage	60,669	57,250
Insurance premiums	119,456	111,303
Rental cost	343,555	330,933
Material	95,742	89,425
Taxes and contributions	60,026	74,777
Maintenance of tangible assets and software	123,457	150,253
Losses on sale and disposal of fixed and intangible assets	1,274	24,707
Payroll contributions payable by the employer	203,589	192,183
Per diems and travel expenses	58,998	51,365
Education and counseling	14,820	11,270
Other expenses	32,312	22,613
Total	**1,979,333**	**1,859,018**

12. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2011 RSD thousand	2010 RSD thousand
Income from changes in value of placements and receivables	3,957,765	3,855,461
Income from changes in value of securities	45,144	8,515
Income from changes in value of liabilities	474,511	151,955
Income from changes in value of derivatives	558,042	96,852
Total	**5,035,462**	**4,112,783**

13. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2011 RSD thousand	2010 RSD thousand
Losses from changes in value of placements and receivables	3,837,157	1,278,556
Losses from changes in value of securities	80,150	6,443
Losses from changes in value of liabilities	440,141	280,629
Losses from changes in value of derivatives	548,101	114,597
Total	**4,905,549**	**1,680,225**

14. INCOME TAX

(a) Components of Income Tax

Components of income tax/(expenses) are:

	2011 RSD thousand	2010 RSD thousand
Current income tax	(765)	-
Income from deferred tax assets and decrease of deferred tax liabilities	6,700	756
Total income tax	**5,935**	**756**

The outstanding balance of prepaid current income tax amounts to RSD 3,167 thousand as an advance payment for the current income tax liability for 2010. After covering the tax liability (amounted to RSD 765 thousand) for 2011, the prepaid amounts to RSD 2,402 thousand. From this prepaid amount will be covered advance income tax for 2012.

14. INCOME TAX (continued)

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

	2011 RSD thousand	2010 RSD thousand
Profit before tax	**783,068**	**317,410**
Income tax at the rate of 10%	**78,307**	**31,740**
Tax effects of expenses not recognised for the tax purposes	35,776	34,909
Effects of usage of tax loss carry forwards with respect to deferred tax assets that were not recognized	(113,660)	(64,262)
Dividend income deductible for tax purposes	(2)	(1)
Tax credits on investments in tangible assets	(765)	-
Other	(5,591)	(3,142)
Total income tax reported in the Income Statement	**(5,935)**	**(756)**

(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:

	2011 RSD thousand	2010 RSD thousand
Balance as at 1 January	**8,495**	**8,696**
Effects of temporary differences in respect of depreciation credited to the income statement	(6,700)	(756)
Deferred tax credited to equity	243	555
Balance as at 31 December	**2,038**	**8,495**

14. INCOME TAX (continued)

(d) Unrecognized Deferred Tax Assets

As at 31 December 2011 the Bank did not recognize deferred tax assets of RSD 297,810 thousand (31 December 2010: RSD 405,950 thousand) from unused tax losses carried forward of RSD 248,866 thousand (31 December 2010: 354,324 thousand) and unused tax credits carry forwards of RSD 48,944 thousand (31 December 2009: RSD 51,626 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 carry forwards, 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 2011	Unused tax assets from carried forward tax credits 2011	Total 2011	Unused tax assets from carried forward tax losses 2010	Unused tax assets from carried forward tax credits 2010	Total 2010
From 1 to 5 years	195,022	-	195,022	96,216	-	96,216
Over 5 years	53,844	48,944	102,788	258,108	51,626	309,734
Total	**248,866**	**48,944**	**297,810**	**354,324**	**51,626**	**405,950**

15. CASH AND CASH EQUIVALENTS

	2011 RSD thousand	2010 RSD thousand
In dinars		
Gyro account	2,100,731	557,471
Cash on hand	814,864	726,437
Cash equivalents	-	1,156,216
	2,915,595	**2,440,124**
In foreign currency		
Current accounts held with foreign banks	824,094	183,552
Foreign currency cash on hand	492,622	342,585
Cash equivalents	21	21
	1,316,737	**526,158**
Balance as at 31 December	**4,232,332**	**2,966,282**

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

15. CASH AND CASH EQUIVALENTS (continued)

The obligatory reserve in dinars 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. 3/2011), which prescribes that banks are required to calculate obligatory reserves amounting to 5% (2010: 5%) of the average daily balance of liabilities in dinars with contractual maturity up to 2 years and amounting to 0% of the average daily balance of liabilities in dinars with contractual maturity over 2 years during the preceding calendar month.

The Bank is required to calculate and allocate the obligatory reserves in dinars to its gyro.

The obligatory reserve in dinars calculated for the period from 18 December 2011 to 17 January 2012 amounted to RSD 1,678,950 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 equaled 2.50% annually during 2011.

16. REVOCABLE DEPOSITS AND LOANS

	2011 RSD thousand	2010 RSD thousand
In dinars		
with the National Bank of Serbia		
Repo placements with the National Bank of Serbia	5,916,250	451,102
In foreign currency		
Obligatory reserve with the National Bank of Serbia	7,725,677	7,087,289
Balance as at 31 December	**13,641,927**	**7,538,391**

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. 3/2011), which prescribes that banks are required to calculate and allocate the obligatory reserves of 30% of the average daily balance of foreign currency deposits with contractual maturity up to 2 years and reserves of 25% of the average daily balance of foreign currency deposits with contractual maturity over 2 years as well as on 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. 3/2011), 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 2011 amounted to EUR 64,355 thousand and leasing required reserve relating to leasing companies in foreign currency amounted to EUR 166 thousand and it was in compliance with the aforementioned Decision of the National Bank of Serbia.

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

Receivables from repo transactions amounting to RSD 5,916,250 thousand as at 31 December 2011 relate to purchase of treasury bills from the National Bank of Serbia with maturity period to 14 days, bearing an interest rate of 9.75% per annum.

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

	2011 RSD thousand	2010 RSD thousand
In dinars		
Interest and fees receivable:		
- Banks	39,041	5,876
- Public companies	1,416	8,337
- Other companies	163,249	200,509
- Entrepreneurs	14,047	13,127
- Public sector	746	446
- Retail customers	60,643	42,285
- Foreign entities	358	805
- Agriculture	5,060	2,520
- Other customers	33,002	12,192
Receivables from sales	5,776	6,195
	323,338	**292,292**
In foreign currency		
Interest and fees receivable:		
- Banks	-	5
- Other companies	102,405	102,552
- Entrepreneurs	48	48
- Foreign entities	37	42
- Other customers	16,335	16,469
	118,825	**119,116**
Gross receivables	**442,163**	**411,408**
Less: Allowance for impairment	(183,178)	(159,244)
Balance as at 31 December	**258,985**	**252,164**

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:

	2011 RSD thousand	2010 RSD thousand
Interest and fee receivables		
Balance as at 1 January	159.244	233.037
Charge for the year	154.734	106.978
Reversal of impairment losses	(130.825)	(113.297)
Write-offs of allowance	-	(74.489)
Foreign exchange differences	25	7.015
Balance as at 31 December	**183.178**	**159.244**
Receivables from sales		
Balance as at 1 January	-	677
Reversal of impairment losses	-	(687)
Foreign exchange differences	-	10
Balance as at 31 December	**-**	**-**
Total		
Balance as at 1 January	159.244	233.714
Charge for the year (Note 8)	154.734	106.978
Reversal of impairment losses (Note 8)	(130.825)	(113.984)
Write-offs of allowance	-	(74.479)
Foreign exchange differences	25	7.015
Balance as at 31 December	**183.178**	**159.244**

18. LOANS AND ADVANCES

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

RSD thousand

	2011			2010		
In dinars	**Short-term**	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
Loans and advances:						
- Banks	2,795	13,603	16,398	164,968	6,353	**171,321**
- Public companies	3,155	4,697,172	4,700,327	760,888	53,813	**814,701**
- Other companies	4,828,819	15,065,420	19,894,239	10,520,789	10,339,599	**20,860,388**
- Entrepreneurs	228,529	589,169	817,698	319,949	520,430	**840,379**
- Public sector	3	274,334	274,337	18	227,946	**227,964**
- Retail customers	844,292	18,847,175	19,691,467	1,072,197	15,768,519	**16,840,716**
- Foreign entities	16	-	16	14	-	**14**
- Agriculture	125,197	444,806	570,003	115,075	537,681	**652,756**
- Other customers	925,934	34,172	960,106	399,548	13,414	**412,962**
Total	**6,958,740**	**39,965,851**	**46,924,591**	**13,353,446**	**27,467,755**	**40,821,201**
In foreign currency						
Loans and advances:						
- Banks	59,986	-	59,986	304,065	20,160	**324,225**
- Other companies	1,834,106	25,649	1,859,755	934,169	974,036	**1,908,205**
- Public sector	13,400	-	13,400	1,011	13,137	**14,148**
- Foreign entities	1,831,216	-	1,831,216	4,657,746	-	**4,657,746**
- Other customers	246,049	-	246,049	248,065	-	**248,065**
Total	**3,984,757**	**25,649**	**4,010,406**	**6,145,056**	**1,007,333**	**7,152,389**
Gross loans and advances	**10,943,497**	**39,991,500**	**50,934,997**	**19,498,502**	**28,475,088**	**47,973,590**
Less: Allowance for impairment (Note 18(d)):						
- Individually assessed			(3,144,283)			(2,501,019)
- Collectively assessed			(1,837,942)			(1,663,924)
Balance as at 31 December			**45,952,772**			**43,808,647**

18. LOANS AND ADVANCES (continued)

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

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

(a) 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 2011 and 31 December 2010, is as follows:

	2011 RSD thousand	2010 RSD thousand
Loans in arrears (overdue receivables)	6,788,241	8,771,414
Up to 30 days	3,016	1,345,003
From 1 to 3 months	51,389	604,901
From 3 to 12 months	3,163,068	8,777,184
Over 1 year	40,929,283	28,475,088
	50,934,997	**47,973,590**

Maturity structure of loans in arrears is as follows:

	2011 RSD thousand	2010 RSD thousand
Up to 30 days	2,146,451	5,203,196
From 1 to 3 months	113,653	296,055
From 3 to 12 months	667,730	462,938
Over 1 year	3,860,407	2,809,225
	6,788,241	**8,771,414**

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18. LOANS AND ADVANCES (continued)

(a) Industry Concentration of Loans and Advances

As at 31 December 2011 and 31 December 2010, the gross loan portfolio is concentrated on the following sectors:

	2011 RSD thousand	2010 RSD thousand
Trade	5,544,882	4,880,137
Manufacturing	7,847,975	8,209,665
Construction	2,735,631	3,367,130
Production and distribution energy	659,858	269,124
Services and tourism	8,385,420	5,416,439
Agriculture and food industry	1,280,555	1,440,799
Population	19,691,483	16,840,730
Domestic and foreign banks and other financial institutions	1,122,793	5,153,292
The public sector	287,737	242,112
Foreign legal entities	784,807	-
Farmers	570,003	652,756
Other customer sector	1,206,155	661,027
Entrepreneurs	817,698	840,379
	50,934,997	**47,973,590**

(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:

	2011 RSD thousand	2010 RSD thousand
Balance as at 1 January	4,164,943	3,511,381
Charge for the year (Note 8)	6,217,487	4,615,102
Reversal of impairment losses (Note 8)	(5,388,843)	(3,782,963)
Write-offs of allowances	-	(574,086)
Foreign exchange differences	(11,362)	395,509
Balance as at 31 December	**4,982,225**	**4,164,943**

19. SECURITIES (EXCLUDING OWN SHARES)

	2011 RSD thousand	2010 RSD thousand
In dinars		
Securities available-for-sale:		
-Treasury bills of the Republic of Serbia	3,672,833	-
-equity investments	154,233	154,617
Securities at fair value through profit or loss		
-Treasury bills	819,149	899,363
Securities held-to-maturity:		
-Treasury bills of the Republic of Serbia	245,833	2,900,881
-discounted corporate bills	1,379,019	1,624,094
	6,271,057	**5,578,955**
In foreign currency		
Securities held-for-trading	67,839	48,229
Securities available-for-sale	26,527	22,927
	94,366	**71,156**
Total securities	**6,365,423**	**5,650,111**
Less: Allowance for impairment	(191,428)	(197,542)
Balance as at 31 December	**6,173,995**	**5,452,569**

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

	In RSD thousand 2011	2010
Balance as at 1 January	197,542	225,271
Charge for the year (Note 8)	61,039	127,932
Reversal of impairment losses (Note 8)	(70,169)	(138,154)
Foreign exchange differences	3,016	7,929
Other movements	-	(25,436)
Balance as at 31 December	**191,428**	**197,542**

Equity investments as at 31 December 2011 amounted to RSD 52 thousand and changed compared to previous year by RSD 5 thousand (31 December 2010: RSD 47 thousand).

20. OTHER PLACEMENTS

	2011 RSD thousand	2010 RSD thousand
In dinars		
Factoring	196,503	671,501
Receivables for guarantees paid	290,941	192,646
Other placements	13,781	9,008
	501,225	**873,155**
In foreign currency		
Other placements	14,182	7,280
	14,182	**7,280**
Gross other placements	**515,407**	**880,435**
Less: Allowance for impairment	(260,750)	(205,493)
Balance as at 31 December	**254,657**	**674,942**

Allowance for impairment of other placements as at 31 December 2011 mostly relates to allowance for impairment of overdue receivables for guarantee amounted to RSD 252,775 thousand.

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

	2011 RSD thousand	2010 RSD thousand
Balance as at 1 January	205,493	196,054
Charge for the year (Note 8)	199,628	36,082
Reversal of impairment losses (Note 8)	(135,320)	(41,212)
Write-offs of allowance	-	(6,041)
Foreign exchange differences	(9,051)	20,610
Balance as at 31 December	**260,750**	**205,493**

21. TANGIBLE AND INTANGIBLE ASSETS

RSD thousand

	Land and buildings	Equipment	Construction in progress	Total tangible assets	Intangible assets
COST					
Balance as at 1 January 20010	**768,649**	**742,525**	**640**	**1,511,814**	**126,635**
Additions	751	-	148,414	149,165	56,269
Transfers	7,173	47,016	(148,414)	(94,225)	94,226
Disposals and write-offs	-	(117,367)	-	(117,367)	(475)
Balance as at 31 December 2010	**776,573**	**672,174**	**640**	**1,449,387**	**276,655**
Additions	-	46	230,127	230,173	-
Transfers	15,519	53,182	(230,415)	(161,713)	161,713
Disposals and write-offs	(12,025)	(54,428)	-	(66,453)	-
Balance as at 31 December 2011	**780,067**	**670,974**	**352**	**1,451,394**	**438,368**
ACCUMULATED DEPRECIATION AND AMORTIZATION					
Balance as at 1 January 2010	**180,917**	**441,657**	**-**	**622,574**	**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**	**439,777**	**-**	**639,981**	**77,977**
Depreciation and amortization (Note 10)	19,482	87,650	-	107,132	65,308
Disposals and write-offs	(5,129)	(53,118)	-	(58,247)	
Balance as at 31 December 2011	**214,557**	**474,309**	**-**	**688,866**	**143,285**
Net book value as at:					
- 31 December 2011	**565,510**	**196,665**	**353**	**762,528**	**295,083**
- 31 December 2010	**576,369**	**232,397**	**640**	**809,406**	**198,678**

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 56,782 thousand (31 December 2010: RSD 65,042 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 2011 mostly relates to computer and telecommunication equipment and office furniture. The net book value of intangible assets as at 31 December 2011 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 2011.

22. OTHER ASSETS

	2011 RSD thousand	2010 RSD thousand
in Dinars		
Other receivables:		
-Advances paid	4,600	4,678
-Receivables from employees	16,911	4,196
- Inventories	54,976	54,049
- Other receivables	137,591	97,736
Accruals:		
- Accrued interest	290,141	241,847
- Other accruals	49,626	32,324
	553,845	**434,830**
In foreign currency		
Other receivables:		
-Advances paid	20,050	20,184
-Receivables from employees	1,047	-
- Other receivables	56,620	46,662
Accruals:		
- Accrued interest	3,594	3,018
- Accrued interest expenses	15,509	52,691
	96,820	**122,555**
Gross other assets	**650,665**	**557,385**
Less: Allowance for impairment	(146,057)	(126,865)
Balance as at 31 December	**504,608**	**430,520**

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

	2011 RSD thousand	2010 RSD thousand
Balance as at 1 January	126,865	99,647
Charge for the year (Note 8)	20,900	45,749
Reversal of impairment losses (Note 8)	(3,382)	(23,520)
Foreign exchange differences	1,674	4,989
Balance as at 31 December	**146,057**	**126,865**

23. TRANSACTION DEPOSITS

RSD thousand

	2011			2010		
	In dinars	In foreign currency	Total	In dinars	In foreign currency	Total
Other banks	2,421	-	2,421	2,829	-	2,829
Financial organizations	345,628	398,864	744,492	288,417	1,502,377	1,790,794
Companies	2,232,037	1,054,520	3,286,557	1,561,069	716,036	2,277,105
Public companies	58,967	1	58,968	28,716	1	28,717
Public sector	903	19,079	19,982	1,295	-	1,295
Entrepreneurs	456,402	46,687	503,089	370,446	-	370,446
Retail customers	1,413,029	1,777,206	3,190,235	1,104,240	1,395,074	2,499,314
Agriculture	145,474	-	145,474	117,355	-	117,355
Foreign entities	36,687	261,056	297,743	53,062	173,436	226,498
Other customers	455,996	86,502	542,498	377,081	87,451	464,532
Balance as at 31 December	**5,147,544**	**3,643,915**	**8,791,459**	**3,904,510**	**3,874,375**	**7,778,885**

24. OTHER DEPOSITS

RSD thousand

	2011			2010		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In dinars						
Saving deposits:						
- Retail customers	623,347	151,308	774,655	261,571	29,774	291,345
- Foreign entities	4,911	7,858	12,769	9,169	-	9,169
Specific purpose deposits	322,576	399,299	721,875	514,027	640,009	1,154,036
Other deposits	7,095,346	116,247	7,211,593	5,158,473	3,990	5,162,463
Total	**8,046,180**	**674,712**	**8,720,892**	**5,943,240**	**673,773**	**6,617,013**
In foreign currency						
Saving deposits:						
- Retail customers	6,870,552	7,845,311	14,715,863	6,769,686	6,255,019	13,024,705
- Foreign entities	48,101	365,478	413,579	48,337	253,941	302,278
Specific purpose deposits	459,826	606,469	1,066,295	364,697	807,752	1,172,449
Other deposits	4,522,697	456,734	4,979,431	3,192,902	1,172,658	4,365,560
Total	**11,901,176**	**9,273,992**	**21,175,168**	**10,375,622**	**8,489,370**	**18,864,992**
Balance as at 31 December	**19,947,356**	**9,948,704**	**29,896,060**	**16,318,862**	**9,163,143**	**25,482,005**

24. OTHER DEPOSITS (continued)

Structure of other deposits by customer type is as follows:

	2011 RSD thousand	2010 RSD thousand
Banks	2,093,840	1,282
Financial organizations	1,125,031	2,391,279
Public companies	14,380	30
Public sector	154,278	26,254
Companies	8,997,866	6,724,994
Retail customers	16,446,436	15,194,697
Foreign banks	128,884	23,335
Foreign entities	481,521	452,125
Entrepreneurs	22,235	33,415
Agriculture	267	42
Other customers	431,322	634,552
Balance as at 31 December	**29,896,060**	**25,482,005**

25. BORROWINGS

RSD thousand

2011

	Overnight	Borrowings	Other financial liabilities	Total
In dinars				
Deposits:				
Banks	300,000	1,772	-	301,772
	300,000	**1,772**	**-**	**301,772**
In foreign currency				
Deposits:				
Banks	-	-	871	871
Other companies	-	-	38,688	38,688
Public sector	-	4,046,631	-	4,046,631
Retail customers	-	-	9,476	9,476
Foreign entities	-	13,015,466	17,948	13,033,414
Other customers	-	-	10	10
	-	**17,062,097**	**66,993**	**17,129,090**
	300,000	**17,063,869**	**66,993**	**17,430,862**

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25. BORROWINGS (continued)

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**

As at 31 December 2011 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 10,744,758 thousand (31 December 2010: RSD 10,785,045 thousand) and EIB loans in the amount of RSD 6,317,338 thousand (31 December 2010: RSD 4,079,783 thousand).

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

	2011 RSD thousand	2010 RSD thousand
Interests and fees payable:		
In dinars		
-Banks	2,999	93
-Entrepreneurs	13	9
-Public sector	12,499	9,180
-Foreign entities	38,154	23,060
-Other customers	55	90
Balance as at 31 December	**53,720**	**32,432**

27. PROVISIONS

	2011 RSD thousand	2010 RSD thousand
Provision for off-balance sheet exposures (a)	207,870	159,750
Provisions for long-term employee benefits (b):		
- retirement benefits	65,191	62,099
- jubilee awards	91,810	94,412
Provisions for litigation (c)	47,700	17,400
Other long term provisions	11,441	
Balance as at 31 December	**424,012**	**333,661**

(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.

(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 6.14%, 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 5% 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)).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

27. PROVISIONS (continued)

Movements in provisions during the year are as follows:

	2011 RSD thousand	2010 RSD thousand
Provisions for off-balance sheet exposures		
Balance as at 1 January	159,750	138,722
Charge for the year (Note 8)	1,254,629	1,047,170
Reversal of provision (Note 8)	(1,207,639)	(1,038,332)
Other changes	1,130	12,190
	207,870	**159,750**
Provisions for long-term employee benefits - retirement benefits and jubilee awards		
Balance as at 1 January	156,511	142,254
Interest expenses and current service costs	22,589	24,323
Benefits paid during the year	(10,195)	(8,152)
Actuarial losses relating to jubilee awards	(11,133)	2,944
Actuarial (gains)/losses relating to retirement benefits	(771)	(4,858)
Other long term provisions	11,441	-
	168,442	**156,511**
Provisions for litigation		
Balance as at 1 January	17,400	42,000
Charge for the year (Note 8)	32,016	3,828
Amounts utilized during the year	(1,716)	(5,428)
Reversal of provisions	-	(23,000)
	47,700	**17,400**
Balance as at 31 December	**424,012**	**333,661**

28. OTHER LIABILITIES

	2011 RSD thousand	2010 RSD thousand
In dinars		
Trade payables	9,387	1,818
Advances received	5,734	3,900
Net salaries and compensations	403	2,838
Taxes, contributions and other duties	92	536
Accruals and deferrals:		
- Interest accrued	55,788	32,855
- Deferred interest income	76,556	121,846
- Deferred loan origination fees	273,150	244,506
- Accrued liabilities for unused holidays	122,112	108,698
- Other accruals	129,528	124,059
Other liabilities	98,739	32,372
	771,489	**673,428**
In foreign currency		
Advances received	3,487	3,691
Subordinated liabilities	2,430,659	1,085,124
Accruals:		
- Interest accrued	189,364	178,901
- Other	896	746
Other liabilities	4,998	203
	2,629,404	**1,268,665**
Balance as at 31 December	**3,400,893**	**1,942,093**

Outstanding balance of subordinated liabilities as at 31 December 2011 and 31 December 2010 are as follows:

RSD thousand

Creditor	Currency	Contracted amount	Maturity date	Interest rate	31 December 2011	31 December 2010
Erste Bank AD, Vienna	EUR	10,800,000	20 December 2015	Euribor + 2.4% p.a.	861,045	1,085,124
Erste GCIB	EUR	15,000,000	27 December 2021	Euribor + 3.65% p.a.	1,569,614	-
Total		**25,800,000**			**2,430,659**	**1,085,124**

28. OTHER LIABILITIES (continued)

Subordinated liabilities relate to a subordinated long-term loan granted by EGB CEPS HOLDING GMBH, Vienna on 20 December 2005 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. Also, subordinated long-term loan granted by Erste GICB Finance, Amsterdam on 27 December 2011 in the amount of EUR 15,000,00 for the period of 10 years with a 5 year grace period and interest rate equal to quarterly EURIBOR increased by 3.65% 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, also approval for new subordinated loan issued on 7 October 2011.

29. EQUITY

(a) Equity Structure

The Bank's equity structure is presented as follows:

	2011 RSD thousand	2010 RSD thousand
Share capital - ordinary shares /i/	10,040,000	10,040,000
Share premium /ii/	124,475	124,475
Special reserves for estimated losses /iii/	1,054,168	736,001
Revaluation reserves /iv/	22,125	19,935
Retained earnings	21,510	20,740
Profit for the year	789,003	318,166
Balance as at 31 December	**12,051,281**	**11,259,317**

/i/ Share capital

As at 31 December 2011, 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 2010: 1,004,000 ordinary shares, with nominal value of RSD 10,000). In 2011 and 2010, there were no changes in share capital.

29. EQUITY (continued)

(a) Equity Structure (continued)

/i/ *Share capital* (continued)

The major shareholder of the Bank is EGB CEPS HOLDING GMBH, Vienna holding 74 % of the shares as at 31 December 2011. The shareholder structure of the Bank as at 31 December 2011 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**

/ii/ *Share Premium*

Share premium amounting to RSD 124,475 thousand as at 31 December 2011 and 31 December 2010 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 1,054,168 thousand as at 31 December 2011. Reserves from profit amounted to RSD 736,001 thousand as at 31 December 2010. Reserves from profit increased by RSD 318,167 thousand from the retained earnings from 2010, in accordance with the General Assembly's Decision dated 21 April 2011.

/iv/ *Revaluation Reserves*

Revaluation reserves amount to RSD 22,125 thousand as at 31 December 2011 (31 December 2010: RSD 19,935 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. 94/2011). As at 31 December 2011, 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 2,436,112 thousand (31 December 2010: RSD 2,970,005 thousand).

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	103,081,066
2. Capital adequacy ratio	Minimum 12%	24.36
3. Permanent investments indicator	Maximum 60%	8
4. Related parties exposure	Maximum 20%	7.35
5. Indicator of large and the largest permissible loans	Maximum 400%	26.30
6. Liquidity ratio:		
- in the first month of the reporting period	Minimum 1	1.58
- in the second month of the reporting period	Minimum 1	1.86
- in the third month of the reporting period	Minimum 1	1.99
7. Foreign currency risk indicator	Maximum 20%	1.86
8. Exposure to a group of related parties	Maximum 25%	14.44
9. Exposure to an entity related to the Bank	Maximum 5%	3.31
10. Bank's investments in legal entities which are not in the financial sector	Maximum 10%	0.16

30. OFF-BALANCE SHEET ITEMS

	2011 RSD thousand	2010 RSD thousand
Funds managed on behalf of third parties (a)	705,529	668,474
Guarantees and other irrevocable commitments (b)	11,363,221	8,819,732
Derivatives (c)	3,579,900	2,777,694
Other off-balance sheet items (d)	23,154,247	14,319,981
Balance as at 31 December	**38,802,897**	**26,585,881**

(a) Funds Managed on Behalf of Third Parties

	2011 RSD thousand	2010 RSD thousand
Placements on behalf of third parties in dinars:		
- short-term	3,848	4,471
- long-term	701,681	664,003
Balance as at 31 December	**705,529**	**668,474**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 3,729 thousand. Long-term funds managed on behalf of third parties relate to long-term loans to citizens' housing loans insured with NKOSK of RSD 558,185 thousand and loans to agricultural in the amount of RSD 143,496 thousand.

30. OFF-BALANCE SHEET ITEMS (continued)

(b) Guarantees and Other Irrevocable Commitments

	2011 RSD thousand	2010 RSD thousand
In dinars		
Payment guarantees	1,232,910	1,237,932
Performance bonds	2,532,147	2,234,832
Avals and acceptances	69,158	75,672
Irrevocable commitments for undisbursed loans and placements	5,845,151	4,094,136
Other contingencies and commitments	54,022	9,890
	9,733,388	**7,652,462**
In foreign currency		
Payment guarantees	146,356	163,015
Performance bonds	869,477	506,267
Irrevocable commitments for undisbursed loans and placements	6,907	87,487
Letters of credit	266,585	408,919
Other irrevocable commitments	340,508	1,582
	1,629,833	**1,167,270**
Balance as at 31 December	**11,363,221**	**8,819,732**

Irrevocable commitments represents unused loan commitments that cannot be canceled unilaterally and relates to: overdrafts, loans to companies, multi-purpose revolving loans and other irrevocable commitments.

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

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

As at 31 December 2011, provision for guarantees and other irrevocable commitments amounts to RSD 207,870 thousand (31 December 2010: RSD 159,750 thousand).

(c) Derivatives

	2011 RSD thousand	2010 RSD thousand
Currency swap with the National Bank of Serbia	2,093,657	2,659,029
Currency swap with EBG Ceps Holding GMBH	1,486,243	118,665
Balance as at 31 December	**3,579,900**	**2,777,694**

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30. OFF-BALANCE SHEET ITEMS (continued)

(d) Other off-balance sheet items

	2011 RSD thousand	2010 RSD thousand
Suspended interest receivables	1,558,342	1,171,751
Available credit limits	6,278,454	-
Foreign currency sale and purchase	10,287,051	7,168,657
LORO guarantees	298,594	333,889
Received counter guarantees	347,051	352,576
Records of public foreign currency saving bonds	2,250,119	2,678,225
Other	2,134,636	2,614,883
Balance as at 31 December	**23,154,247**	**14,319,981**

Available credit limits amounted to RSD 6,278,454 thousand relate to funds of EGB Ceps Holding Gmbh available to Erste Bank a.d. Novi Sad. In order to meet liquidity limits set by the Group as at 30 December 2011 the Agreement is signed for providing EUR 60 million to Erste Bank a.d. Novi Sad by EGB Ceps Holding Gmbh. It is irrevocable deposit contract. In accordance with the Agreement, EBNS may, if necessary, withdraw EUR 60 million of deposit. Maturity of deposit is 60 days from the date of signing of Agreement. EBNS did not used available funds in the period of validity of the Agreement.

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 2011 and 31 December 2010, as well as income and expenses, resulting from transactions with shareholders and other Bank's related parties are as follows:

RSD thousand

	2011		2010	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Receivables				
Cash and cash equivalents	187,802	-	140,519	-
Interest, fees and commissions receivable	147	171	339	1
Loans and advances	-	140	4,657,746	253
Other placements	16,941	13,059	5,309	8,524
Other assets	5,143	3,745	2,020	33,429
	210,033	**17,115**	**4,805,933**	**42,207**
Payables				
Transaction deposits	9,140	121,816	33,504	102,690
Other deposits	4,243	743,368	3,768	1,560,924
Borrowings	-	10,744,758		10,785,045
Interest, commissions and fees payable	1,228	5,512	-	13,466
Provisions	-	7	-	35
Other payables	899,207	1,569,614	1,108,611	19,010
	913,818	**13,185,075**	**1,145,883**	**12,481,170**
Off-balance sheet items				
Guarantees and other warranties	148,875	7,253	116,621	2,565
Irrevocable commitments	-	3,120	-	2,796
Other off-balance sheet items	1,486,243	-	2,777,693	-
Total	**1,635,118**	**10,373**	**2,894,314**	**5,361**

31. RELATED PARTY DISCLOSURES (continued)

In RSD thousand

	2011		2010	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Interest income	55,284	1,114	164,344	1,989
Interest expense	(36,740)	(469,560)	(46,460)	(405,209)
Fee and commission income	44,747	22,677	14,484	1,935
Fee and commission expenses	(22,237)	-	(34,454)	(771)
Other operating income	-	-	-	1,163
Operating and other expenses	(27,076)	(241,024)	(23,853)	(356,659)

Fees on crossborder loans in the year ended 31 December 2011 amounted to RSD 246,729 thousand (2010: RSD 209,727 thousand).

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

As at 31 December 2011 and 31 December 2010, 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 2011	**Income/ (expense) 2011**	**Balance as at 31 December 2010**	**Income/ (expense) 2010**
Overdrafts, credit cards, cash and consumer loans	943	389	1,641	506
Housing loans	49,097	2,761	54,492	3,014
Other placements and receivables	1,599	99	1,447	64
Total allowances for impairment	274	38	322	75
Deposits	93,922	(3,690)	60,883	(2,802)

31. RELATED PARTY DISCLOSURES (continued)

(c) Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2011 and 2010, are presented in the table below:

	2011 RSD thousand	2010 RSD thousand
Salaries of the members of the Executive Board	49,892	39,904
Remunerations to the members of the Board of Directors	9,796	9,935
Accrued other benefits	11,441	-
Total	**71,129**	**49,839**

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.

32. RISK MANAGEMENT (continued)

32.1. Introduction (continued)

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.

Asset and Liability Management Unit

Asset and Liability Management Unit is organized as an independent organizational unit that is directly responsible to the Executive Board of the Bank. Also, it is primarily responsible for funding and liquidity of the Bank. Asset and Liability Management Unit prepares daily, weekly and monthly reports related to assets and liabilities management for the purposes of the Bank and external users, as well as a report for the Asset and Liability Management Committee.

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 compiled from all operating activities are being examined and processed in order to identify, analyze 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.

32. RISK MANAGEMENT (continued)

32.1. Introduction (continued)

Risk Management and Reporting System (continued)

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 senior 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 fulfill contractual obligations to the Bank, whether fully or partially that will generate the loss for the Bank.

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 identified, 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.

By its business policy, the Bank requires and assesses the maximum credit risk protection, as most important risk in banking.

The Bank controls and manages credit risk by establishing rigorous process for determining minimal credit capacity of the debtor in the process of credit approval, as well as by regular monitoring during credit contract life, by defining the different level of decision during loan approval (which reflects knowledge and experience) and by establishing limits, by which the level of acceptable risk is determined on the individual client basis, geographical basis and industries, and risk monitoring accordingly.

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 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.

32. RISK MANAGEMENT (continued)

32.2. Credit Risk

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 favor 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 2011, the Bank had foreign exchange swaps (FX swap) with EGB CEPS HOLDING GMBH, Vienna amounting to EUR 6,978 thousand i.e. RSD 755,960 thousand.

(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 2011 and 31 December 2010 is as follows:

	2011 RSD thousand	2010 RSD thousand
Exposure to credit risk by balance sheet items:		
Interest, fees and commission receivable, changes in fair value of derivatives and other receivables	408,962	406,099
Loans and advances	50,934,996	43,315,843
Securities (excluding own securities)	1,559,769	1,801,638
Equity investments	2,163	2,163
Other placements	515,408	880,436
Other assets	1,136,531	243,929
Balance as at 31 December	**54,557,829**	**46,650,108**
Exposure to credit risk by off-balance sheet items:		
Payment guarantees	1,373,269	1,400,947
Performance guarantees	3,407,621	2,741,099
Uncovered letters of credit	262,551	407,046
Avails and acceptances	69,158	75,672
Irrevocable commitments	6,192,537	4,181,624
Other off-balance sheet items	54,022	11,472
Balance as at 31 December	**11,359,158**	**8,817,860**
Total exposure to credit risk as at 31 December	**65,916,987**	**55,467,968**

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 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 51,559,402 thousand (31 December 2010: RSD 38,823,718).

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 2011 amounted to RSD 4,703,261 thousand (31 December 2010: RSD 1,708,342 thousand), without deductions (collateral or other means of credit risk protection), i.e., an amount of RSD 485,812 thousand (31 December 2010: RSD 163,474 thousand), net of collateral.

A breakdown of maximum credit risk exposure (gross risk balance and off-balance assets subject to classification), as at 31 December 2011 and 31 December 2010, 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 securities	Interests, fees and other assets	Guarantees and other commitments	Total 2011
Serbia	642,387	47,822,467	1,561,912	1,501,361	11,353,408	**62,881,535**
European Union	1,291,527	784,829	16	13,701	1,750	**2,091,823**
Other countries	-	909,194	4	30,431	4,000	**943,629**
Total	**1,933,914**	**49,516,490**	**1,561,932**	**1,545,493**	**11,359,158**	**65,916,987**

RSD thousand

	Placements with banks	Loans and advances to customers	Equity investments and securities	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**

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 2011 and 31 December 2010 is as follows:

	Gross maximum exposure 2011	Net maximum exposure 2011	Gross maximum exposure 2010	Net maximum exposure 2010
Retail	20,895,549	18,899,878	17,924,735	11,881,446
Processing industry and mining	12,849,433	9,386,855	12,160,832	7,836,839
Trade	7,961,664	5,434,925	7,441,790	4,507,503
Energy	1,084,782	970,287	656,115	540,995
Agriculture, hunting, fishing and forestry	1,410,028	929,863	1,802,390	1,361,115
Civil engineering	4,716,008	3,748,931	3,946,318	2,505,413
Traffic and communications, tourism, hospitality and services	7,747,824	2,822,450	4,321,541	3,704,580
Entrepreneurs	943,248	683,810	995,896	692,107
Agriculturalist	611,455	497,357	658,354	528,126
Banks	2,473,845	2,414,476	783,277	415,938
Other financial institutions	175,538	91,872	214,613	100,259
Other	5,047,613	2,858,665	4,562,107	2,548,576
Total	**65,916,987**	**48,739,369**	**55,467,968**	**36,622,897**

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 2011 and 31 December 2010:

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 2011
Placements to banks	1,887,943	30,536	-	415	15,020	**1,933,914**
Placements to Customers						
Corporate customers	3,939,603	5,135,199	60,718	1,303,373	989,864	**11,428,757**
Small size and medium size companies	8,517,906	3,635,551	729,316	1,927,473	3,599,076	**18,409,322**
Entrepreneurs	577,138	8,667	5,749	218,437	26,607	**836,598**
Retail customers	17,698,642	257,854	126,241	1,965,616	338,953	**20,387,306**
Securities	1,042,462	225,035	2,537	196,829	95,069	**1,561,932**
Guarantees and Acceptances	2,965,701	1,376,304	219,104	163,111	125,830	**4,850,050**
Letters of credit	155,462	49,908	-	57,180	-	**262,550**
Unused commitments	4,966,608	1,022,103	1,328	194,148	8,350	**6,192,537**
Other off balance sheet items	47,555	4,816	-	-	1,650	**54,021**
Total	**41,799,020**	**11,745,973**	**1,144,993**	**6,026,582**	**5,200,419**	**65,916,987**

Neither past due nor individually impaired category include all high quality level receivables of the Bank classified according to the Internal methodology in categories 1, 2, 3, 4, 5 and A. Standard quality level include all receivables of the Bank not past due classified in categories 6, 7 and B and standard quality level include all receivables of the Bank classified in categories 8, C and D. Past due and collectively impired and Individually impaired receivables include receivables past due.

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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 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 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	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**

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 2011 and 31 December 2010 is presented in the tables below:

RSD thousand

2011	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2010
Placements to banks	86	-	415	**501**
Placements to customers:				
- Corporate customers	1,023,913	483,084	217,164	**1,724,161**
- Small size and medium size companies	1,310,059	477,878	314,674	**2,102,611**
- Entrepreneurs	102,136	74,088	47,302	**223,526**
- Retail customers	766,206	306,350	903,227	**1,975,783**
Balance as at 31 December	**3,202,400**	**1,341,400**	**1,482,782**	**6,026,582**

In RSD thousand

2010	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2009
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**

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' ability to settle due obligations (adequate generating of 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. The Bank's senior management evaluates quarterly the adequacy of assessed impairment.

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 realizable 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 2011, default loans amounted to RSD 6,270,519 thousand (31 December 2010: RSD 5,006,860 thousand). The impairment loss of default loans recognized in the balance sheet amounted to RSD 4,657,287 thousand (31 December 2010: RSD 3,830,347 thousand).

Additionally, default off-balance sheet items amounted to RSD 147,281 thousand as at 31 December 2011 (31 December 2010: RSD 27,202 thousand), while the related provisions for those items amounted to RSD 54,351 thousand (31 December 2010: RSD 24,171 thousand).

(d) Rescheduled Loans

In accordance with the Bank's methodology, 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 2011, gross rescheduled loans and placements, that are in default status and have been rescheduled for reasons to avoid default, amounted to RSD 140,468 thousand (31 December 2010: RSD 55,780 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, 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.

32. RISK MANAGEMENT (continued)

32.3. Liquidity Risk and Funding Management (continued)

The Assets and Liability Committee and the Operating Liquidity Committee (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. The department for asset and liability management and department for market risk management and liquidity risk management monitors the liquidity ratio (LIK) on daily basis so that the daily liquidity ratio is within the limits prescribed by the Business plan in case of extraordinary circumstances (liquidity crisis) ("FNS"). Apart from this, PFNS defines other indicators and their limits as well as personnel/department in charge of their monitoring and reporting. The trend of these indicator is presented semi-weekly on OLC meetings, or more often in case of overriding the PFNS limits or change in liquidity status.

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 realization, 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 2011 and 2010, the Bank had an indicator of daily liquidity exceeding the legally-prescribed levels.

The aforementioned ratio in 2011 and 2010 is as follows:

	2011	2010
Average during the period	1.93	1.86
Highest	2.40	2.19
Lowest	1.58	1.42
As at 31 December	1.99	1.62

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 2011 and 31 December 2010 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

2011	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2011
Borrowings and deposits	11,601,010	14,568,042	11,527,932	13,617,063	4,804,334	**56,118,381**
Interest and fees payable	56,489	129,655	452,792	1,643,718	771,931	**3,054,585**
Subordinated liabilities	-	53,815	161,446	720,527	1,494,870	**2,430,658**
Balance as at 31 December	**11,657,499**	**14,751,512**	**12,142,170**	**15,981,308**	**7,071,135**	**61,603,624**

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**

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

2011	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 2011
Guarantees, acceptance and letters of credit	130,249	375,403	951,953	1,986,744	1,923,088	89,704	**5,457,141**
Irrevocable commitments	43,614	10,887	353,241	1,819,134	3,175,115	504,089	**5,906,080**
Balance as at 31 December	**173,863**	**386,290**	**1,305,194**	**3,805,878**	**5,098,203**	**593,793**	**11,363,221**

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**

32. MANAGE RISK (Continue)

32.3. Liquidity Risk and Funding management (Continued)

Maturity Analysis of Financial Liabilities (continued)

The Bank expects that not all contingencies and commitments be withdrawn prior to their reaching maturity.

The Bank used funds of the European Investment Bank (EIB) for the purpose of financing the small and medium enterprises and small and medium infrastructure projects implemented by municipalities. In 2011 the Bank used a loan from the EIB on the basis of bilateral agreements totaling EUR 25 million and the repayment period of 12 years.

In order to strengthen the capital base, the Bank signed an agreement with Erste GCIB Finance IBV, Netherlands on the subordinated loan of EUR 15 million with a repayment period of 10 years. The loan was disbursed in December 2011.

Analysis of the maturity structure of assets and liabilities

The table below provides an analysis of the maturities of assets and liabilities based on contractual terms of payment. Contractual maturities of assets and liabilities are determined based on the remaining period at the balance sheet date to the contractual maturity date. Maturity structure of assets and liabilities at 31 December 2011 is presented as follows:

32. RISK MANAGEMENT (continued)

32.3. Liquidity Risk and Funding Management (continued)

Maturity Mismatch Analysis

In RSD thousand

	Up to 14 days	15 days to 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	2011
ASSETS							
Cash and cash equivalents	4,232,332	-	-	-	-	-	4,232,332
Callable deposits and loans	13,641,927	-	-	-	-	-	13,641,927
Interest and fee receivables, change in fair value of derivatives and other receivables	253,209	-	-	5,776	-	-	258,985
Loans and deposits	5,971,891	403,448	2,229,936	9,352,532	16,075,823	11,919,142	45,952,772
Securities	614,950	564,030	674,392	2,664,235	1,099,799	556,589	6,173,995
Investments	-	-	-	-	-	52	52
Other placements	68,819	114	8,362	37,122	140,240	-	254,657
Intangible assets	-	-	-	-	-	295,083	295,083
Fixed assets and investment property	-	-	-	-	-	762,528	762,528
Other assets	91,333	98,926	313,408	70	-	871	504,608
Total assets	24,874,461	1,066,518	3,226,098	12,059,735	17,315,861	13,534,265	72,076,939
LIABILITIES							
On sight deposits	8,791,459	-	-	-	-	-	8,791,459
Other deposits	7,061,095	4,405,164	5,528,394	11,527,932	1,180,382	193,093	29,896,060
Borrowings	366,994	-	-	-	12,436,681	4,627,187	17,430,862
Interest and fees payables and change in the fair value of derivatives	53,720	-	-	-	-	-	53,720
Provisions	-	-	-	424,012	-	-	424,012
Tax liabilities	-	-	-	26,614	-	-	26,614
Deferred tax liabilities	-	-	-	2,038	-	-	2,038
Other liabilities	428,781	104,640	352,781	299,296	645,784	1,569,611	3,400,893
Total liabilities	16,702,049	4,509,804	5,881,175	12,279,892	14,262,847	6,389,891	60,025,658
Total equity	-	-	-	-	-	12,051,281	12,051,281
Total liabilities and equity	16,702,049	4,509,804	5,881,175	12,279,892	14,262,847	18,441,172	72,076,939
Maturity mismatch at:							
- 31 December 2011	8,172,412	(3,443,286)	(2,655,077)	(220,157)	3,053,014	(4,906,907)	
-31 December 2010	5,446,775	(2,173,886)	767,991	859,408	(2,052,567)	(2,847,721)	

32. RISK MANAGEMENT (continued)

32.4. Market Risk

In its ordinary course of business, the Bank is exposed to the following market risks: price risk, 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 department and the Market risk and liquidity risk department.

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, i.e., Asset and Liability Management department. This department and Market risk and liquidity risk department monitors 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 department prepares reports to the Asset and Liability Management Committee at least once a month. The Market risk and liquidity risk department monitors market risk through defined limits, risk from introduction of new products and complex transactions. Assets and Liability Management 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 optimization 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 2011. 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.

RSD thousand

	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total non interest bearing	Total
Cash	-	-	-	-	-	1,307,507	1,307,507
Correspondent accounts	42,123	84,245	126,368	68,928	413,568	-	735,232
Obligatory reserve	1,678,950	-	-	-	-	7,725,678	9,404,628
Securities	1,612,471	191,297	1,299,353	674,199	1,055,139	-	4,832,459
Loans to banks	7,731,216	-	-	-	-	-	7,731,216
Loans to customers	21,184,185	3,686,078	4,166,244	1,836,180	14,772,264	-	45,644,951
Other assets	-	-	-	-	-	2,421,711	2,421,711
FX Swap-off balance sheet item	*836,382*	*941,768*	-	-	-	-	*1,778,150*
Total assets	**33,085,327**	**4,903,388**	**5,591,965**	**2,579,307**	**16,240,971**	**11,454,895**	**73,855,854**
Due to banks	337,635	4,628,117	-	-	-	-	4,965,752
Due to FI	10,748,489	3,302,515	2,551,265	1,772	463,559	-	17,067,600
On sight deposits	1,674,574	1,278,630	1,917,946	653,979	5,671,327	-	11,196,456
Term deposits	8,954,770	3,327,934	3,994,055	7,514,403	1,356,687	-	25,147,849
Other liabilities	-	-	-	-	-	1,650,889	1,650,889
Equity	-	-	-	-	-	12,049,157	12,049,157
FX Swap-off balance sheet item	*833,478*	*923,997*	-	-	-	-	*1,757,475*
Total liabilities and equity	**22,548,947**	**13,461,193**	**8,463,266**	**8,170,154**	**7,491,573**	**13,700,046**	**73,835,179**
Net exposure to interest rate risk:							
- 31 December 2011	**10,536,381**	**(8,557,805)**	**(2,871,301)**	**(5,590,847)**	**8,749,398**	**(2,245,150)**	
- 31 December 2010	**11,348,128**	**(7,054,700)**	**(3,595,556)**	**(5,035,338)**	**6,831,685**	**(2,550,382)**	

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 2011 and 31 December 2010.

RSD thousand

Currency	Change in percentage	Income statement sensitivity 2011	Change in percentage	Income statement sensitivity 2010
Increase of percentage:				
RSD	1%	48,118	1%	68,878
EUR	1%	(4,567)	1%	(23,963)
Decrease of percentage:				
RSD	1%	(48,734)	1%	(68,878)
EUR	1%	4,114	1%	24,027

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.

32. RISK MANAGEMENT (continued)

32.4. Market Risk (continued)

32.4.2. Foreign Exchange Risk (continued)

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.

During 2011, 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 2011.

RSD thousand

Position	EUR	USD	CHF	Other currencies	Total	Gold and other precious metals
Net spot position	**(1,584,334)**	**(55,769)**	**(28,834)**	**3,972**	**(1,664,965)**	**-**
Assets in foreign currency	42,974,038	815,159	2,123,300	123,739	**46,036,236**	-
Liabilities in foreign currency	44,558,372	870,928	2,152,134	119,767	**47,701,201**	-
Net forward positions (2.1 - 2.2)	**1,776,692**	**-**	**-**	**-**	**1,776,692**	-
Long position	1,776,692	-	-	-	**1,776,692**	-
Short position	-	-	-	-	**-**	-
Long open position	192,359	-	-	8,449	**200,808**	-
Short open position	-	55,771	28,834	4,477	**89,082**	-
Net open foreign currency position	-	-	-	-	-	200,808
Regulatory capital	-	-	-	-	-	10,784,038
Foreign exchange risk ratio – 31 December 2011						**1.86**
Foreign exchange risk ratio – 31 December 2010						**1.17**

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 currency risk as at 31 December 2011 and 31 December 2010 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. 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 (%) 2011	Effect to the income statement before taxation 2011	Changes in the exchange rate (%) 2010	Effect to the income statement before taxation 2010
EUR	2%	3,847	2%	2,358
CHF	2%	(577)	2%	(65)
USD	2%	(1,115)	2%	(999)

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2011. The table includes assets and liabilities at their carrying amounts.

32. RISK MANAGEMENT (continued)

32.4. Market Risk (continued)

32.4.2. Foreign Risk (continued)

RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currencies	Total in RSD	Total
Assets							
Cash and cash equivalents	519,760	425,275	247,963	123,739	**1,316,737**	2,915,595	**4,232,332**
Callable deposits and loans	7,725,677	-	-	-	**7,725,677**	5,916,250	**13,641,927**
Interest and fee receivables, change in the fair value of derivatives and other receivables	132,609	1,095	3,243	-	**136,947**	122,038	**258,985**
Loans and advances	33,280,173	375,698	1,871,732	-	**35,527,603**	10,425,169	**45,952,772**
Securities	981,894	10,156	-	-	**992,050**	5,181,945	**6,173,995**
Investments	-	-	-	-	**-**	52	**52**
Other placements	241,110	-	-	-	**241,110**	13,547	**254,657**
Intangible assets	-	-	-	-	**-**	295,083	**295,083**
Fixed assets and investment properties	-	-	-	-	**-**	762,528	**762,528**
Other assets	92,815	2,935	362	-	**96,112**	408,496	**504,608**
Total assets	**42,974,038**	**815,159**	**2,123,300**	**123,739**	**46,036,236**	**26,040,703**	**72,076,939**
Liabilities							
On sight deposits	3,222,908	245,310	137,504	38,193	**3,643,915**	5,147,544	**8,791,459**
Other deposits	23,378,208	602,301	123,214	70,508	**24,174,231**	5,721,829	**29,896,060**
Borrowings	15,225,322	2,733	1,891,143	9,892	**17,129,090**	301,772	**17,430,862**
Interest and fee payables and change in the fair value of derivatives	12,498	-	-	-	**12,498**	41,222	**53,720**
Provisions	135,570	9,722	-	-	**145,292**	278,720	**424,012**
Tax liabilities	-	-	-	-	**-**	26,614	**26,614**
Deferred tax liabilities	-	-	-	-	**-**	2,038	**2,038**
Other liabilities	2,707,995	20,583	273	1,176	**2,730,027**	670,866	**3,400,893**
Total liabilities	**44,682,501**	**880,649**	**2,152,134**	**119,769**	**47,835,053**	**12,190,605**	**60,025,658**
Total equity	**-**	**-**	**-**	**-**	**-**	**12,051,281**	**12,051,281**
Total liabilities and equity	**44,682,501**	**880,649**	**2,152,134**	**119,769**	**47,835,053**	**24,241,886**	**72,076,939**
Net foreign currency position as at:							
- 31 December 2011	**(1,708,463)**	**(65,490)**	**(28,834)**	**3,970**	**(1,798,817)**		
- 31 December 2010	**(1,331,835)**	**(49,966)**	**(3,237)**	**9,948**	**(1,375,090)**		

32. RISK MANAGEMENT (continued)

32.5. Bank's 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 2011, 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 do not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in tangible assets cannot 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 organizational 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 2011, 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 the employees performance, inadequate internal procedures and processes, inadequate information and other systems in the Bank or unforeseen external events.

The Bank cannot expect to eliminate all operational risks, however, it can manage the risk by increasing the awareness of the employees o operational risk management, implementation of the solid system of controls and monitoring and adequate prevention and detection corrective measures in order to decrease the level of operational risk on the acceptable level.

The Bank has adopted operational risk management policy that regulates 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 recategorized 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.

Operational risk events are collected in a single database.

32. RISK MANAGEMENT (continued)

32.8. Operational Risk (continued)

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;
- ensure the possibility of a long-term going concern of operations with providing of profit to shareholders and benefits to other stakeholders; and
- 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, 112/2008, 45/2011 and 94/2011) and the Decision on capital adequacy ("Official Gazette of the Republic of Serbia", no. 129/2007, 63/2008 and 46/2011).

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 2011 and 31 December 2010, as well as the capital adequacy ratio:

	2011	In RSD thousand 2010
Share capital		
The nominal value of paid-in shares, other than preferred	10,040,000	10,040,000
Share premium	124,475	124,475
Reserves	1,054,168	736,001
Retained earnings from previous years	21,510	20,740
Intangibles	(295,083)	(198,678)
Unrealized losses on securities available for sale	(1,470)	(1,470)
	10,943,600	**10,721,068**
Supplementary capital		
Part of the revaluation reserve bank	23,449	21,405
Subordinated liabilities	2,258,450	1,085,124
	2,281,899	**1,106,529**
Deduction from capital		
The amount by which are exceeded the qualified participation in entities which are not in the financial sector	2,888	-
Required reserves for estimated losses on balance sheet assets and off-balance sheet items of banks according to the decision on the capital adequacy of the bank, Article 427, Paragraph 1	2,436,112	2,997,801
	2,439,000	**2,997,801**
Total (1)	**10,786,499**	**8,829,796**
Risk-weighted assets		
Capital requirement for credit risk, counterparty risk and settlement / delivery on the basis of free delivery	39,843,489	50,342,464
Capital requirement for price risk	40,255	49,448
Capital requirement for foreign exchange risk	200,807	131,900
Capital requirement for operational risk	4,186,645	-
Total (2):	**44,271,196**	**50,523,812**
Capital adequacy ratio (1/2 x 100)	*24.36*	*17.48*

32. RISK MANAGEMENT (continued)

32.10. Fair value of the 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 amortized 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 on the reporting date.

32. RISK MANAGEMENT (continued)

32.10. Fair value of the financial assets and liabilities (continued)

				RSD thousand
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	**59,814**	**858,710**	**-**	**918,524**
Treasury bills of the Republic of Serbia	-	858,710	-	**858,710**
Quoted bonds	59,814	-	-	**59,814**
Financial assets available for sale	**38,687**	**3,867,119**	**-**	**3,905,806**
Treasury bills of the Republic of Serbia	-	3,831,947	-	**3,831,947**
Quoted shares	25,628	-	-	**25,628**
Investment units	13,059	-	-	**13,059**
Unquoted shares	-	35,120	-	**35,120**
Other investments	-	52	-	**52**

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:

	2011 RSD thousand	2010 RSD thousand
Up to 1 year	84,940	94,348
From 1 to 5 years	194,184	143,755
	279,124	**238,103**

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 2011 the Bank recognized a provision of RSD 47,700 thousand (31 December 2010: RSD 17,400 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 adequately provided for.

33. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(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 2011. Based on the exchanged confirmations, the following receivables and payables remained unreconciled:

The total amount of disputed confirmations in the amount of RSD 1,152,670 thousand.

The underlying reason for disputed confirmations are incorrect addresses (RSD 745,727 thousand) and disclaimer of the confirmations (RSD 406,942 thousand).

The total amount of reconciled receivables is RSD 20,127,627 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 2011 and 31 December 2010 into Serbian Dinars (RSD) were as follows:

		RSD
	2011	**2010**
EUR	104.6409	105.4982
USD	80.8662	79.2802
CHF	85.9121	84.4458

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 2011.

Novi Sad, 12 March 2012

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

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