MOSKOVSKA BANKA a.d. BEOGRAD

Financial Statements as of and for the Year Ended 31 December 2010

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF MOSKOVSKA BANKA a.d. BEOGRAD

We have audited the accompanying financial statements of Moskovska banka a.d. Beograd (hereinafter "the Bank"), which comprise the balance sheet as of 31 December 2010, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The statistical annex represents an integral part of these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing ("Official Gazette of the Republic of Serbia", no. 46/2006 and 111/2009), Law on Banks ("Official Gazette of the Republic of Serbia", no. 107/2005 and 91/2010) and respective decisions of the National Bank of Serbia which regulate banks' financial reporting, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and its financial performance and its cash flows for the year then ended, in accordance with the Law on Accounting and Auditing, Law on Banks and respective decisions of the National Bank of Serbia which regulate banks' financial reporting.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF MOSKOVSKA BANKA a.d. BEOGRAD (Continued)

Emphasis of Matter

We draw attention to Note 33.8. to the financial statements, which discloses that the Bank's regulatory capital as of 31 December 2010, calculated in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks ("Official Gazette of the Republic of Serbia", no. 129/2007 and 63/2008), amounts to RSD 1.065.943 thousand or EUR 10.103.898, translated at the official median exchange rate at the balance sheet date. Considering the amount of regulatory capital, the Bank's management has created the recapitalization plan for the future period in agreement with its shareholder, which represents the base for further development of the Bank's activities. For the purposes of the preparation of its strategy for the period from 2011 to 2013 and the operational plan for 2011, in order to maintain the level of the regulatory capital above the minimum amount of capital prescribed by the Law on Banks, the Bank has planned the capital increase through recapitalisation in the amount of EUR 4.5 million in RSD counter value, as well as the increase in the amount of Tier 2 capital by the subordinated loan amounting to EUR 2.2 million. The management deems that in given circumstances it undertakes all necessary measures in order to ensure for the Bank to be able to continue as a going concern. Our opinion is not qualified in respect of this matter.

Belgrade, 19 April 2011

Ksenija Ristic Kostic
Certified Auditor

INCOME STATEMENT
For the Year Ended 31 December 2010

	Note	2010	2009
			In RSD thousand
OPERATING INCOME AND EXPENSES			
Interest income	4	119.293	153.799
Interest expense	4	(86.123)	(33.929)
Net interest income		**33.170**	**119.870**
Fee and commission income	5	70.540	19.739
Fee and commission expense	5	(9.167)	(5.533)
Net fee and commission income		**61.373**	**14.206**
Net foreign exchange gains	6	170	4.454
Other operating income	7	382	2.626
Net impairment losses on financial assets and provisions	8	(10.401)	(1.795)
Salaries and other personal expenses	9	(141.415)	(136.584)
Depreciation and amortization expense	10	(36.541)	(29.509)
Other operating expenses	11	(143.053)	(169.590)
Gains from changes in value of assets and liabilities	12	66.890	70
Losses from changes in value of assets and liabilities	12	(44.166)	(808)
LOSS BEFORE INCOME TAXES		**(213.591)**	**(197.060)**
INCOME TAXES			
Deferred tax income	13	179	509
Deferred tax expense	13	(1.652)	-
LOSS FOR THE YEAR		**(215.064)**	**(196.551)**

The notes on pages 8 to 74
are an integral part of these financial statements.

The accompanying financial statements were approved for issue by the Board of Directors of the Bank on 28 February 2011 and were signed on behalf of the management by:

Andjelka Stanković
Person responsible for financial statements preparation

Vladimir Zečar
President of the Executive Board

Kurdenkov Sergey Vasilevich
Member of the Executive Board

BALANCE SHEET
As of 31 December 2010

	Note	31 December 2010	In RSD thousand 31 December 2009
ASSETS			
Cash and cash equivalents	15	693.646	679.428
Revocable deposits and loans	16	284.598	1.201.558
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	17	19.605	1.268
Loans and advances	18	1.362.558	417.223
Other placements	19	179	39
Intangible assets	20	71.899	84.569
Property, plant and equipment	20	68.312	72.876
Deferred tax assets	13(c)	179	-
Other assets	21	17.621	24.815
TOTAL ASSETS		**2.518.597**	**2.481.776**
LIABILITIES AND EQUITY			
Sight deposits	22	255.901	318.675
Other deposits	23	991.784	1.074.785
Borrowings	24	1.803	323
Interest and fees payable and changes in fair value of derivatives	25	492	1.802
Provisions	26	2.756	2.069
Tax liabilities	27	6	267
Deferred tax liabilities	13(c)	2.520	868
Other liabilities	28	552.092	156.680
TOTAL LIABILITIES		**1.807.354**	**1.555.469**
EQUITY	29		
Share capital		1.235.135	1.235.135
Accumulated losses		(523.892)	(308.828)
TOTAL EQUITY		**711.243**	**926.307**
TOTAL LIABILITIES AND EQUITY		**2.518.597**	**2.481.776**
OFF-BALANCE SHEET ITEMS	30	**1.903.560**	**1.520.022**
Guarantees and other irrevocable commitments		1.032.553	150.499
Other off-balance sheet items		871.007	1.369.523

The notes on pages 8 to 74
are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2010

In RSD thousand

	Share capital	Accumulated losses	Total
Balance as of 1 January 2009	**1.235.135**	**(112.277)**	**1.122.858**
Loss for the year	-	(196.551)	(196.551)
Balance as of 31 December 2009	**1.235.135**	**(308.828)**	**926.307**
Loss for the year	-	(215.064)	(215.064)
Balance as of 31 December 2010	**1.235.135**	**(523.892)**	**711.243**

The notes on pages 8 to 74
are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2010

In RSD thousand

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**177.583**	**177.138**
Interest receipts	119.408	156.208
Fee and commission receipts	57.793	20.728
Receipts from other operating income	382	202
Cash outflow from operating activities	**(368.195)**	**(359.355)**
Interest paid	(74.812)	(53.014)
Fees and commission paid	(9.167)	(5.533)
Payments for gross salaries, compensations and other personal expenses	(139.453)	(135.717)
Taxes, contributions and other duties paid	(21.747)	(21.301)
Outflow for other operating expenses	(123.016)	(143.790)
Net cash flows used in operating activities before increase or decrease in placements and deposits	**(190.612)**	**(182.217)**
Decrease in placements and increase in deposits	***1.572.404***	***1.054.803***
Decrease in loans and placements to banks and customers	1.124.012	143.523
Increase in deposits from banks and customers	448.392	911.280
Increase in placements and decrease in deposits	***(1.756.299)***	***(279.186)***
Increase in loans and placements to banks and customers	(1.162.131)	(279.186)
Decrease in deposits from banks and customers	(594.168)	-
Net cash flows (used in)/from operating activities	**(374.507)**	**593.400**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash outflow from investing activities	**(19.307)**	**(69.333)**
Purchase of intangible assets and property and equipment	(19.307)	(69.333)
Net cash flows used in investing activities	**(19.307)**	**(69.333)**
CASH FLOWS FROM FINANCING ACTIVITES		
Cash inflow from financing activities	**385.138**	**143.833**
Proceeds from subordinated loans	383.658	143.833
Proceeds from other borrowings	1.480	-
Cash outflow from financing activities	**-**	**(70.558)**
Repayment of borrowings	-	(70.558)
Net cash flows from financing activities	**385.138**	**73.275**
TOTAL NET CASH INFLOW	2.135.125	1.375.774
TOTAL NET CASH OUTFLOW	(2.143.801)	(778.432)
NET (DECREASE)/INCREASE IN CASH	**(8.676)**	**597.342**
CASH AT THE BEGINING OF THE YEAR	679.428	78.369
FOREIGN EXCHANGE GAINS	426.008	84.775
FOREIGN EXCHANGE LOSSES	(403.114)	(81.058)
CASH AT THE END OF THE YEAR (Note 15)	**693.646**	**679.428**

The notes on pages 8 to 74
are an integral part of these financial statements.

STATISTICAL ANNEX
For the Year Ended 31 December 2010

In RSD thousand

Group of accounts, account	I T E M	2010	2009
630	Salaries	98.059	100.764
631	Fringe benefits	1.086	757
632	Payroll taxes	15.537	15.898
633	Payroll contributions	18.279	18.298
634	Compensations for temporary and periodical jobs	865	867
635	Other personal expenses	7.589	-
642	Depreciation and amortization expense	36.541	29.509
Part of 643	Insurance premium costs	3.476	1.333
Part of 643	Compensations for employees' expenses	1.654	2.456
Part of 641	Rental expenses	50.352	72.437
644	Indirect taxes	2.613	2.525
645	Indirect contributions	18.874	18.902
Part of 746	Rental income	-	-
68	Foreign exchange losses	358.948	80.252
78	Foreign exchange gains	359.118	84.706
30	Inventories	-	-
	Average number of employees, based on the number at the end of each month (whole number)	48	35
	Number of ordinary shares	2.470.269	2.470.269
	Number of preference shares	-	-
	Nominal value of ordinary shares	1.235.135	1.235.135
	Nominal value of preference shares	-	-

The notes on pages 8 to 74
are an integral part of these financial statements.

1. CORPORATE INFORMATION

MOSKOVSKA BANKA a.d. BEOGRAD (hereinafter referred to as the "Bank") was established on 11 July 2008, in accordance with the Decision of the National Bank of Serbia no. 2158 dated 3 March 2008.

The Bank is registered in the Republic of Serbia to provide a wide range of banking services related to payment transfers, credit and deposit activities in the country and abroad. In accordance with the Republic of Serbia Law on Banks, the Bank operates based on principles of liquidity, security of placements and profitability.

The founder and the sole shareholder of the Bank is Joint Stock Commercial Bank – BANK OF MOSCOW, Russian Federation.

The Bank's Head Office is located in Belgrade, Karadjordjeva Street 89. On 3 June 2009, the Bank opened its first branch in Belgrade, in no. 2, Balkanska Street. On 22 November 2010, the Bank opened its first branch in Novi Sad, in no. 12, Narodnog fronta Street.

The Bank had 51 employees as of 31 December 2010 (31 December: 54 employees).

The Bank's registration number is 20439866. Its tax identification number is 105701111.

These financial statements were authorized for issue by the Bank's Board of Directors on 28 February 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Financial Statements

The accompanying financial statements for 2010 have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Law on Accounting and Auditing ("RS Official Gazette", no. 46/2006 and 111/2009), Law on Banks ("RS Official Gazette", no. 107/2005) 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), i.e., International Financial Reporting Standards (IFRS).

Pursuant to the Resolution of the Republic of Serbia's Minister of Finance no. 401-00-380/2010-16 dated 25 October 2010 ("RS Official Gazette", no. 77/2010 and 95/2010), the translation of International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued respectively by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) by 1 January 2009, which are in effect as of the date of preparation of the financial statements, has been provided for and published.

By the date of preparation of the accompanying financial statements not all amendments to existing standards, new and revised standards and IFRIC interpretations published by IASB and IFRIC which are effective in the current reporting period, i.e., which are mandatory for the first time for the financial year beginning on 1 January 2010, have been officially translated by the Ministry of Finance of the Republic of Serbia. These amendments to standards and interpretations, as well as issued new and amended standards and IFRIC interpretations which are neither effective in the current reporting period, nor translated and published in the Republic of Serbia, are disclosed in Note 2.1 (a) and (b).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The financial statements have been prepared under the historical cost convention.

The accompanying financial statements have been prepared under the going concern principle, which entails that the Bank will continue in business for the foreseeable future.

The accounting policies and estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2009, except for the adoption of new standards and interpretations noted below, whose application did not have a material impact on the financial position or performance of the Bank.

(a) New Standards, Amendments and Interpretations to existing Standards effective in the Current Reporting Period

The following standards and IFRIC interpretations and amendments and supplements to existing standards are mandatory for the first time for the reporting periods beginning on 1 January 2010.

- Revised IFRS 3 "Business Combinations" and complementary amendments to IAS 27 "Consolidated and Separate Financial Statements" are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised IFRS 3 introduces a series of changes in the accounting treatment of business combinations occurring after 1 January 2010.

  IAS 27 (Amended) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. There has been no impact of revised IFRS 3 and amended IAS 27 on the current period.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009). The amendments clarify that an entity is permitted to designate a portion of fair value changes or cash flow variability of a financial instrument as a hedged item. These amendments did not have any impact on the financial position or performance of the Bank.

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010). These amendments are not relevant to the Bank.

- Amendments to IFRS 2 "Share-based Payment" – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). In addition to incorporating IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. These amendments are not relevant to the Bank, due to the absence of such arrangements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(a) New Standards, Amendments and Interpretations to existing Standards effective in the Current Reporting Period (Continued)

- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" - Amendments resulting from May 2008 Annual Improvements to International Financial Reporting Standards (effective for annual periods beginning on or after 1 July 2009). The amendments clarify when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. These amendments did not have any impact on the financial position or performance of the Bank.
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009). IFRIC 17 clarifies how an entity should measure distributions of assets other than cash made as a dividend to its owners. IFRIC 17 applies to pro rata distributions of non-cash assets, but does not apply to common control transactions. This IFRIC is not relevant to the Bank, as it has not made any non-cash distributions.
- IFRIC 18 "Transfers of Assets from Customers" (applied to transfers of assets from customers received on or after 1 July 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. This IFRIC is not relevant to the Bank.
- Amendments to various standards and interpretations (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16), which are part of the IASB's annual IFRS improvements project published in April 2009, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The effective dates vary standard by standard but most are effective 1 January 2010.

  The Bank's management considers that the application of the aforementioned standards, interpretations and amendments to standards, out of which the majority is not relevant for the Bank's operations, has no material impact on the accompanying financial statements.

(b) New Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Bank

The following new and revised standards and IFRIC interpretations issued by IASB and IFRIC have neither been officially translated in the Republic of Serbia, nor have they been effective for the reporting period beginning on 1 January 2010. They have not been early adopted by the Bank and the Bank's management is in the process of assessing their impact, if any, on the financial statements.

- Revised IAS 24 "Related Party Disclosures", issued in November 2009. It supersedes IAS 24 "Related Party Disclosures" issued in 2003. The revised standard is effective for annual periods beginning on or after 1 January 2011.
- Amendment to IAS 32 "Financial Instruments: Presentation" - Classification of Rights Issues, issued in October 2009. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is effective for annual periods beginning on or after 1 February 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(b) New Standards, Amendments and Interpretations to existing Standards that are not yet effective and have not been early adopted by the Bank (Continued)

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, issued in January 2010. The amendment is effective for annual periods beginning on or after 1 July 2010.
- IFRS 9 "Financial instruments", issued in November 2009. This standard addresses the classification and measurement of financial assets. The new standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank has not yet decided when to adopt IFRS 9.
- Amendments to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement, issued in November 2009. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. The amendments are effective for annual periods beginning on or after 1 January 2011.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", issued in November 2009. This interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.
- Amendments to various standards and interpretations (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 21, IAS 28, IAS 31, IAS 34 and IFRIC 13), which are part of the IASB's annual IFRS improvements project published in May 2010. These amendments result primarily in removal of inconsistencies and terminology or editorial changes. The effective dates vary standard by standard but most are effective for annual periods beginning on or after either 1 July 2010 or 1 January 2011.

The accompanying financial statements are presented in the format prescribed by the "Rule Book on the Format and Contents of Positions in the Forms of the Financial Statement of Banks" ("RS Official Gazette", no. 74/2008, 3/2009 and 5/2010), which departs from the presentation and titles of certain general purpose financial statements and the presentation of certain items as required under Revised IAS 1 "Presentation of Financial Statements" and IAS 7 "Statement of Cash Flows". The application of the Revised IAS 1 is mandatory for the first time for the annual periods beginning on 1 January 2009". Accordingly, the accompanying financial statements do not fully comply with IFRS, and therefore, they cannot be considered as the financial statements prepared and presented in accordance with IFRS.

In the preparation of these financial statements, the Bank has adhered to the principal accounting policies further described in Note 2, which are in conformity with the accounting, banking and tax regulations prevailing in the Republic of Serbia.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Comparative Figures

The comparative figures represent the audited financial statements of the Bank as of and for the year ended 31 December 2009.

2.3. Interest Income and Expense

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.

Interest income and expense for all interest-bearing financial instruments 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.

Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and amortized to interest earned on loans and advances over the life of the loan using the straight-line method, which approximates the effective yield (Note 28).

Interest is suspended through accruals, in the case when the Bank estimates that there are problems in collectability of certain loans and advances.

2.4. Fee and Commission Income and Expense

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

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

Fee income can be divided into the two following categories:

/i/ Fee 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.

/ii/ Fee from Providing Transaction Services

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Foreign Currency Translation

Balance sheet and income statement items stated in the financial statements are valued by using currency of primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into Dinars at the official exchange rate determined in the Interbank Foreign Currency Market, prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date (Note 36).

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 (Note 12).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date.

2.6. Financial Instruments

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

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions on the market, are recognized on the trade date or settlement date, i.e., on the date when the Bank commits to purchase or sell the assets or the date when the Bank commits to receive or transfer the assets.

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.

“Day 1” Profit

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

Derecognition of Financial Assets and Financial Liabilities

Financial assets cease to be recognized when the Bank loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is 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.

Reclassification of Financial Assets

The Bank may choose to reclassify a non-derivate financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term.

Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term.

Reclassifications are made at fair values as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

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, loans and receivables, held-to-maturity securities and available-for-sale securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

Subsequent measurement of financial assets depends on their classification, as follows:

2.6.1. Financial Assets at Fair Value through Profit or Loss

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

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.

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

As of 31 December 2010 and 2009, the Bank did not have securities and other placements held for trading recognised in the balance sheet.

2.6.2. Securities Held-to-Maturity

Held-to-maturity securities are financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. Securities held-to-maturity are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

The 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 it is charged to the income statement.

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 within interest income. Fees that are part of the effective yield from these instruments are deferred and recognized in the income statement during the life of the instrument.

The Bank did not have investments into securities held-to-maturity as of 31 December 2010 and 2009.

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 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. Interests which are part of effective yield on these instruments are recognised as deferred income and credited to the income statement as interest income over the life of a financial instrument using the straight-line method.

Loans in dinars, with contracted foreign currency clause, i.e. Dinar-Eur and Dinar-Usd foreign exchange rate, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated 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 Provision for Risks

In accordance with its internal policy, the Bank assesses at each reporting 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.

The indicators that the Bank uses to determine whether there is objective evidence of an impairment loss include the following:

- delinquency in contractual payments of principal or interest;
- borrower is experiencing significant financial difficulty, including the probability of bankruptcy or other financial reorganization;
- breach of loan covenants or conditions;
- deterioration of the borrower’s competitive position;
- deterioration in the value of collateral; and
- other observable data indicating 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 accordance with the adopted internal policy, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

2.6.3. Loans and Advances (Continued)

Impairment of Loans and Provision for Risks (Continued)

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If objective evidence of impairment exists, impairment loss is measured as the difference between the carrying amount of loan and its estimated recoverable amount. The estimated recoverable amount is the present value of the expected future cash flows, discounted at the financial asset's original effective interest rate. . If a loan has a variable interest rate, current effective 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 as asset type, industry, 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.

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 President of the Executive Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

2.6.4. Rescheduled Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment period as well as changes in the loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The 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, using the original effective interest rate.

2.6.5. Securities Available-for-Sale

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 other securities available-for-sale.

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 security is sold, collected or otherwise realized, or until it is impaired. In case of disposal of assets, accumulated gains or losses, previously recognised in equity, are recognised in gains or losses from sales of securities in the income statement.

Equity investments that do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are inappropriate are exempt from fair value valuation. These available-for-sale securities are measured at cost.

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.

In case of investments in shares of other legal entities, classified as available-for-sale, for objective confirmations Bank considers significant or prolonged decrease in fair value of the investments below their cost. For all estimated risks that investments in shares and other securities available-for-sale will not be collected, the Bank recognises allowances for impairment.

Gains/losses arising from the sale of these securities are recorded in the income statement within gains/losses from sale of securities available-for-sale.

The Bank did not have securities available-for-sale stated in the balance sheet as of 31 December 2010 and 2009.

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, net of 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 using the effective interest rate.

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-term liabilities are measured at amortized cost, being the amount of the consideration received due to the short-term nature of these liabilities.

2.7. Offsetting Financial Instruments

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

2.8. Derivatives

Derivatives are recognized at fair value and recorded as assets if their fair value is positive, or liabilities, if their fair value is negative. Changes in fair value are recognized in the income statement.

As of 31 December 2010 and 2009, the Bank did not have derivatives. The Bank does not apply hedge accounting).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Special reserves against potential losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items ("RS Official Gazette", no. 129/2007, 63/2008, 104/2009 and 30/2010).

All receivables (balance sheet and off-balance sheet exposure) from a single borrower are classified in categories from A to D in accordance with the assessment of their recoverability. Individual credit exposures are evaluated based upon the borrower's character and payment record, which correspond to the number of days the payments are overdue, overall financial position, as well as the quality of collateral.

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

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

Special reserves for estimated losses are reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the Bank's accounting policy disclosed in Note 2.6.3. and charged to the income statement (Note 8).

After being reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, special reserves for estimated losses are created from retained earnings pursuant to the Bank's Assembly decision, and recorded at a special loan loss provision account within reserves.

In the event that the Bank's profit for the year and retained earnings are insufficient to cover the estimated amount of special reserves for potential losses in a particular year, the difference is to be disclosed as the shortfall amount of such reserve.

Since the Bank incurred loss for the year ended 31 December 2010 and it has accumulated losses stated in the balance sheet, it has not created the special reserve for estimated losses, but disclosed the shortfall amount of such reserves (Note 29(a)).

2.10. Cash and Cash Equivalents

For purposes of the Statement of cash flows, cash and cash equivalents comprise balances at 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11. 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 income and is accrued over the life of the agreement.

2.12. 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 useful 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 embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

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

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	3 to 5 years
Other intangible assets	3 to 5 years

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

2.13. Property, Plant and Equipment

Property and equipment are recognized 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:

Computer equipment	up to 4 years
Other equipment	7 to 14 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Property, Plant and Equipment (Continued)

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

Calculation of depreciation of property and equipment commences at the beginning of month following the month when an asset is put into use. Assets under construction are not depreciated.

Depreciation charge is recognised as an expense for the period when incurred (Note 10).

Gains from the disposal of property and equipment are credited directly to other operating 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 ("RS Official Gazette" no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes ("RS Official Gazette", no. 116/2004 and 99/2010). Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 13(c)).

2.14. Impairment of Non-financial Assets

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

2.15. Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "Other assets".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Leases

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

(a) Financial 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 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 against income in interest expense.

(b) Operating Lease –Bank as a Lessee

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

The total payments made under operating leases are charged to other operating expenses in the income statement (at the inception) on a straight-line basis over the period of the lease (Note 11).

2.17. Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. Provision is measured at present value of outflow necessary to settle the liabilities, using the discount rate which reflects the current market estimate of the value of money.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued))

2.18. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates.

The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

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

(b) Long-term employee benefits – Retirement benefits

In accordance with the Labour Law, the Bank is obligated to pay retirement benefits in an amount equal to three gross monthly salaries, based on the average salary in the Republic of Serbia earned in the month prior to retirement, according to the latest published information of the competent state statistics institute. Expenses and liabilities for these plans are not provided by the funds.

Provisions for the benefits and related expenses are recognized in the amount of present value of future cash flows using the projected unit credit actuarial valuation method. Actuarial gains and losses and expenses of past services provided are recognized in the income statement when incurred.

(c) Short-Term Compensated Absences

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

The Bank does not have defined benefit plans or share-based remuneration options, and therefore there are no identified liabilities with respect to these benefits as of 31 December 2010.

2.19. Equity

Shareholders' equity consists of share capital (ordinary shares) and accumulated losses (Note 29(a)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20. 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 obligate 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 of 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.

2.21. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Law on Corporate Income Tax ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004 and 18/2010) and by-laws. Income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits. The tax base includes the taxable profit, determined by adjusting the taxpayer's result reported in the income statement, in the manner prescribed by this Law.

During the year, the Bank pays income tax in monthly instalments, estimated on the basis of the prior year Tax return. Tax return is submitted to Tax authorities 10 days after the submission of the financial statements, i.e. until the 10 March of the following year.

In accordance with the Law on Corporate Income Tax, tax credit is recognized in the amount equal to 20% of the investments in own property and equipment used to perform the core activities, but it cannot exceed 50% of a tax liability in the year in which the investment was made. The non-utilised part of the tax credit in respect of investments in property and equipment can be carried forward to the profit tax account in the future accounting periods, but not for longer than ten years.

In each year, the tax credit deriving from investments made in that year is to be applied first, and thereafter, the carried forward tax credits from previous years are to be used in the order of investment, up to the limit of 50% of calculated tax in a stated year.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific previous period. Losses of the current period may be transferred to the account of profit determined in the annual tax return from the future accounting periods, but not longer than 5 ensuing years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Deferred Income Tax

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.

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, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

(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 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).

3. CRITICAL 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 of 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 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 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 (see Note 2.6.3).

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any 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 of 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 as of the measurement date and do not necessarily represent market conditions before or after the date of measurement. Consequently, all valuation techniques are revised periodically, in order to appropriately reflect the current market conditions.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(c) Useful Lives of Intangible Assets, Property and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as 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 for 1%, this would result in additional depreciation and amortization expense of approximately RSD 365 thousand for the twelve-month period.

(d) Impairment of Non-Financial Assets

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

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

(e) Deferred Tax Assets

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

Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognized, based on the period in which it was created and the amount of future taxable profits and the tax policy planning strategy.

(f) Employee Retirement Benefits

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 26(b) to the financial statements.

Were the discount rate used to differ by 1% from management's estimates, the provision for retirement benefits would be an estimated RSD 326 thousand lower or RSD 417 thousand higher in comparison with the provision for retirement benefits recognized in the Bank's financial statements as of and for the year ended 31 December 2010.

4. INTEREST INCOME AND EXPENSE

In RSD thousand

	2010	2009
Interest income		
Other banks	6.753	11.368
National Bank of Serbia	46.749	102.778
Corporate customers	65.770	12.987
State institutions	21	26.666
Total	**119.293**	**153.799**
Interest expense		
Banks	30.182	1.674
Corporate customers	20.681	27.502
State institutions	2	71
Retail customers	35.258	4.682
Total	**86.123**	**33.929**
Net interest income	**33.170**	**119.870**

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

In RSD thousand

	2010	2009
Interest income		
Loans to, and placements with banks	6.753	11.407
Deposits with the National Bank of Serbia	46.749	102.778
Loans and advances to customers	65.770	12.987
State institutions	21	26.627
Total	**119.293**	**153.799**
Interest expense		
Banks	30.182	1.674
Customers' deposits	20.683	27.573
Retail customers' deposits	35.258	4.682
Total	**86.123**	**33.929**
Net interest income	**33.170**	**119.870**

5. FEE AND COMMISSION INCOME AND EXPENSE

In RSD thousand

	2010	2009
Fee and commission income		
Domestic payment traffic operations	5.726	2.243
Purchase and sale of foreign currencies	700	123
Credit activities	204	59
Other fees and commissions	63.910	17.314
Total	**70.540**	**19.739**
Fee and commission expense		
Domestic payment traffic operations	4.696	4.694
Foreign payment traffic operations	4.471	839
Total	**9.167**	**5.533**
Net fee and commission income	**61.373**	**14.206**

6. NET FOREIGN EXCHAGE GAINS

In RSD thousand

	2010	2009
Foreign exchange gains	359.118	84.706
Foreign exchange losses	(358.948)	(80.252)
Net foreign exchange gains	**170**	**4.454**

7. OTHER OPERATING INCOME

In RSD thousand

	2010	2009
Other operating income	382	2.626
Total	**382**	**2.626**

Other operating income realized during the year ended 31 December 2010 in the amount of RSD 382 thousand, mostly relate to the refund of costs for exceeding the limit covered by the Bank for the usage of mobile phones by employees.

8. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS

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

		In RSD thousand
	2010	**2009**
Impairment losses and provisions		
Impairment losses on financial assets:		
- Interest and fees receivable	(181)	(71)
- Loans and advances	(18.686)	(1.477)
- Other placements	(13)	-
- Other assets	-	(12)
	(18.880)	**(1.560)**
Provision for off-balance sheet items	**(1.999)**	**(249)**
Total (Note 8(b))	**(20.879)**	**(1.809)**
Reversal of impairment losses and release of provisions		
Reversal of impairment losses on financial assets:		
- Interest and fees receivable	44	
- Loans and advances	9.122	
	9.166	**-**
Release of provision for:		
- Off-balance sheet items	1.284	-
- Long-term employee benefits	28	14
	1.312	**14**
Total (Note 8(b))	**10.478**	**14**
Net impairment losses and provisions	**(10.401)**	**(1.795)**

8. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS (Continued)

(b) Movements in the Allowance for Impairment of Financial Assets and Provisions for Risky Off-balance Sheet Items and Other Liabilities

Movements in the allowance for impairment of balance sheet items and provisions during the year were as follows:

In RSD thousand

	Interest and fees receivable (Note 17)	Loans and advances (Note 18)	Other placements (Note 19)	Other assets (Note 21)	Provisions (Note 26)	Total
Balance as of 1 January 2009	**-**	**-**	**-**	**-**	**1.833**	**1.833**
Charge for the year (Note 8(a))	71	1.477	-	12	249	1.809
Reversal of impairment losses (Note 8(a))	-	-	-	-	(14)	(14)
Other movements	-	-	-	-	1	1
Balance as of 31 December 2009	**71**	**1.477**	**-**	**12**	**2.069**	**3.629**
Charge for the year (Note 8(a))	181	18.686	13	-	1.999	20.879
Reversal of impairment losses (Note 8(a))	(44)	(9.122)	-	-	(1.312)	(10.478)
Other movements	-	26	-	-	-	26
Balance as of 31 December 2010	**208**	**11.067**	**13**	**12**	**2.756**	**14.056**

9. SALARIES AND OTHER PERSONAL EXPENSES

In RSD thousand

	2010	2009
Net salaries and fringe benefits	99.145	101.521
Payroll taxes and contributions	33.816	34.196
Cost of unused vacations (Note 28)	2.208	-
Other personal expenses	6.246	867
Total	**141.415**	**136.584**

10. DEPRECIATION AND AMORTIZATION EXPENSE

In RSD thousand

	2010	2009
Depreciation and amortization expense:		
- property and equipment (Note 20)	16.090	13.125
- intangible assets (Note 20)	20.451	16.384
Total	**36.541**	**29.509**

11. OTHER OPERATING EXPENSES

In RSD thousand

	2010	2009
Rental cost	50.352	72.437
Maintenance	25.905	24.054
Professional services	20.326	24.882
Advertising and marketing	8.336	9.512
Telecommunications and postage	4.909	3.858
Insurance premiums	3.476	1.333
Indirect contributions	18.874	18.902
Taxes	2.613	2.525
Donations and sponsorships	190	2.560
Other expenses	8.072	9.527
Total	**143.053**	**169.590**

12. GAINS/(LOSSES) FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

In RSD thousand

	2010	2009
Gains from changes in value of assets and liabilities		
Gains from changes in value of placements - foreign currency clause	66.888	37
Gains from changes in value of liabilities	2	33
Total	**66.890**	**70**
Losses from changes in value of assets and liabilities		
Losses from changes in value of placements - foreign currency clause	(44.146)	-
Losses from changes in value of liabilities - foreign currency clause	(20)	(808)
Total	**(44.166)**	**(808)**
Net gains/(losses) from changes in value of assets and liabilities	**22.724**	**(738)**

13. INCOME TAXES

(a) Components of Income Tax

Components of income tax are:

	2010	2009
		In RSD thousand
Current income tax	-	-
Deferred tax income	(179)	(509)
Deferred tax expense	1.652	-
Total tax expense/(income)	**1.473**	**(509)**

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

	2010	2009
		In RSD thousand
Loss before tax	**(213.591)**	**(197.060)**
Income tax at the rate of 10%	**-**	**-**
Effects of temporary differences	1.473	(509)
Total tax expense/(income) reported in the Income Statement	**1.473**	**(509)**

(c) Components of Deferred Tax (Assets)/Liabilities

Components of deferred tax (assets)/liabilities are presented below:

	2010	2009
		In RSD thousand
Deferred tax assets		
Temporary differences arising from provisions for employee benefits	(179)	-
	(179)	**-**
Deferred tax liabilities		
Taxable temporary differences on property, equipment and intangible assets	2.520	868
	2.520	**868**
Deferred tax liabilities, net	**2.341**	**868**

13. INCOME TAXES (Continued)

(c) Components of Deferred Tax (Assets)/Liabilities (Continued)

Deferred tax assets completely relate to the temporary difference arising from provisions for retirement benefits, due to different periods of establishing provisions for accounting and tax purposes.

Deferred tax liabilities relate to temporary differences between the carrying value of property, equipment and intangible assets and their tax basis.

Movement in ***net deferred tax liabilities*** during the year was as follows:

In RSD thousand

	2010	2009
Balance as of 1 January	**868**	**1.377**
Effects of temporary differences charged/(credited) to the income statement	1.652	(509)
Effects of temporary differences arising from provisions for employee benefits credited to the income statement	(179)	-
Balance as of 31 December	**2.341**	**868**

14. EARNINGS PER SHARE

Basic earning per share is calculated by dividing the net profit or loss attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Pursuant to the Serbian Business Registers Agency Decision no. BD 119077/2008 dated 11 July 2008, the Bank is a closed joint-stock company, and therefore it is not obliged to calculate and disclose the earnings per share as required by IAS 33 “Earnings per Share”.

15. CASH AND CASH EQUIVALENTS

		In RSD thousand
	2010	**2009**
In Dinars		
Gyro account	30.093	117.001
Cash on hand	9.898	3.596
	39.991	**120.597**
In foreign currency		
Current accounts held with foreign banks	567.057	516.487
Cash on hand	86.598	42.344
	653.655	**558.831**
Balance as of 31 December	**693.646**	**679.428**

The obligatory reserve in local currency – Dinars (RSD), represents the minimal reserve in foreign currency allocated in line with the National Bank of Serbia's Decision on Banks' Required Reserves with the National Bank of Serbia ("RS Official Gazette", no. 12/2010 and 78/2010).

The Bank is required to calculate and allocate the obligatory reserves in Dinars to its gyro account held with the National Bank of Serbia amounting to 5% (2009: 10%) on the basis of the average daily balance of liabilities in Dinars during the preceding calendar month.

The Bank calculates required reserves against liabilities in respect of dinar deposits, credits and securities, as well as other dinar liabilities, excluding dinar deposits received under transactions performed by the Bank on behalf and for the account of third parties that are not in excess of the amount of investment made from such deposits.

As an exception, the Bank shall not calculate required reserves against: liabilities due to the National Bank of Serbia; liabilities due to banks allocating required reserves with the National Bank of Serbia; dinar liabilities in respect of funds received by banks from international financial institutions, governments and financial institutions founded by foreign states, through the intermediation of the government as the main debtor and/or owner of these funds or received directly; dinar and foreign currency liabilities in respect of deposits, credits and other funds received from abroad from 1 October 2008 to 31 March 2010, until the originally established maturity of such liabilities, but not later than 31 December 2013; time dinar savings deposits accumulated from 31 October to 8 November 2010 - until the end of their term, provided they are not foreign currency clause-indexed.

During the maintenance period, the Bank is obliged to keep the average daily balance of allocated dinar required reserves at the level of calculated dinar reserve requirements. The calculated obligatory reserve in Dinars for December 2010 amounted to RSD 23.854 thousand (December 2009: RSD 116.827 thousand) and it was in line with the aforementioned Decision of the National Bank of Serbia.

Average interest rate on the balance of the obligatory reserve in Dinars set aside equalled to 2,5% per annum during 2010 (2009: 2,5% per annum).

16. REVOCABLE DEPOSITS AND LOANS

	In RSD thousand 2010	2009
In Dinars		
Liquidity surpluses deposited with the National Bank of Serbia	59.000	390.000
Repo placements with the National Bank of Serbia	-	700.000
	59.000	**1.090.000**
In foreign currency		
Obligatory reserve	225.598	111.558
	225.598	**111.558**
Balance as of 31 December	**284.598**	**1.201.558**

The interest rate for liquidity surpluses deposited with the National Bank of Serbia in 2010 ranged from 5,5% to 9% per annum.

Pursuant to the National Bank of Serbia's decision on Required Reserves of Banks held with the National Bank of Serbia ("RS Official Gazette", no. 12/2010 and 78/2010), the Bank calculates and allocates required reserves to its foreign currency accounts held with the National Bank of Serbia amounting to 25% (2009: 45%) of the average daily balance of liabilities in foreign currency and the amount of the average daily balance of liabilities in Dinars which are foreign currency clause-indexed during the preceding calendar month.

As an exception, the Bank does not calculate required reserves against: liabilities due to the National Bank of Serbia; liabilities due to banks allocating required reserves with the National Bank of Serbia; subordinated liabilities recognized by the National Bank of Serbia as eligible for inclusion into the bank's supplementary capital; foreign currency liabilities in respect of funds received by banks from international financial institutions, governments and financial institutions founded by foreign states, through the intermediation of the government as the main debtor and/or owner of these funds or received directly; foreign currency balances held by leasing companies in a special purpose account opened with a bank; dinar and foreign currency liabilities in respect of deposits, credits and other funds received from abroad from 1 October 2008 to 31 March 2010, until the originally established maturity of such liabilities, but not later than 31 December 2013; time dinar savings deposits accumulated from 31 October to 8 November, until the end of their term, provided they are not foreign currency clause-indexed.

During the maintenance period, the Bank is obliged to keep the average daily balances of allocated foreign currency required reserves at the level of calculated foreign currency reserve requirements.

Starting from the 18 April–17 May 2010 and ending with the 18 January–17 February 2011 maintenance period, the Bank is obliged to keep the average daily balance of allocated foreign currency required reserves at least at the level of the reference foreign currency required reserves, in any maintenance period in which the calculated foreign currency required reserves are lower than the reference foreign currency required reserve.

16. REVOCABLE DEPOSITS AND LOANS (Continued)

The reference foreign currency required reserve equals to the required reserves calculated in Euros on 17 March 2010 in line with the Decision on Banks' Required Reserves with the National Bank of Serbia ("RS Official Gazette", no. 116/2006, 3/2007, 31/2007, 93/2007, 35/2008, 94/2008, 100/2008, 107/2008, 110/2008, 112/2008, 12/2009, 39/2009, 44/2009, 47/2009 and 111/2009), reduced by the amount of required reserves as calculated on that day in respect of foreign currency balances held by leasing companies in a special-purpose account opened with the Bank and increased by the amount of dinar required reserves calculated on the same day in respect of foreign currency clause indexed dinar liabilities.

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

In accordance with the Decision on Bank's Required Reserves with the National Bank of Serbia in respect of foreign currency balances held by leasing companies in special purpose accounts with Banks ("RS Official Gazette", no. 12/2010), the Bank is obliged to calculate and allocate required reserves in respect of foreign currency balances held by leasing companies in special purpose bank accounts ("leasing required reserves"), by applying 100% ratio on the daily average of reservable liabilities.

The Bank allocates the calculated leasing required reserves to foreign currency accounts of the National Bank of Serbia in Euros, and, exceptionally, if allocation of leasing required reserves causes the Bank's foreign exchange risk ratio to deviate from the ratio prescribed by the National Bank of Serbia's decision on risk management, the Bank may allocate such reserves in US dollars.

As of 31 December 2010, the Bank's obligatory reserve in foreign currency was in compliance with the aforementioned Decision of the National Bank of Serbia.

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

In RSD thousand

	2010	2009
In Dinars		
Interest and fees receivable from:		
- Corporate customers	3.980	1.339
- Retail customers	8	-
	3.988	**1.339**
In foreing currency		
Fees receivable from foreign banks	15.825	-
Gross receivables	**19.813**	**1.339**
Less: Allowance for impairment (Note 8(b))	(208)	(71)
Balance as of 31 December	**19.605**	**1.268**

18. LOANS AND ADVANCES

(a) Summary per Type of Loans and Advances

	2010	2009
		In RSD thousand
Short-term loans in Dinars:		
- Banks	-	93.000
- Corporate customers	1.348.392	228.776
- Retail customers	892	76
	1.349.284	**321.852**
Short-term loans in Dinars:		
- Retail customers	20.122	-
	20.122	**-**
Short-term loans in foreign currency:		
- Banks	-	93.012
	-	**93.012**
Other financial placements in foreign currencies	**4.219**	**3.836**
Gross loans and advances	**1.373.625**	**418.700**
Less: Allowance for impairment (Note 8(b))	(11.067)	(1.477)
Balance as of 31 December	**1.362.558**	**417.223**

As of 31 December 2010, loans in Dinars amounting to RSD 731.524 thousand include a foreign currency clause.

The loans are secured by collaterals, the estimated value of which as of the balance sheet date amounts to RSD 1.079.754 thousand (31 December 2009: RSD 305.345 thousand).

Short-term loans have been granted to corporate customers for financing business activities in trading, processing industry and for other purposes, at the rates ranging from 5,527% to 8,027% per annum for loans with foreign currency clause, i.e., at rates ranging from 13% to 17% per annum for loans in Dinars.

The interest rates on short-term retail loans in Dinars ranged from 19% to 30% per annum. The interest rates on long-term retail loans ranged from 14,7% per annum for cash loans with foreign currency clause to 20,5% per annum for cash and refinancing loans in Dinars.

The most significant individual outstanding balances of loans and advances relate to the following customers: Beohemija d.o.o., Belgrade, Nelt Co. d.o.o., Belgrade, Galenika a.d., Belgrade, Rudnap Group a.d., Belgrade and Fertil d.o.o., Backa Palanka, representing 95% of the gross loan portfolio of the Bank as of 31 December 2010.

Other financial placemetns in foreign currency amounting to RSD 4.219 thousand as of 31 December 2010 (31 December 2009: RSD 3.836 thousand) completely relate to the guarantee deposit amounting to EUR 40.000 wih the Central Securities Depository and Clearing House.

18. LOANS AND ADVANCES (Continued)

(b) Maturity Structure of Loans and Advances

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

In RSD thousand

	2010	2009
Up to 30 days	399.856	186.012
From 1 to 3 months	120.553	-
From 3 to 12 months	828.875	228.852
Over 1 year	24.341	3.836
	1.373.625	**418.700**

(c) Industry Concentration of Loans and Advances

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

In RSD thousand

	2010	2009
Processing industry	730.034	42.055
Trading	618.358	186.721
Domestic and foreign banks	-	186.012
Retail customers	21.014	76
Other	4.219	3.836
	1.373.625	**418.700**

19. OTHER PLACEMENTS

In RSD thousand

	2010	2009
In Dinars		
Placements to retail customers – receivables arising from Visa and Dina credit cards	128	-
	128	**-**
In foreign currency		
Interest on guarantee deposit with the Central Securities Depository and Clearing House	64	39
	64	**39**
Gross other placements	**192**	**39**
Less: Allowance for impairment (Note 8(b))	(13)	-
Balance as of 31 December	**179**	**39**

20. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in property, plant and equipment and intangible assets during the year were as follows:

In RSD thousand

	Equipment	Leased equipment	Construction in progress and advances	Total property, plant and equipment	Intangible assets
COST					
1 January 2009	**36.976**	**261**	**996**	**38.233**	**80.508**
Additions /(transfer) during the year	20.332	28.622	(996)	47.958	21.376
Balance as of 31 December 2009	**57.308**	**28.883**	**-**	**86.191**	**101.884**
Additions during the year	6.810	4.748	-	11.558	7.781
Disposals	(53)	-	-	(53)	-
Balance as of 31 December 2010	**64.065**	**33.631**	**-**	**97.696**	**109.665**
ACCUMULATED DEPRECIATION/ AMORTIZATION					
1 January 2009	**190**	**-**	**-**	**190**	**931**
Depreciation and amortization (Note 10)	9.281	3.844	-	13.125	16.384
Balance as of 31 December 2009	**9.471**	**3.844**	**-**	**13.315**	**17.315**
Depreciation and amortization (Note 10)	10.313	5.777	-	16.090	20.451
Disposals	(21)	-	-	(21)	-
Balance as of 31 December 2010	**19.763**	**9.621**	**-**	**29.384**	**37.766**
Net book value as of:					
- 31 December 2010	**44.302**	**24.010**	**-**	**68.312**	**71.899**
- 31 December 2009	**47.837**	**25.039**	**-**	**72.876**	**84.569**

Net book value of equipment as of 31 December 2010 mostly relates to computer and telecommunication equipment and office furniture.

Net book value of intangible assets as of 31 December 2010 mostly relates to software and licenses.

The Bank's management estimates there are no indications that property and equipment and intangible assets are impaired as of 31 December 2010.

21. OTHER ASSETS

	2010	In RSD thousand 2009
Receivables from employees	77	33
Advances paid	1.111	735
Accrued receivables for interest and fees:		
- in Dinars	14.266	21.913
- in foreign currency	-	3
Receivables for overpaid taxes	-	151
Other accruals	1.588	1.984
Other receivables	591	8
Gross other assets	**17.633**	**24.827**
Less: Allowance for impairment (Note 8 (b))	(12)	(12)
Balance as of 31 December	**17.621**	**24.815**

22. SIGHT DEPOSITS

	2010	In RSD thousand 2009
In Dinars		
- Corporate customers	143.831	255.798
- Retail customers	1.839	1.913
	145.670	**257.711**
In foreign currency		
- Corporate customers	97.001	53.381
- Retail customers	12.703	7.579
- Other customers	527	4
	110.231	**60.964**
Balance as of 31 December	**255.901**	**318.675**

The Bank pays interest on sight deposits at rates up to 10,5% per annum, depending on the currency and the amount of a deposit.

Sight deposits of retail customers in Dinars earn interest at rates ranging from 2% to 3,5% per annum, i.e., at rates from 3,5 % per annum for a vista deposits in Dinars to 2% per annum for a vista deposits in EUR.

As of 31 December 2010, the major corporate depositors of the Bank are Dunav osiguranje a.d., Belgrade, Jat Tehnika d.o.o., Belgrade, NIS a.d., Novi Sad and Nectar d.o.o., Backa Palanka, representing 62% of the outstanding balance of sight deposits at the balance sheet date.

23. OTHER DEPOSITS

	2010	In RSD thousand 2009
In Dinars		
Savings deposits:		
- Retail customers	84	321
Specific purpose deposits of corporate customers	778	24
Other short-term deposits of corporate customers	48.238	530.882
	49.100	**531.227**
In foreign currency		
Savings deposits:		
- Retail customers	916.414	427.013
- Foreign entities	21.776	72.508
Other short-term deposits of corporate customers	4.494	44.037
	942.684	**543.558**
Balance as of 31 December	**991.784**	**1.074.785**

Fixed-term deposits in Dinars and foreign currency are deposited with interest rates ranging from 1,80% to 12,50% per annum, depending on the currency and the period the funds have been deposited for. Specific purpose deposits are not interest-bearing.

Short-term deposits in Dinars deposited by retail customers earn interest at rates ranging from 6,5% to 12,5% per annum, depending on the period that the funds have been deposited for.

The interest rates on the short-term retail customers' deposits in foreign currency range from 1,80% to 7,5% per annum, depending on the currency and the period the funds have been deposited for.

Long-term deposits placed by retail customers in foreign currency earn interest at rates ranging from 6,50% do 8,00% per annum for deposits in EUR, depending on the period that the funds have been deposited for.

24. BORROWINGS

	2010	2009
		In RSD thousand
Other short-term liabilities in foreign currency	1.803	323
Balance as of 31 December	**1.803**	**323**

Other financial liabilities in foreign currency amounting to RSD 1.803 thousand as of 31 December 2010 (31 December 2009: RSD 323 thousand) relate to liabilities for unallocated receipts from abroad.

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

	2010	2009
		In RSD thousand
In Dinars		
Interest and fees payable to corporate customers	492	1.802
Balance as of 31 December	**492**	**1.802**

26. PROVISIONS

In RSD thousand

	2010	2009
Provision for off-balance sheet items (a)	964	249
Provision for retirement benefits (b)	1.792	1.820
Balance as of 31 December	**2.756**	**2.069**

(a) According to the Bank's internal policy, provision for commitments and other risky off-balance sheet items (guarantees, acceptances, undrawn credit facilities etc.) is established when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank's commitment, and when the objective evidence of such probability exists.

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., and that the customer has been classified in accordance with the Bank's classification criteria into one of the categories G1, G2, G3 and D. Individual assessment of impairment of off-balance sheet items is performed in the same manner as for the balance sheet assets. Commitments 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 are not provided for.

(b) The provision for retirement benefits has been recorded in the Bank's financial statements on the basis of an independent actuary's calculation as of the balance sheet date, and it is stated in the amount of present value of the future defined benefit obligation.

The discount rate used by the actuary was 7%, representing the adequate rate under IAS 19 "Employee Benefits", in the absence of a developed market for high quality corporate bonds. The provision was determined in line with the Bank's Labour Rule Book and the assumption of average salary increase rate of 3% per annum.

(c) Movements in provisions during the year were as follows:

In RSD thousand

	2010	2009
Provisions for off-balance sheet items		
Balance as of 1 January	249	-
Charge for the year (Note 8(a))	1.999	249
Release of provision (Note 8(a))	(1.284)	-
	964	**249**
Provision for retirement benefits		
Balance as of 1 January	1.820	1.833
Release of provision (Note 8(a))	(28)	(14)
Other changes	-	1
	1.792	**1.820**
Balance as of 31 December	**2.756**	**2.069**

27. TAX LIABILITIES

Tax liabilities amounting to RSD 6 thousand as of 31 December 2010 (31 December 2009: RSD 267 thousand), completely relate to liabilities for capital yield tax, i.e., withholding tax for individuals.

28. OTHER LIABILITIES

In RSD thousand

	2010	2009
Trade payables	2.888	2.575
Liabilities for unused vacations (Note 9)	4.819	2.611
Deferred interest income in Dinars	3.303	1.656
Deferred other income	4.258	1.088
Accrued interest expense:		
- in Dinars	24	7
- in foreign currencies	6.652	675
Accrued other expenses	9	417
Subordinated liabilities	527.491	143.833
Other liabilities	2.648	3.818
Balance as of 31 December	**552.092**	**156.680**

Outstanding balance and structure of ***subordinated liabilities*** as of 31 December 2010 are presented in the following table:

In RSD thousand

Creditor	Currency	Contracted amount	Approval date	Maturity date	31 December 2010	31 December 2009
Bank of Moscow, Moscow	EUR	1.500.000	11.11.2009.	6 years	158.247	143.833
Bank of Moscow, Moscow	EUR	1.500.000	28.12.2009.	6 years	158.247	-
Bank of Moscow, Moscow	EUR	2.000.000	01.10.2010.	7 years	210.997	-
Total		**5.000.000**			**527.491**	**143.833**

The Subordinated Loan Agreement was entered into between the Joint Stock Commercial Bank - Bank of Moscow, Russian Federation and the Bank on 11 November 2009 for the initial amount of EUR 1.500.000, with the repayment period of 6 years. The interest rate on this loan amounts to 7,75% per annum.

The Bank can include its subordinated liabilities into its Tier 2 capital (Note 33.8) in the amount not exceeding 50% of Tier 1 capital, i.e. 75% of Tier 1 capital (pursuant to the Decision on Temporary Measures for Preserving Financial Stability in the Republic of Serbia), 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 Bank Supervision Department of the National Bank of Serbia, submitted the aforementioned approval to the Bank on 20 October 2009.

28. OTHER LIABILITIES (Continued)

Pursuant to the Board of Directors' Decision on Loan Engagement of Moskovska banka a.d., Beograd dated 4 December 2009, on 28 December 2009, the Bank entered into the Subordinated Loan Agreement totalling EUR 1.500.000, with its shareholder - Joint Stock Commercial Bank – Bank of Moscow, Russian Federation. The loan was granted with the repayment period of 6 years, bearing an interest at the rate of 7,75% per annum.

On 23 December 2009, the Banks Supervision Department of the National Bank of Serbia issued the approval that the Bank can include the aforementioned subordinated loan into its Tier 2 capital. The subordinated loan was effected by the shareholder on 12 January 2010 (value date), while it was recorded in the Bank's books of account on 13 January 2010.

On 1 October 2010, the Bank entered into the Subordinated Loan Agreement totalling EUR 2.000.000 with its shareholder - Joint Stock Commercial Bank – Bank of Moscow, Russian Federation. The loan was granted with the repayment period of 7 years, bearing an interest at the rate of 6,85% per annum.

On 30 September 2010, the Banks Supervision Department of the National Bank of Serbia issued the approval that the Bank can include the aforementioned subordinated loan into its Tier 2 capital. The subordinated loan was effected by the shareholder on 5 October 2010 (value date), when it was also recorded in the Bank's books of account.

29. EQUITY

(a) Equity Structure

The Bank's equity consists of share capital and accumulated losses, as presented in the table below:

	In RSD thousand	
	2010	**2009**
Share capital – ordinary shares	1.235.135	1.235.135
Accumulated losses	(308.828)	(112.277)
Loss for the year	(215.064)	(196.551)
Balance as of 31 December	**711.243**	**926.307**

The sole shareholder of the Bank is the Joint Stock Commercial Bank – Bank of Moscow, Russian Federation, holding 100% of interest in the share capital as of 31 December 2010 and 2009.

As of 31 December 2010 and 2009, subscribed and paid in share capital of the Bank comprised 2.470.269 ordinary shares, with nominal value of RSD 500 per share.

29. EQUITY (Continued)

(a) Equity Structure (Continued)

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 ("RS Official Gazette", no. 129/2007, 63/2008, 104/2009 and 30/2010).

As of 31 December 2010, required special reserves against estimated losses on balance sheet assets and off-balance sheet items, after being reduced for allowances for impairment of balance sheet assets and provision for losses for off-balance sheet items, and calculated in accordance with the aforementioned Decision of the National Bank of Serbia (Note 2.9), amounts to RSD 52.910 thousand (31 December 2009: RSD 8.625 thousand).

Since the Bank incurred loss for the year ended 31 December 2010 amounting to RSD 215.064 thousand, the Bank has not appropriated the aforementioned amount at a special loan loss provision account within reserves, but it disclosed the shortfall amount of the special reserves for estimated losses of RSD 52.910 thousand (31 December 2009: RSD 8.625 thousand).

(b) Performance Indicators – Compliance with Legal Regulations

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

As of 31 December 2010, the Bank was in compliance with all prescribed performance indicators.

The Bank's performance indicators as of 31 December 2010 are as follows:

Performance indicators	Prescribed	Realized
1. Capital	Minimum EUR 10 million	EUR 10.103.898
2. Capital adequacy ratio	Minimum 12%	54,41%
3. Permanent investments indicator	Maximum 60%	6,41%
4. Related parties exposure	Maximum 20%	1,50%
5. The total sum of all large exposures of the Bank in relation to regulatory capital	Maximum 400%	136,24%
6. Monthly average liquidity ratios:		
- in the first month of the reporting period	Minimum 1	5,41
- in the second month of the reporting period	Minimum 1	5,81
- in the third month of the reporting period	Minimum 1	4,23
7. Foreign currency risk indicator	Maximum 20%	1,28%

30. OFF-BALANCE SHEET ITEMS

	2010	In RSD thousand 2009
Guarantees and other irrevocable commitments (a)	1.032.553	150.499
Other off-balance sheet items (b)	871.007	1.369.523
Balance as of 31 December	**1.903.560**	**1.520.022**

(a) Guarantees and Other Irrevocable Commitments

	2010	In RSD thousand 2009
Payment guarantees:		
- in Dinars	600	3.747
- in foreign currency	21.774	72.507
	22.374	**76.254**
Performance bonds:		
- in Dinars	4.888	52.749
- in foreign currency	870.974	-
	875.862	**52.749**
Irrevocable committments	**134.317**	**21.496**
Balance as of 31 December	**1.032.553**	**150.499**

The Bank establishes provisions for commitments and other risky off-balance sheet items in accordance with accounting policy disclosed in Note 26(a) to the financial statements. As of 31 December 2010, the provision against losses on commitments and other irrevocable liabilities recognized in the Bank's financial statements, amounted to RSD 964 thousand (31 December 2009: RSD 249 thousand).

As of 31 December 2010, payment guarantees in Dinars mostly relate to guarantees issued to the company Su-Port d.o.o., Belgrade in the amount of RSD 600 thousand. Performance guarantees in Dinars mostly relate to guarantees issued by the Bank on behalf of Jadran a.d., Belgrade in the amount of RSD 4.780 thousand.

As of 31 December 2010, payment guarantees and performance bonds in foreign currency relate to guarantess issued to the company J.S.C. Metrovagonmash, Russian Federation in the amount of RSD 21.774 thousand, i.e., RSD 870.974 thousand.

Irrevocable commitments relate to undrawn credit facilities which cannot be unilaterally revoked, unused permitted overdrafts on current accounts and permitted credit limits on credit cards.

Undrawn credit facilities of corporate customers as of 31 December 2010 amount to RSD 133.666 thousand (31 December 2009: RSD 21.496 thousand). The Bank had irrevocable committments arising from unused overdrafts on current accounts in the amount of RSD 304 thousand, while permitted credit limits on credit cards amounted to RSD 347 thousand.

30. OFF-BALANCE SHEET ITEMS (Continued)

(b) Other Off-balance Sheet Items

In RSD thousand

	2010	2009
Received securities for repurchase transactions	-	700.000
Loro guarantees	870.974	669.473
Other	33	50
Balance as of 31 December	**871.007**	**1.369.523**

31. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with the shareholder and other related parties in the ordinary course of business. These transactions were carried out at commercial terms and conditions and at market rates.

(a) Outstanding balance of receivables and payables as of 31 December 2010 and 2009 resulting from transactions with shareholders and other Bank's related parties are presented in the following table:

In RSD thousand

	2010	2009
Borrowings and deposits:		
Borrowings from shareholders	527.491	143.833
Deposits of individuals related to the Bank (in the sense of the Law that regulates banks' operations)	68.837	1.579
Total	**596.328**	**145.412**

(b) Interest, fees and commission income earned in transactions with the related parties in 2010 amounted to RSD 54.554 thousand (2009: RSD 15.732 thousand).

Interest expense on the borrowings from the shareholder in 2010 amounted to RSD 30.182 thousand (2009: RSD 1.674 thousand), while interest tax expense amounted to RSD 3.026 thousand (2009: RSD 336 thousand).

(c) Salaries and other benefits of the Executive Board members and other key personnel of the Bank (stated in gross amount), during 2010 and 2009 are presented in the following table:

In RSD thousand

	2010	2009
Members of the Executive Board	25.595	19.599
Directors of Sectors	28.462	35.812
Total	**54.057**	**55.411**

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

A market price, where an active market exists, is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of financial assets and liabilities held by the Bank. Therefore, for financial instruments where no market price is available, the fair values of financial assets and liabilities are estimated using present value or other estimation and valuation techniques based on current prevailing market conditions. 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, since published market prices are not readily available. As a result of this, fair value cannot readily or reliably be 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 value of assets stated in its books 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.

The following table presents, by classes of financial instruments, the comparison of their carrying values and their fair values as of 31 December 2010 and 2009.

In RSD thousand

	Carrying value		Fair value	
	2010	2009	2010	2009
Financial assets				
Cash and cash equivalents	693.646	679.428	693.646	679.428
Revocable deposits and loans	284.598	1.201.558	284.598	1.201.558
Interest and fees receivable	19.605	1.268	19.605	1.268
Loans and advances	1.362.558	417.223	1.362.558	417.223
Other placements	179	39	179	39
Other assets, excluding prepayments and accruals	1.779	927	1.779	927
	2.362.365	**2.300.443**	**2.362.365**	**2.300.443**
Financial liabilities				
Sight deposits	255.901	318.675	255.901	318.675
Other deposits	991.784	1.074.785	991.784	1.074.785
Borrowings	1.803	323	1.803	323
Other liabilities, excluding accruals and deferred income	537.846	152.837	537.846	152.837
	1.787.334	**1.546.620**	**1.787.334**	**1.546.620**

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

The following methods and assumptions were used for determining the fair value of the Bank's financial instruments as of 31 December 2010 and 2009:

Financial Instruments for which Fair Value Approximates their Carrying Value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than 3 months), it is assumed that the carrying amounts approximate their fair value.

Fair value of cash and cash equivalents, short-term deposits, other placements and other assets, sight deposits, trade payables and other short-term liabilities approximates their carrying value, primarily due to the short-term maturities of these financial instruments.

The Bank's financial instruments carried at amortized cost mostly have short maturity terms and/or bear variable interest rates that are reflective of current market conditions. The Bank considers consequently that their carrying value approximates their fair value. The fair value of loans and advances to customers is approximately equal to their book value net of related allowance for impairment.

The deposits of banks and customers are mostly sight deposits and on demand or short-term deposits with the contracted variable interest rates and, therefore, the Bank's management deems that their carrying values approximate their fair values.

Fixed-rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates on initial recognition with current market rates.

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

Financial Instruments at Fair Value

Fair value of the abovementioned financial instruments is based on available market information at the reporting date, i.e. quoted market prices. As of 31 December 2010 and 2009, the Bank did not have financial instruments measured at fair value.

Consequently, the Bank has no exposure to fair value fluctuations, and the fair values of financial assets and financial liabilities approximate their carrying amounts stated in the accompanying financial statements.

33. RISK MANAGEMENT

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.

Owing 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, and monitors 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, plant 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.

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.

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 the overall approach to risk management, as well as approval of the strategy and principles of risk management.

In addition, the Bank has established separate independent bodies for managing and monitoring risks.

The Bank's bodies, authorized for risk management, constantly monitor changes in the legislative provisions, while analyzing their influence on the risks at the entity level of the Bank. They take necessary measures to bring the Bank's business activities and procedures in line with new procedures within the scope of controlled risk.

Risk Management Sector

In the aim of establishing an integrated system of risk management and enabling functional and organizational segregation of risk management activity and regular operating activities, the Bank has established the Risk Management Sector.

Within the scope of activities of this Sector is liquidity risk management, as well as management of interest, foreign exchange and other market risks, managing the Bank's exposure to related party or group of related parties, management of investments in other legal entities and in fixed assets, management of risk exposure towards the country of client's origin, operational risk management and development of internal methodology for the evaluation, measurement and management of the risks that the Bank is exposed to.

Risk management organizational units are responsible for implementation and maintaining the procedures related to risks, which provides independent control of the process.

Within the scope of activities of this Sector is also credit risk management and providing recommendations for the Bank's exposures that are under the influence of credit risk.

33. RISK MANAGEMENT (Continued)

Treasury Department and Assets and Liabilities Managing Committee

Treasury Department is responsible for managing assets and liabilities and the overall financial structure of the Bank. Furthermore, it is responsible for the funding and liquidity of the Bank. The Assets and Liabilities Managing Committee is responsible for monitoring and managing liquidity risk.

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 procedures. Internal audit discusses the results of all assessments with the 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 loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience received on bank group level, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event of the extreme events, unlikely to occur, occurring.

Monitoring and controlling risks is primarily based on limits establishing. 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. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Information collected from all operating activities is examined and processed in order to identify, analyze and control early risks. This information is presented and explained to the Board of Directors, Executive Board, Risk Management Sector and heads of all business units. The reports contain the total credit exposure, investment forecasts, departure from established limits, market risk measurement, liquidity ratios and changes in risk profiles.

The Bank's management assessed the adequacy of adjustments to placements on quarterly basis. The Bank quarterly presents an extensive report on risks to Supervisory Board 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 organizational units have access to comprehensive, necessary and updated information. A daily report on the use of market limits, liquidity, currency risk and other important information is delivered to all executive managers and relevant members of the Bank's Executive Board.

33.1. Credit Risk

Credit risk is the risk from occurrence of adverse effects to the financial performance and equity of the Bank due to the failure of credit beneficiaries to discharge contractual obligations to the Bank.

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

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (Continued)

In accordance with the Bank's Risk management policy, the Procedures for managing the credit risk for granting, effecting and collecting the placements, the process of credit risk management at the portfolio level, i.e., the procedures of identification, measurement and monitoring (control) of placements, especially those with increased risk levels, have been defined. In accordance with the aforementioned Procedures, the Bank engages in activities with customers who have the appropriate creditworthiness and the risk levels estimated as acceptable, considering the ratio and connection of the categories of risk and profitability.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, as well as by monitoring exposures in relation to these limits. Exposure to credit risk is continuously monitored by periodical assessments of the credit beneficiaries' abilities to settle their liabilities to the Bank and other creditors.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which classify every counterparty according to certain credit rang as well as according to internal methodology which defines the level of exposure that the Bank is willing to accept toward individual customer or the group of related parties. The classification of counterparties is subject to regular reviews. The credit quality review process allows the Bank to assess the potential loss as a result of the risk to which it is exposed and take corrective actions.

Making decisions on exposure to credit risk is, according to the Bank's policy, centralized and concentrated in the Credit Committee for corporate and retail customers. Decisions of the Credit Committees are made upon consideration of proposals provided by competent sectors included in the process of granting loans and the Risk Management Sector.

The terms for approval of each corporate loan are determined individually depending on client type, loan's purpose, estimated creditworthiness and current market situation. Type of collateral that accompanies each loan is also determined according to the client creditworthiness analysis, type of credit risk exposure, term of the placement as well as the amount of a particular loan. All of the Bank's placements are based on relevant approvals, which determine the provisions and other conditions for their implementation.

Reporting on credit risk is based on permanent monitoring at the level of the total portfolio of the Bank as well as at the individual client level. In accordance with the shareholder's request, credit risk is reported on monthly basis, when the overview of portfolio, defaults, movements in provisions and equity of the Bank is presented.

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. The Bank is not exposed to this risk, since it does not have derivative financial instruments.

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (Continued)

Credit-related Risks

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

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

The table below represents the worst case scenario of credit risk exposure as of 31 December 2010 and 2009, without taking into account collateral held and other credit enhancements. The exposures to credit risk are presented at their carrying values at the reporting date.

In RSD thousand

	31 December 2010	31 December 2009
Interest and fees receivable, receivables from sales and other receivables	19.813	1.339
Loans to, and placements with banks	-	186.012
Loans and advances to customers	1.369.406	228.852
Other assets	128	-
Total credit risk exposure by balance sheet assets	**1.389.347**	**416.203**
Exposure to credit risk by off-balance sheet items:	**1.032.553**	**150.499**
- Payment guarantees	22.374	76.254
- Performance bonds	875.862	52.749
- Other irrevocable commitments	134.317	21.496
Total exposure	**2.421.900**	**566.702**

Concentration of risk occurs when a significant number of customers either belongs to the similar industry, or the same geographical region, or has similar economic characteristics which may impact their ability to settle their contractual obligation in the event of changes in economic, political or some other circumstances which affect them equally. Risk concentration indicates the Bank's relative sensibility to changes impacting certain industry or geographical region.

In order to avoid excessive risk concentration, the Bank's policies and procedures contain specific guidelines for the development and preservation of diversified portfolio. Accordingly, the Bank controls and manages identified concentrations of credit risks. Concentration of risk is managed by setting the limits by customer/counterparty, by geographical region and by industry sector.

The analysis of the Bank's credit risk exposure by industry sectors with the balance as of 31 December 2010 and 2009 is presented in Note 18(c), while credit risk exposure by balance sheet and off-balance sheet items is disclosed in Note 30(a) to the financial statements.

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (Continued)

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

The structure of the Bank's credit risk exposure stated at the carrying value as of 31 December 2010, grouped by geographical sectors, is presented in the table below:

In RSD thousand

	Serbia	Europe	Total
Interest and fees receivable, receivables from sales and other receivables	4.016	15.925	19.941
Loans to customers:	*1.369.406*	-	*1.369.406*
- Corporate customers	1.348.392	-	1.348.392
- Retail customers	21.014	-	21.014
Guarantees and other irrevocable commitments	139.805	892.748	1.032.553
Balance as of 31 December 2010	**1.513.227**	**908.673**	**2.421.900**
Balance as of 31 December 2009	**494.195**	**72.507**	**566.702**

The analysis of the Bank's credit risk exposure by industry sectors, before and after taking into account collateral held and other credit enhancements, as of 31 December 2010 and 2009 is presented in the table below:

In RSD thousand

	Gross maximum exposure 2010	Net maximum exposure 2010	Gross maximum exposure 2009	Net maximum exposure 2009
Processing industry	732.186	732.079	42.114	58
Trade	730.463	730.463	188.001	127.333
Finance	15.835	15.835	186.012	186.012
Retail customers	21.790	21.790	76	76
Other	921.626	28.090	150.499	34
Total	**2.421.900**	**1.528.257**	**566.702**	**313.513**

As of 31 December 2010, the Bank has the following large loans exceeding 10% of regulatory capital extended to one entity or a group of related entities: related entities Interkomerc a.d., Belgrade and Beohemija d.o.o., Belgrade (22,91% of regulatory capital), Nelt Co. d.o.o., Belgrade (20% of regulatory capital), Rudnap Group a.d., Belgrade (19,70% of regulatory capital), Fertil d.o.o. Backa Palanka (19,62% of regulatory capital), JAT Tehnika d.o.o., Belgrade (19,57% of regulatory capital), Galenika a.d., Belgrade (18,17% of regulatory capital) and Valjaonica bakra Sevojno a.d., Sevojno (14,77% of regulatory capital).

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (Continued)

(b) Portfolio Quality

The following table presents the quality of portfolio (including gross loans and placements and off-balance sheet exposure) as of 31 December 2010, by types of placements and based on the Bank's grading system:

In RSD thousand

	Neither past due nor impaired				
	High quality level	Standard quality level	Sub-standard quality level	Overdue or individually impaired	Total 2010
Placements to banks	15.825	-	-	-	15.825
Placements to customers:					
Corporate customers	1.337.042	-	-	-	1.337.042
Small size and medium size companies	-	-	-	15.466	15.466
Retail customers	20.845	-	-	169	21.014
Guarantees and other commitments	1.032.553	-	-	-	1.032.553
Total	**2.406.265**	**-**	**-**	**15.635**	**2.421.900**

The following table presents the quality of portfolio (including gross loans and placements and off-balance sheet exposure) as of 31 December 2009, by types of placements and based on the Bank's grading system:

In RSD thousand

	Neither past due nor impaired				
	High quality level	Standard quality level	Sub-standard quality level	Overdue or individually impaired	Total 2009
Placements to banks	186.012	-	-	-	186.012
Placements to customers:					
Corporate customers	230.115	-	-	-	230.115
Small size and medium size companies	76	-	-	-	76
Retail customers	150.499	-	-	-	150.499
Total	**566.702**	**-**	**-**	**-**	**566.702**

Fair value of collaterals for the aforementioned placements amounts to RSD 1.079.754 thousand as of 31 December 2010 (31 December 2009: RSD 840.332 thousand). The fair value of collaterals such as mortgages and deposits amounts to RSD 308.171 thousand, while the fair value of other collaterals, such as pledges over inventories and receivables amounts to RSD 771.583 thousand as of 31 December 2010.

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

Assessment of Impairment of Financial Assets

Impairment of placements (allowance for impairment) is determined based on the assessment of cash flows which will not be realised, and represent the difference between the carrying amount and the recoverable amount (of the expected cash flows), discounted at the effective interest rate.

The major factors considered in the assessment of impairment of a placement are: delinquency in servicing the debt principal or interests overdue for more than 90 days, observed weaknesses in the client's cash flows, customer's credit rating downgrade, or breach of the original terms of the loan contract.

In accordance with its internal methodology disclosed in Note 2.6.3. to the financial statements, the Bank performs the assessment of impairment of financial assets divided into two groups: (a) individually assessed assets - where receivables with objective evidence on impairment and individually significant receivables are assessed, and (b) collectively assessed assets – for receivables which are not individually assessed, and have similar characteristics of credit risk based on the statistical analysis of historical cash flow patterns of that portion of portfolio.

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 Bank Balance Sheet Assets and Off Balance Sheet Items.

Considering that the Bank had a more intensive credit activity in the last quarter of 2010, as well as the fact that the Bank did not have sufficient evidence on the performances of credit exposures, the allowance for impairment of loans and other financial assets in 2010 was made on the basis of expert estimate.

The quality of the Bank's credit portfolio as of 31 December 2010, classified in accordance with the National Bank of Serbia's Decision on Classification of Bank Balance Sheet Assets and Off-balance Sheet Items (Note 2.9), is presented in the table below:

In RSD thousand

	A	B	V	G	D	Total
Risky balance sheet assets						
Banks and other financial organisations	15.825	-	-	-	-	15.825
Corporate customers	213.579	1.123.309	-	15.466	12	1.352.366
Retail customers	19.842	466	324	169	355	21.156
Total	**249.246**	**1.123.775**	**324**	**15.635**	**367**	**1.389.347**
Risky off-balance sheet items	**894.072**	**138.264**	**61**	**11**	**145**	**1.032.553**

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

The quality of the Bank's credit portfolio as of 31 December 2009 is presented in the tables below:

In RSD thousand

	A	B	V	G	D	Total
Risky balance sheet assets						
Banks and other financial organisations	186.012	-	-	-	-	186.012
Corporate customers	58.341	171.774	-	-	-	230.115
Retail customers	76	-	-	-	-	76
Total	**244.429**	**171.774**	**-**	**-**	**-**	**416.203**
Risky off-balance sheet items	**72.507**	**77.992**	**-**	**-**	**-**	**150.499**

Rescheduled Loans

As of 31 December 2010 and 2009, the Bank did not have rescheduled loans.

Collateral and Other Credit Enhancements

The amount and type of the collateral required depends on an assessment of the credit risk of each customer. Terms of protection 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 collaterals and the parameters of their valuation.

Standard collateral accepted by the Bank are as follows:

- For corporate loans, real estate mortgages, pledges over inventories and receivables, and
- For retail customers, real estate mortgages.

The Bank's management monitors the movements in the fair value of collaterals, demands additional collaterals in accordance with the relevant contracts and controls the fair value of collateral arrived at by perceiving the adequacy of the allowance for impairment.

(c) Default Receivables

The Bank pays special attention to default receivables by monitoring the total outstanding balance and the trend of these loans and advances. Default is monitored at the Bank level, and in accordance with the product criteria (for retail customers) and the industrial sector the customers belongs to, as well as the maturity structure (for corporate clients and entrepreneurs). In accordance with the regulations, default receivables related to enterprises and entrepreneurs are monitored at customer (counter party) level, and, as for individuals, at the level of individual receivable.

As of 31 December 2010 and 2009, the Bank did not have default receivables.

33. RISK MANAGEMENT (Continued)

33.2. Liquidity Risk

Liquidity risk is the risk that the Bank would not be able to discharge its liabilities when they fall due. To decrease or limit this risk, the Bank's management strives to arrange diversified funding sources in addition to its core deposit base, to manage assets with liquidity in mind, and to monitor future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows in Dinars and in foreign currency, and the availability of high grade collateral which could be used to secure additional funding if required.

The Assets and Liabilities Managing Committee and the Commission for Liquidity are responsible for monitoring and controlling liquidity risk. They recommend 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 Bank manages its assets and liabilities in such a way that it can fulfil its due obligations at all times, as well as to have customers disposing with their pecuniary assets in the Bank in accordance with agreed deadlines.

Main liquidity parameters are monitored daily by the Commission for Liquidity in order to coordinate inflows and outflows of pecuniary assets, so that daily liquidity parameters remain within the limits prescribed by the National Bank of Serbia.

The coordination of maturity of placements with their sources is the basis of providing the preferred management and the establishment of necessary liquidity level. The decision-making process on maturity of placements is based on the information on the maturity of deposits, especially on the one referring to the movement in the deposits of important clients, particularly short-term once. When deciding, the Bank is making sure that pecuniary assets are not transferred from short-term sources into long-term placements.

The level of liquidity is expressed using the ratio of the sum of the first and second level of liquid assets (cash, assets on accounts with other banks, deposits with the National Bank of Serbia, receivables in the process of realisation, irrevocable credit lines approved to the Bank, quoted financial instruments and other receivables due within a month) and the sum of liabilities on demand without contracted maturity date and liabilities with fixed maturity up to one month.

The liquidity ratios in 2010 and 2009 were as follows:

	2010	2009
Average during the period	4,85	11,52
Highest	10,378	44,367
Lowest	1,82	1,47
As of 31 December	5,74	3,15

Sources of financing are permanently monitored in order to maintain the diversification of sources of financing by currency, geographical origin, the source provider, products and maturity.

33. RISK MANAGEMENT (Continued)

33.2. Liquidity Risk (Continued)

The table below analyses the Bank's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The table includes the interest and the principal of the cash flows. The Bank expects that the major part of the customers will not withdraw their deposits when they fall due, while the following table does not reflect the expected cash flows based on the Bank's historical experience of retaining the deposits.

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 December 2010						
Sight deposits	256.393	-	-	-	-	256.393
Other deposits	43.246	48.741	946.104	9.236	-	1.047.327
Borrowings	1.803	-	-	-	-	1.803
Subordinated liabilities	-	-	-	457.579	323.103	780.682
Other liabilities	5.534	-	19.067	-	-	24.601
Total	**306.976**	**48.741**	**965.171**	**466.815**	**323.103**	**2.110.806**
31 December 2009						
Sight deposits	318.675	-	-	-	-	318.675
Other deposits	543.899	33.804	499.105	9.429	-	1.086.237
Borrowings	323	-	-	-	-	323
Subordinated liabilities	-	-	-	-	209.158	209.158
Other liabilities	8.462	-	6.454	-	-	14.916
Total	**871.359**	**33.804**	**505.559**	**9.429**	**209.158**	**1.629.309**

The maturity structure of guarantees and undrawn loans and limits based on the remaining period as of 31 December 2010 to the contractual maturity date is presented in the table below:

In RSD thousand

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
31 December 2010				
Guarantees	26.096	872.140	-	898.236
Commitments for undrawn loans and limits	134.317	-	-	134.317
Total	**160.413**	**872.140**	**-**	**1.032.553**
31 December 2009				
Guarantees	129.003	-	-	129.003
Commitments for undrawn loans and limits	21.496	-	-	21.496
Total	**150.499**	**-**	**-**	**150.499**

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

33. RISK MANAGEMENT (Continued)

33.2. Liquidity Risk (Continued)

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date.

The following table presents Maturity mismatch report as of 31 December 2010:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
ASSETS						
Cash and cash equivalents	693.646	-	-	-	-	693.646
Revocable deposits and loans	284.598	-	-	-	-	284.598
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	19.605	-	-	-	-	19.605
Loans and advances	389.367	120.553	828.526	19.893	4.219	1.362.558
Other placements	115	-	-	-	64	179
Intangible assets	-	-	-	71.899	-	71.899
Property, plant and equipment	-	-	-	68.312	-	68.312
Deferred tax assets	-	-	-	179	-	179
Other assets	1.767	-	15.854	-	-	17.621
Total assets	**1.389.098**	**120.553**	**844.380**	**160.283**	**4.283**	**2.518.597**
LIABILITIES AND EQUITY						
Sight deposits	255.901	-	-	-	-	255.901
Other deposits	77.173	32.635	873.363	8.613	-	991.784
Borrowings	1.803	-	-	-	-	1.803
Interest and fees payable and changes in fair value of derivatives	492	-	-	-	-	492
Provisions	-	-	2.756	-	-	2.756
Tax liabilities	6	-	-	-	-	6
Deferred tax liabilities	-	-	-	2.520	-	2.520
Other liabilities	5.534	-	19.067	-	527.491	552.092
Total liabilities	**340.909**	**32.635**	**895.186**	**11.133**	**527.491**	**1.807.354**
Total equity	-	-	-	-	711.243	**711.243**
Total liabilities and equity	**340.909**	**32.635**	**895.186**	**11.133**	**1.238.734**	**2.518.597**
Maturity mismatch/net liquidity gap as of:						
- 31 December 2010	**1.048.189**	**87.918**	**(50.806)**	**149.150**	**(1.234.451)**	
- 31 December 2009	**1.202.955**	**(27.619)**	**(257.499)**	**148.428**	**(1.066.265)**	

33. RISK MANAGEMENT (Continued)

33.3. Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates, security prices and the price of goods.

The Bank is not exposed to the risk of changes in equity instruments price and the price of goods. Except for the concentration of foreign currency risk, the Bank has no significant concentration of market risk for other items.

33.3.1. Interest Rate Risk

Interest risk is the risk of the occurrence of adverse effects on the financial result and the Bank's capital due to changes in market interest rates.

The Bank is exposed to risk from changes in interest rates, which, through changes in the level of market interest rates, affects its financial position and cash flows, and which is caused by the misbalance of maturity of assets and liabilities with fixed interest rates.

The Bank controls interest risk by monitoring the relation between interest-bearing assets/liabilities and by its participation in total assets/liabilities. The Assets and Liabilities Managing Committee monitors the risk of changes in interest rates on all items of assets, liabilities and off-balance sheet items, interest rates' ranges and impact of changes in interest rates on the Bank's revenue and expenses.

The Assets and Liabilities Managing Committee regularly informs the Executive Board about interest rate risk in order to take certain measures, if necessary. By entering into floating interest rates' agreements, the Bank largely impacts on the decrease in changes of interest rates.

In practice, the Bank's exposure to interest risk is limited, due to monthly harmonizing of rates of the majority of loans and deposits.

Interest rate risk is also monitored by scenario analyses, i.e., observing the impact of interest rate changes on the Bank's income and expenses, as presented in the table below:

Scenario	Change in market interest rates	In RSD thousand Interest rate risk 2010
1	1%	(851,70)
2	2%	(1.734,31)
3	-1%	(2.455,63)
4	-2%	(4.942,17)

Scenario	Change in market interest rates	In RSD thousand Interest rate risk 2009
1	1%	(4.299,45)
2	2%	(8.464,37)
3	-1%	(5.946,54)
4	-2%	(7.390,93)

33. RISK MANAGEMENT (Continued)

33.3. Market Risk (Continued)

33.3.1. Interest Rate Risk (Continued)

The following table shows Reprising Gap report, i.e. the Bank's exposure to the interest rate risk as of 31 December 2010. The table includes the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

In RSD thousand

	Up to 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Non-interest bearing	Total
ASSETS						
Cash and cash equivalents	-	-	-	-	693.646	693.646
Revocable deposits and loans	59.000	-	-	-	225.598	284.598
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	19.605	19.605
Loans and advances	393.454	256.658	688.105	24.341	-	1.362.558
Other placements	-	-	-	-	179	179
Intangible assets	-	-	-	-	71.899	71.899
Property, plant and equipment	-	-	-	-	68.312	68.312
Deferred tax assets	-	-	-	-	179	179
Other assets	-	-	-	-	17.621	17.621
Total assets	**452.454**	**256.658**	**688.105**	**24.341**	**1.097.039**	**2.518.597**
LIABILITIES AND EQUITY						
Sight deposits	255.901	-	-	-	-	255.901
Other deposits	42.501	113.333	776.402	8.613	50.935	991.784
Borrowings	-	-	-	-	1.803	1.803
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	492	492
Provisions	-	-	-	-	2.756	2.756
Tax liabilities	-	-	-	-	6	6
Deferred tax liabilities	-	-	-	-	2.520	2.520
Other liabilities	-	-	-	527.491	24.601	552.092
Total liabilities	**298.402**	**113.333**	**776.402**	**536.104**	**83.113**	**1.807.354**
Total equity	-	-	-	**-**	711.243	**711.243**
Total liabilities and equity	**298.402**	**113.333**	**776.402**	**536.104**	**794.356**	**2.518.597**
Interest sensitivity gap as of:						
- 31 December 2010	**154.052**	**143.325**	**(88.297)**	**(511.763)**	**302.683**	
- 31 December 2009	**621.109**	**(95.250)**	**(205.583)**	**(147.807)**	**(172.469)**	

33. RISK MANAGEMENT (Continued)

33.3. Market Risk (Continued)

33.3.2. Foreign Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Executive Board has established the limits for foreign currency position for each materially significant foreign currency. The positions are monitored on a daily basis to ensure positions are maintained within established limits.

In accordance with National Bank of Serbia's requirements, the Bank regularly maintains its foreign currency position – foreign currency risk indicator within maximal regulatory limits, determined in relation to capital.

The foreign currency risk indicator is the ratio between the total open net foreign currency position and the Bank's regulatory capital (calculated in accordance with the Decision on Capital Adequacy of Banks), whereby the Bank is obliged to ensure that its total net open position does not exceed the amount of 10% of its capital, i.e. 20% of capital in 2010, in accordance with the Decision on Temporary Measures for Preserving Financial Stability in the Republic of Serbia.

During 2010, the Bank strictly paid attention to reconcile the foreign currency risk indicator with the prescribed limit, where this indicator was mostly at the level far below the limit.

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

The analysis presented calculates the effect of the reasonable changes in the exchange rates in relation to RSD, with other variables held constant. Negative values refer to potential decreases in the result of operations (profit/loss) or equity, while the positive values refer to their increase.

In RSD thousand

Currency	Changes in the exchange rate (%) 2010	Effect on the result of operations before tax 2010	Effect on equity 2010
EUR	-20%	(1.897)	(1.897)
CHF	-20%	(833)	(833)
USD	-20%	(56)	(56)

In RSD thousand

Currency	Changes in the exchange rate (%) 2009.	Effect on the result of operations before tax 2009.	Effect on equity 2009.
EUR	-20%	(1.210)	(1.210)
CHF	-20%	(150)	(150)
USD	-20%	(750)	(750)

33. RISK MANAGEMENT (Continued)

33.3. Market Risk (Continued)

33.3.2. Foreign Currency Risk (Continued)

The following table presents the Bank's exposure to foreign currency risk (including a foreign currency clause) as of 31 December 2010. The table includes assets and liabilities at their carrying amounts.

In RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currency	Total in local currency
ASSETS						
Cash and cash equivalents	593.023	33.641	26.991	653.655	39.991	693.646
Revocable deposits and loans	225.598	-	-	225.598	59.000	284.598
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	17.399	-	-	17.399	2.206	19.605
Loans and advances	729.577	-	-	729.577	632.981	1.362.558
Other placements	64	-	-	64	115	179
Intangible assets	-	-	-	-	71.899	71.899
Property, plant and equipment	-	-	-	-	68.312	68.312
Deferred tax assets	-	-	-	-	179	179
Other assets	351	-	-	351	17.270	17.621
Total assets	**1.566.012**	**33.641**	**26.991**	**1.626.644**	**891.953**	**2.518.597**
LIABILITIES AND EQUITY						
Sight deposits	99.422	10.022	787	110.231	145.670	255.901
Other deposits	919.316	20.199	22.038	961.553	30.231	991.784
Borrowings	1.010	793	-	1.803	-	1.803
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	492	492
Provisions	-	-	-	-	2.756	2.756
Tax liabilities	-	-	-	-	6	6
Deferred tax liabilities	-	-	-	-	2.520	2.520
Other liabilities	536.779	2.908	-	539.687	12.405	552.092
Total liabilities	**1.556.527**	**33.922**	**22.825**	**1.613.274**	**194.080**	**1.807.354**
Total equity	-	-	-	-	**711.243**	**711.243**
Total liabilities and equity	**1.556.527**	**33.922**	**22.825**	**1.613.274**	**905.323**	**2.518.597**
Net foreign currency position as of:						
- 31 December 2010	**9.485**	**(281)**	**4.166**	**13.370**	**(13.370)**	
- 31 December 2009	**(6.049)**	**3.765**	**724**	**(1.560)**	**1.560**	

33. RISK MANAGEMENT (Continued)

33.3. Market Risk (Continued)

33.3.3. Prepayment Risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected.

The effects to annual profit/(loss) before tax and on equity, assuming 10% of repayable financial instruments are to be repaid at the beginning of the year, with all other variables held constant, is as follows:

In RSD thousand

Currency	Effect on net interest income 2010	Effect on equity 2010	Effect on net interest income 2009	Effect on equity 2009
EUR	(1.017,85)	(1.017,85)	(0.0465)	(0.0465)
Other currencies	(5.645,76)	(5.645,76)	(2.396,92)	(2.396,92)

33.4. Exposure Risk

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

Monitoring the Bank's exposure risk to a single person or a group of related parties, as well as the exposure risk to a person related to the Bank falls within the competence of an organisational unit responsible for approving the placements.

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 organ – committee that approves the Bank's placements has the information regarding the total amount of the Bank's exposure to a to a single person or a group of related parties in relation to the Bank's capital.

During the course of 2010, the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities anticipated by the relevant procedures and decisions on credit approval, the Bank has ensured the scope and the structure of its operations and risky placements to be reconciled with the performance indicators prescribed by the National Bank of Serbia (see Note 29(b)).

In accordance with the Risk management policies, the Board of Directors 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.

Additional supervision of the exposure risk indicators is performed in the Risk Management Sector, which reports to the Bank's management. The procedures of exposure risk management are the subject of internal audit and the compliance control function.

33. RISK MANAGEMENT (Continued)

33.5. Investment Risk

The Bank's investment risks include equity investments of the Bank in the other legal entities' capital and in property, plant and equipment.

In accordance with the National Bank of Serbia legislation, the Bank monitors its permanent investments and their relation to the regulatory capital. The Bank also ensures that the investment of the Bank in a single non- financial sector entity does not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in property, plant and equipment cannot exceed 60% of its capital.

The Bank's investment risk exposure from investments into other legal entities and property, plant and equipment is monitored by the organisational unit or the Bank's organ 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.

Additional supervision of the exposure risk indicators is performed in the Risk Management Sector, which reports to the Bank's management. The procedures of exposure risk management are the subject of internal audit and the compliance control function.

During the course of 2010, the Bank maintained the permanent investments indicator within the prescribed values and ensured that investments were reconciled with the values prescribed by the National Bank of Serbia.

As of 31 December 2010, the Bank did not have investments into non-financial sector entities, while the indicator of investments into property, plant and equipment amounted to 6,41% of the Bank's regulatory capital.

33.6. Country Risk

The risk related to the Bank's exposure to counterparty's country of origin includes negative effects which may influence 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 origin.

The Bank conducts the major part of its business operations and in particular granting activities on the territory of the Republic of Serbia and to the local customers, while it is exposed to the country risk in the portion of assets it keeps on the accounts with foreign banks.

The Bank has implemented the policy of the country of origin risk management in such a way that it constantly monitors its exposure to this type of the risk compared to adopted limits which are determined based on the rating of countries determined by competent institutions (OECD), regularly informing the management on such exposures.

The Bank also mitigates the country risk by deploying the policy of placing funds abroad, primarily by short-term depositing funds with the first class foreign banks.

33. RISK MANAGEMENT (Continued)

33.7. Operational Risk

Operational risk is the risk of adverse effects on the Bank's financial result and equity due to failures in performance of operating activities, human mistakes, system errors and external factors influence. When controls fail to perform, operational risks can cause damage to the Bank's reputation, have legal implications or lead to financial loss.

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risk. The function of operational risk management process is to identify, assess, control and minimise the possibility of occurrence and effect of net losses. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

In managing the operational risk, the Bank conducts quantitative and qualitative procedures based on the collection of the information about losses realized as a result of the operational risk, in accordance to the established categories by different sources of losses, as prescribed by the Risk management policy and Procedure for operational risk management.

The Bank manages operational risk in such a way to minimize the influence of negative and unsuccessful internal processes, people and systems or external activities on its financial result. Procedure for operational risk management defines all types of business processes and sources of operational risks.

The data base containing the information on occurrences based on which losses occurred or may have occurred, in accordance with the prescribed limit, as a consequence of operational risk by categories determined in accordance with the loss sources, is entered with data entry based on the identified risk by types of activities by the person responsible for certain operational processes in the Bank. Losses which are the result of operational risk are recorded on the appropriate expense accounts opened in the Bank's books of account.

In accordance with the prescribed requirements of the best business practice, in 2010 the Bank has intensified its activities on the preparation of the business continuity plan and the disaster recovery plan.

33.8. Capital Management

The Bank permanently manages its capital, which is a broader concept than "equity" stated in 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
- Maintain an adequate capital base to support the development of its business.

The Bank's management monitors regularly the Bank's capital adequacy ratios and other performance indicators established by the National Bank of Serbia and delivers to the National Bank of Serbia quarterly reports on achieved (realized) indicators.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristic of its activities. The Bank's strategy of capital management has remained unchanged in comparison with the prior year.

33. RISK MANAGEMENT (Continued)

33.8. Capital Management (Continued)

The National Bank of Serbia has defined the following capital limits:

- The minimum amount of the capital of EUR 10 million; and
- Capital adequacy ratio of at least 12%.

In accordance with the Decision on Capital Adequacy of Banks ("RS Official Gazette", no. 129/2007 and 63/2008), the method of calculating the regulatory capital adequacy has been determined. The Bank's total capital comprises Tier 1 and Tier 2 capital, as decreased by prescribed deductible items, while the risk weighted balance sheet assets and off-balance sheet items are determined in accordance with the prescribed risk ratios for all types of assets. In accordance with the regulations of the National Bank of Serbia, on calculation of the capital adequacy ration, total risk weighted balance sheet assets and off-balance sheet items are increased by the amount of open foreign currency position.

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

In RSD thousand

	2010	2009
Regulatory capital		
Tier 1 capital		
Paid in share capital comprising ordinary and preference share capital, except cumulative preference shares	1.235.135	1.235.135
Uncovered accumulated losses	(523.892)	(308.828)
Intangible assets in the form of licenses	(71.899)	(84.569)
	639.344	**841.738**
Tier 2 capital	**479.509**	**143.833**
Total Tier 1 and Tier 2 capital	**1.118.853**	**985.571**
Deductible items		
Shortfall amount of the special reserves for potential losses	(52.910)	(8.625)
Total (1)	**1.065.943**	**976.946**
Risk weighted assets		
Balance sheet assets	1.822.177	614.527
Off-balance sheet items	123.135	29.998
Open foreign currency position	13.651	6.049
Total (2)	**1.958.963**	**650.574**
Capital adequacy (1/2 x 100)	***54,41%***	***150,17%***

The decrease in Tier 1 capital in 2010 is the consequence of the increased accumulated losses due to the net loss incurred during 2010, while the increase in the total amount of regulatory capital results from increase in Tier 2 capital due to additional long-term subordinated loans granted to the Bank by its shareholder (see Note 28).

The decrease of the capital adequacy ratio is the result of increased credit activity of the Bank during 2010, i.e., increase of the risk-weighted balance sheet assets.

33. RISK MANAGEMENT (Continued)

33.8. Capital Management (Continued)

Since the regulatory capital amounts to EUR 10.1 million as of 31 December 2010, during the preparation of its strategy for the period from 2011 to 2013 and the business policy and operational plan for 2011, for the purposes of maintaining the level of the regular capital above the minimum amount of capital prescribed by the Law on Banks, the Bank has planned the capital increase through recapitalisation in the amount of EUR 4.5 million in RSD counter value, as well as the increase in the amount of Tier 2 capital by the subordinated loan amounting to EUR 2.2 million. Recapitalisation and subordinated loans will be realised with the Parent Bank.

33.9. Judgements on the Effects of the Global Financial Crisis

The effects of the ongoing global financial crises which started to become felt in Serbia in the last quarter of 2008, continued to have an impact on the general liquidity crisis, fluctuation and decrease in the exchange rate of the Dinar against foreign currencies and decrease in the commercial activities and the purchasing power of the population and economy in 2010.

The National Bank of Serbia and the Government of the Republic of Serbia introduced a set of measures in order to mitigate the early effects of the crisis, thus contributing to the return of the confidence in the banking sector, as well as establishing the conditions for reviving the commercial activities through more favourable financing terms and conditions.

The goal of these measures is to enable security of commercial banks by obtaining a loan from the National Bank of Serbia for the overcoming of temporary liquidity difficulties; increase in the banking sector liquidity jeopardized by a reduced confidence into the banking sector and money market, by amendments to the regulations regarding statutory reserve for foreign sources and other debts until mid-2010; overcoming of difficulties in repayment of loans; measures for stimulating credit activities and an increase of the insured amount of deposit from EUR 3.000 to EUR 50.000.

In 2010 and 2009, the aforementioned measures and the financial support the country secured from the International Monetary Fund resulted in the stabilization of the banking sector liquidity and regaining citizens' confidence in the banking system, which was reflected in the return of the drawn deposits and increase in retail savings.

The Bank's management expects that the effects of the crisis on the economic environment can continue to impact the volume of commercial activities, maintenance of liquidity of economic entities and the ability of debtors to service their debts in a timely manner.

In accordance with the regulatory requirements and the National Bank of Serbia measures, as well as the internal risk management policies, the Bank conducts appropriate activities in order to maintain the quality of its credit portfolio and to provide appropriate sources of financing in the future period. Such measures particularly include: careful policy of granting loans and analysis of the credit worthiness of the debtor, obtaining relevant collaterals for securing the collection of receivables, rescheduling of loans, as well as establishing appropriate provisions for credit risks.

The Bank management deems that the liquidity risk management and securing the appropriate sources of financing shall be the key determination of the management and the management bodies of the Bank in the future period.

33. RISK MANAGEMENT (Continued)

33.9. Judgements on the Effects of the Global Financial Crisis (Continued)

In 2010, the Bank maintained the level of deposits from the prior year. However, the level of local deposits has suffered a decrease, while the level of deposits and drawn credit lines from the Parent Bank has increased by 75%. In the last quarter of 2010, in the Savings Week, the Bank launched new types of deposits and collected savings deposits in the amount of EUR EUR 6.906.389.

The Bank's core problem is the insufficient capital base. As disclosed in Note 33.8. to the financial statements, the Bank's management has created the recapitalization plan for the future period in agreement with the shareholder, which represents the base for further development of the Bank's activities.

The management deems that, in the given circumstances, it undertakes all necessary measures in order to secure the sustainable growth and development of the Bank. Furthermore, the management cannot reliably estimate further effects of the crisis to the economic environment in Serbia, or the impact on the financial position and the results of the Bank's operations, but it considers that these effects and the afore mentioned problem will not affect the Bank's ability to continue as a going concern.

34. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Bank has entered into commercial operating leases on certain business premises and vehicles.

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

		In RSD thousand
	2010	2009
Up to 1 year	50.352	70.926
From 1 to 5 years	174.597	70.926
	224.949	**141.852**

(b) Tax Risks

Tax system in the Republic of Serbia is undergoing continuous amendments. Tax period in the Republic of Serbia is considered to be open in the five-year period. In different circumstances, tax authorities could have 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.

35. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 20 of the Law on Accounting and Auditing, the Bank is obliged to perform 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 of 31 October 2010.

Based on the exchanged confirmations, there are no disputed confirmations from customers relating to loans and receivables or payables.

36. EXCHANGE RATES

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

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

37. EVENTS AFTER THE REPORTING PERIOD

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 of and for the year ended 31 December 2010.

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