

KOMERCIJALNA BANKA A.D., BEOGRAD

**Financial Statements
For the Year Ended December 31, 2010
and Independent Auditors' Report**

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Translation of the Independent Auditors' Report Issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Komercijalna banka a.d., Beograd

We have audited the accompanying financial statements of Komercijalna banka A.D., Beograd (the "Bank"), which comprise the balance sheet as of December 31, 2010 and the related income statement, statement of changes in equity and cash flow statement for the year than ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks, as well as for internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and the Law on Accounting and Auditing of the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 of Komercijalna banka A.D., Beograd for the year ended December 31, 2010 have been prepared, in all material respects, in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

Other Matter

The financial statements of Komercijalna banka A.D., Beograd as of and for the year ended December 31, 2009 were audited by another auditor whose report dated March 8, 2010 expressed an unqualified opinion.

Belgrade, February 25, 2011



A handwritten signature in blue ink, appearing to read "Miroslav Tončić".

Miroslav Tončić
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2010
(Thousands of RSD)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Interest income	4a	15,520,261	14,713,932
Interest expense	4b	<u>(8,082,778)</u>	<u>(8,379,834)</u>
Net interest income		7,437,483	6,334,098
Fee and commission income	5a	4,423,483	4,027,010
Fee and commission expense	5b	<u>(531,024)</u>	<u>(495,845)</u>
Net fee and commission income		3,892,459	3,531,165
Net gains on the sale of securities carried at fair value through profit and loss		11,499	37,834
Net gains on the sale of securities available for sale		53,720	-
Net gains on the sale of other placements		393	-
Net gains on the sale of other placements		-	(5,132)
Net foreign exchange losses	6	(7,371,168)	(4,758,593)
Dividend and other income from equity investments		2,951	6,469
Other operating income	7	158,480	228,540
Other operating expenses	8	(4,246,734)	(3,973,217)
Net impairment losses and provisions	9a	(1,416,354)	(1,365,223)
Net gains on the valuation of assets and liabilities	10	8,512,688	6,004,079
Staff costs	11	(3,647,396)	(3,450,060)
Depreciation and amortization		<u>(596,057)</u>	<u>(534,465)</u>
Profit from operations before taxation		2,791,964	2,055,495
Income taxes	12a	(157,343)	(111,951)
Deferred tax benefit	12	<u>(114,567)</u>	<u>(76,868)</u>
NET PROFIT		<u>2,520,054</u>	<u>1,866,676</u>
Basic earnings per share		<u>2,850</u>	<u>2,092</u>

The accompanying notes form an integral part of these financial statements.

These financial statements were approved by the Bank's Executive Board on February 25, 2011.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Snežana Pejčić
Head of Accounting

Ivica Smolić
President of the Executive Board

BALANCE SHEET
As of December 31, 2010
(Thousands of RSD)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Cash and cash equivalents	13	20,724,645	27,387,157
Revocable loans and deposits	14	43,615,232	46,651,225
Receivables arising from interest, fee and commission, trade and other receivables	15	1,185,242	936,866
Loans and deposits to customers	16	150,566,311	115,106,246
Securities	17	18,267,497	566,509
Equity investments (interests)	18	5,826,005	2,703,423
Other placements	19	2,308,011	2,272,876
Intangible assets	20	467,547	326,526
Property, equipment and investment property	20	6,820,704	7,057,487
Non-current assets held for sale and assets of discontinued operations	21	735,432	104,898
Deferred tax assets	12	-	109,216
Other assets	22	5,351,683	2,034,792
Total assets		<u>255,868,309</u>	<u>205,257,221</u>
LIABILITIES			
Transaction deposits	23	29,662,069	32,373,202
Other deposits	24	169,428,671	134,837,559
Borrowings	25	923,105	145,319
Interest, fee and commission payables		227,933	168,097
Provisions	26	877,386	926,337
Tax liabilities		13,993	12,844
Liabilities from profit		71,256	46,905
Deferred tax liabilities		5,351	-
Other liabilities	27	13,604,117	9,470,577
Total liabilities		<u>214,813,881</u>	<u>177,980,840</u>
EQUITY			
Share and other capital	28	28,462,553	17,062,534
Reserves		9,235,440	7,385,440
Revaluation reserves		663,008	717,441
Unrealized losses on available for sale securities		(15,882)	(23,324)
Retained earnings		2,709,309	2,134,290
		<u>41,054,428</u>	<u>27,276,381</u>
Total Liabilities and Equity		<u>255,868,309</u>	<u>205,257,221</u>
OFF-BALANCE-SHEET ITEMS	29	<u>145,180,526</u>	<u>66,248,482</u>

The accompanying notes form an integral part
of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2010
(Thousands of RSD)

	Share Capital	Share Premium	Other Reserves	Reserve for Potential Losses	Revaluation Reserves	Unrealized Losses	Retained Earning	Total
Balance at January 1, 2009	9,082,820	7,979,714	360,868	4,324,572	648,379	-	3,036,790	25,433,143
Transfer of 2008 profit into reserves from profit	-	-	-	2,700,000	-	-	(2,700,000)	-
Increase	-	-	-	-	89,706	-	-	89,706
Unrealized losses on securities available for sale	-	-	-	-	-	(23,324)	-	(23,324)
Gains on the sale of property and equipment revaluation	-	-	-	-	(20,644)	-	20,644	-
Payment of dividends – priority shares	-	-	-	-	-	-	(44,820)	(44,820)
Employee share in profit	-	-	-	-	-	-	(45,000)	(45,000)
Profit for the year	-	-	-	-	-	-	1,866,676	1,866,676
Balance at December 31, 2009	9,082,820	7,979,714	360,868	7,024,572	717,441	(23,324)	2,134,290	27,276,381
Increase in capital	4,798,190	6,601,829	-	-	-	-	-	11,400,019
Transfer of the share of 2009 profit	-	-	-	1,850,000	-	-	(1,850,000)	-
Transfer of other reserves into reserves from profit	-	-	(360,868)	360,868	-	-	-	-
Gains on realized reserves	-	-	-	-	(39,787)	-	39,787	-
Decrease based on the change in the fair value of equity investments and securities available for sale	-	-	-	-	(14,646)	-	-	(14,646)
Increase based on the change in the fair value of equity investments and securities available for sale	-	-	-	-	-	(2,896)	-	(2,896)
Net losses on the sale of securities available for sale	-	-	-	-	-	10,338	-	10,338
Payment of dividends for priority shares	-	-	-	-	-	-	(44,822)	(44,822)
Employee share in profit	-	-	-	-	-	-	(90,000)	(90,000)
Profit for the year	-	-	-	-	-	-	2,520,054	2,520,054
Balance at December 31, 2010	13,881,010	14,581,543	-	9,235,440	663,008	(15,882)	2,709,309	41,054,428

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2010
(Thousands of RSD)

	<u>2010</u>	<u>2009</u>
Cash inflows from operating activities	<u>19,463,744</u>	<u>18,324,463</u>
Interest receipts	14,946,996	14,178,423
Fee and commission receipts	4,449,345	4,043,802
Receipts of other operating income	64,452	95,769
Receipts from dividends and profit distributions	2,951	6,469
Cash outflows from operating activities	<u>(15,678,923)</u>	<u>(15,753,382)</u>
Interest paid	(7,207,146)	(7,931,984)
Fees and commissions paid	(530,580)	(495,990)
Payments to, and on behalf of employees	(3,647,381)	(3,450,301)
Taxes, contributions and other duties paid	(787,810)	(718,201)
Payments of other operating expenses	(3,506,006)	(3,156,906)
Net cash provided by operating activities prior to increases or decreases in placements and deposits	<u>3,784,821</u>	<u>2,571,081</u>
Net increase in loans and advances to banks and customers	(27,271,415)	(30,352,177)
Net increase in deposits from banks and customers	31,275,609	30,588,713
Net increase in securities carried at fair value through profit and loss, trading placements and short-term securities held-to-maturity	(17,301,840)	(291,944)
Income taxes paid	(1,231)	(32,822)
Dividends paid	(165,191)	(46,956)
Net cash (used in)/provided by operating activities	<u>(9,679,247)</u>	<u>2,435,895</u>
(Outflow)/inflow from the purchase/sale of equity interests and shares	(3,139,001)	3,161
(Outflow)/inflow from the purchase/sale of securities	(100,564)	140,444
Outflow from the purchase/sale of intangible assets, property and equipment	(539,234)	(381,043)
Net cash used in investing activities	<u>(3,778,799)</u>	<u>(237,438)</u>
Inflows arising from capital increase	11,400,020	-
Net cash provided by borrowings	2,766,682	202,518
Net cash provided by financing activities	<u>14,166,702</u>	<u>202,518</u>
Net increase in cash and cash equivalents	708,656	2,400,975
Cash and cash equivalents, beginning of year	<u>27,387,157</u>	<u>29,744,775</u>
Foreign exchange losses, net	<u>(7,371,168)</u>	<u>(4,758,593)</u>
Cash and cash equivalents, end of year	<u><u>20,724,645</u></u>	<u><u>27,387,157</u></u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***1. BANK'S ESTABLISHMENT AND ACTIVITY**

Komercijalna banka a.d., Beograd (hereinafter the "Banka"), was established as a shareholding company based on the Founding Agreement dated December 1, 1970 and was transformed into a shareholding company on May 6, 1992 pursuant to the laws in effect. For the purpose of reconciling the Bank's operations, organization and enactments with the Law on Banks, at the Shareholder Assembly meeting held on December 17, 2009, upon the approval obtained from the National Bank of Serbia as of December 9, 2009, the following internal enactments were adopted: the Amendment and Supplement to the Founding Agreement and the Amendment and Supplement to the Bank's Statute.

The Bank is registered in the Republic of Serbia to provide banking services associated with payment transfers, credit and deposit operations performed domestically and abroad as stipulated in the Law on Banks. The Bank operates based on principles of liquidity, solvency and profitability.

At December 31, 2010, the Bank's most significant holders of ordinary shares are the following:

1. Republic of Serbia
2. EBRD, London, and
3. Artio int. equity fund, New York.

The Bank has three subsidiaries:

- Komercijalna banka a.d., Budva, Montenegro (100%)
- Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina (99.99%)
- KomBank Invest a.d., Serbia (100%).

As of December 31, 2010, the Bank was comprised of the Central Office in Belgrade at the street address 14 Svetog Save; 25 branches, 241 sub-branches and 11 counters, located on the territory of the Republic of Serbia (December 31, 2009: 25 branches and 268 sub-branches). The Bank has a representative office registered in Frankfurt am Main, Germany.

As of December 31, 2010, the Bank had 3,101 employees (2009: 3,155 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS**2.1. Basis of Preparation and Presentation of Financial Statements**

Pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46 of June 2, 2006 and no. 111 as of December 29, 2009), legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards which were in effect as at December 31, 2002.

The amendments to IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"), in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia ("Ministry") and published in the Official Gazette of the Republic of Serbia number 77 of October 25, 2010.

However, until the preparation date of the accompanying financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated. In addition, the accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Institutions" (Official Gazette of the Republic of Serbia nos. 74/2008, 3/2009 and 5/2010). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, "Presentation of Financial Statements," and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Standards and interpretations in issue, but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.2 and 2.3.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)****2.1. Basis of Preparation and Presentation of Financial Statements (Continued)**

In accordance with the aforescribed, and given the potentially material effects which the departures of accounting regulations of the Republic of Serbia from IAS and IFRS may have on the fairness presentations made in the financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IAS and IFRS.

The financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder.

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described in Note 3.

The Bank's financial statements are stated in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia

2.2. Standards and Interpretations in Issue, but not yet Adopted and Translated

As of the financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Serbia for the annual accounting periods commencing on or after January 1, 2010:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Additional Exemptions for First-time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);
- Amendments to IAS 38 "Intangible Assets" (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 2 "Share-based Payment": Amendments resulting from the Annual quality improvement project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments IFRIC 9 "Reassessment of Embedded Derivatives" effective for annual periods beginning on or after July 1, 2009 and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods ending on or after June 30, 2009);
- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods ending on or after July 1, 2009);

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.3. Standards and Interpretations in Issue not yet in Effect**

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- “Conceptual Framework for Financial Reporting 2010” being an amendments to “Framework for the Preparation and Presentation of Financial Statements” (effective for transfer of assets from customers received on or after September 2010);
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfer of Financial Assets (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations “Improvements to IFRSs” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);
- 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 (effective for annual periods beginning on or after January 1, 2011);
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).

2.4. Comparative Information

Comparative information includes the Bank’s financial statements for year 2009 prepared in the reporting form defined by the Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Institutions (Official Gazette of the Republic of Serbia nos. 74/2008 and 3/2009).

2.5. Use of Estimates

The presentation of the financial statements requires the Bank’s management to make best estimates and reasonable assumptions that effect: the assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to us, as of the date of preparation of the financial statements. The review of most significant estimates is provided in Note 3.17.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1. Interest and Commission Income and Expenses**

Interest income and expenses, including penalty interest and other income and other expenses arising from interest-bearing assets and interest-bearing liabilities, are recognized in the income statement on an accrual basis.

Fee and commission income from banking services and fee and commission expenses are determined when due for collection or when due for settlement. These are recognized in the income statement when earned and/or when due for collection, except for loan origination fees, guarantees or other types of sureties to which IAS 18 applies. Income arising in connection with loan origination fees is deferred over the loan maturity period and is recognized in the income statement within interest income.

3.2. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official exchange rates at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates that are prevailing at the balance sheet date.

Net foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement.

Commitments and contingent liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates that are prevailing at the balance sheet date.

3.3. Property, Equipment and Investment Property

All additions to property and equipment made during the year 2010 are stated at cost, net of allowance for impairment. The cost of an item of property and equipment comprises its purchase price, including all acquisition-related expenses and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent expenditure is capitalized when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Bank.

Investment property is property held by the Bank to earn rental income. Investment property is stated at cost or at purchase value, and is subject to depreciation charge.

For the needs of a tax balance, the Bank calculated depreciation in accordance with the Rules on the Classification of Fixed Assets into Groups and the Manner of Determining Depreciation for Tax Purposes.

From January 1, 2005, the Bank has applied the revaluation method to property held by the Bank.

Based on the adopted market valuation of property held by the Bank, the value of all property increased in 2005 according to a Decision adopted by the Bank's Board of Directors.

The gain or loss arising on the disposal or retirement of an item of fixed assets or investment property is recognized in the income statement within Other operating income/expenses.

Depreciation is calculated on a straight-line basis to the cost or revalued amount of property and equipment by applying the following annual rates in order to write them off over their useful lives:

Buildings and investment property	2.50%
Computer equipment	25.00%
Furniture and other equipment	6.70% - 25.00%
Leasehold improvements	4.25% - 86.20%
Motor vehicles	14.30% - 15.50%

The depreciation of property and equipment commences once such assets are placed in use.

For property, a residual value is set at 30% of cost.

Depreciation rates and a residual value are reviewed each year for the purpose of calculating depreciation, being the actual expense incurred on these assets.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.4. Intangible Assets**

As of December 31, 2010, intangible assets were stated at cost net of accumulated amortization and allowance for impairment, if any. Intangible assets include licenses and software programs.

Amortization is calculated on a straight-line basis to the cost of intangible assets by applying an annual rate ranging from 20% to 33.34% in order to fully write off the assets over their useful lives.

3.5. Loans

Loans originated by the Bank are stated in the balance sheet at the amount of principal outstanding, less allowance for impairment, which is based on the assessment of specifically-identified exposures and losses that are inherent in the Bank's loan portfolio. The Bank's management applies the internally adopted methodology in its risk assessment, as disclosed in this Note 3.6.

For the purpose of determining amortized cost, i.e. fair value of loans in accordance with IAS/IFRS, the net present values of future cash flows is discounted by applying the contractual interest rate in order to adjust the value of loan approved to its nominal value, net of principal repaid. The effects of the failure to apply the effective interest rate as defined under IAS 39 "Financial Instruments: Recognition and Measurement" requiring that loans be measured at amortized value using the effective interest method, in the assessment of the Bank's management are immaterial for the stated placements to customers and financial statements taken as a whole, since the Bank places most of its assets to customers at floating interest rates whereas the one-off fees collected in advance are deferred over the loan maturity period on a straight-line basis.

3.6. Allowances for Impairment and Provisions for Contingent Liabilities

The Bank's management assesses credit risk and impairment of financial instruments based on individual and portfolio basis.

During 2010, the Bank applied the Rules on the Assessment and Recognition of Loans, Receivables and Provisions, determining the criteria for estimating and recognizing loans, receivables and provisions in connection with corporate and retail customers, following the Bank's internal methodology.

Bank reviews the credit portfolio in order to determine allowance for impairment and provisions on a monthly basis. In determining whether the impairment losses on placements should be recognized in the income statement, the Bank assesses whether there is information / evidence indicating the existence of a measurable decrease in the estimated future cash flows of a portfolio basis, before such losses can be identified at the level of individual placements. Information indicating that a placements has suffered impairment include: irregularity and default in liability settlement, market and economic conditions present locally which cause delays in payments etc. Management's estimates of impairment in financial placements within the Bank's portfolio using the estimated future cash flows, are based on actual losses incurred in the past, realized on financial assets with similar risk-exposure and similar causes of impairment.

Impairment assessment process is conducted on a case basis, for each materially significant loan and on the portfolio level for less significant loans. The amount of impairment is individually assessed as the difference between the carrying amount and the present value of expected future cash flows, determined through discounting the loans at the effective interest rate.

The impairment of less significant loans is assessed on a portfolio basis for each credit rating group separately, given their similar characteristics with respect to credit risk in the amount of:

- The average weighted percentage of loss determined on the level of individually assessed losses on materially significant loans having the same credit rating, and for loans of the IV credit rating group, the impairment must not be below the percentage of migration of loans belonging to the IV credit rating group into the V credit rating group, as adjusted for the percentage of collected loans previously classified into the V credit rating group. Loans classified into the V credit rating group are written-off in full – in case of placements with corporate customers.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.6. Allowances for Impairment and Provisions for Contingent Liabilities (Continued)**

- Percentage of migration of adequate credit rating group into the V credit rating group as adjusted for the percentage of collected loans previously classified into the V credit rating group – in case of placements with retail customers.

If the individual assessment of a materially significant loan shows that there is no objective evidence of loan impairment, the impairment of the loan is calculated as a percentage applied to the respective credit rating group.

The methodology and assumptions underlying the process of defining the amounts and periods of cash inflows, based on placements, are reviewed on an ongoing basis in order to reduce the difference between estimated and actual losses to the minimum. The amounts of inflows expected from a loan are assessed based on evidence of the borrower's planned income, and in case these are assessed as insufficient, the Bank assessed the cash flow that could be realized by activating the related collateral. The number of days in default against certain receivables from debtors is assessed by taking into consideration of all relevant evidence about the timeline of earning the planned income by the debtor, as well as historical data about the delays in payment of that particular debtor.

Special reserve for potential losses is determined in accordance with the relevant NBS Regulations – the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items (Official Gazette of RS number 129/2007, 63/2008, 104/09 and 30/2010). Loans, placements and other exposures are classified into the categories A, B, V, G and D, in accordance with the evaluation of their collectability, which depends upon the number of days the interest and principal payments are in arrears, financial standing of the counterparty, and the quality of the collateral obtained on the exposures. The estimated amount of special reserve for potential losses is calculated by applying the percentages ranging between: 0% for placements classified into the A category, 5% - 10% for the placements classified into the B category, 20%- 35% for the V category placements, 40% - 75% for the G category placements and 100% for placements in D category.

The difference between the amount of special reserve for potential losses calculated in accordance with the National Bank of Serbia Decision on the Classification of Balance Sheet and Off-Balance Sheet Exposures, and the amount of allowances for impairment and provision for contingent liabilities estimated in accordance with the internally adopted methodology, is presented as special reserves for potential losses within the equity.

Special reserve for potential losses is set aside as appropriation of retained earnings.

Suspension of Interest

The accrued and outstanding interest based on impaired placements ceases to be recognized in the balance sheet assets, and is suspended and transferred to off-balance sheet items for all placements subject to lawsuits, for all placements based on which the Bank has matured receivables over 365 days past due or if so decided by the Corporate Credit Board or Retail and Entrepreneur Credit Board. In case of out-of-court activation of mortgage, until the final resolution of the process of receivable collection, interest is not suspended, i.e. accrual and compounding of interest to balance sheet assets continues.

3.7. Securities Acquired in Repurchase Transactions with the National Bank of Serbia

Securities purchased by the Bank from the National Bank of Serbia under obligation to resell, based on a Framework Agreement on the Sale of Securities under Obligation to Their Repurchase, are stated at amortized cost as of the balance sheet date.

3.8. Trading Securities

Trading securities are those acquired or incurred principally for the purpose of selling or repurchasing them in the near term. Trading securities comprise shares and foreign savings deposits bonds initially stated at cost and carried at market value as of the balance sheet date. All realized and unrealized gains on the sale or changes in the market value of these securities are credited to income or charged to expenses of the period, within net gain on the sale of securities.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.9. Securities Held to Maturity**

Securities held-to-maturity represents securities for which there is a positive intention and ability to hold to maturity. Securities held-to-maturity comprise of bonds. All securities are initially recorded at cost. As at balance sheet date, securities held-to-maturity are recorded at amortized cost net of any provision for potential losses.

3.10. Equity Investments and Securities Available-for-Sale

Available-for-sale securities are those that are not classified as trading securities or as held-to-maturity investments and are comprised of shares issued by banks, corporate bonds, and Republic of Serbia treasury bills.

Equity investments comprise shares of subsidiaries, shares issued by banks and equity interests in other legal entities. Equity investments for which an active market and quoted values do not exist, are measured at cost net of allowance for impairment. Equity investments relate to securities of other legal entities quoted on the market, are measured as of the balance sheet date at market value. Realized gains and losses from the sales of these securities are credited or charged to profit and loss within "Gains/(Losses) on the sale of securities," whereas unrealized gains and losses arising from the market value movements are presented within revaluation reserves.

3.11. Cash and Cash Equivalents

For purposes of the cash flow statement, "Cash and cash equivalents" include cash items, balances on the current accounts with other banks and resources on the gyro account and other cash resources.

3.12. Income Taxes**Current Income Taxes**

Income tax is payable at the rate of 10% on the tax base reported in the annual corporate income tax return as reduced by any applicable tax credits. The taxable base stated in the income tax return includes the profit shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, tax losses stated in the tax balance until 2009 are available as deductibles in calculating the tax basis of the future accounting periods in the ensuing ten years, while any current year losses stated in the tax balance for the year 2010 and further may be used to reduce or eliminate taxes payable in future periods, but only for duration of no longer than five ensuing years.

Deferred Income Taxes

Deferred income taxes are provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. The currently-enacted tax rates or the substantively-enacted rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carry forward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carry forwards can be utilized.

Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, taxes and contributions to salaries charged to employer and various other taxes and contributions paid, pursuant to effective republic and municipal regulations. These taxes and contributions are included within operating and other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.13. Managed Funds**

The Bank manages funds on behalf of, and for the account of third parties, and charges fees for these services. These items are not included in the Bank's balance sheet.

3.14. Employee Benefits

In accordance with regulatory requirements in the Republic of Serbia, the Bank is obligated to pay contributions to tax authorities and to various state social security funds that guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the applicable government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

The Bank does not have defined benefit plans or share-based remuneration options and there are no identified liabilities thereof as of December 31, 2010.

The Bank's long-term liabilities based on provisions for retirement benefits as prescribed under the Labor Law and as stated at December 31, 2010, represent the present value of future payments to employees determined in accordance with the following assumptions:

Annual employee salary growth:	7.50%
Discount rate:	12.00%

The total amount of provisions equals the sum of provisions for each employee adjusted for the effect of fluctuation.

The Bank allocated provisions in 2010 as in accordance with IAS 19 as a pro rata share of increases in long-term liabilities for retirement benefits. For the calculation of provisions thereof, the Bank engaged a licensed actuary.

3.15. Segment Reporting

The Bank monitors and discloses information for its operating segments – lines of business (Note 32). The major portion of the Bank's business operations is conducted on the territory of the Republic of Serbia and, therefore, the information for geographical segments is not disclosed. Subsidiaries are not material for the Bank's stand-alone financial statements. Business operations of subsidiaries are presented in the consolidated financial statements. The concentration of placements with debtors according to the industry they belong to is presented in Note 16.

3.16. Fair Value

The accompanying financial statements are prepared on a historical cost basis, including adjustments and provisions made to reduce assets to their estimated recoverable amounts.

It is the policy of the Bank to disclose the fair value information on those financial assets and financial liabilities for which published market information is readily and reliably available, and whose fair value is materially different from their recorded amounts. As per the Bank's management, amounts expressed in the financial statements reflect the fair value which is most reliable and useful for the needs of the financial reporting in accordance with the Law on Accounting and Auditing of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

3.17. Review of Significant Accounting Estimates

The presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to the management, as of the date of preparation of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Review of Significant Accounting Estimates (Continued)

What follows are the key assumptions in respect of the future events and other sources of estimations, uncertainties as of the balance sheet date.

Depreciation and Rates Applied

The calculation of depreciation as well as depreciation rates are based on the economic useful life of equipment and period of use of leasehold property. Once a year, the Bank reviews the economic useful life based on the current estimates.

Provisions for Litigations

Provisions are highly judgmental. The Bank assesses the probability of adverse events arising as a result of past events and estimates an outflow of resources embodying economic benefits that will be required to settle the contingent liability. To the best of its knowledge, the Bank creates provisions with this respect based on anticipated potential losses. The Bank observes the prudence principle in making such estimates. However, in certain cases, actual results may depart from these estimates.

Deferred Tax Assets

As in accordance with the management's assessments with respect to the availability of future taxable income based on which deferred tax assets can be utilized, the Bank states deferred tax assets.

Allowance for Impairment

The Bank continually monitors the financial standing and operations of its most significant customers, i.e. its risk exposure inherent in depositing and investing assets. In the management's assessment, receivables stated in the Bank's business books are collectible, i.e. the risk of default is not high.

4. INTEREST INCOME AND EXPENSE

a) Interest Income

	Year Ended December 31,	
	2010	2009
Dinar loans approved to:		
- banks	634,511	1,267,655
- enterprises	7,986,012	7,693,587
- entrepreneurs	203,491	200,022
- public sector	56,921	48,727
- citizens	3,739,266	3,515,517
- other customers	334	78
	<u>12,620,535</u>	<u>12,725,586</u>
Dinar deposits with:		
- National Bank of Serbia	417,266	561,410
	<u>417,266</u>	<u>561,410</u>
Securities in dinars of:		
- entrepreneurs	14,108	12,242
- public sector	907,844	-
	<u>921,952</u>	<u>12,242</u>
Other placements in dinars	507,514	514,760
Foreign currency loans:		
- entrepreneurs	462,264	389,723
- banks	23,337	119,901
- other foreign entities	489,231	354,524
	<u>974,832</u>	<u>864,148</u>
Foreign currency deposits:		
- banks	42,450	13,926
	<u>42,450</u>	<u>13,926</u>
Other placements in foreign currency	35,712	21,860
	<u>15,520,261</u>	<u>14,713,932</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

4. INTEREST INCOME AND EXPENSE (Continued)

The estimated effect of interest that was not accrued and stated in the Bank's income statement for the year 2010, totals RSD 221,583 thousand and is associated with the interest charged to loans and placements subject to legal disputes or for which interest accrual has been suspended.

b) Interest Expense

	Year Ended December 31,	
	2010	2009
Dinar loans from:		
- banks	8,483	52,826
Dinar deposits from:		
- banks	256,938	457,105
- public companies	240,564	328,162
- enterprises	431,876	547,722
- entrepreneurs	8,736	7,739
- public sector	575,752	1,903,336
- citizens	136,194	130,619
- foreign entities	219	117
- other customers	2,223	-
	<u>1,652,502</u>	<u>3,374,800</u>
Foreign currency borrowings from:		
- international financial organizations	105,998	20,954
- banks	51,798	49,815
- public sector	37	48
	<u>157,833</u>	<u>70,817</u>
Foreign currency deposits from:		
- banks	57,935	42,838
- public companies	158,903	156,839
- enterprises	771,335	733,293
- citizens	5,153,925	3,857,457
- foreign entities	6,103	11,721
- public sector	2,794	-
- subsidiaries	111,978	75,233
	<u>6,262,973</u>	<u>4,877,381</u>
Other foreign currency liabilities	987	4,010
	<u><u>8,082,778</u></u>	<u><u>8,379,834</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

5. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

	Year Ended December 31,	
	2010	2009
In dinars from:		
- enterprises	1,653,260	1,419,492
- citizens	1,898,202	1,625,181
- entrepreneurs	471,568	398,899
- financial institutions	150,652	393,673
- foreign entities	57,547	32,912
- public companies	20,290	20,587
- public sector	2,474	3,678
- other	85	-
	<u>4,254,078</u>	<u>3,894,422</u>
In foreign currency from:		
- financial institutions	47	-
- enterprises	72,403	48,222
- citizens	41,397	38,671
- foreign entities	53,778	44,468
- other	1,780	1,227
	<u>169,405</u>	<u>132,588</u>
	<u><u>4,423,483</u></u>	<u><u>4,027,010</u></u>

b) Fee and Commission Expenses

	Year Ended December 31,	
	2010	2009
In dinars, charged by:		
- banks	264,544	253,448
- enterprises	131,332	117,482
- foreign entities	14,495	7,073
	<u>410,371</u>	<u>378,003</u>
In foreign currency, charged by:		
- foreign entities	119,761	117,556
- other	892	286
	<u>120,653</u>	<u>117,842</u>
	<u><u>531,024</u></u>	<u><u>495,845</u></u>

6. FOREIGN EXCHANGE GAINS AND LOSSES

	Year Ended December 31,	
	2010	2009
Foreign exchange gains	7,267,187	3,124,799
Foreign exchange losses	<u>(14,638,355)</u>	<u>(7,883,392)</u>
	<u><u>(7,371,168)</u></u>	<u><u>(4,758,593)</u></u>

Foreign exchange gains and losses comprise gains and losses arising from transactions performed in other than local currency during the year, and gains and losses arising from the adjustment of foreign currency denominated balance sheet positions to the official foreign exchange rates over the year at each month end.

The accrual of foreign exchange gains and losses is performed and stated at gross principle (negative and positive foreign exchange gains and losses) during the business year as in accordance with the NBS regulations.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

7. OTHER OPERATING INCOME

	Year Ended December 31,	
	2010	2009
Refund of court expenses	12,867	8,357
Fees collected for renting property for business purposes	80,289	113,496
Business telephone bills collected in accordance with employee authorizations	13,763	13,158
Other gains from operations	7,617	7,953
Sale of tangibles received through collection of receivables	17,702	-
Collected receivables previously written off	492	1,399
Donation income	6,785	6,088
Gains on the sale of fixed assets	2,562	31,605
Write-off of liabilities	2,294	5,270
Retail operations	-	22,551
Other income	14,109	18,663
	<u>158,480</u>	<u>228,540</u>

Fees collected for renting property for business purposes of RSD 80,289 thousand mostly relate to the rental of premises to Politika a.d., Beograd (RSD 77,236 thousand, Note 20), occupying an area of 7,169 square meters with the contractually agreed monthly rent payments of EUR 57,572.82 for the period of 99 years. The rent agreement was cancelled as of December 31, 2010.

Based on the Sales and Purchase Property Agreement closed on March 23, 2010 with the Republic of Serbia, represented by the Director of the Republic of Serbia Property Directorate, Mr. Bratislav Pejković, the Bank sold its tangibles in Belgrade acquired by activating collaterals against receivables and realized gains of RSD 16,252 thousand. Also, based on the Sales and Purchase Property Agreement closed on May 27, 2010 with private person, the Bank sold property located at Palić, collected in lieu of settlement and realized gains of RSD 1,450 thousand.

Refund of court expenses of RSD 12,867 thousand is associated with the recovered expenses for litigations favorably resolved for the Bank.

Business telephone bills collected in accordance with employee authorizations of RSD 13,763 thousand are associated with the recovery of telephone bills in excess of the set limit.

Donation income is associated with income realized on the basis of subsidized employee salaries according to the program of employing young people without previous work experience in the amount of RSD 6,785 thousand.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

8. OTHER OPERATING EXPENSES

	Year Ended December 31,	
	2010	2009
Indirect taxes and contributions	777,964	721,833
Material	331,786	390,434
Rentals	627,836	611,704
Maintenance of property and equipment	466,653	431,660
Public utility fees	70,775	70,039
Telecommunication expenses	255,258	261,020
Marketing and advertizing	345,346	296,362
Transportation expenses	75,928	69,919
Professional education and training of employees	27,036	24,061
Property insurance	217,980	208,050
Money transport	103,151	116,867
Servicing expenses	11,524	12,826
Court expert and arbitration	14,635	12,495
Other non-production services	24,253	22,978
Entertainment expenses incurred domestically	21,885	36,637
Insurance of property, equipment and employees	80,373	102,724
Retail deposit insurance	511,109	387,530
Intellectual services	60,602	42,272
Court and administrative fees	71,881	35,314
Licenses and software	18,456	15,893
Other non-material expenses	31,031	22,271
Expenses of a branch office abroad	30,704	48,857
Branch office expenses	25,767	-
Preparation and design of publications	14,826	11,697
Write-off of property, equipment and intangible assets (Note 20)	11,741	3,694
Write-off of uncollectible receivables	2,219	-
Other expenses	16,015	16,080
	<u>4,246,734</u>	<u>3,973,217</u>

Rental expenses incurred in the amount of RSD 627,836 thousand mostly relate to operating lease of business premises (RSD 538,466 thousand). Commitments arising from operating lease of business premises as of December 31, 2010 relating to future periods and not being subject to VAT, for 181 business premises occupying an area of 33.307,99 m², total:

- for the year 2011	453,481
- from 2012 to 2015	1,189,679
- from 2016	<u>407,713</u>
	<u>2,050,873</u>

Other rental expenses of RSD 89,370 thousand relate to the lease of equipment, software and advertizing space.

Cost of retail deposit insurance of RSD 511,109 thousand are associated with the insurance of deposits placed by retail customers, by entrepreneurs and by small and medium-sized enterprises with the Deposit Insurance Agency.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

9. NET IMPAIRMENT LOSSES AND PROVISIONS

a) Charged/Credited to Income/Expenses

	Year Ended December 31,	
	2010	2009
Expenses:		
- Cash funds	-	1,756
- Interest (Note 15)	1,364,071	735,574
- Loans and advances to customers (Note 16)	10,034,499	6,794,075
- Securities (Note 17)	331	348
- Equity investments (Note 18)	-	12,193
- Other placements (Note 19)	713,956	1,576,724
- Other assets (Note 22)	53,857	196,800
- Provisions against off-balance sheet items (Note 26)	181,482	364,971
- Provisions for litigations (Note 26)	12,900	-
- Provisions for retirement benefits (Note 26)	4,842	-
	<u>12,365,938</u>	<u>9,682,441</u>
Income:		
- Interest (Note 15)	(940,925)	(319,096)
- Loans and advances to customers (Note 16)	(9,109,824)	(5,893,131)
- Securities (Note 17)	(405)	(65)
- Equity investments (Note 18)	-	(22,037)
- Other placements (Note 19)	(611,122)	(1,423,209)
- Other assets (Note 22)	(37,516)	(134,728)
- Reversal of provisions against off-balance sheet items (Note 26)	(223,675)	(384,592)
- Reversal of provisions for litigations (Note 26)	(24,500)	(12,528)
- Reversal of provisions for retirement benefits (Note 26)	-	(81,383)
- Collection of suspended interest (Note 29)	(1,617)	(46,449)
	<u>(10,949,584)</u>	<u>(8,317,218)</u>
	<u>1,416,354</u>	<u>1,365,223</u>

b) Special Reserve for Potential Losses

Based on the categorization of placements determined in accordance with the regulations of the National Bank of Serbia as of December 31, 2010, the Bank estimated its special reserve for potential losses arising on the Bank's aggregate exposure to credit risk.

In accordance with the National Bank of Serbia Decision on the Classification of Balance Sheet and Off-Balance Sheet Exposures, the difference between the amount of special reserve for potential losses calculated in accordance with the said Decision and the amount of allowance for impairment of balance sheet assets and provisions for losses on off-balance sheet items calculated in accordance with the internally adopted methodology, is presented on the special account within reserves for potential losses within equity.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

9. NET IMPAIRMENT LOSSES AND PROVISIONS (Continued)

b) Special Reserve for Potential Losses (Continued)

	Year Ended December 31,	
	2010	2009
Special reserve for potential losses determined as per the National Bank of Serbia requirements with respect to:		
- balance sheet exposures	25,646,508	20,293,197
- off-balance sheet exposures	1,534,057	1,127,219
	<u>27,180,565</u>	<u>21,420,416</u>
Allowances for impairment and provisions determined in accordance with the internally adopted methodology (IAS 39):		
- allowance for impairment of balance sheet items	15,659,624	13,977,062
- provision for losses contingent on off-balance sheet items	405,969	448,162
	<u>16,065,593</u>	<u>14,425,224</u>
Provisions for potential losses contingent on balance sheet assets and off-balance sheet items		
- balance sheet exposures	10,398,220	6,925,640
- off-balance sheet exposures	1,138,065	708,394
	<u>11,536,285</u>	<u>7,634,034</u>
Reserves for estimated losses per balance sheet assets and off-balance sheet items formed in the previous years		
- balance sheet exposures	(8,527,045)	(6,316,178)
- off-balance sheet exposures	(708,395)	(708,394)
	<u>(9,235,440)</u>	<u>(7,024,572)</u>
Additional provision for potential losses to be set aside as appropriation of retained earnings		
- balance sheet exposures	1,871,175	609,462
- off-balance sheet exposures	429,670	-
	<u>2,300,845</u>	<u>609,462</u>

The absorption of additional provision for potential losses to be set aside as appropriation of retained earnings is disclosed in Note 28.

Pursuant to the regulations of the National Bank of Serbia, except for allowance for impairment, the Bank is obligated to form additional provisions from retained earnings for risk-weighted assets in the aggregate amount of RSD 10,398,220 thousand. The total amount of provisions for potential losses to be set aside as appropriation of retained earnings for balance sheet assets as of December 31, 2010 amounted to RSD 1,871,175 thousand.

Based on the regulations of the National Bank of Serbia for guarantees and contingent liabilities the Bank is obligated to allocated from profit the total of RSD 1,138,065 thousand. In earlier profit distributions, the Bank allocated an amount of RSD 708,395 thousand and so at December 31, 2010, the additional provision for potential losses to be set aside as appropriation of retained earnings for off-balance sheet items totaled RSD 429,670 thousand.

The amount of additional provision for potential losses to be set aside as appropriation of retained earnings of RSD 2,300,845 thousand (December 31, 2009: RSD 609,462 thousand), the Bank will allocate from current year profit upon a Decision issued by the Bank's Assembly.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

10. NET GAINS ON THE VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31,	
	2010	2009
Gains on the valuation of:		
- placements and receivables	13,926,816	9,994,460
- securities	28,898	17,385
- liabilities	621,556	260,544
	<u>14,577,270</u>	<u>10,272,389</u>
Losses on the valuation of:		
- placements and receivables	3,868,582	3,113,194
- securities	11,109	9,532
- liabilities	2,129,387	1,145,584
- property and equipment (Note 21)	9,955	-
- derivatives	45,549	-
	<u>6,064,582</u>	<u>4,268,310</u>
	<u><u>8,512,688</u></u>	<u><u>6,004,079</u></u>

Gains/losses from the valuation of placements comprise the effect of contractually-agreed foreign currency clauses used as a hedge.

Gains/losses from the valuation of securities relate to foreign savings deposit bonds issued by the Republic of Serbia and trading shares of banks and enterprises.

Gains/losses from the valuation of liabilities comprise the effect of accounting for risk hedges in the form of contractually-agreed foreign currency clauses applied to deposits from customers.

Losses on the valuation of derivatives of RSD 45,549 thousand relate to the monthly fair value adjustment of the contractually-agreed SWAP with UBS AG Zurich.

The effects of valuation adjustments are performed at each month end during the business year and as of the transaction date.

11. STAFF COSTS

	Year Ended December 31,	
	2010	2009
Salaries	2,025,254	1,902,237
Benefits to salaries	498,047	461,614
Taxes on salaries and benefits	394,480	368,807
Contributions to salaries and benefits	603,147	554,463
Wages and benefits earned by temporary and seasonal employees	87,667	129,411
Other staff costs	38,801	33,528
	<u>3,647,396</u>	<u>3,450,060</u>

12. INCOME TAXES

a) Components of Income Tax

	December 31, 2010	December 31, 2009
Current income tax	(157,343)	(111,951)
Deffered tax expense	<u>(114,567)</u>	<u>(76,868)</u>
	<u><u>(271,910)</u></u>	<u><u>(188,819)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

12. INCOME TAXES (Continued)

b) Numerical Reconciliation between Tax Expense and the Product of the Accounting Results Multiplied by the Applicable Tax Rate

	December 31, 2010	December 31, 2009
Profit before tax	2,791,964	2,055,495
Income tax at the statutory tax rate of 10%	279,196	205,549
Tax effects of expenses not recognized in the tax balance	11,774	7,232
Tax effects of net capital gains	(415)	407
Tax effects of depreciation calculated for tax and for accounting purposes	15,140	11,163
Tax effects of transfer prices	5,720	156
Income reconciliation tax effects	3,270	(605)
Tax credits used in the current year	(157,342)	-
Tax effect adjustment (deferred tax assets and liabilities)	114,567	(35,083)
Tax effect stated in the income statement	(271,910)	(188,819)
Effective interest rate	5.64	5.45

Input taxes for the year 2010 totaled RSD 111,951 thousand based on obligatory monthly payment as defined in the Corporate Income Tax Law. To settle current income tax, the Bank used the total amount of RSD 111,951 thousand, whereas the difference of RSD 45,392 thousand must be paid before the submission of the tax balance.

c) Components of Deferred Tax Assets / (Liabilities)

	Tax Assets	Tax Liabilities	Net Tax Effect
Opening balance at January 1, 2010	172,675	(63,459)	109,216
Gain on the reversal of tax liabilities (temporary difference between tax and book value of fixed assets)	-	9,957	9,957
Gains on tax assets earned (long-term provisions for employee retirement benefits)	485	-	485
Gains on tax assets earned (impairment of assets)	6,255	-	6,255
Loss on the reversal of tax assets (provisions for litigations)	(8,562)	-	(8,562)
Loss on the reversal of tax credits from capital expenditures	(122,702)	-	(122,702)
Balance at December 31, 2010	48,151	(53,502)	(5,351)

The calculation of deferred tax liabilities at the rate of 10% to the temporary difference in the value of fixed assets as of December 31, 2010 required the write-off of liabilities in the amount of RSD 9,957 thousand. Tax assets earned based on the increase in provisions for retirement benefits (IAS 19) totaled RSD 484 thousand. The creation of tax assets based on the impairment of assets totaled RSD 6,255 thousand. The decrease in tax assets by the amount used to settle current taxes using a portion of tax credit received based on investment commitments dating from prior years totals RSD 122,702 thousand, where the decrease based on the adjustment of prior year tax credit totaled RSD 35 thousand. The decrease of tax assets based on the reversal of provisions for litigations totaled RSD 8,562 thousand.

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12. INCOME TAXES (Continued)

Tax assets – from long-term provisions for employee retirement benefits, litigations and capital expenditures, and temporary unrecognized expenses from impairment of assets were as follows:

	2010		2009		Loss/ Gains on Changes in Tax Assets
	Amount of Provisions	Tax Assets	Amount of Provisions	Tax Assets	
Long-term provisions for retirement benefit	228,096	22,809	223,254	22,325	484
Tax credit for capital expenditures	-	19,087	-	141,789	(122,702)
Provisions for litigations	243,321	-	254,921	8,562	(8,562)
Assets from impairment of assets	62,551	6,255	-	-	6,255
Total	533,968	48,151	478,175	172,676	(124,525)

Tax liabilities – the difference between tax and book value of fixed assets:

	2010		2009		Gains on the Reversal of tax Liabilities
	Value of Fixed Assets	Tax Liabilities	Value of Fixed Assets	Tax Liabilities	
Value based on tax regulations	6,691,231	-	6,665,419	-	-
Book value	7,226,246	-	7,300,006	-	-
Difference	535,015	53,502	634,587	63,459	9,957
Net deferred tax liabilities in the balance sheet	-	(5,351)	-	109,217	-

Unused tax credit as of December 31, 2010 amounted to RSD 19,087 thousands, and was created in 2006.

13. CASH AND CASH EQUIVALENTS

	December 31, 2010	December 31, 2009
Cash on hand:		
- in dinars	1,665,046	1,551,049
- in foreign currency	1,443,537	1,254,639
Gyro account	11,733,730	19,471,997
Foreign currency accounts with foreign banks	5,628,479	4,995,949
Other cash assets:		
- in foreign currency	229,963	83,651
Cheques in the course of collection	23,791	29,773
Gold and other precious metals	99	99
	20,724,645	27,387,157

The Bank's required reserve represent the minimum deposits set aside in accordance with the NBS Regulation on the "Decision on Required Reserves of Banks with the National Bank of Serbia" Pursuant to the relevant decisions published in the Republic of Serbia Official Gazettes numbered 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, 111/2009, 12/2010 and 78/2010, the Bank is obligated to calculate and allocate required reserve at the 5% rate to the dinar basis. Required reserve in dinars is allocated onto the Bank's gyro account. The Bank has to maintain the average daily balance of required reserve in dinars in the amount equaling the calculated dinar required reserve.

The calculation of required reserve in dinars is performed once a month – on the 17th day of the month based on the average balance of dinar deposits as found in the prior calendar month. Required reserve in dinars is allocated by the Bank in dinars at its gyro account and these funds may be used for liquidity purposes. The Bank is obligated to maintain the average monthly balance on its gyro account in the amount of required reserve in dinars where, in order to realize the daily balance of allocated required reserve, the daily balance found on the gyro account may be below or above the calculated required reserve in dinars.

NOTES TO THE FINANCIAL STATEMENTS

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*All amounts expressed in thousands of RSD, unless otherwise stated.***13. CASH AND CASH EQUIVALENTS (Continued)**

Interest rate applied to allocated resources found on the regular account used for required reserves in 2010 totaled 2.5% annually. In 2010, the Bank maintained the average monthly balance in the amount of required reserve in dinars, i.e. required reserves in dinars were not used at any time. On these grounds, the Bank realized interest income of RSD 411,747 thousand.

14. REVOCABLE LOANS AND DEPOSITS

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Required reserve in foreign currency	43,415,232	35,151,225
Placements based on repurchase transactions with the National Bank of Serbia	<u>200,000</u>	<u>11,500,000</u>
	<u>43,615,232</u>	<u>46,651,225</u>

In accordance with the Decisions of the National Bank of Serbia published in Official Gazettes numbered 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, 111/2009, 12/2010 and 78/2010, the Bank is under obligation to calculate and allocate required reserve in foreign currency.

The Bank calculates required reserve in foreign currency on the 17th day of the month based on the average balance of foreign currency deposits registered in the preceding calendar month. Required reserve in foreign currency is allocated onto a special account held with the National Bank of Serbia and these assets may be drawn as necessary. The Bank is under obligation to maintain the average monthly balance of allocated foreign currency required reserve in the amount of calculated foreign currency required reserve, where, for the purposes of realizing average daily balance of allocated required reserve, the daily balance on the account of required reserve may be below or above the calculated foreign currency required reserve.

Starting from the April 18 – May 17, 2010 and ending with the January 18 – February 17, 2011 maintenance period, banks shall 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 reserves.

Reference foreign currency required reserve equals the calculated required reserve in euros as of March 17, 2010. Foreign currency required reserve does not accrue interest.

During 2010, based on the Decision on Required Reserves of Banks with the National Bank of Serbia, the Bank allocated a certain portion of its foreign currency reserve in dinars at its gyro account and the amount of it is determined based on reference foreign currency required reserve. Also, the Bank decreased foreign currency required reserve in dinars by 25% of the increase in long-term housing loans insured with the National Mortgage Insurance Corporation.

In 2010, the Bank earned income from repurchase transactions performed with the National Bank of Serbia in the amount of reference interest rate ranging from 8.00% to 11.50%.

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15. RECEIVABLES ARISING FROM INTEREST, FEES AND COMMISSION, TRADE AND OTHER RECEIVABLES

	December 31, 2010	December 31, 2009
Interest receivables		
- in dinars	2,088,080	1,620,656
- in foreign currency	348,319	305,400
Fee and commission receivables:		
- in dinars	130,808	110,394
- in foreign currency	15	11
Rentals receivable	347,154	255,974
Other receivables	3,123	80
Less: Allowance for impairment	<u>(1,732,257)</u>	<u>(1,355,649)</u>
	<u>1,185,242</u>	<u>936,866</u>

The movements on the allowance account were the following:

	December 31, 2010	December 31, 2009
Balance, January 1	1,355,649	1,002,070
Charge for the year (Note 9)	1,364,071	735,574
Reversal of provisions (Note 9)	(940,925)	(319,096)
Foreign exchange differences	29,641	18,744
Write-offs	(43,876)	(49,025)
Other changes	<u>(32,303)</u>	<u>(32,618)</u>
Balance, December 31	<u>1,732,257</u>	<u>1,355,649</u>

16. LOANS AND DEPOSITS TO CUSTOMERS

	December 31, 2010	December 31, 2009
Dinar loans to customers		
Transaction accounts	3,660,268	4,330,257
Consumer loans	5,361,637	5,762,627
Working capital loans	25,308,849	21,771,975
Export loans	8,124,450	4,854,755
Investment loans	26,715,739	17,399,922
Housing loans	24,221,737	19,257,795
Other loans	36,004,472	37,688,234
	129,397,152	111,065,565
Foreign currency loans to customers		
Loans for the payment of goods imported and services received from aboard	6,097,570	4,527,151
Overnight loans	749,825	9,209
Other loans	10,467,830	8,784,524
	17,315,225	13,320,884
Foreign currency deposits to customers	14,408,593	295,583
Total loans and deposits	161,120,970	124,682,032
Less: Allowance for impairment	<u>(10,554,659)</u>	<u>(9,575,786)</u>
	<u>150,566,311</u>	<u>115,106,246</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

16. LOANS AND DEPOSITS TO CUSTOMERS (Continued)

The movements on the allowance for impairment are the following:

	December 31, 2010	December 31, 2009
Balance, January 1	9,575,786	8,989,868
Charge for the year (Note 9)	10,034,499	6,794,075
Reversal of provisions (Note 9)	(9,109,824)	(5,893,131)
Foreign exchange differences	282,701	181,740
Write-offs	(260,933)	(532,424)
Other movements	32,430	35,658
Balance, December 31	10,554,659	9,575,786

Loans to Customers

During 2010, loans up to one year in dinars and in foreign currency were approved for the period from one month to one year at interest rates ranging monthly from 0.75% to 2.50% per month.

Loans with over one month maturities denominated in dinars and in foreign currency were approved for a period of maximum 30 years at an annual interest rate ranging from 3.35% to 27%.

Loans in dinars hedged by indexing the dinar exchange rate to EUR (or CHF) were revalued in accordance with respective loans agreements.

The revaluation effects were credited or charged to gains/losses on the valuation of placements.

Loan application processing fees ranged from 0.05% to 1% of the amount of loan approved depending on the loan maturity period.

Collaterals securing the regular loan repayment were the following: deposits, mortgages, pledges, bills of exchange and contractual authorizations.

The economic sector risk concentration of total short-term and long-term loans to customers presented in their net amount was as follows:

	December 31, 2010	December 31, 2009
Agriculture, hunting, forestry, water management and fishing	3,382,510	3,939,992
Ore and stone extraction	28,952,236	22,705,781
Electric power, gas and water production and supply	2,646,402	286,604
Civil engineering	7,749,787	4,909,352
Wholesale and retail and motor vehicle repair	27,379,392	24,800,506
Hotels and restaurants, traffic, storage and communication	6,254,771	5,418,315
Real estate activities, rental and related business activities	3,917,899	6,233,864
State administration and defense, obligatory social insurance	2,689,339	2,008,521
Education, health and social work	-	391,011
Foreign legal entities and foreign banks	19,296,828	-
Citizens	43,699,916	37,494,232
Financial brokering	3,868,530	2,139,039
Other	728,701	4,779,029
	150,566,311	115,106,246

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

16. LOANS AND DEPOSITS TO CUSTOMERS (Continued)

Loans to Customers (Continued)

The Bank's management recorded provisions for all estimated or known credit risks as of the date of issuing the financial statements. The Bank's loan portfolio contains a number of customers that are involved in the privatization and/or restructuring processes, which are expected to result either partial or complete settlement of the Bank's receivables. The receivables from such customers were classified based on most recent available information on their financial situation, and the expected course of their respective restructuring processes. The Bank's receivables are mostly collateralized by mortgages assigned over property held by debtors, as well as pledges on movables. In the event that such attempts of collection prove to be unsuccessful. In the case that the debt recovery actions undertaken by the Bank's management are unsuccessful, additional amounts of allowances for impairment and provisions for contingent liabilities would be required in the forthcoming reporting periods.

17. SECURITIES

	December 31, 2010	December 31, 2009
Dinar denominated trading securities		
- shares of banks in dinars	1,312	3,892
- shares of corporate entities in dinars	13,527	14,684
	<u>14,839</u>	<u>18,576</u>
Dinar denominated securities available for sale		
- shares of banks in dinars	3,493	385,587
- corporate bonds	102,165	-
- Republic of Serbia commercial bills	17,927,384	-
	<u>18,033,042</u>	<u>385,587</u>
Dinar denominated securities held to maturity		
- corporate bonds	110,773	129,446
	<u>110,773</u>	<u>129,446</u>
Foreign currency denominated trading securities		
- Republic of Serbia foreign currency savings bonds	109,105	33,237
	<u>109,105</u>	<u>33,237</u>
Less: Allowance for impairment	<u>(262)</u>	<u>(337)</u>
	<u>18,267,497</u>	<u>566,509</u>

The movements on the allowance for impairment were as follows:

	December 31, 2010	December 31, 2009
Balance, January 1	337	53
Charge for the year (Note 9)	331	348
Reversal of provisions (Note 9)	(405)	(65)
Other	(1)	1
Balance, December 31	<u>262</u>	<u>337</u>

At December 31, 2010, the market value of trading securities portfolio totaled RSD 123,944 thousand (December 31, 2009: RSD 51,813 thousand) out of which dinar denominated trading securities account for RSD 14,839 thousand and foreign currency denominated trading securities total RSD 109,105 thousand.

As of December 31, 2010, investments in shares available for sale mostly, in the amount of RSD 17,927,384 thousand, related to investments in Republic of Serbia commercial bills, as well as bonds of the entity Tigar a.d., Pirot in the amount of RSD 102,165 thousand and RSD 3,493 thousand relate to investments made in shares of AIK banka a.d., Niš.

As of December 31, 2010, the Republic of Serbia treasury bills of RSD 17,927,384 thousand were purchased for the period from 3 to 18 months at an interest rate ranging from 5.25% to 15.00% annually.

NOTES TO THE FINANCIAL STATEMENTS

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17. SECURITIES (Continued)

At December 31, 2010, the Bank held coupon bonds of A first issue of the business entity Tigar a.d., Pirot in the amount of RSD 102,165 thousand maturing within 5 years at an interest rate of 7.75% annually.

As of December 31, 2010, the number 1,051 of shares issued by banks with their market value equaling RSD 3,323 thousand fully relates to the shares of AIK banka a.d., Niš. In 2010, the Bank sold 177,161 shares of AIK banka a.d., Niš, and on these basis realized gains on sales of RSD 53,720 thousand.

Securities held to maturity – corporate bonds of RSD 110,773 thousand entirely relate to the sixth issue of bonds by the entity B92 a.d., Beograd, accruing interest at the rate of 0.75% and maturing by June 2011, purchased based on the Decision enacted by the Bank's Executive Board on June 15, 2010.

As of December 31, 2010, trading securities comprise shares of corporate entities totaling RSD 13,527 thousand which mostly relate to Veterinarski zavod a.d., Subotica (RSD 3,395 thousand), Metalac a.d, Gornji Milanovac (RSD 1,952 thousand), Energoprojekt Holding a.d., Beograd (RSD 1,756 thousand), Galenika Fitofarmacija a.d., Zemun (RSD 1,731 thousand), Sojaprotein a.d, Bečej (RSD 1,646 thousand), Messer Tehnogas a.d., Beograd (RSD 1,137 thousand), DIN fabrika duvana a.d., Niš (RSD 628 thousand) and shares of the following banks Jubmes banka a.d, Beograd (RSD 842 thousand) and Univerzal banka a.d., Beograd (RSD 470 thousand).

18. EQUITY INVESTMENTS (INTERESTS)

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Equity investments in dinars:		
- subsidiaries	140,000	140,000
- the Bank's subsidiaries held abroad	5,340,888	2,201,988
- banks and financial institutions	151,799	134,169
- enterprises and other legal entities	439,262	469,242
- foreign entities	<u>125,813</u>	<u>129,781</u>
Less: Allowance for impairment	<u>(371,757)</u>	<u>(371,757)</u>
	<u>5,826,005</u>	<u>2,703,423</u>

As of December 31, 2010, equity investments in subsidiaries domiciled in the country related to KomBank Invest a.d., Beograd in the amount of RSD 140,000 thousand.

Equity investments in subsidiaries domiciled abroad relate to interest held in Komercijalna banka a.d., Banja Luka totaling RSD 2,974,615 thousand and Komercijalna banka a.d., Budva totaling RSD 2,366,273 thousand.

In 2010, the Bank increased capital in the following subsidiaries held abroad: Komercijalna banka a.d., Banja Luka by RSD 2,111,597 thousand (BAM 40 million) and Komercijalna banka a.d., Budva by RSD 1,027,303 thousand (EUR 10 million).

Equity investments in banks and financial institutions relate to Euroaxis bank, Moscow in the amount of RSD 78,387 thousand, AIK banka a.d., Niš in the amount of RSD 69,361 thousand, Jubmes banka a.d., Beograd in the amount of RSD 2,177 thousand and Union banka a.d., Beograd in the amount of RSD 1,874 thousand.

Equity investments in enterprises mainly refer to the following business entities: 14. oktobar a.d, Kruševac amounting to RSD 324,874 thousand, Dunav osiguranje a.d., Beograd amounting to RSD 49,820 thousand, RTV Politika d.o.o., Beograd amounting to RSD 37,634 thousand and Politika a.d., Beograd amounting to RSD 18,643 thousand.

Equity investments in foreign entities are associated with the company VISA Inc, USA totaling RSD 104,386 thousand and Master card, USA totaling RSD 21,427 thousand.

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18. EQUITY INVESTMENTS (INTERESTS) (Continued)

The allowance for impairment of other equity investments of RSD 371,757 thousand relates to the impairment of 100% of cost for those equity investments that do not have a market value out of which, an amount of RSD 324,874 thousand relates to "14. Oktobar" a.d., Kruševac and an amount of RSD 37,634 thousand is associated with "RTV Politika" d.o.o., Beograd.

The movements on the allowance for impairment are as follows:

	December 31, 2010	December 31, 2009
Balance, January 1	371,757	381,729
Charge for the year (Note 9)	-	12,193
Reversal of provisions (Note 9)	-	(22,037)
Other	-	(128)
Balance, December 31	371,757	371,757

19. OTHER PLACEMENTS

	December 31, 2010	December 31, 2009
Other placements in dinars:		
- Purchased placements – factoring	127,159	19,935
- Placements for acceptances, bills of guarantees and payments made upon guarantees called	910,701	821,468
- Bills of exchange	808,503	1,362,182
- Other	7,248	50,804
	1,853,611	2,254,389
Less: Allowance for impairment	(777,647)	(733,123)
	1,075,964	1,521,266
Other placements in foreign currency:		
- Placements for acceptances, bills of guarantees and payments made upon guarantees called	527,357	178,572
- Covered letters of credit and other sureties	541,599	437,369
- Other placements with banks	1,610,954	1,406,086
- Other placements with other enterprises	623,917	567,087
- Other	7,665	6,825
	3,311,492	2,595,939
Less: Allowance for impairment	(2,079,445)	(1,844,329)
	1,232,047	751,610
	2,308,011	2,272,876

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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19. OTHER PLACEMENTS (Continued)

The movements on the allowance for impairment are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Balance, January 1	2,577,452	2,515,556
Charge for the year (Note 9)	713,956	1,576,724
Reversal of provisions (Note 9)	(611,122)	(1,423,209)
Foreign exchange differences	206,893	42,109
Write-offs	(30,064)	(133,112)
Other movements	<u>(23)</u>	<u>(616)</u>
Balance, December 31	<u><u>2,857,092</u></u>	<u><u>2,577,452</u></u>

As of December 31, 2010, bills of exchange issued by enterprises totaling RSD 612,549 thousand, were discounted over the period from 30 to 325 days at an interest rate from 1.00% to 2.40% charged annually. Other bills of exchange entail bills of exchange due for collection in the amount of RSD 195,954 thousand.

Within other placements with banks denominated in foreign currencies, the principal portion relates to receivables from Jugobanka a.d., Beograd in bankruptcy dating from prior years of RSD 1,297,209 thousand, fully provided for.

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20. PROPERTY, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

	Land	Buildings	Leasehold Improvements	Leased Property and Equipment	Investments Property	Equipment and Other Assets	Assets under Construction	Total Property and Equipment	Intangible Assets
Cost									
Balance, January 1, 2009	1,177	4,215,912	183,014	161,771	2,350,178	2,012,957	107,180	9,032,189	321,684
Additions	-	-	-	-	-	-	279,214	279,214	114,540
Transfer of fixed assets under construction	-	21,148	97,385	-	-	202,459	(320,992)	-	-
Transfer from investment property	-	396,394	-	-	(396,394)	-	-	-	-
Disposal	-	-	-	-	(6,155)	(160,662)	-	(166,817)	-
Sale	-	(54,247)	-	-	-	(20,824)	-	(75,071)	-
Balance, December 31, 2009	<u>1,177</u>	<u>4,579,207</u>	<u>280,399</u>	<u>161,771</u>	<u>1,947,629</u>	<u>2,033,930</u>	<u>65,402</u>	<u>9,069,515</u>	<u>436,224</u>
Balance, January 1, 2010	1,177	4,579,207	280,399	161,771	1,947,629	2,033,930	65,402	9,069,515	436,224
Additions	-	-	-	-	-	-	258,843	258,843	264,575
Transfer of fixed assets under construction	-	17,289	42,871	-	-	213,870	(274,030)	-	-
Transfer from investment property and leases	-	618,451	-	(124,515)	(618,451)	124,515	-	-	-
Disposal	-	-	(18,595)	-	-	(44,980)	-	(63,575)	-
Sale	-	(9,323)	(1,325)	-	-	(10,545)	-	(21,193)	-
Transfer from assets held-for-sale	-	-	-	-	(1,030)	-	-	(1,030)	-
Balance, December 31, 2010	<u>1,177</u>	<u>5,205,624</u>	<u>303,350</u>	<u>37,256</u>	<u>1,328,148</u>	<u>2,316,790</u>	<u>50,215</u>	<u>9,242,560</u>	<u>700,799</u>
Accumulated depreciation and amortization									
Balance, January 1, 2009	-	404,102	25,692	95,851	140,956	1,074,247	-	1,740,848	29,719
Charge for the year	-	74,370	42,101	27,016	40,499	270,500	-	454,486	79,979
Disposal	-	(7,191)	-	-	-	(155,932)	-	(163,123)	-
Sale	-	-	-	-	(597)	(19,586)	-	(20,183)	-
Transfers	-	23,680	-	-	(23,680)	-	-	-	-
Balance, December 31, 2009	<u>-</u>	<u>494,961</u>	<u>67,793</u>	<u>122,867</u>	<u>157,178</u>	<u>1,169,229</u>	<u>-</u>	<u>2,012,028</u>	<u>109,698</u>
Balance, January 1, 2010	-	494,961	67,793	122,867	157,178	1,169,228	-	2,012,027	109,698
Charge for the year	-	91,054	49,232	23,143	23,243	285,831	-	472,503	123,554
Transfer of fixed assets	-	-	-	-	-	-	-	-	-
Transfer from investment property and leases	-	49,791	-	(115,407)	(49,791)	115,407	-	-	-
Disposal	-	-	(8,835)	-	-	(42,999)	-	(51,834)	-
Sale	-	(1,178)	(1,327)	-	(105)	(8,790)	-	(11,400)	-
Other	-	(2)	-	-	3	559	-	560	-
Balance, December 31, 2010	<u>-</u>	<u>634,626</u>	<u>106,863</u>	<u>30,603</u>	<u>130,528</u>	<u>1,519,236</u>	<u>-</u>	<u>2,421,856</u>	<u>233,252</u>
Net Book Value:									
- December 31, 2010	<u>1,177</u>	<u>4,570,998</u>	<u>196,487</u>	<u>6,653</u>	<u>1,197,620</u>	<u>797,554</u>	<u>50,215</u>	<u>6,820,704</u>	<u>467,547</u>
- December 31, 2009	<u>1,177</u>	<u>4,084,246</u>	<u>212,606</u>	<u>38,904</u>	<u>1,790,451</u>	<u>864,701</u>	<u>65,402</u>	<u>7,057,487</u>	<u>326,526</u>

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***20. PROPERTY, EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (Continued)**

As of December 31, 2010, the Bank stated investment property in the amount of RSD 1,197,620 thousand comprised of leased buildings.

As of December 31, 2010, rental income earned totaled RSD 77,361 thousand (Note 7), whereas total cost of renting premises totaled RSD 36,117 thousand:

Building	Area in m2	Total Expenses	Total Rental Income	Net Profit
Belgrade, Makedonska 29	7,168.91	35,977	77,236	41,259
Kruševac, Balkanska 8	55.72	140	125	(15)

As of December 31, 2010, the Bank used equipment with the net book value of RSD 6,653 thousand obtained under finance lease agreement whereas total finance lease liabilities as of December 31, 2010 totaled RSD 2,155 thousand.

In 2010, buildings with the net book value of RSD 568,660 thousand were transferred from investment property to buildings.

The Bank has no buildings assigned under mortgage as collateral for the repayment of borrowings.

As a result of incomplete land registers, as at December 31, 2010, the Bank did not have proof of ownership for 16 buildings stated in the net book value of RSD 1,259,049 thousand. The Bank's management has taken all actions necessary to obtain the appropriate property titles for these buildings.

As at January 1, 2005, the Bank recognized revaluation effects (based on a valuation performed by an independent and certified appraiser) for property owned by the Bank. In the future, the Bank will apply the revaluation model.

Based on the opinion of the Bank's expert team, it has been determined that there is no need for independent property valuation for the year 2010.

The Bank's management believes that the net book value of property and equipment as at December 31, 2010 was stated at its market value.

Based on the annual count, useless fixed assets (equipment) in the net book value of RSD 1,981 thousand were disposed of and derecognized.

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

As of December 31, 2010, the Bank's non-current assets held for sale totaled RSD 735,432 thousand (December 31, 2009: RSD 104,898 thousand).

The Bank is in the process of selling property assessed as unnecessary for further business and a property acquired through an out-of-court settlement with a debtor, Dorćol Inženjering d.o.o., Beograd (value of the building was RSD 636,521 thousand). The Bank's management intends to sell all assets that have not been sold in the past year.

Based on the assessment of the fair value of non-current assets held for sale during 2010, the value of two properties decreased by RSD 9,955 thousand (Note 10).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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22. OTHER ASSETS

	December 31, 2010	December 31, 2009
Other assets held in dinars:		
Advances paid for non-current assets	28,649	3,573
Receivables from employees	3,342	5,182
Prepaid taxes	4,882	4
Receivables for prepaid income taxes	-	101,391
Other receivables from operations	2,359,893	160,178
Suspense and temporary accounts	135,025	183,776
Receivables in settlement	1,223,089	339,841
Deferred receivables for accrued interest	173,855	171,058
Deferred receivables for other accrued income	72	126
Deferred expenses for liabilities carried at amortized value by applying the effective interest rate	20,527	-
Deferred other expenses	46,100	59,103
Other prepayments	1,806	78
	<u>3,997,240</u>	<u>1,024,310</u>
Less: Allowance for impairment	<u>(29,897)</u>	<u>(17,181)</u>
	3,967,343	1,007,129
Inventories of material	13,227	9,364
Inventories of tools and fixtures	1,988	2,203
Tangibles received through collection of receivables	986,165	450,371
Fixtures in use	92,965	141,064
	<u>1,094,345</u>	<u>603,002</u>
Less: Allowance for impairment of tangibles received through collection of receivables	(4,812)	-
Less: Allowance for impairment of inventories	<u>(92,965)</u>	<u>(141,061)</u>
	<u>996,568</u>	<u>461,941</u>
Other assets in foreign currency:		
Receivables from employees	644	695
Other receivables from operations	98,429	389,630
Suspense and temporary accounts	1,143	16,998
Receivables in settlement	314,381	218,985
Deferred receivables for accrued interest	82,063	38,314
	<u>496,660</u>	<u>664,622</u>
Less: Allowance for impairment	<u>(108,888)</u>	<u>(98,900)</u>
	<u>387,772</u>	<u>565,722</u>
	<u>5,351,683</u>	<u>2,034,792</u>

Other receivables from operations in the total of RSD 2,359,893 thousand principally relate to the receivable from Merkator S d.o.o., Novi Sad, totaling RSD 2,164,293 thousand arising from mortgage lien on the building owned by the Bank's debtor – M Centar Sistem d.o.o., Beograd, for the purpose of collecting a debt based on the Long-Term Agreement closed on July 21, 2008 whereby the Bank allowed a loan to the entity M Centar Sistem d.o.o., Beograd in the amount of EUR 11,000,000 and Annex number 1 extending additional loan of EUR 1,200,000. The Sales Agreement was closed on October 28, 2010. The amount of receivables exceeded the Bank's placements by RSD 839,616 thousand (Note 27), which is the Bank's liability towards Merkator S d.o.o., Novi Sad (RSD 788,638 thousand) as second ranging mortgage debtor towards M Centar Sistem d.o.o., Beograd (RSD 50,978 thousand) for the excess of assets.

Receivables in settlement denominated in dinars of RSD 1,223,089 thousand (December 31, 2009: RSD 339,841 thousand) mostly relate to receivables based on purchases of foreign currencies for banks totaling RSD 843,986 thousand (Note 25) where RSD 742,810 thousand relates to Erste banka a.d., Novi Sad and RSD 101,176 thousand is due from Societe Generale banka a.d., Beograd.

On the line item of receivables in settlement, the Bank stated receivables from insurance companies amounting to RSD 373,023 thousand (Note 27) pertinent to collective life insurance of the Bank's employees with Dunav osiguranje a.d., Beograd.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

22. OTHER ASSETS (Continued)

Tangibles received through collection of receivables in the net book value of RSD 981,353 thousand pertain to tangibles obtained in 2010 totaling RSD 831,127 thousand and tangibles obtained in prior years of RSD 150,226 thousand. The review of tangibles is provided in the tables below.

Tangibles acquired in the last 12 months

	Area in m ²	Value in Thousands of RSD	Date of Acquisition
Buče forest, IV class	82,92 ares 1 ha and 24,83 ares	547	Nov 26, 2010
Yard – grass field, VI class	ares	337	Nov 26, 2010
Lisina, grass fields, VII and VIII classes, cultivated land VIII class and a forest of IV class	297,83 ares	1,604	Dec 21, 2010
Tivat, Mrčevac – residential building, ancillary building, building under construction and a garage	277	5,512	Dec 23, 2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.1	87	24,374	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.2	170	47,627	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.3	173	48,467	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment I S2 no.5	171	47,907	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment II S2 no.7	90	25,214	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment II S2 no.8	170	47,627	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment II S2 no.9	175	49,028	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment IV S2 no. 14	170	47,627	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment IV S1 no. 15	198	55,471	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment VI S1 no. 19	90	25,214	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment VI S1 no. 20	195	54,631	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment VI S1 no. 21	198	55,471	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment VII S2 no. 24	175	49,028	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment VIII S2 no. 26	170	47,627	Dec 24, 2010
NBGD, Milentija Popovića 5b, apartment VIII S2 no. 34	459	95,208	Dec 24, 2010
NBGD, Milentija Popovića 5b, business premises L3S2	128	46,739	Dec 24, 2010
NBGD, Milentija Popovića 5b, business premises L4S2	153	55,867	Dec 24, 2010
Total		<u>831,127</u>	

Tangibles received through collection of receivables within a year totaled RSD 831,127 thousand as of December 31, 2010 and referred to buildings and land (forest) securitizing the Bank's receivables from customers based on loans approved.

Tangibles acquired in prior periods

	Area in m ²	Value per m ²	Acquisition Date
Business premises in Novi Pazar, Kej skopskih žrtava 44	82.95	4,343	Sept 27, 2007
Gnjilica, 7 th class agricultural land	26,38 ares	216	June 11, 2008
Hotel Prezident, Čačak, Bulevar oslobođenja no number	2,278.92	127,035	Jan 21, 2009
Residential building, Čačak ul. Ratka Mitrovića 6	195	3,706	May 12, 2009
Apartment and business building in Čačak, Železnička no number	272.24	13,433	Jan 21, 2009
Equipment, Valjevo (machines for cutting and tailoring fabrics)		1,205	Sept 7, 2009
Dairy equipment, Novi Pazar		288	July 24, 2008
Total		<u>150,226</u>	

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

22. OTHER ASSETS (Continued)

For the aforementioned properties, the Bank holds ownership titles that are not registered in the land registry. The Bank's management is undertaking actions to sell such property.

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

Based on the fair value assessment of tangibles received through collection of receivables during 2010, their value was decreased by RSD 4,812 thousand.

Receivables in settlement denominated in foreign currency total RSD 314,381 thousand mostly relate to spot transactions with UBS AG, Zurich of RSD 194,236 thousand (December 31, 2009: RSD 106,840 thousand). Liabilities thereof are presented in Note 27.

The movements on the allowance for impairment were as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Balance, January 1	116,081	50,387
Charge for the year (Note 9)	53,857	196,800
Reversal of provisions (Note 9)	(37,516)	(134,728)
Foreign exchange differences	11,181	3,928
Write-offs	(128)	(234)
Other movements	122	(72)
Balance, December 31	<u>143,597</u>	<u>116,081</u>

23. TRANSACTION DEPOSITS

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Transaction deposits in dinars:		
- sector of finances and insurance	1,780,108	1,054,651
- public companies	2,733,929	1,108,457
- enterprises	7,424,469	9,766,424
- entrepreneurs	1,624,141	1,585,601
- public sector	57,742	64,144
- retail sector	4,162,166	4,401,668
- foreign entities	160,937	109,952
- registered agricultural producers	474,888	455,559
- other customers	1,371,365	920,210
	<u>19,789,745</u>	<u>19,466,666</u>
Transaction deposits in foreign currency:		
- sector of finances and insurance	1,870,341	5,370,105
- public companies	134,013	192,701
- enterprises	4,604,673	3,141,142
- entrepreneurs	154,749	110,178
- public sector	226,199	212,747
- retail sector	1,799,491	1,197,086
- foreign entities	784,863	487,198
- other customers	297,995	2,195,379
	<u>9,872,324</u>	<u>12,906,536</u>
	<u>29,662,069</u>	<u>32,373,202</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

23. TRANSACTION DEPOSITS (Continued)

Demand deposits in dinars represent balances of transaction deposits of enterprises and other legal entities. Based on the Decision on Interest Rates for the year 2010, these deposits are interest-bearing. Depending on the level of average monthly balance on transaction accounts of customers, interest rate ranges from 0.5% to 2% annually.

Demand deposits of enterprises and non-residents foreign currency denominated are non-interest bearing except for specific business arrangements.

Dinar a vista savings deposits placed by retail customers were deposited at an interest rate of 2.5% annually. Foreign currency a vista savings deposits of retail customers were placed at an interest rate up to 0.2% annually.

24. OTHER DEPOSITS

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Other dinar deposits:		
Savings deposits	1,178,300	1,129,736
Deposits for loans approved	371,298	95,106
Special purpose deposits	847,464	165,687
Other deposits		
- sector of finances and insurance	1,021,082	4,432,043
- public companies	1,590,304	2,606,254
- enterprises	17,658,194	16,761,065
- entrepreneurs	26,500	55,076
- public sector	49,390	1,244,186
- retail sector	6,246	3,520
- foreign entities	1,000	1,000
- other customers	5,514,148	120,640
	<u>28,263,926</u>	<u>26,614,313</u>
Other foreign currency deposits:		
Savings deposits	117,772,389	91,218,108
Deposits for loans approved	2,808,750	1,138,686
Special purpose deposits	1,665,836	1,175,703
Other deposits		
- sector of finances and insurance	7,632,026	3,623,811
- public companies	4,899,059	4,674,127
- enterprises	4,597,724	3,669,966
- entrepreneurs	9,557	26,957
- public sector	2,147	1,804
- foreign entities	12,660	223,021
- other customers	1,764,597	2,471,063
	<u>141,164,745</u>	<u>108,223,246</u>
	<u>169,428,671</u>	<u>134,837,559</u>

In 2010, short-term dinar deposits of enterprises were placed at an interest rate ranging between the reference interest rate less 2.75 percentage points and the reference interest rate less 0.5 percentage points annually, depending on the maturity date.

Short-term foreign currency deposits of enterprises were placed at an interest rate ranging between 0.25% and 4% annually.

Long-term dinar deposits of enterprises were placed at an interest rate determined by the amount of reference interest rate of the National Bank of Serbia on an annual level, whereas those denominated in foreign currency accrue interest at the rate of 2.20% to 4.5% annually.

NOTES TO THE FINANCIAL STATEMENTS

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24. OTHER DEPOSITS (Continued)

Short-term retail deposits in dinars were placed at interest rates ranging from 8% to 10.00% annually, whereas those denominated in foreign currency accrue interest at rates ranging from 1.8% to 5% annually.

Long-term retail deposits in dinars were placed at interest rates ranging from 11.00% to 12.00% annually, whereas those denominated in foreign currency accrue interest at rates ranging from 2.2% to 5.8% annually.

25. BORROWINGS

	December 31, 2010	December 31, 2009
Borrowings received in dinars:		
Overnight loans	13,680	77,464
Long-term borrowings from the National Bank of Serbia	2,183	3,275
	15,863	80,739
Other financial liabilities	4,200	165
	20,063	80,904
Other financial liabilities in foreign currencies	903,042	64,415
	903,042	64,415
	<u>923,105</u>	<u>145,319</u>

Other financial liabilities in foreign currency totaling RSD 903,042 thousand mostly pertained to liabilities arising in connection with the purchase and sale of foreign currencies with banks in the amount of RSD 843,986 thousand settled within two days towards Erste banka a.d., Novi Sad in the amount of RSD 738,488 thousand and towards Societe Generale banka a.d, Beograd in the amount of RSD 105,498 thousand (Note 22).

26. PROVISIONS

The movements on provisions for potential losses as per the off-balance sheet items and retirement benefits were as follows:

	December 31, 2010	December 31, 2009
Off-balance sheet items		
Balance, January 1	448,162	467,783
Charge for the year (Note 9)	181,482	364,971
Reversal of provisions (Note 9)	(223,675)	(384,592)
Balance, December 31	<u>405,969</u>	<u>448,162</u>
Provisions for retirement benefits		
Balance, January 1	223,254	304,637
Charge for the year (Note 9)	4,842	-
Reversals during the year	-	(81,383)
Balance, December 31	<u>228,096</u>	<u>223,254</u>
Provisions for litigations		
Balance, January 1	254,921	277,610
Charge for the year (Note 9)	12,900	-
Use of provisions	-	(10,161)
Reversal of provisions (Note 9)	(24,500)	(12,528)
Balance, December 31	<u>243,321</u>	<u>254,921</u>
Total provisions	<u>877,386</u>	<u>926,337</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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27. OTHER LIABILITIES

	December 31, 2010	December 31, 2009
Dinar denominated liabilities:		
Accounts payable	157,294	162,796
Advances received	538,376	281,562
Finance lease liabilities	2,155	29,440
Other accounts payable	864,084	23,963
Liabilities in settlement	60,817	856,114
Temporary and suspense accounts	(97,810)	(61,876)
Other liabilities to employees	5,278	5,580
	<u>1,530,194</u>	<u>1,297,579</u>
Accruals in dinars out of which:		
- liabilities to deferred income	40,834	44,405
- other accrued expenses	10,618	41,616
- deferred interest income	97,627	41,057
- receivables at amortized value calculated by applying effective interest rate	731,564	598,222
- other income	101,222	428,021
- prepayment for loans to retail customers	322,271	508,059
- life insurance liabilities	373,023	-
- other accruals	2,161	903
	<u>1,679,320</u>	<u>1,662,283</u>
Other foreign currency liabilities:		
Advances received	4,915	6,274
Liabilities for commission business – loan facilities	7,400,066	4,568,506
Liabilities in settlement	535,303	354,531
Temporary and suspense accounts	1,596	138,340
	<u>7,941,880</u>	<u>5,067,651</u>
Accruals in foreign currency out of which:		
- liabilities for deferred income	2,206,060	1,362,627
- other accrued expenses	122,889	80,437
- other accruals	123,774	-
	<u>2,452,723</u>	<u>1,443,064</u>
	<u>13,604,117</u>	<u>9,470,577</u>

Other accounts payable mostly relate to the Bank's liability arising from the sold mortgage lien of RSD 839,616 thousand (Note 22).

Liabilities arising from advances received in dinars relate to advances from the Republic of Serbia Development Fund for subsidizing interest rates applied to loans to retail customers, corporate customers and entrepreneurs of RSD 212,701 thousand, advances received from the Ministry of Agriculture, Water Management and Forestry of RSD 100,947 thousand, advances received from the Ministry of Environment and Spatial Planning for subsidized interest for loans approved for apartment building of RSD 219,809 thousand while the amount of RSD 4,919 thousand pertains to other advances received.

Deferred interest income of RSD 97,627 mainly relates to an amount collected in advance based on interest subsidized by the Ministry of Economy and Regional Development for residential loans insured with the National Mortgage Insurance Corporation of RSD 75,870 thousand.

Deferred liabilities based on life insurance of RSD 373,023 thousand (Note 22) are associated with collective life insurance of the Bank's employees with the insurance company Dunav osiguranje a.d., Beograd based on the Agreement closed on December 29, 2003 and Annexes to the Agreement dating from 2004 and 2005 in the amount of mathematical reserve based on the actuary's calculation for the period of 10 years.

Liabilities in settlement of RSD 535,303 thousand mainly relate to the outstanding payment based on receipts from abroad in foreign currency amounting to RSD 261,061 thousand, as well as liabilities arising from spot transactions with UBS AG, Zurich totaling RSD 194,315 thousand.

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27. OTHER LIABILITIES (Continued)

Liabilities arising from commission operations in foreign currency totaling RSD 7,400,066 thousand (December 31, 2009: RSD 4,568,506 thousand) are associated with the following loan facilities:

- Liabilities towards the Republic of Serbia based on a borrowing from the European Investment Bank for financing projects of small and medium sized enterprises, as well as financing infrastructural projects of municipalities of small and medium scope of RSD 2,844,518 thousand (December 31, 2009: RSD 1,061,785 thousand). The relevant Agreement was executed between the Bank and the National Bank of Serbia on May 11, 2009. The applicable interest rate totals 3M Euribor + 0.4% p.a.+ 0.5% margin for the National Bank of Serbia. The breakdown of loans is provided in the following table:

Creditor	Approval Date	Maturity Date	Currency	Amount of Loan Approved in Currency	December 31, 2010		December 31, 2009	
					In Currency	In Thousands of RSD	In Currency	In Thousands of RSD
EIB GLOBAL	June 15, 2003	Dec 15, 2021	EUR	25,847,646	9,790,781	1,032,910	11,073,082	1,061,785
	Jan 20, 2010	Feb 20, 2022	EUR	2,000,000	2,000,000	210,996	-	-
EIB APEX 3	March 29, 2010	Sept 29, 2019	EUR	8,470,936	8,470,936	893,669	-	-
	June 21, 2010	June 21, 2020	EUR	6,701,000	6,701,000	706,943	-	-
				<u>43,019,582</u>	<u>26,962,717</u>	<u>2,844,518</u>	<u>11,073,082</u>	<u>1,061,785</u>

- Liabilities towards the Republic of Serbia based on the loans from the Republic of Italy for financing projects of small and medium-sized enterprises of RSD 1,335,888 thousand (December 31, 2009: RSD 1,482,363 thousand). The Agreement signed between the Bank and the National Bank of Serbia on July 14, 2005 maturing on July 14, 2016. The 1% interest rate as defined in the Agreement is applied to the balance outstanding.
- Liabilities towards EFSE SERBIA (European Fund for South East Europe) of RSD 3,164,945 thousand (December 31, 2009: RSD 1,917,777 thousand) based on a line facility of EUR 30 million. The interest rate defined in the Agreement governing the loan facility EESE B.V.1 equals 6M Euribor + 3.75% p.a. The interest rate defined in the Agreement governing the loan facility EFSE B.V. 2 equals 6M Euribor + 2.85% p.a. The breakdown of loans is provided in the table below:

Creditor	Approval Date	Maturity Date	Currency	Amount of Loan Approved in Currency	December 31, 2010		December 31, 2009	
					In Currency	In Thousands of RSD	In Currency	In Thousands of RSD
EFSE SERBIA B.V.1	July 15, 2009	Sept 22, 2014	EUR	6,000,000	6,000,000	632,989	6,000,000	575,333
	Sept 30, 2009	Sept 22, 2014	EUR	7,000,000	7,000,000	738,487	7,000,000	671,222
EFSE SERBIA B.V.2	Dec 30, 2009	Sept 22, 2014	EUR	7,000,000	7,000,000	738,487	7,000,000	671,222
	Oct 5, 2010	March 22, 2018	EUR	5,000,000	5,000,000	527,491	-	-
	Dec 30, 2010	March 22, 2018	EUR	5,000,000	5,000,000	527,491	-	-
				<u>30,000,000</u>	<u>30,000,000</u>	<u>3,164,945</u>	<u>20,000,000</u>	<u>1,917,777</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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27. OTHER LIABILITIES (Continued)

- Liabilities arising from borrowings from Italian and German banks for financing imports of goods of RSD 41,702 thousand (December 31, 2009: RSD 74,918 thousand). The interest rate equals 6M Euribor + 0.75% p.a. The breakdown of loans is provided in the table below:

Creditor	Approval Date	Maturity Date	Currency	Amount of Loan Approved in Currency	December 31, 2010		December 31, 2009	
					In Currency	In Thousands of RSD	In Currency	In Thousands of RSD
	Oct 3, 2005	Oct 3, 2010	EUR	285,698	-	-	57,140	5,479
	March 16, 2006	March 16, 2011	EUR	329,425	32,943	3,475	98,828	9,476
B. Monte Dei P.di Siena	July 21, 2006	July 21, 2011	EUR	539,839	107,968	11,390	215,936	20,706
	Nov 20, 2006	Nov 21, 2011	EUR	278,241	55,648	5,871	111,296	10,672
	July 13, 2007	July 13, 2012	EUR	321,759	128,704	13,578	193,055	18,512
	Dec 21, 2007	Dec 21, 2012	EUR	175,084	70,034	7,388	105,050	10,073
				1,930,046	395,297	41,702	781,305	74,918

- Liabilities towards the Republic of Serbia based on a loan obtained from the European Agency for Reconstruction and Development of RSD 4,642 thousand (December 31, 2009: RSD 23,547 thousand) was approved on March 6, 2003 and matures on July 25, 2012 at an interest rate of 3M Euribor + 1.5% p.a.
- Other borrowings are associated with the Paris and London Club of Creditors aggregated to RSD 6,810 thousand (December 31, 2009: RSD 5,993 thousand), and the Fund for financing the increase in employment, accounting for RSD 1,561 thousand (December 31, 2009: RSD 2,123 thousand).

28. EQUITY

The Bank's share capital as of December 31, 2010 totaled RSD 13,881,010 thousand (December 31, 2009: RSD 9,082,820 thousand) and comprises 870,931 common shares, 479,819 convertible priority shares and 37,351 priority shares having the par individual value of RSD 10 thousand.

The Bank's share capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage Banks, as well as shares in profit distribution.

Based on the Decision on the 21st share issue of priority shares convertible into common shares without public offering, in 2010, the Bank issued shares in the total volume of RSD 4,798,190 thousand, i.e. 479,819 shares were issued, having individual par value of RSD 10 thousand. The new share issue was realized on January 20, 2010, with the realized share premium of RSD 6,601,829 thousand.

At December 31, 2010, the Bank had the total of 1,808 shareholders or 1,181 common share holders, 623 priority share holders and 4 convertible priority share holders (December 31, 2009: 1,262 holders of common shares and 602 holders of priority shares).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

28. EQUITY (Continued)

The structure of the Bank's shareholders, according to their common shares, at December 31, 2010 was the following:

Shareholders	<u>Common Share Number</u>	<u>% Interest</u>
Republic of Serbia	370,989	42.60
EBRD, London	217,773	25.00
Artio int. equity fund New York	41,505	4.77
Jugobanka a.d. Beograd in bankruptcy	32,160	3.69
Kompanija Dunav a.d., Beograd	29,558	3.39
Evropa osiguranje a.d., Beograd in bankruptcy	24,942	2.86
INVEJ d.o.o., Beograd	23,000	2.64
Other	131,004	15.05
	<u>870,931</u>	<u>100.00</u>

The structure of the Bank's shareholders, according to their convertible priority shares, at December 31, 2010 was the following:

Shareholders	<u>Common Share Number</u>	<u>% Interest</u>
EBRD, London	193,211	40.27
IFC Capitalization fund Ip	170,681	35.57
DEG – Deutsche ingestions	77,285	16.11
Swedfund international aktiebo	38,642	8.05
	<u>479,819</u>	<u>100.00</u>

The structure of the Bank's shareholders, according to their priority shares, at December 31, 2010 was the following:

Shareholders	<u>Common Share Number</u>	<u>% Interest</u>
NLB customers	3,565	9.54
Privredna banka Zagreb d.d.	1,859	4.98
Politika a.d., Beograd	1,824	4.88
Jugobanka in bankruptcy a.d., Beograd	1,809	4.84
Other shareholders	28,294	75.76
	<u>37,351</u>	<u>100.00</u>

The basic earnings per share totaled RSD 2,850 or 28.5% for a common share par value. Diluted earnings per share totaled RSD 1,874 thousand or 18.74% to the par share value.

Based on the decision of the Bank's Assembly, in 2010, other reserves were reallocated to special reserves for potential losses against balance sheet assets in the amount of RSD 360,868 thousand, and the difference of RSD 1,850,000 thousand was charged from 2009 profit.

Revaluation reserves relate to profits from the increase in the value of property based on the valuation performed by an independent appraiser in 2005 and profit from the valuation of securities available for sale.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***28. EQUITY (Continued)**

Based on the regulations of the National Bank of Serbia, gains on the realized revaluation reserves from fixed assets in 2010 were recognized within prior year retained earnings in the aggregate amount of RSD 39,787 thousand.

In 2010, based on the decision of the Bank's Assembly the distribution of stated cumulative retained earnings was executed as follows:

- dividends for priority shares for 2009	44,822
- Bank's reserves	1,850,000
- awards from profit for members of management and other Bank's employees	90,000

Capital Adequacy and Ratios Prescribed by the Law on Banks

The Bank is required to maintain a minimum capital adequacy ratio of 12%, as established by the NBS. As of December 31, 2010, the Bank's capital adequacy ratio was 17.14% which is above than the NBS prescribed minimum.

The Bank is also required to maintain certain ratios pertaining to the volume of its activities and composition of risk assets in compliance with the Law on Banks and with the NBS requirements. As of December 31, 2010, all ratios pertaining to the volume of its activities and composition of risk assets were within their prescribed limits.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

29. OFF-BALANCE-SHEET ITEMS

	December 31, 2010	December 31, 2009
a) Management funds		
- in dinars	4,230,755	3,980,859
	<u>4,230,755</u>	<u>3,980,859</u>
b) Guarantees, sureties, collaterals and commitments		
Payment guarantees:		
- in dinars	5,191,312	3,352,777
- in foreign currency	3,554,351	3,746,519
	<u>8,745,663</u>	<u>7,099,296</u>
Performance bonds:		
- in dinars	4,164,229	3,297,211
- in foreign currency	528,140	196,431
	<u>4,692,369</u>	<u>3,493,642</u>
Bill of guarantees and acceptances		
- in dinars	216,889	304,535
	<u>216,889</u>	<u>304,535</u>
Irrevocable letters of credit		
- in foreign currency	1,051,309	656,689
	<u>1,051,309</u>	<u>656,689</u>
Commitments and irrevocable commitments for undrawn loans and placements:		
- in dinars	5,121,319	3,003,692
- in foreign currency	31,031	13,706
	<u>5,152,350</u>	<u>3,017,398</u>
Unused portion of approved dinar overdrafts	7,128,730	7,009,554
Other	25,365	99,019
	<u>27,012,675</u>	<u>21,680,133</u>
Derivatives		
- in dinars	1,054,982	-
	<u>1,054,982</u>	-
c) Other off-balance sheet items		
Receivables from suspended interest	791,764	682,687
Equity securities	76,010,335	14,474,537
Republic of Serbia treasury bills	18,856,990	-
Bonds	8,736,772	19,024,301
Other debt securities	3,010,240	957,521
Other commitments and irrevocable liabilities from guarantees	5,009,414	4,690,562
Cheques	14,798	30,907
Letters of credit and other amounts from foreign exchange operations	451,801	726,975
	<u>112,882,114</u>	<u>40,587,490</u>
Total off-balance sheet items	<u>145,180,526</u>	<u>66,248,482</u>

Managed funds mostly, in the amount of RSD 2,164,067 thousand, relate to assets for commission long-term residential loans extended to retail customers and resources in the name and for the account of the Republic of Serbia. Other managed funds relate to commission loans of the City of Belgrade and assets received from foreign grantors for micro loans.

Total estimated provision for potential losses on off-balance sheet items as in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" was formed in the amount of RSD 405,969 thousand (Note 26).

As of December 31, 2010 and 2009, there were no liabilities arising from forward foreign exchange operations.

As of December 31, 2010, the Bank had contractually agreed SWAP transactions with UBS AG Zurich bank for the amount of EUR 10 million or RSD 1,054,982 thousand as translated to dinars at the official middle exchange rate as of the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

29. OFF-BALANCE-SHEET ITEMS (Continued)

During 2010, the Bank experienced net increase in suspended interest of RSD 109,077 thousand comprised of:

a) increases:		
• Newly suspended interest		67,911
• Resuming the accrual of interest previously suspended		97,780
• Exchange rate differences		8,234
		<u>173,925</u>
b) decreases:		
• Write-off		63,231
• Collection (Note 9)		1,617
		<u>64,848</u>
		<u>109,077</u>

The increase in other off-balance sheet items in 2010 mostly relates to the portfolio of securities based on custody operations performed on behalf of the Republic of Serbia Share Fund based on the Agreement signed in 2010 and assumed securities portfolio of three brokering companies which discontinued their operations in 2010.

30. RELATED PARTY TRANSACTIONS

The following table shows total balance sheet exposure and exposure to related parties, as well as income and expenses from related party transactions influencing the Bank's business operations:

BALANCE SHEET	December 31, 2010	December 31, 2009
<i>Loans and deposits to customers and other placements:</i>		
Komercijalna banka a.d., Budva	11,161	1,066,131
Komercijalna banka a.d., Banja Luka	2,749	2,499
	<u>13,910</u>	<u>1,068,630</u>
<i>Interest, fees and commission:</i>		
Komercijalna banka a.d., Budva	771	2,603
	<u>771</u>	<u>2,603</u>
<i>Loans and deposits:</i>		
Komercijalna banka a.d., Budva	5,488	8,951
Komercijalna banka a.d., Banja Luka	12,925	10,857
Kombank Invest a.d., Srbija	77	96,501
	<u>18,490</u>	<u>116,309</u>
<i>Interest and other payables :</i>		
Komercijalna banka a.d., Budva	1,473	-
Kombank Invest a.d., Srbija	9	753
	<u>1,482</u>	<u>753</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

30. RELATED PARTY TRANSACTIONS (Continued)

	Year Ended December 31,	
	2010	2009
INCOME STATEMENT		
<i>Interest income:</i>		
Komercijalna banka a.d., Budva	24,113	120,808
Kombank Invest a.d., Srbija	-	198
	<u>24,113</u>	<u>121,006</u>
<i>Fee and commission income:</i>		
Komercijalna banka a.d., Budva	571	253
Komercijalna banka a.d., Banja Luka	1,209	972
Kombank Invest a.d., Srbija	128	82
	<u>1,908</u>	<u>1,307</u>
<i>Interest expense:</i>		
Komercijalna banka a.d., Budva	(10,827)	-
Komercijalna banka a.d., Banja Luka	(101,151)	(75,233)
Kombank Invest a.d., Srbija	(2,224)	(748)
	<u>(114,202)</u>	<u>(75,981)</u>
<i>Fee and commission expenses:</i>		
Komercijalna banka a.d., Budva	(729)	(678)
Komercijalna banka a.d., Banja Luka	(163)	(139)
	<u>(892)</u>	<u>(817)</u>
<i>Net currency clause income:</i>		
Kombank Invest a.d., Srbija	-	1,192
	<u>-</u>	<u>1,192</u>
	<u>(89,073)</u>	<u>46,707</u>

Gross and net remunerations to the president and members of the Board of Directors and Executive Board in 2010 and 2009 were as follows:

	December 31, 2010	December 31, 2009
Gross remunerations		
Executive Board	66,138	59,256
Net remunerations		
Executive Board	55,716	49,803
Gross remunerations		
Board of Directors and Audit Committee	15,275	14,410
Net remunerations		
Board of Directors and Audit Committee	10,649	10,132

31. LITIGATION

As of December 31, 2010, the value of litigations filed against the Bank totaled RSD 4,441,864 thousand for 47 lawsuits of most considerable individual values. The Bank's management does not anticipate materially significant losses from litigations in the ensuing period. The Bank formed provisions for litigations of RSD 243,321 thousand (Note 26)

In addition, the Bank has filed lawsuits against third parties, the major portion of which aggregates to RSD 11,133,560 thousand (198 lawsuits with most significant individual values). The Bank's management anticipates that most litigations filed will resolve favorably for the Bank.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

32. SEGMENT REPORTING

Balance as of December 31, 2010

	Retail	Corporate	Investment Banking and Interbank Operations	Other	Total
External income	6,991,776	10,117,090	2,903,048	393	20,012,307
External expenses	(5,545,075)	(2,415,323)	(653,404)	-	(8,613,802)
Income otherwise earned	12,225,691	17,741,184	1,749,618	1,236,028	32,952,521
Expenses otherwise incurred	(14,917,122)	(16,667,909)	(1,154,532)	(329,312)	(33,068,875)
Segment results	(1,244,730)	8,775,042	2,844,730	907,109	11,282,151
Other operating expenses	-	-	-	-	(8,490,187)
(Loss)/Profit before tax	-	-	-	-	2,791,964
Net gains on deferred tax assets earned and decreased deferred tax liabilities	-	-	-	-	(271,910)
(Loss)/Profit	-	-	-	-	2,520,054
Segment assets	83,225,552	110,864,058	48,383,673	13,395,026	255,868,309
Segment liabilities	130,964,790	61,540,409	13,985,606	8,323,076	214,813,881
Capital expenditures	176,228	234,752	102,452	28,364	541,796
Accumulated depreciation and amortization	193,878	258,263	112,712	31,204	596,057

Balance as of December 31, 2009

	Retail	Corporate	Investment Banking and Interbank Operations	Other	Total
External income	6,235,130	9,571,509	2,978,606	-	18,785,245
External expenses	(4,206,074)	(3,903,828)	(765,777)	(5,132)	(8,880,811)
Income otherwise earned	7,199,869	12,158,681	1,677,205	907,191	21,942,946
Expenses otherwise incurred	(10,204,625)	(9,153,758)	(2,101,256)	(374,504)	(21,834,143)
Segment results	(975,700)	8,672,604	1,788,778	527,555	10,013,237
Other operating expenses	-	-	-	-	(7,957,742)
(Loss)/Profit before tax	-	-	-	-	2,055,495
Net gains on created deferred tax assets and decreased deferred tax liabilities	-	-	-	-	(188,819)
(Loss)/Profit	-	-	-	-	1,866,676
Segment assets	72,741,088	96,486,849	26,372,877	9,656,407	205,257,221
Segment liabilities	104,438,978	57,966,269	9,374,021	6,201,572	177,980,840
Capital expenditures	146,469	194,283	53,104	19,444	413,300
Accumulated depreciation and amortization	189,409	251,240	68,672	25,144	534,465

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***33. RISK MANAGEMENT****Background**

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

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

Objectives and Principles of Risk Management

The risk management system is governed by the following internal enactments:

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

Risk Management Objectives and Principles set out:

- Specific definitions of risks used in the Bank,
- Long-term objectives related to an acceptable risk profile and exposure,
- Approaches to individual types of risks,
- Types of risk limits that the Bank will use,
- Principles for organizing risk management,
- Principles of capital adequacy assessment.

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

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

Policies and procedures for managing certain risk types define, in greater detail, the process of managing risks, identification, measurement, minimizing and risk monitoring.

Competencies

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

*All amounts expressed in thousands of RSD, unless otherwise stated.***33. RISK MANAGEMENT (Continued)****Competencies (Continued)**

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

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

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

The Credit Committee is responsible for maintaining the Bank's optimal exposure to credit risk.

The Receivables Collections Committee is authorized and responsible for managing risk-weighted placements; it makes decisions on the write-off of risk-weighted loans up to set limits of authorization and recommends write-off of loans to the Executive Board and Board of Directors through its limits of authorization.

The Risk Management Organizational Unit is authorized and responsible for risk management, professional implementation of models and methodologies for identifying, measuring, monitoring and controlling risks, and for reporting of risk exposure, as well as for implementing risk management procedures. The Credit Risk Analysis Division is part of it and provides independent assessments of loan risk in the process of loan approval, including the Work-Out Team charged with the collection of risk-weighted loans.

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

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

Risk Measurement and Reporting

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

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

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

Types of Risk s

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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33. RISK MANAGEMENT (Continued)

Maximum Risk Exposure

The following table presents gross financial instruments (assets and liabilities) of the Bank as at December 31, 2010, including off-balance sheet items:

Maximum risk exposure (gross)

	December 31, 2010	December 31, 2009
Monetary assets	255,807,001	207,538,739
Cash and cash equivalents	20,724,645	27,387,157
Revocable deposits and loans	43,615,232	46,651,225
Interest, fee and commission receivables and other receivables	2,917,499	2,292,515
Loans and advances to customers	161,120,970	124,682,032
Securities	18,267,759	566,846
Other placements	5,165,103	4,850,328
Other assets	3,995,793	1,108,636
Monetary liabilities	209,261,497	173,519,528
Transaction deposits	29,662,069	32,373,202
Other deposits	169,428,671	134,837,559
Borrowings	923,105	145,319
Interest, fee and commission payable	227,933	168,097
Other liabilities	9,019,719	5,995,351
Monetary off-balance sheet items	29,116,506	22,567,830
Payment guarantees	8,745,663	7,099,296
Performance bonds	4,692,369	3,493,642
Acceptances and sureties	216,889	304,535
Irrevocable letters of credit	1,051,309	656,689
Irrevocable commitments	12,281,080	10,026,952
Receivables for derivatives	1,054,982	-
Other	1,074,214	986,716

Credit Risk

Credit risk represents the risk of negative effects on the Bank's financial result and capital arising from the customer's inability to settle its matured liabilities to the Bank. The Bank's credit risk is conditioned by the credit rating of its debtors, their discipline in settling liabilities towards the Bank as well as the quality of collaterals obtained against exposures. It is the Bank's business policy to ensure the maximum protection against credit risk exposure.

The Bank monitors the following risks:

- Default risk - the risk of loss that may arise if a debtor fails to settle liabilities toward the Bank;
- Downgrade risk - the risk of loss that may arise if a risk level of a debtor is downgraded (deterioration of in the customer credit rating) on the line items of assets that are recorded in the banking book;
- Risk of change in the value of assets - the risk of loss that may arise on assets items that are recorded in the banking book in the event of a decline in their market value compared to the price at which assets were acquired;
- Residual risk i.e. risk that the techniques used to alleviate credit risk be less effective than expected, i.e. risk that the value of collaterals called upon, could be below their initially assessed amount;
- Counterparty risks - risks that can arise from the Bank's exposure toward a single individual, a group of related parties or to entities that are associated with the Bank.
- Country risk – relates to the borrower's country of origin and represents the probability of negative effects on the Bank's financial result and equity due to the inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin;
- Risk of exposure to industrial sector, geographic areas, type of products and activities, financial instruments, goods, instruments of collaterals.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

*All amounts expressed in thousands of RSD, unless otherwise stated.***33. RISK MANAGEMENT (Continued)****Credit Risk (Continued)**

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

The actual process of credit risk management consists of assessment of credit rating and financial position of the customer, assessment of collaterals, linking interest rates to the risk group to which the customer belongs, application of criteria that are defined by the internal rating system, setting limits for approval of placements with particular customers, setting limits for approval of placements for organizational units of the Bank, different types of investments of the Bank, as well as for industrial sectors. It also includes monitoring of collection of receivables during the repayment period, customer monitoring, management of risk-weighted placements, the Bank portfolio management, internal and external reporting, conducting of the process of internal assessment of capital adequacy.

In its effort to manage credit risk the Bank seeks to do business with customers that have good credit rating and to acquire appropriate collaterals against repayments. The Bank assesses creditworthiness of each customer upon the submission of a loan application and regularly monitors its debtors, placements and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

Credit risk analysis draws on principles prescribed by the National Bank of Serbia's regulations and the Bank's internal procedures. Application of these principles allows the Bank to foresee potential risks that could result in the customer's inability to settle liabilities as they fall due, in accordance with terms of loan contract. For these purposes, the Bank assesses the level of necessary reserve using the regular analysis of portfolio on monthly basis. The analysis includes the measurement of adequacy of reserves formed against separate customers, risk categories, portion of portfolio and at overall portfolio level. The Bank also manages credit risk estimating the collectability of receivables by forming an allowance for impairment for balance sheet receivables and provisions for losses on off-balance sheet items. In addition, pursuant to the regulations of the National Bank of Serbia, the Bank allocates reserves from retained earnings to be used to cover potential losses and these reserves represent a certain form of hedge against potential adverse effects in case placements are not repaid when due and in full.

Decisions on credit risk exposure are defined through the following decision-making system based on competencies of the Bank's competent bodies:

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

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

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

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

Credit risk measurement is based on two parallel approaches:

- regulatory approach
- internal approach.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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33. RISK MANAGEMENT (Continued)

Credit Risk (Continued)

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

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

Downgrade Risk

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

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

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

Overview of exposure per risk categories based on Internal Rating System criteria

December 31, 2010	Acceptable Risk	Special Watch	Substandard	Total
Cash and cash equivalents	20,724,645	-	-	20,724,645
Revocable deposits and loans	43,615,232	-	-	43,615,232
Interest, fee and commission receivables and other receivables	784,147	243,969	1,889,383	2,917,499
Loans and advances to customers	116,048,163	28,014,500	17,058,307	161,120,970
Securities	18,156,941	110,773	45	18,267,759
Other placements	1,426,516	318,190	3,420,397	5,165,103
Other assets	3,914,750	25,610	55,433	3,995,793
	<u>204,670,394</u>	<u>28,713,042</u>	<u>22,423,565</u>	<u>255,807,001</u>
December 31, 2009	Acceptable Risk	Special Watch	Substandard	Total
Cash and cash equivalents	27,387,157	-	-	27,387,157
Revocable deposits and loans	46,651,225	-	-	46,651,225
Interest, fee and commission receivables and other receivables	675,840	207,950	1,408,725	2,292,515
Loans and advances to customers	91,069,057	20,170,653	13,442,322	124,682,032
Securities	435,358	129,656	1,832	566,846
Other placements	1,229,738	843,615	2,776,975	4,850,328
Other assets	1,042,036	30,892	35,708	1,108,636
	<u>168,490,411</u>	<u>21,382,766</u>	<u>17,665,562</u>	<u>207,538,739</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

*All amounts expressed in thousands of RSD, unless otherwise stated.***33. RISK MANAGEMENT (Continued)****Risk of Change in the Value of Assets**

Allowance for impairment of placements is intended to ensure reasonable, cautious and timely registering of losses on loan impairment, as well as to intervene in respect of contingent liabilities with a view to protect the Bank in the period when the loss occurs and is definitely confirmed (realized), due to inability to collect contracted amounts or through outflow of assets to settle contingent liabilities.

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

Key elements in assessing impairment of placements are as follows: overdue payments on principal or interest, does the loan beneficiary have cash flow difficulties, has credit rating deteriorated or has a change occurred in initial terms of contract, etc.

Assessment of Allowance for Impairment of Receivables

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

Individual Assessment

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

Group Assessment

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

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

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

Assessment of Provisions for Off-Balance Sheet Items

Assessment of provisions for off-balance sheet items (contingent liabilities) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities.

In assessing provisions for contingent losses on off-balance sheet items, funds obtained by activating collaterals are recognized if it is completely certain that cash outflows for contingent liabilities will be settled from collaterals.

Overview of impairment per risk categories:

	Allowance for impairment of balance sheet assets		Provision for losses on off-balance-sheet items	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Rating 1	267,444	42,883	-	-
Rating 2	205,526	165,634	2,438	498
Rating 3	483,499	148,651	10,043	9,620
Rating 4	240,941	423,069	22,365	2,012
Rating 5	14,085,646	12,845,068	371,123	436,032
	<u>15,283,056</u>	<u>13,625,305</u>	<u>405,969</u>	<u>448,162</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Overview of individual and group assessment of impairment of receivables:

	Neither due nor Impaired	Due, but not Impaired	Impaired	Total Gross Monetary Assets	Individual Allowance for Impairment	Group Allowance for Impairment	Total Allowance for Impairment	Total net Monetary Assets
December 31, 2010								
Cash and cash equivalents	20,724,645	-	-	20,724,645	-	-	-	20,724,645
Revocable deposits and loans	43,615,232	-	-	43,615,232	-	-	-	43,615,232
Interest, fee and commission receivables and other receivables	28,056	73,776	2,815,667	2,917,499	1,160,400	571,857	1,732,257	1,185,242
Loans and advances to customers	28,864,665	76,815	132,179,490	161,120,970	8,066,312	2,488,347	10,554,659	150,566,311
Securities	18,054,821	-	212,938	18,267,759	-	262	262	18,267,497
Other placements	856,518	-	4,308,585	5,165,103	2,733,005	124,087	2,857,092	2,308,011
Other assets	817,018	76	3,178,699	3,995,793	323	138,463	138,786	3,857,007
Total monetary assets	112,960,955	150,667	142,695,379	255,807,001	11,960,040	3,323,015	15,283,056	240,523,945

As of December 31, 2010, the allowance for impairment for monetary assets amounted to RSD 15,283,056 thousand (2009: RSD 13,625,304 thousand), whereby the difference in relation to the total allowance for impairment of RSD 376,568 thousand (2009: RSD 371,757 thousand) relates to non-monetary assets.

Overview of assessment of individual and group impairment of receivables:

	Neither due nor Impaired	Due, but not Impaired	Impaired	Total Gross Monetary Assets	Individual Allowance for Impairment	Group Allowance for Impairment	Total Allowance for Impairment	Total net Monetary Assets
December 31, 2009								
Cash and cash equivalents	27,387,157	-	-	27,387,157	-	-	-	27,387,157
Revocable deposits and loans	46,651,225	-	-	46,651,225	-	-	-	46,651,225
Interest, fee and commission receivables and other receivables	25,351	101,309	2,165,855	2,292,515	907,636	448,013	1,355,649	936,866
Loans and advances to customers	45,751,137	189,481	78,741,414	124,682,032	7,470,975	2,104,812	9,575,786	115,106,246
Securities	437,400	-	129,446	566,846	-	337	337	566,509
Other placements	562,997	-	4,287,331	4,850,328	2,423,902	153,550	2,577,452	2,272,876
Other assets	586,201	284	522,151	1,108,636	252	115,829	116,081	992,555
Total monetary assets	121,401,468	291,074	85,846,197	207,538,739	10,802,765	2,822,541	13,625,305	193,913,434

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Structure of due, but not Impaired Monetary Assets

	0-30 Days	31-60 Days	61-90 Days	91-180 Days	180-365 Days	From 1-5 Years	Total
December 31, 2010							
Interest, fee and commission receivables and other receivables	67,615	296	118	689	1,062	3,996	73,776
Loans and advances to customers	74,837	671	181	760		365	76,814
Other placements	61	2	-	-	8	6	77
Total	142,513	969	299	1,449	1,070	4,367	150,667
Fair value of collaterals							
- Deposit	4,219	509	161	192	155	173	5,409
- Mortgages	45,839	1	-	734	-	21	46,595
	0-30 Days	31-60 Days	61-90 Days	91-180 Days	180-365 Days	From 1-5 Years	Total
December 31, 2009							
Interest, fee and commission receivables and other receivables	93,772	996	290	687	3,594	1,971	101,309
Loans and advances to customers	184,166	2,753	606	540	525	891	189,481
Other placements	272	1	-	2	8	1	284
Total	278,210	3,750	896	1,229	4,127	2,863	291,075
Fair value of collaterals							
- Deposit	2,472	502	221	425	453	103	4,176
- Mortgages	110,995	436	-	18	178	452	112,079

Default Risk

As a hedge against risk of default in operations performed with customers, the Bank undertakes the following measures for settling receivables:

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

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

The Bank reschedules and restructures receivables from customers experiencing certain difficulties in operations:

Rescheduled and restructured receivables	December 31, 2010	December 31, 2009
Corporate customers	22,741,882	16,220,579
Retail	269,858	70,669
	23,011,740	16,291,248

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Tangibles Received through Collection of Receivables

One of the measures taken by the Bank to collect its receivables is activation of collaterals.

As of December 31, 2010, the Bank possessed property acquired through collection of receivables in the total amount of RSD 986,165 thousand, with the fair value of RSD 981,353 thousand.

In 2009, the value of assets acquired through collection of receivables amounted to RSD 450,371 thousand. The fair value of assets acquired through collection of receivables as of December 31, 2009 amounted to RSD 450,371 thousand.

Concentration Risk

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

Overview of Exposure per Regions

December 31, 2010	Central Serbia	Vojvodina	Kosovo and Metohija	European Union	USA and Canada	Other	Total
Cash and cash equivalents	20,724,645	-	-	-	-	-	20,724,645
Revocable deposits and loans	43,615,232	-	-	-	-	-	43,615,232
Interest, fee and commission receivables and other receivables	2,237,457	303,626	349	20,711	3	355,353	2,917,499
Loans and advances to customers	121,940,568	19,255,688	329,944	15,352,938	221,116	4,020,716	161,120,970
Securities	18,262,124	5,635	-	-	-	-	18,267,759
Other placements	3,991,529	318,230	-	541,601	-	313,743	5,165,103
Other assets	2,750,043	21,327	809	42	320	1,223,252	3,995,793
	<u>213,521,598</u>	<u>19,904,506</u>	<u>331,102</u>	<u>15,915,292</u>	<u>221,439</u>	<u>5,913,064</u>	<u>255,807,001</u>
December 31, 2009	Central Serbia	Vojvodina	Kosovo and Metohija	European Union	USA and Canada	Other	Total
Cash and cash equivalents	27,387,157	-	-	-	-	-	27,387,157
Revocable deposits and loans	46,651,225	-	-	-	-	-	46,651,225
Interest, fee and commission receivables and other receivables	2,094,033	190,698	288	20	-	7,476	2,292,515
Loans and advances to customers	101,709,228	16,935,785	315,656	3,893,775	185,751	1,641,837	124,682,032
Securities	561,109	5,737	-	-	-	-	566,846
Other placements	3,748,673	422,061	-	437,370	-	242,224	4,850,328
Other assets	753,560	14,401	446	185	124	339,920	1,108,636
	<u>182,904,985</u>	<u>17,568,682</u>	<u>316,390</u>	<u>4,331,350</u>	<u>185,875</u>	<u>2,231,457</u>	<u>207,538,739</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Overview of Credit Risk Exposure per Industrial Sectors:

December 31, 2010	Sector of Finance and Insurance	Agriculture	Processing Industries	Electricity	Civil Engineering	Wholesale and Retail	Real-estate Related Activities	Service Industries	Public Sector	Retail and Entrepreneuri al Sector	Foreign Customer Sector	Sector of Other Customers	Total
Cash and cash equivalents	20,724,645	-	-	-	-	-	-	-	-	-	-	-	20,724,645
Revocable deposits and loans	43,615,232	-	-	-	-	-	-	-	-	-	-	-	43,615,232
Interest, fee and commission receivables and other receivables	44,984	114,049	1,133,945	2,184	168,885	555,752	59,084	148,953	15,594	188,824	28,884	456,361	2,917,499
Loans and advances to customers	4,011,129	3,662,002	34,420,858	2,645,047	7,952,318	28,324,242	4,197,682	6,693,825	2,719,349	45,728,541	19,584,980	1,180,997	161,120,970
Securities	110,823	45	9,052	-	320	210	110,820	-	18,036,489	-	-	-	18,267,759
Other placements	348,867	64,834	589,846	-	307,833	1,227,838	-	120,832	-	17,123	541,599	1,946,331	5,165,103
Other assets	1,228,218	1,158	34,573	340	7,619	2,216,322	16,559	18,012	4,496	128,260	488	339,748	3,995,793
	<u>70,083,898</u>	<u>3,842,088</u>	<u>36,188,274</u>	<u>2,647,571</u>	<u>8,436,975</u>	<u>32,324,364</u>	<u>4,384,145</u>	<u>6,981,622</u>	<u>20,775,928</u>	<u>46,062,748</u>	<u>20,155,951</u>	<u>3,923,437</u>	<u>255,807,001</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Overview of Credit Risk Exposure per Industrial Sectors: (Continued)

December 31, 2009	Sector of Finance and Insurance	Agriculture	Processing Industries	Electricity	Civil Engineering	Wholesale and Retail	Real-estate Related Activities	Service Industries	Public Sector	Retail and Entrepreneuri al Sector	Foreign Customer Sector	Sector of Other Customers	Total
Cash and cash equivalents	27,387,157	-	-	-	-	-	-	-	-	-	-	-	27,387,157
Revocable deposits and loans	46,651,225	-	-	-	-	-	-	-	-	-	-	-	46,651,225
Interest, fee and commission receivables and other receivables	40,885	100,880	1,116,961	2,313	85,149	466,368	106,754	121,804	11,779	175,569	7,316	56,737	2,292,515
Loans and advances to customers	1,065,638	4,287,802	28,060,439	287,028	5,073,910	25,741,591	6,620,496	5,888,997	2,038,538	39,136,514	5,695,287	785,792	124,682,032
Securities	389,923	86	11,716	-	665	210	131,009	-	33,237	-	-	-	566,846
Other placements	312,552	56,105	465,262	-	798,375	1,554,905	5,663	37,638	-	17,975	437,369	1,164,484	4,850,328
Other assets	289,118	1,710	30,786	277	7,447	42,858	14,712	11,161	20,905	111,081	13,216	565,365	1,108,636
	<u>76,136,498</u>	<u>4,446,583</u>	<u>29,685,164</u>	<u>289,618</u>	<u>5,965,546</u>	<u>27,805,932</u>	<u>6,878,634</u>	<u>6,059,600</u>	<u>2,104,459</u>	<u>39,441,139</u>	<u>6,153,188</u>	<u>2,572,378</u>	<u>207,538,739</u>

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

NOTES TO THE FINANCIAL STATEMENTS

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33. RISK MANAGEMENT (Continued)

Overview of Credit Risk Exposure per Customer Type:

December 31, 2010	Corporate Customers	Banks	Retail	Total
Cash and cash equivalents	-	20,724,645	-	20,724,645
Revocable deposits and loans	-	43,615,232	-	43,615,232
Interest, fee and commission receivables and other receivables	2,590,826	7,596	319,077	2,917,499
Loans and advances to customers	98,635,574	15,258,418	47,226,978	161,120,970
Securities	18,262,955	4,804	-	18,267,759
Other placements	2,922,716	2,155,635	86,752	5,165,103
Other assets	3,923,706	365	71,722	3,995,793
	<u>126,335,777</u>	<u>81,766,695</u>	<u>47,704,529</u>	<u>255,807,001</u>
December 31, 2009	Corporate Customers	Banks	Retail	Total
Cash and cash equivalents	-	27,387,157	-	27,387,157
Revocable deposits and loans	-	46,651,225	-	46,651,225
Interest, fee and commission receivables and other receivables	2,016,506	7,892	268,117	2,292,515
Loans and advances to customers	83,242,747	1,459,569	39,979,716	124,682,032
Securities	177,367	389,479	-	566,846
Other placements	4,080,886	681,153	88,289	4,850,328
Other assets	750,811	300,751	57,074	1,108,636
	<u>90,268,317</u>	<u>76,877,226</u>	<u>40,393,196</u>	<u>207,538,739</u>

Monetary Off-Balance Sheet Items

In addition to credit exposures, the Bank also has off-balance sheet exposures (various types of callable and performance guarantees, letters of credit) that pose contingent liabilities for the Bank to make payments to third parties. For off-balance sheet exposures, the Bank uses the same control processes and procedures as for loans risks.

Maturity of monetary off-balance-sheet items:

	Payable Guarantees	Performance Bonds	Acceptances	Unsecured Letters of Credit	Irrevocable Commitments	Other	Receivables on Derivatives	Total
December 31, 2010								
Up to one year	5,483,595	2,787,172	2,109	1,051,309	8,257,045	10,800	1,054,982	18,647,012
From 1-5 years	2,570,824	1,799,270	96,576	-	3,954,879	1,024,034	-	9,445,583
Over 5 years	691,244	105,927	118,204	-	69,156	39,380	-	1,023,911
	<u>8,745,663</u>	<u>4,692,369</u>	<u>216,889</u>	<u>1,051,309</u>	<u>12,281,080</u>	<u>1,074,214</u>	<u>1,054,982</u>	<u>29,116,506</u>

NOTES TO THE FINANCIAL STATEMENTS

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All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Maturity of Monetary Off-Balance Sheet Items: (Continued)

	Payable Guarantees	Performance Bonds	Acceptances	Unsecured Letters of Credit	Irrevocable Commitments	Other	Receivables on Derivatives	Total
December 31, 2009								
Up to one year	4,573,271	1,933,180	6,338	656,689	5,604,943	11,600	-	12,786,021
From 1-5 years	1,800,122	1,495,332	16,457	-	4,419,577	938,613	-	8,670,101
Over 5 years	725,903	65,130	281,740	-	2,432	36,503	-	1,111,708
	<u>7,099,296</u>	<u>3,493,642</u>	<u>304,535</u>	<u>656,689</u>	<u>10,026,952</u>	<u>986,716</u>	<u>-</u>	<u>22,567,830</u>

Fair Value of Financial Assets and Liabilities

All loan and deposit agreements comprise a provision from the Decision on Interest Policy and Interest Rates allowing subsequent adjustments of the contractual interest rates which means that the carrying value of monetary assets and liabilities equals their fair market value.

	Carrying Value		Fair Value	
	2010	2009	2010	2009
Monetary assets				
Cash and cash equivalents	20,724,645	27,387,157	20,724,645	27,387,157
Revocable deposits and loans	43,615,232	46,651,225	43,615,232	46,651,225
Interest, fee and commission receivables and other receivables	1,185,242	936,866	1,185,242	936,866
Loans and advances to customers	150,566,311	115,106,246	150,566,311	115,106,246
Securities	18,267,497	566,509	18,267,497	566,509
Other placements	2,308,011	2,272,876	2,308,011	2,272,876
Other assets	3,857,007	992,555	3,857,007	992,555
	<u>240,523,945</u>	<u>193,913,434</u>	<u>240,523,945</u>	<u>193,913,434</u>
Monetary liabilities				
Transaction deposits	29,662,069	32,373,202	29,662,069	32,373,202
Other deposits	169,428,671	134,837,559	169,428,671	134,837,559
Borrowings	923,105	145,319	923,105	145,319
Interest, fee and commission payables	227,933	168,097	227,933	168,097
Other liabilities	9,019,719	5,995,351	9,019,719	5,995,351
	<u>209,261,497</u>	<u>173,519,528</u>	<u>209,261,497</u>	<u>173,519,528</u>

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***33. RISK MANAGEMENT (Continued)****Liquidity risk**

Liquidity or solvency represents the ability of the Bank to settle liabilities as these fall due, consequently in short and long term.

Liquidity risk represents the risk of negative effects on the Bank's financial result and capital resulting from the Bank's inability to settle its matured liabilities. Liquidity risk includes the risk associated with sources of funds and liquidity market risk. The liquidity issue is expressed as a deficit in reserves and difficult or impossible access to liquid assets at a reasonable market price.

The Liquidity Committee and the Asset and Liability Management Committee are responsible for managing liquidity risk within their competencies, along with other boards/committees whose decisions can impact the Bank's exposure to this risk. The main aim of the liquidity risk management is the maintenance of an adequate liquidity level so as to regularly and timely settle the Bank's liabilities. In order to minimize liquidity risk, the Bank:

- Diversifies sources of assets in respect to their currencies and maturities;
- Manages monetary funds;
- Monitors future cash flows and liquidity levels;
- Manages market sources;
- Defines and periodically tests Plans for Liquidity Management in Crisis Situations.

The liquidity management process comprises identification, measurement, minimizing, monitoring and liquidity risk reporting.

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

Measurement and assessment of liquidity risk in the Bank is done through quantitative and/or qualitative assessment of identified liquidity risk by using the following techniques:

- GAP analysis
- ratio analysis
- cash flow scenarios

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

Liquidity risk monitoring consists of the analyzing the balance, changes and trends in liquidity risk exposure, monitoring the compliance with internally set limits, as well as monitoring the defined measures for minimizing the Bank's liquidity risk exposure.

Liquidity risk reporting consists of an internal and external system of reporting and is performed on a daily basis or according to a set schedule.

The Bank determines a risk profile and propensity to liquidity risk, by reference to regulatory and internal exposures limits.

The Bank's liquidity level are reconciled daily with the legally prescribed liquidity ratio. The legally prescribed maximums and minimums for this ratio are as follows: 0.8 - when calculated for the working day; minimum 0.9 for longer than three consecutive days, and minimum 1 - when calculated as the average of all working days in a month.

NOTES TO THE FINANCIAL STATEMENTS

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33. RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

The legally prescribed liquidity ratio:

	2010	2009
As of December 31	2.45	2.71
Average for the period	2.48	1.82
Maximum for the period	4.00	2.71
Minimum for the period	1.35	1.52

During 2010, the liquidity ratio was significantly above prescribed limits.

The Bank sets internal limits, based on the internal reporting on liquidity GAP comprising all balance sheet items.

Reconciliation with internally defined limits of liquidity as of the last days was as follows:

	Limits	2010	2009
GAP up to 1 month/Total assets	Max (10%)	6.63%	14.82%
Cumulative GAP up to 3 months / Total assets	Max (20%)	(4.49%)	1.19%
Loans and advances to customers/Liabilities to customers	Max 90%	75.28%	68.78%

Maturity structure of monetary assets and monetary liabilities as of December 31, 2010:

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Monetary assets						
Cash and cash equivalents	20,724,645	-	-	-	-	20,724,645
Revocable deposits and loans	43,615,232	-	-	-	-	43,615,232
Interest, fee and commission receivables and other receivables	1,185,242	-	-	-	-	1,185,242
Loans and advances to customers	25,020,743	14,789,331	34,213,244	49,552,933	26,990,060	150,566,311
Securities	1,626,627	994,586	15,563,517	82,767	-	18,267,497
Other placements	1,649,857	454,061	204,093	-	-	2,308,011
Other assets	3,856,307	569	131	-	-	3,857,007
	<u>97,678,653</u>	<u>16,238,547</u>	<u>49,980,985</u>	<u>49,635,700</u>	<u>26,990,060</u>	<u>240,523,945</u>
Monetary liabilities						
Transaction deposits	29,662,069	-	-	-	-	29,662,069
Other deposits	48,424,635	44,051,288	62,356,894	14,129,283	466,571	169,428,671
Borrowings	918,905	-	-	-	4,200	923,105
Interest, fee and commission payables	227,933	-	-	-	-	227,933
Other liabilities	1,802,680	3,865	684,745	4,627,897	1,900,532	9,019,719
	<u>81,036,222</u>	<u>44,055,153</u>	<u>63,041,639</u>	<u>18,757,180</u>	<u>2,371,303</u>	<u>209,261,497</u>
Liquidity gap						
As of December 31, 2010	<u>16,642,431</u>	<u>(27,816,606)</u>	<u>(13,060,654)</u>	<u>30,878,520</u>	<u>24,618,757</u>	<u>31,262,448</u>
As of December 31, 2009	<u>18,315,743</u>	<u>(25,428,127)</u>	<u>(12,062,642)</u>	<u>19,695,835</u>	<u>19,873,097</u>	<u>20,393,906</u>

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***33. RISK MANAGEMENT (Continued)****Liquidity Risk (Continued)**

The overview on maturity structure of assets and liabilities presents balance sheet items that are divided by specified maturities from balance sheet date to contractual date of maturity, whereby items are classified by the remaining period to maturity. Therefore a conservative assumption was used where all transaction and call deposits would be withdrawn within one month.

The Bank's management is of the opinion that diversity of deposits by number and type of depositors, as well as previous experience of the Bank offer a sound basis for the conclusion that deposits represent a long-term and stable source of financing, and in this respect significant outflow of assets that could jeopardize the Bank's liquidity is not expected.

The Bank defines and periodically tests the Plan for Liquidity Management in Crisis Situations in order to ensure business continuity in the event of serious disruptions in operations.

Market Risk

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

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

The scope competencies of the Assets and Liability Committee include market risk management, shared with other competent boards, whose decisions may impact the Bank's exposure to this risk.

Interest Rate Risk

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

Basic objective of interest rate risk management is maintaining the acceptable level of interest rate risk exposure by conducting adequate policy in respect to maturity mismatch of the period passing before reestablishment of interest rates, by reconciling adequate sources with placements according to the type of interest rate and maturity, as well as by the projection of movements in the yield curve on the foreign and domestic market. Primarily, the Bank manages the margin of internal yield through the price of loans and deposits focusing on interest rate margin. The Bank strives to preserve the economic value of capital.

The process of interest rate risk management consists of identification, measurement, minimizing, monitoring and interest rate risk reporting.

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

Measurement and assessment of interest rate risk at the Bank is done through quantitative and/or qualitative assessment of identified interest rate risk by using the following techniques:

- GAP analysis
- Ratio analysis
- Interest rate fluctuations scenarios.

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December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Interest Rate Risk (Continued)

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Bank's risk profile. The Bank calculates and observes limits of the Bank's exposure to interest rate risk with a view to maintain interest rate risk at a level that is acceptable to the Bank. Also, the Bank undertakes measures to guard against interest rate risk with a view to maintain interest rate risk within the adopted limits.

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

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

The Bank determines the risk profile and propensity to interest rate risk by defining internal limits based on internal reports on interest rate GAP encompassing all balance sheet items.

The compliance with internally defined interest rate risk limits at the last days was as follows:

	<u>Limits</u>	<u>2010</u>	<u>2009</u>
Relative GAP	Max 15%	(9.75%)	(12.08%)
Mismatch ratio	<u>0.75 – 1.25</u>	<u>0.88</u>	<u>0.86</u>

During 2010, interest rate risk ratio was within internally prescribed limits.

The exposure to interest rate risk can be reviewed through the Report on Interest Rate GAP in monetary assets and liabilities as follows:

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Interest rate risk (Continued)

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2010:

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest- Bearing	Non-Interest Bearing	Total
Monetary assets								
Cash and cash equivalents	11,963,144	-	-	-	-	11,963,144	8,761,501	20,724,645
Revocable deposits and loans	200,000	-	-	-	-	200,000	43,415,232	43,615,232
Interest, fee and commission receivables and other receivables	-	-	-	-	-	-	1,185,242	1,185,242
Loans and advances to customers	53,610,036	15,164,079	21,762,585	38,475,906	21,553,705	150,566,311	-	150,566,311
Securities	1,445,371	963,691	15,441,945	82,767	-	17,933,774	333,723	18,267,497
Other placements	1,157,902	449,922	188,727	-	-	1,796,551	511,460	2,308,011
Other assets	-	-	-	-	-	-	3,857,007	3,857,007
	<u>68,376,453</u>	<u>16,577,692</u>	<u>37,393,257</u>	<u>38,558,673</u>	<u>21,553,705</u>	<u>182,459,780</u>	<u>58,064,165</u>	<u>240,523,945</u>
Monetary liabilities								
Transaction deposits	29,662,069	-	-	-	-	29,662,069	-	29,662,069
Other deposits	54,312,759	38,466,624	62,056,527	14,126,189	466,572	169,428,671	-	169,428,671
Borrowings	918,905	-	-	-	4,200	923,105	-	923,105
Interest, fee and commission payables	-	-	-	-	-	-	227,933	227,933
Other liabilities	183,027	2,850,704	3,354,607	950,652	61,076	7,400,066	1,619,653	9,019,719
	<u>85,076,760</u>	<u>41,317,328</u>	<u>65,411,134</u>	<u>15,076,841</u>	<u>531,848</u>	<u>207,413,911</u>	<u>1,847,586</u>	<u>209,261,497</u>
Interest rate GAP:								
- At December 31, 2010	<u>(16,700,307)</u>	<u>(24,739,636)</u>	<u>(28,017,877)</u>	<u>23,481,832</u>	<u>21,021,857</u>	<u>(24,954,131)</u>	<u>56,216,579</u>	<u>31,262,448</u>
- At December 31, 2009	<u>(17,812,927)</u>	<u>(27,042,350)</u>	<u>(23,049,396)</u>	<u>15,053,860</u>	<u>28,052,029</u>	<u>(24,798,784)</u>	<u>45,192,690</u>	<u>20,393,906</u>

Currency Risk

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

The basic objectives of managing the Bank's currency risk is to maximize return at specified risk levels, to minimize negative effects on financial result, to maintain the required level of capital adequacy and to develop the Bank's activities in accordance with business opportunities and market development, all with the objective of achieving a competitive advantage. In order to minimize the currency risk exposure, the Bank diversifies the currency structure of its portfolio and currency structure of liabilities, reconciling open positions in certain currencies pursuant to the principles of maturity transformation.

The process of currency risk management entails identifying, measuring, minimizing, monitoring and currency risk reporting.

In identifying currency risks, the Bank identifies in a comprehensive and timely manner the causes that lead to emergence of currency risk and includes the determination of current currency risk exposure, as well as currency risk exposure resulting from new business products and activities, by items that are recorded in the banking book and the trading book.

Measurement and assessment of currency risk in the Bank is done through quantitative and/or qualitative assessment of identified currency risk by using the following techniques:

- GAP analysis and ratio of currency risk
- Stress test

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All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Currency Risk (Continued)

Relieving foreign currency risk entails maintenance of risk at an acceptable level for the Bank's risk profile through the establishment of a transparent system of limits and defining measures used to hedge against foreign currency risk.

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

Currency risk reporting consists of an internal and external system of reporting, and is conducted on a daily level following a defined schedule.

The Bank determines a risk profile and propensity to risk by defining regulatory and internal exposure limits.

The Bank is required to reconcile its business with the prescribed foreign currency risk ratio being the proportion between the total net foreign currency balance and the Bank's equity. The Bank must make sure that its net foreign currency position does not exceed 20% of equity on a daily level.

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

	<u>2010</u>	<u>2009</u>
Total currency risk balance	2,266,604	3,949,357
Currency risk ratio	7.19%	18.12%
Legally-defined limit	<u>20%</u>	<u>20%</u>

The table below represents the Bank's currency exposure based on the Summary of monetary assets and monetary liabilities per currencies:

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33. RISK MANAGEMENT (Continued)

Currency Risk (Continued)

Summary of Monetary Assets and monetary Liabilities per Currencies as of December 31, 2010:

	EUR	USD	CHF	Other	Total	FX clause	Total	RSD	Total
Assets									
Cash and cash equivalents	4,633,587	1,636,530	241,806	813,946	7,325,869	-	7,325,869	13,398,776	20,724,645
Revocable deposits and loans	37,069,364	6,345,868	-	-	43,415,232	-	43,415,232	200,000	43,615,232
Interest, fee and commission receivables and other receivables	63,826	-	-	-	63,826	-	63,826	1,121,416	1,185,242
Loans and advances to customers	27,308,827	1,599,615	-	-	28,908,442	93,084,709	121,993,151	28,573,160	150,566,311
Securities	109,105	-	-	-	109,105	3,896,580	4,005,685	14,261,812	18,267,497
Other placements	690,439	541,607	-	-	1,232,046	-	1,232,046	1,075,965	2,308,011
Other assets	109,088	194,778	-	56	303,922	2,164,293	2,468,215	1,388,792	3,857,007
	<u>69,984,236</u>	<u>10,318,398</u>	<u>241,806</u>	<u>814,002</u>	<u>81,358,442</u>	<u>99,145,582</u>	<u>180,504,024</u>	<u>60,019,921</u>	<u>240,523,945</u>
Liabilities									
Transaction deposits	8,718,737	777,097	285,360	91,130	9,872,324	-	9,872,324	9,789,745	29,662,069
Other deposits	128,184,382	9,344,380	2,968,005	667,977	141,164,744	16,253,367	157,418,111	12,010,560	169,428,671
Borrowings	898,904	2,165	-	1,973	903,042	-	903,042	20,063	923,105
Interest, fee and commission payables	219	14	45,550	3	45,786	-	45,786	182,147	227,933
Other liabilities	7,856,032	52,462	14,649	12,226	7,935,369	839,616	8,774,985	244,734	9,019,719
	<u>145,658,274</u>	<u>10,176,118</u>	<u>3,313,564</u>	<u>773,309</u>	<u>159,921,265</u>	<u>17,092,983</u>	<u>177,014,248</u>	<u>32,247,249</u>	<u>209,261,497</u>
Open position in derivatives	<u>1,054,982</u>	<u>-</u>	<u>(1,097,292)</u>	<u>-</u>	<u>(42,310)</u>	<u>-</u>	<u>(42,310)</u>	<u>-</u>	<u>(42,310)</u>
Net currency position									
As of December 31, 2010	<u>(74,619,056)</u>	<u>142,280</u>	<u>(4,169,050)</u>	<u>40,693</u>	<u>(78,605,133)</u>	<u>82,052,599</u>	<u>3,447,466</u>	<u>27,772,672</u>	<u>31,220,138</u>
As of December 31, 2009	<u>(70,768,040)</u>	<u>73,431</u>	<u>(1,633,924)</u>	<u>21,570</u>	<u>(72,306,963)</u>	<u>73,035,723</u>	<u>728,760</u>	<u>19,665,145</u>	<u>20,393,905</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

All amounts expressed in thousands of RSD, unless otherwise stated.

33. RISK MANAGEMENT (Continued)

Currency Risk (Continued)

The scenario analysis in the case of increase or decrease of the exchange rate by 15%:

	EUR balance	EUR 15%	ERU 15%	USD balance	USD 15%	USD 15%	CHF balance	CHF 15%	CHF 15%
Assets									
Cash and cash equivalents	4,633,587	5,328,625	3,938,549	1,636,530	1,882,010	1,391,051	241,806	278,077	205,535
Revocable deposits and loans	37,069,364	42,629,769	31,508,959	6,345,868	7,297,748	5,393,988	-	-	-
Interest, fee and commission receivables and other receivables	63,826	73,400	54,252	-	-	-	-	-	-
Loans and advances to customers	27,308,827	31,405,151	23,212,503	1,599,615	1,839,557	1,359,673	-	-	-
Securities	109,105	125,471	92,739	-	-	-	-	-	-
Other placements	690,439	794,005	586,873	541,607	622,848	460,366	-	-	-
Other assets	109,088	125,451	92,725	194,778	223,995	165,561	-	-	-
	<u>69,984,236</u>	<u>80,481,872</u>	<u>59,486,600</u>	<u>10,318,398</u>	<u>11,866,158</u>	<u>8,770,639</u>	<u>241,806</u>	<u>278,077</u>	<u>205,535</u>
Liabilities									
Transaction deposits	8,718,737	10,026,548	7,410,926	777,097	893,662	660,532	285,360	328,164	242,556
Other deposits	128,184,382	147,412,039	108,956,725	9,344,380	10,746,037	7,942,723	2,968,005	3,413,206	2,522,804
Borrowings	898,904	1,033,740	764,068	2,165	2,490	1,840	-	-	-
Interest, fee and commission payables	219	252	186	14	16	12	45,550	52,383	38,718
Other liabilities	7,856,032	9,034,437	6,677,627	52,462	60,331	44,593	14,649	16,846	12,452
	<u>145,658,274</u>	<u>167,507,016</u>	<u>123,809,532</u>	<u>10,176,118</u>	<u>11,702,536</u>	<u>8,649,700</u>	<u>3,313,564</u>	<u>3,810,599</u>	<u>2,816,530</u>
Open position in derivatives	1,054,982	1,213,229	896,735	-	-	-	(1,097,292)	(1,261,886)	(932,698)
Net currency position/(effects) as of December 31, 2010	<u>(74,619,056)</u>	<u>(85,811,915)</u>	<u>(63,426,197)</u>	<u>142,280</u>	<u>163,622</u>	<u>120,939</u>	<u>(4,169,050)</u>	<u>(4,794,408)</u>	<u>(3,543,693)</u>

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***33. RISK MANAGEMENT (Continued)****Operational Risk**

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

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

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

The process of operational risk management represents an integral part of the Bank's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting system.

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

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

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

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

The Bank takes measures in order to relieve operational risks and ensure proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information system and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Bank's business processes.

With the objective of smooth and continued operation of all significant systems and processes in the Bank, and to limit losses that could be incurred in extraordinary circumstances, the Bank adopted the Business Continuity Plan.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***33. RISK MANAGEMENT (Continued)****The Bank's Investment Risk**

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

Exposure Risk

Exposure risk consists of exposure to:

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

The Bank continually identifies, measures, monitors and sets risk limits for exposures to customers, in the first place, exposures to a single entity or group of related entities, as well as toward the Bank's related parties. The Bank takes care of the matching between risk ratios as follows:

- The Bank's exposure to a single party or group of related parties cannot exceed 25% of the Bank's equity.
- The Bank's exposure to a party that is related to the Bank cannot exceed 5% of the Bank's equity, except for members of the banking group that are consolidated into the financial statements based on the full consolidation method, while total exposure to the Bank's related parties cannot exceed 20% of the Bank's equity.
- The aggregate amount of the Bank's large exposures cannot exceed 400% of the Bank's equity.

Country Risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***33. RISK MANAGEMENT (Continued)****Capital Management**

During 2010, the Bank managed capital, maintaining optimum capital structure in order to:

- Ensure the business continuity in the unlimited period of foreseeable future;
- Preserve optimal equity structure;
- Minimize capital costs;
- Hedge risks;
- Ensure growth, by widening the range of its services i.e. the Bank's development of new software and methodology solutions;
- Preservation of customer trust in the Bank's financial potential.

The Bank operates in accordance with the following limits:

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

The Bank measures capital adequacy abiding by regulatory methodology. The Bank's capital represents the sum of share capital and additional capital, reduced for deductible items. The capital adequacy ratio represents the proportion of bank capital and sum of assets weighted by credit risk, open foreign currency positions and capital requirements for other market risks. Risk-weighted balance sheet and off-balance sheet items are determined pursuant to risk weights prescribed for all types of balance sheet assets and off-balance sheet items.

Capital adequacy ratio

	December 31, 2010	December 31, 2009
Core capital	38,730,446	24,121,448
Additional capital	646,580	702,787
Deductible items	<u>(7,854,632)</u>	<u>(3,024,349)</u>
Capital	31,522,394	21,799,886
Weighted average balance sheet assets and off-balance sheet items exposed to credit risk, exposure to derivatives not traded on stock exchange market and capital requirement related to foreign currency risk	<u>183,957,661</u>	<u>147,112,474</u>
Capital adequacy ratio	<u>17.14%</u>	<u>14.82%</u>

34. IMPLEMENTATION OF BASEL II STANDARDS

In 2008, the Bank commenced the preliminary activities towards the implementation of Basel II Standards. GAP analysis was carried out to identify the gap between Basel II standards and the risk and capital management system currently in place in the Bank and the activities of converging with enactments, business practices and IT solutions started. The realization of this project will be terminated pursuant to legally defined deadlines and requirements.

35. MACROECONOMIC ENVIRONMENT AND THE BANK'S OPERATIONS IN 2010

The adverse effects of the global financial crisis were present throughout 2010 and impacted economic trends in Serbia and caused a considerable lack of liquidity in industry and in citizens, RSD exchange rate decline, inflation growth, high unemployment levels, deterioration in retail and corporate customer creditworthiness, which reflected in the business of banking sector.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***35. MACROECONOMIC ENVIRONMENT AND THE BANK'S OPERATIONS IN 2010 (Continued)**

The measures undertaken by the Republic of Serbia during the year 2010 aiming to alleviate adverse effects of crisis through the program of economy support, dinarization of the financial market, stimulation of domestic demand, increase in the retail purchasing power, program for extraordinary assistance to constructions industry, growth in infrastructural investments, brought about positive trends in economic environment causing mild recovery of economic activity, growth of industrial production, growth of export improvement in bank credit ratings through subsidized loans.

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

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

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

36. POST-BALANCE-SHEET EVENTS***Unreconciled Open Item Statements***

In the analysis of the regular annual count performed as of December 31, 2010, it has been determined that the Bank has unreconciled open item statements of RSD 52,785 thousand. Unreconciled open item statements for 71 customers in most cases relate to customers whose accounts have been frozen or against which there are lawsuits pending.

Unrealized Dividends from Priority Shares

Unrealized dividends from priority shares to be paid in 2011 amounted to: for the year 2010 – RSD 37,575 thousand (10.06% to par value of priority shares).

Opening Balance Adjustment 2011

In the Official Gazette of RS number 8 as of February 11, 2011, the Rules on Supplements and Amendments to the Rules on the Contents of Tax Balance Sheet and Other Matters Pertinent to the Assessment of Corporate Income Tax Liability were issued, influencing the Bank's corporate income tax for the year 2010. The aforementioned Amendments to the Rules, Article 5, paragraph 8 thereof envisage that data on interest rates used to accrue interest in "non-arm's length" transactions shall be published by the Ministry of Finance, which has not been done up to the date of issuing the Bank's financial statements for the year 2010.

The Bank intends to make the necessary adjustments to the amount of its corporate income taxes before the final deadline for the submission of tax balance sheet for the year 2010 (March 10, 2011) and to include these adjustments in its business books as opening balance adjustments.

Realizing Mortgage Liens

The Bank's mortgage lien disclosed in Notes 22 and 27 was fully realized on January 17, 2011 based funds paid in by Merkator S d.o.o., Novi Sad and by settling the liability arising thereof.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2010***All amounts expressed in thousands of RSD, unless otherwise stated.***37. EXCHANGE RATES**

The official exchange rates for major currencies used in the translation of balance sheet components denominated in foreign currencies as of December 31, 2010 and 2009, were as follows:

	December 31, 2010	In RSD December 31, 2009
USD	79.2802	66.7285
EUR	105.4982	95.8888
CHF	84.4458	64.4631