ERSTE BANK a.d. NOVI SAD

Financial Statements as of and for the Year Ended 31 December 2009

and

Independent Auditor's Report

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This is an English translation of Independent Auditor's Report originally issued in the Serbian language

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF ERSTE BANK a.d. NOVI SAD

We have audited the accompanying financial statements of Erste Bank a.d. Novi Sad (hereinafter "the Bank"), which comprise the balance sheet as of 31 December 2009 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The statistical annex represents an integral part of these financial statements.

The financial statements of the Bank as of and for the year ended 31 December 2008 were audited by another auditor, whose Report dated 2 March 2009, expressed an unqualified audit opinion on those financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia ("Official Gazette of the Republic of Serbia", no. 46/2006 and 111/2009), Law on Banks ("Official Gazette of the Republic of Serbia", no. 107/2005) and respective decisions of the National Bank of Serbia which regulate banks' financial reporting. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. 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.

BDO d.o.o. Beograd; Registarski broj 44916 kod Agencije za privredne registre; PIB 101672840; Matični broj 06203159
Poslovni računi: 295-1214105-50 kod Srpske banke a.d. Beograd; 240-69872101500-75 kod Findomestic banke a.d. Beograd
Upisani i uplaćeni osnivački kapital Društva 4.557,18 EUR
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS
OF ERSTE BANK a.d. NOVI SAD (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009, and of its financial performance and its cash flows for the year then ended, in accordance with the Law on Accounting and Auditing, Law on Banks and respective decisions of the National Bank of Serbia which regulate banks' financial reporting.

Belgrade, 9 March 2010

Ksenija Ristić Kostić
Certified Auditor

INCOME STATEMENT
For the Year Ended 31 December 2009

	Note	2009	2008
			In RSD thousand
OPERATING INCOME AND EXPENSES			
Interest income	4	4.741.524	4.399.452
Interest expense	4	(1.937.657)	(1.575.592)
Net interest income		**2.803.867**	**2.823.860**
Fee and commission income	5	1.642.432	1.642.885
Fee and commission expense	5	(457.661)	(684.289)
Net fee and commission income		**1.184.771**	**958.596**
Net gain from sale of securities available for sale		-	54.973
Net foreign exchange losses	6	(1.721.370)	(2.339.176)
Dividend income and income from equity investments		102	3.423
Other operating income	7	24.773	30.849
Net impairment losses on financial assets and provisions	8	(611.315)	(739.368)
Salaries and other personal expenses	9	(1.266.740)	(1.246.166)
Depreciation and amortization expense	10	(135.839)	(116.745)
Other operating expenses	11	(1.665.746)	(1.568.651)
Gains from changes in value of assets and liabilities	12	2.962.576	5.557.687
Losses from changes in value of assets and liabilities	13	(1.183.898)	(3.086.360)
PROFIT BEFORE INCOME TAXES		**391.181**	**332.922**
Current income tax	14	(2.715)	-
Deferred tax income	14	2.811	1.474
PROFIT FOR THE YEAR		**391.277**	**334.396**

The notes on pages 9 to 91
are an integral part of these financial statements.

The accompanying financial statements were approved for issue by the Board of Directors of the Bank on 23 February 2010 and were signed on its behalf by:

Vlasta Putnik
Person responsible for financial statements preparation

Suzan Tanriyar
Vice-president of the Executive Board

Slavko Carić
President of the Executive Board

ERSTE BANK NOVI SAD

BALANCE SHEET
As of 31 December 2009

In RSD thousand

	Note	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	15	5.561.582	5.701.939
Revocable deposits and loans	16	6.051.084	9.358.778
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	17	209.185	193.581
Loans and advances	18	30.220.438	30.049.493
Securities (excluding treasury shares)	19	7.211.761	2.401.576
Equity investments	19	47	46
Other placements	20	1.186.886	301.276
Intangible assets	21	89.223	57.286
Tangible assets	22	889.240	934.679
Other assets	22	575.420	188.472
TOTAL ASSETS		**51.994.866**	**49.187.126**
LIABILITIES AND EQUITY			
Sight deposits	23	6.541.543	7.085.712
Other deposits	24	23.986.784	24.275.693
Borrowings	25	8.215.278	4.798.918
Interest and fees payable and changes in fair value of derivatives	26	2.518	5.589
Provisions	27	322.976	757.835
Tax liabilities	14	5.807	6.374
Deferred tax liabilities	14	8.696	11.585
Other liabilities	28	1.979.967	1.707.709
TOTAL LIABILITIES		**41.063.569**	**38.649.415**
EQUITY	29		
Share capital		10.164.475	10.174.804
Reserves from profit		344.724	-
Revaluation reserves		20.702	15.639
Unrealized losses from sale of securities		(5.763)	-
Retained earnings		407.159	347.268
TOTAL EQUITY		**10.931.297**	**10.537.711**
TOTAL LIABILITIES AND EQUITY		**51.994.866**	**49.187.126**
OFF-BALANCE SHEET ITEMS	30	**26.583.809**	**37.529.202**
Funds managed on behalf of third parties		527.757	418.431
Guarantees and other irrevocable commitments		12.270.385	14.187.250
Derivatives		401.069	-
Other off-balance sheet items		13.384.598	22.923.521

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are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2009

In RSD thousand

	Share capital	Share premium	Other capital	Reserves from profit	Revaluation reserves	(Accumulated losses)/ Retained earnings	Total equity
Balance as of 1 January 2008	**10.040.000**	**2.228.932**	**10.329**	**-**	**23.421**	**(2.087.547)**	**10.215.135**
Loss coverage	-	(2.104.457)	-	-	-	2.104.457	-
Fair value adjustment of securities available-for-sale, net	-	-	-	-	(7.936)	-	(7.936)
Effects of decrease in deferred tax liabilities	-	-	-	-	154	-	154
Effects of actuarial losses on long-term employee benefits	-	-	-	-	-	(4.038)	(4.038)
Profit for the year	-	-	-	-	-	334.396	334.396
Balance as of 31 December 2008	**10.040.000**	**124.475**	**10.329**	**-**	**15.639**	**347.268**	**10.537.711**
Transfer to reserves from profit	-	-	(10.329)	10.329	-	-	-
Allocation of retained earnings	-	-	-	334.395	-	(334.395)	-
Fair value adjustment of securities available-for-sale, net	-	-	-		4.985	-	4.985
Effects of decrease in deferred tax liabilities	-	-	-	-	78	-	78
Effects of actuarial gains on long-term employee benefits	-	-	-	-	-	3.009	3.009
Unrealized losses from sale of securities available-for sale	-	-	-	-	(5.763)	-	(5.763)
Profit for the year	-	-	-	-	-	391.277	391.277
Balance as of 31 December 2009	**10.040.000**	**124.475**	**-**	**344.724**	**14.939**	**407.159**	**10.931.297**

The notes on pages 9 to 91
are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2009

In RSD thousand

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**6.329.502**	**5.987.480**
Interest receipts	4.694.219	4.269.893
Fee and commission receipts	1.620.347	1.649.623
Receipts from other operating income	14.834	64.541
Dividend income and gains from shares	102	3.423
Cash outflow from operating activities	**(5.787.293)**	**(4.762.629)**
Interest paid	(2.151.778)	(1.554.497)
Fees and commission paid	(457.700)	(684.533)
Payments for gross salaries, compensations and other personal expenses	(1.266.298)	(1.245.085)
Taxes, contributions and other duties paid	(258.701)	(252.257)
Outflow for other operating expenses	(1.652.816)	(1.026.257)
Net cash flows from operating activities before increase or decrease in placements and deposits	**542.209**	**1.224.851**
Decrease in placements and increase in deposits	*3.310.467*	*5.826.314*
Decrease in loans and placements to banks and customers	3.310.467	-
Increase in deposits from banks and customers	-	5.826.314
Increase in placements and decrease in deposits	*(4.804.138)*	*(5.286.307)*
Increase in loans and placements to banks and customers	-	(4.124.706)
Increase in securities at fair value through profit and loss and short-term securities available-for-sale	(3.971.060)	(1.161.601)
Decrease in deposits from banks and customers	(833.078)	-
Net cash flows (used in)/from operating activities before income tax	**(951.462)**	**1.764.858**
Income tax paid	(4.818)	(375)
Net cash flows (used in)/from operating activities	**(956.280)**	**1.764.483**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**2.854**	**22.615**
Proceeds from sale of equity investments	2.854	4.049
Proceeds from sale of intangible and tangible assets	-	18.566
Cash outflow from investing activities	**(960.629)**	**(261.334)**
Purchase of long-term securities	(831.794)	(34.207)
Purchase of intangible assets and property and equipment	(128.835)	(227.127)
Net cash flows used in investing activities	**(957.775)**	**(238.719)**
CASH FLOWS FROM FINANCING ACTIVITES		
Cash inflow from financing activities	**3.495.068**	**4.698.096**
Net proceeds from subordinated liabilities	78.708	101.140
Net proceeds from borrowings	1.623.512	4.596.956
Other proceeds from financing activities	1.792.848	-
Cash outflow from financing activities	**-**	**(41.792)**
Other outflows from financing activities	-	(41.792)
Net cash flows from financing activities	**3.495.068**	**4.656.304**

STATEMENT OF CASH FLOWS (Continued)
For the Year Ended 31 December 2009

In RSD thousand

	2009	2008
TOTAL NET CASH INFLOW	13.137.891	16.534.505
TOTAL NET CASH OUTFLOW	(11.556.878)	(10.352.437)
NET INCREASE IN CASH	**1.581.013**	**6.182.068**
CASH AT THE BEGINING OF THE YEAR	5.701.939	1.859.047
FOREIGN EXCHANGE GAINS	4.337.566	11.492.744
FOREIGN EXCHANGE LOSSES	(6.058.936)	(13.831.920)
CASH AT THE END OF THE YEAR (Note 15)	**5.561.582**	**5.701.939**

The notes on pages 9 to 91
are an integral part of these financial statements.

STATISTICAL ANNEX
For the Year Ended 31 December 2009

In RSD thousand

Group of accounts, account	I T E M	2009	2008
630	Salaries	649.090	543.710
631	Fringe benefits	124.640	154.386
632	Payroll taxes	120.832	101.003
633	Payroll contributions	181.716	155.531
634	Compensations for temporary and periodical jobs	98	-
635	Other personal expenses	190.364	291.536
642	Depreciation and amortization expense	135.839	116.745
Part of 643	Insurance premium costs	84.322	60.406
Part of 643	Compensations for employees' expenses	43.801	42.563
Part of 641	Rental expenses	359.927	303.583
644	Indirect taxes	62.403	85.212
645	Indirect contributions	195.383	165.863
Part of 746	Rental income	2.135	2.324
68	Foreign exchange losses	6.058.936	13.831.920
78	Foreign exchange gains	4.337.566	11.492.744
30	Inventories	1.204	1.190
	Average number of employees, based on the number at the end of each month (whole number)	960	942
	Number of ordinary shares	1.004.000	1.004.000
	Number of preference shares	-	-
	Nominal value of ordinary shares	10.040.000	10.040.000
	Nominal value of preference shares	-	-

The notes on pages 9 to 91
are an integral part of these financial statements.

1. CORPORATE INFORMATION

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

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

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

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

The Bank’s Head Office is in Novi Sad, no. 5 Bulevar Oslobođenja. The Bank operates through 5 business centres, 55 branches, 11 sub-branches and 3 specialized business centres - mortgage-loans centres.

The Bank had 960 employees as of 31 December 2009 (31 December 2008: 1009 employees).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Financial Statements

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

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

By the date of preparation of the accompanying financial statements not all amendments and supplements to the existing standards, as well as revised standards and new interpretations published by IASB and IFRIC (except for IAS 8 "Operating Segments") effective in the current reporting period, have been officially translated and adopted by the Ministry of Finance of the Republic of Serbia. The aforementioned amendments and supplements to standards and new interpretations which have not been officially published and adopted in the Republic of Serbia are disclosed in Note 2.1(a).

The accompanying financial statements have been prepared on the historical cost basis except for securities held for trading and securities available for sale which are measured at fair value.

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

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

The following standards, interpretations to standards (IFRIC) and amendments and supplements to the existing standards are mandatory for the reporting periods beginning on 1 January 2009:

- Revised IAS 1 "Presentation of Financial Statements". IAS 1 has been revised to upgrade the quality of the information presented in the financial statements. The revised standard introduces minor changes in presentation and titles of certain financial statements in the interest of comparability and consistency. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements"– Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.
- Amendments to IFRS 2 "Share-based Payment". The amended standard deals with vesting conditions and cancellations. It clarifies two issues: the definition of "vesting condition", introducing the term "non-vesting condition" for conditions other than service conditions and performance conditions.
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Improving Disclosures about Financial Instruments. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurement by level of a fair value measurement hierarchy. As the amendment to the standard only results in additional disclosures, there is no impact on earnings per share.
- IFRS 8 "Operating Segments" replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about Segments of an Enterprise and Related Information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes.
- Revised IAS 23 "Borrowing Cost", which applies to borrowing cost relating to qualifying assets. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed.
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidations. The amendments to IAS 32 require that puttable financial instruments and obligations arising on liquidation are classified as equity if and only if they meet specific conditions. The amendments to IAS 1 require disclosures with respect to the puttable financial instruments that are classified as equity instruments.
- Amendments to various standards (IAS 1, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41), which are part of the IASB's annual improvements project published in May 2008. These amendments primarily result in removal of inconsistencies and terminology and editorial changes (effective for annual periods beginning on or after 1 January 2009).
- IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009). This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation clarifies whether IAS 18 "Revenue", or IAS 11 "Construction Contracts", should be applied to particular transactions.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" do apply to the hedged item.
- IFRIC 18 "Transfers of Assets from Customers" (prospectively applied to transfers of assets from customers received on or after 1 July 2009). This interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets.

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

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

The Bank has not early adopted the following new standards, amendments to standards and interpretations that have been published by IASB and IFRIC, but have not been officially translated and adopted in the Republic of Serbia, nor have been effective for the reporting periods beginning on 1 January 2009:

- Amendments to IFRS 2 "Share-based Payment"- Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). In addition to incorporating IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- Revised IFRS 3 "Business Combinations" and complementary Amendments to IAS 27 "Consolidated and Separate Financial Statements" (both effective for annual periods beginning on or after 1 July 2009).
- IFRS 5 (Amendment) "Non-current Assets Held for Sale and Discontinued Operations" and complementary Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" (both effective for annual periods beginning on or after 1 July 2009).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009).
- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods ending on or after 30 June 2009).
- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009).
- Amendments to various standards and interpretations (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16), which are part of the IASB's annual improvements project published in April 2009 (most of them effective for annual periods beginning on or after 1 January 2010). These amendments result both in accounting changes for presentation, recognition or measurement purposes, but primarily in removal of inconsistencies and terminology or editorial changes.

The Bank's management assesses the impact of the aforementioned standards, interpretations and amendments to existing standards, and considers that their application is not expected to have a material impact on the Bank's financial statements in the periods of their first application.

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

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

The accounting policies and assumptions used in preparation of the accompanying financial statements are consistent with those followed in preparation of the Bank's financial statements for the year ended 31 December 2008.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Comparative Figures

The comparative figures represent the audited financial statements of the Bank as of and for the year ended 31 December 2008.

2.3. Interest Income and Expenses

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

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as available for sale, interest income and expense are recognized within "Interest income" and "Interest expense" in the income statement using the effective interest method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation of the effective interest rate takes into account all contractual terms of the financial instrument, except fees and incremental costs that are related to loan approval, but no future credit losses.

Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and amortized to interest earned on loans and advances over the life of the loan using the straight-line method, which approximates the effective yield and does not materially differ from it (Note 28).

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

2.4. Fee and Commission Income and Expense

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Fees and Commission Income and Expense (Continued)

/ii/ Fee Income from Providing Transaction Services

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

/iii/ Dividend Income

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

2.5. Foreign Currency Translation

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

Transactions denominated in foreign currency are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency as of the balance sheet date are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at that date (Note 35).

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

Income or expenses arising upon the translation of financial assets and liabilities with contacted foreign currency clause are credited or debited as appropriate, to the income statement, as gains/losses from changes in value of assets and liabilities (Notes 12 and 13).

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

2.6. Financial Instruments

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

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

"Day 1" Profit

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

Derecognition of Financial Assets and Financial Liabilities

Financial assets cease to be recognized when the Bank loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a "guarantee" over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

Classification of Financial Instruments

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

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

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

2.6.1. Financial Assets at Fair Value through Profit or Loss

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

2.6.1. Financial Assets at Fair Value through Profit or Loss (Continued)

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

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

Securities held for trading comprise Government's savings bonds and shares of other banks.

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

2.6.2. Securities Held-to-Maturity

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

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

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

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

If there are objective evidence that such securities have been impaired, the amount of impairment loss for investments held to maturity is calculated as the difference between the investments' carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate and stated in the income statement as the impairment losses on financial assets (Note 8).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

2.6.3. Loans and Advances

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

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

Loans in dinars, with contracted foreign currency clause, i.e. dinar-euro and dinar-usd foreign exchange rate, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated applying the foreign currency clause is disclosed within loans and advances. Income and expenses resulting from the application of foreign currency clause are recorded in the income statement, as gains/losses from changes in value of assets and liabilities.

Impairment of Loans and Other Financial Assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

2.6.3. Loans and Advances (Continued)

Impairment of Loans and Other Financial Assets (Continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and its recoverable value, being the present value of estimated future cash flows, discounted at the original effective interest rate for that particular financial asset. If a loan has a variable interest rate, current interest rate is applied.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of contracted cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The Bank regularly reviews the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement (Note 8).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

2.6.4. Renegotiated Loans

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

2.6.5. Available-for-sale Securities

Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available-for-sale". Available-for-sale securities include other legal entities' equity instruments and debt securities.

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

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

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

For investments in shares and other securities available for sale, at the balance sheet date, the Bank assesses if there is significant evidence of impairment of one or more investments. In case of investments in shares of other legal entities, classified as available for sale, for objective confirmations Bank considers significant or prolonged decrees of fair value of the investments below their cost.

When there is evidence of impairment, cumulative loss, assessed as difference between cost and fair value, decreased for any impairment of investment that have been recognized in the income statement, it is removed from equity and recognized in the income statement.

Impairments of investments are not reversed through the income statement, subsequent increases of fair value, after recognition of impairment are credited to equity. Impairments of investments, which are not quoted in an active market and whose fair value cannot be determined with certainty, are measured as difference between book value and current value of expected future cash flows, are recognized in the income statement and they are not reversed before derecognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial Instruments (Continued)

2.6.5. Available-for-sale Securities (Continued)

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

2.6.6. Issued Financial Instruments and Other Financial Liabilities

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

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

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

Deposits from Other Banks and Customers

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

Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Borrowings are classified as current liabilities, unless the Bank has the indisputable right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

Operating Liabilities

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

2.7. Offsetting Financial Instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8. Derivatives

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

The Bank had FX swap as of 31 December 2009 with the Erste Group Bank AG, Vienna amounting to RSD 200.481 thousand or CHF 3.110.000.

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

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

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

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

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

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

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

In the event that the Bank's retained earnings are insufficient to cover the estimated amount of special reserves for potential losses in a particular year, the difference is to be disclosed as the shortfall amount of such reserve (see Note 29(a)/v/).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10. Cash and Cash Equivalents

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

2.11. Repurchase Agreements ("Repo Transactions")

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

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

2.12. Intangible Assets

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

Intangible assets comprise licenses and other intangible assets.

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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

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

Software licenses	10 years
Other intangible assets	4 years

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Tangible Assets

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

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income statement of the financial period in which they are incurred.

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

Buildings	40 to 50 years
Computer equipment	4 years
Other equipment	5 to 10 years

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

Calculation of depreciation and amortization of property and equipment commences at the beginning of month following the month when an asset is put into use. Assets under construction are not depreciated. Depreciation charge is recognised as expenses for the period when incurred (Note 10).

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

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes. Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 14(c)).

2.14. Impairment of Non-financial Assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15. Leases

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

(a) Finance Lease – Bank as a Lessee

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

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income statement in interest expense.

(b) Operating Lease –Bank as a Lessee

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

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

2.16. Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In order to be maintained, the best possible estimates of provisions are considered, determined and, if necessary, adjusted at each balance sheet date. Provision is measured at present value of estimated future cash outflow necessary to settle the liabilities arising thereof, using the discount rate which reflects the current market estimate of the value of money and risks related to the liability.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognised in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognised initially for. Provisions are not recognised for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in the financial statements (Note 33), unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Employee Benefits

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

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

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

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

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

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

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

(c) Short-Term Compensated Absences

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Equity

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

2.19. Financial Guarantees

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

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

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

2.20. Taxes and Contributions

(a) Income Taxes

Current Income Tax

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

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

In accordance with the Law on Corporate Income Tax of the Republic of Serbia, tax credits are recognized in the amount equal to 20% of the investment in property and equipment made, and can be used for setting off against future current tax liability in the amount that cannot exceed 50% of current tax liability. The tax credits in respect of investments in property and equipment can be used in the next ten years.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20. Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Deferred Income Tax

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20. Taxes and Contributions (Continued)

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

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

2.21. Earnings per Share

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

Pursuant to the Serbian Business Registers Agency Decision no. BD. 243088/2006 dated 22 December 2006, the Bank is registered as a closed joint-stock company, and therefore it is not obliged to calculate and disclose the earning per share as required by IAS 33 "Earning per Share".

2.22. Funds Managed on Behalf of Third Parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 30(a)). The Bank bears no risk in respect of repayment of these placements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

(a) Impairment of Financial Assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, and impairment losses are incurred, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated (see Note 2.6.3.).

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

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

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

(b) Determination of Fair Value of Financial Instruments

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) *Determination of Fair Value of Financial Instruments (Continued)*

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

(c) *Impairment of Equity Investments*

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

(d) *Useful Lives of Intangible Assets, Property Equipment (Tangible Assets)*

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

The impact of any changes in these assumptions could be material to the Bank's financial position, and the results of its operations. As an example, if the Bank was to shorten the average useful life for 1%, this would result in additional depreciation and amortization expense of approximately RSD 1.169 thousand for the twelve-month period.

(e) *Impairment of Non-Financial Assets*

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

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

(f) *Provisions for Litigation*

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(f) Provisions for Litigation (Continued)

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

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

(g) Deferred Tax Assets

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

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

(h) Retirement and Other Post-Employment Benefits to Employees

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuations in the number of employees. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 27 to the financial statements.

Were the discount rate used to differ by 1% from management’s estimates, the provision for retirement benefits would be an estimated RSD 5.248 thousand lower or RSD 6.060 thousand higher in comparison with the provision for retirement benefits recognized in the Bank's financial statements as of and for the year ended 31 December 2009.

4. INTEREST INCOME AND EXPENSE

In RSD thousand

	2009	2008
Interest income		
- Banks	1.167.427	1.747.862
- Public companies	49.932	9.175
- Other companies	1.515.452	1.537.648
- Entrepreneurs	101.428	121.521
- Public sector	571.693	13.060
- Retail customers	1.259.420	946.598
- Foreign entities	488	1.753
- Agricultural sector	75.684	21.835
Total	**4.741.524**	**4.399.452**
Interest expense		
- Banks	293.261	483.774
- Public companies	3.359	24.614
- Other companies	360.061	154.096
- Entrepreneurs	564	518
- Public sector	515.169	208.177
- Retail customers	567.854	454.375
- Foreign entities	194.980	249.935
- Other	2.409	103
Total	**1.937.657**	**1.575.592**
Net interest income	**2.803.867**	**2.823.860**

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

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

In RSD thousand

	2009	2008
Interest income		
Loans	3.282.498	2.839.688
REPO transactions	711.395	1.454.641
Treasury bills of the Ministry of Finance	557.353	-
Obligatory reserve	88.250	30.311
Treasury bills of the National Bank of Serbia	72.808	62.550
Deposits	4.303	4.012
Other placements	24.917	8.250
Total	**4.741.524**	**4.399.452**
Interest expense		
Loans	78.150	65.029
Deposits	1.859.507	1.509.903
Other liabilities	-	660
Total	**1.937.657**	**1.575.592**
Net interest income	**2.803.867**	**2.823.860**

5. FEE AND COMMISSION INCOME AND EXPENSE

In RSD thousand

	2009	2008
Fee and commission income		
Domestic payment transaction services	271.731	272.519
International payment transaction services	48.065	42.876
Foreign exchange transactions	501.412	747.905
Loans	340.643	156.658
Debit and credit cards operations	142.931	127.499
Guarantees and other warranties	126.864	113.078
Other fees and commissions	210.786	182.350
Total	**1.642.432**	**1.642.885**
Fee and commission expense		
Domestic payment transaction services	27.267	26.451
International payment transaction services	8.080	6.352
Foreign exchange transactions	337.018	496.228
Loans	29.437	96.130
Debit and credit cards operations	24.077	19.895
Other fees and commissions	31.782	39.233
Total	**457.661**	**684.289**
Net fee and commission income	**1.184.771**	**958.596**

6. NET FOREIGN EXCHANGE LOSSES

In RSD thousand

	2009	2008
Foreign exchange gains	4.337.566	11.492.744
Foreign exchange losses	(6.058.936)	(13.831.920)
Net foreign exchange losses	**(1.721.370)**	**(2.339.176)**

7. OTHER OPERATING INCOME

In RSD thousand

	2009	2008
Income from sales of fixed and intangible assets	3.290	8.175
Other operating income	16.983	14.468
Other income from operating activities	4.500	8.206
Total	**24.773**	**30.849**

Dividend income and income from equity investments amounted to RSD 102 thousand during the year ended 31 December 2009 (2008: RSD 3.423 thousand).

8. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS

In RSD thousand

	2009	2008
Expenses from indirect write-offs of placements and provisions		
Impairment losses on financial assets:		
- interests, fees and sales receivables (Note 17)	(331.630)	(323.543)
- loans and advances (Note 18(d))	(4.378.396)	(4.811.054)
- securities (Note 19)	(347.361)	(285.557)
- other placements (Note 20)	(173.814)	(35.145)
- other assets (Note 22)	(34.198)	(10.077)
	(5.265.399)	**(5.465.376)**
Provisions for losses on off-balance sheet assets (Note 27)	(1.455.874)	(2.111.657)
Provisions for litigation (Note 27)	(19.897)	(197.652)
	(1.475.771)	**(2.309.309)**
Total	**(6.741.170)**	**(7.774.685)**
Income from reversal of indirect write-offs and provisions		
Reversal of impairment losses on balance sheet assets:		
- interests, fees and sales receivables (Note 17)	329.168	338.825
- loans and advances (Note 18(d))	3.734.251	4.408.016
- securities (Note 19)	324.993	377.501
- shares	-	1.623
- other placements (Note 20)	32.875	45.927
- other assets (Note 22)	40.897	1.346
	4.462.184	**5.173.238**
Release of provision for losses on off-balance sheet assets (Note 27)	1.603.239	1.859.755
Income from collected suspended interest	64.432	2.324
Total	**6.129.855**	**7.035.317**
Impairment losses and provisions, net	**(611.315)**	**(739.368)**

9. SALARIES AND OTHER PERSONAL EXPENSES

In RSD thousand

	2009	2008
Net salaries	773.730	698.096
Tax and contributions payable on behalf of employees	302.548	256.534
Severance pays, jubilee awards, bonuses and holiday allowance	175.666	278.712
Other personnel expenses	14.796	12.824
Total	**1.266.740**	**1.246.166**

10. DEPRECIATION AND AMORTIZATION EXPENSE

In RSD thousand

	2009	2008
Depreciation and amortization expense:		
- tangible assets (Note 21)	118.026	107.233
- intangible assets (Note 21)	17.813	9.512
Total	**135.839**	**116.745**

11. OTHER OPERATING EXPENSES

In RSD thousand

	2009	2008
Professional services	299.733	241.948
Donations and sponsorships	57.985	31.617
Advertising, marketing and representation	201.396	251.211
Telecommunication services and postage	52.541	50.492
Insurance premiums	84.322	60.406
Rental cost	369.778	303.583
Material	79.782	91.240
Taxes and contributions	77.540	97.482
Maintenance of tangible assets and software	143.203	140.029
Losses on sale and disposal of tangible and intangible assets	3.798	2.007
Payroll contributions payable by the employer	181.716	155.531
Per diems and travel expenses	43.801	42.563
Education and counselling	11.330	18.688
Other	58.821	81.854
Total	**1.665.746**	**1.568.651**

12. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

In RSD thousand

	2009	2008
Income from changes in value of placements and receivables	2.802.849	5.339.023
Income from changes in value of securities	17.001	26.835
Income from changes in value of liabilities	130.818	146.274
Income from changes in value of derivatives	11.908	45.555
Total	**2.962.576**	**5.557.687**

13. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

In RSD thousand

	2009	2008
Losses from changes in value of placements and receivables	952.428	2.732.370
Losses from changes in value of securities	9.670	22.913
Losses from changes in value of liabilities	209.892	285.522
Losses from changes in value of derivatives	11.908	45.555
Total	**1.183.898**	**3.086.360**

14. INCOME TAXES

(a) Components of Income Taxes

Components of income tax are:

In RSD thousand

	2009	2008
Current income tax	(2.715)	-
Deferred tax income	2.811	1.474
Total income tax	**96**	**1.474**

The outstanding balance of prepaid current income tax amounts to RSD 4.371 thousand, since the same amount was paid during 2009 as advance payment for current income tax liability for 2008.

14. INCOME TAXES (Continued)

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

In RSD thousand

	2009	2008
Profit before tax	**391.181**	**332.922**
Income tax at the rate of 10%	**39.118**	**33.292**
Tax effects of expenses not recognised for the tax purposes	15.531	27.744
Effects of usage of tax loss carry forwards with respect to deferred tax assets that were not recognized	(54.055)	(56.082)
Dividend income deductible for tax purposes	(8)	(342)
Tax credits for new employments	-	(7.729)
Tax credits on investments in tangible assets	(2.714)	-
Other	2.032	1.643
Total tax income reported in the Income Statement	**(96)**	**(1.474)**
Effective tax rate	-	-

(c) Deferred Tax Liabilities

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

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

In RSD thousand

	2009	2008
Balance as of 1 January	**11.585**	**13.213**
Effects of temporary differences in respect of depreciation credited to the income statement	(2.811)	(1.474)
Deferred tax credited to equity	(78)	(154)
Balance as of 31 December	**8.696**	**11.585**

14. INCOME TAXES (Continued)

(d) Unrecognized Deferred Tax Assets

As of 31 December 2009, the Bank did not recognize deferred tax assets totalling RSD 466.254 thousand (31 December 2008: RSD 515.621 thousand), arising from tax loss carryforwards in the amount of RSD 418.587 thousand (31 December 2008: RSD 472.639 thousand) and unused tax credit carryforwards in the amount of RSD 47.667 thousand (31 December 2008: RSD 42.982 thousand).

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

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

In RSD thousand

	Tax loss carry forwards 2009	Tax credit carry forwards 2009	Total 2009	Tax loss carry forwards 2008	Tax credit carry forwards 2008	Total 2008
From 1 to 5 years	98.645	-	98.645	11.935	-	11.935
Over 5 years	319.942	47.667	367.609	460.704	42.982	503.686
Total	**418.587**	**47.667**	**466.254**	**472.639**	**42.982**	**515.621**

(e) Tax Liabilities

Tax liabilities totalling RSD 5.807 thousand as of 31 December 2009, comprised liabilities for VAT in the amount of RSD 4.778 thousand and liabilities for taxes and contributions on fringe benefits in the amount of RSD 1.029 thousand (as of 31 December 2008: RSD 6.374 thousand).

15. CASH AND CASH EQUIVALENTS

In RSD thousand

	2009	2008
In Dinars		
Gyro account	2.211.453	3.704.544
Cash on hand	740.990	743.119
Cash equivalents	322.124	-
	3.274.567	**4.447.663**
In foreign currency		
Current accounts in foreign currency held with foreign banks	1.490.252	960.771
Cash on hand in foreign currency	796.744	292.344
Cash equivalents in foreign currency	19	18
	2.287.015	**1.253.133**
Gold and precious metals	-	1.143
Balance as of 31 December	**5.561.582**	**5.701.939**

Pursuant to the National Bank of Serbia's Decision on Required Reserves of Banks held with the National Bank of Serbia ("Official Gazette of the Republic of Serbia", no. 47/2009), the Bank is required to calculate and allocate the obligatory reserves in dinars to its gyro account held with the National Bank of Serbia amounting to 10% (2008: 10%) on the basis of the average daily balance of dinars during the preceding calendar month.

As an exception to this rate, the Bank calculates the obligatory reserve in Dinars as follows: (a) at the rate of 45% on the basis of average daily carrying balance of deposits in Dinars for the previous month which are indexed by a foreign currency clause, (b) at the rate of 45% on the basis of the amount of average daily carrying balance of liabilities in Dinars for the previous month for deposits and loans received from abroad up to the level of the base from September 2008 and (c) at the rate of 0% on positive difference between the portion of the base in Dinars consisting of the liabilities in Dinars for the previous month for deposits and loans received from abroad and that portion of the base from September 2008.

In accordance with special measures of support to financial stability ("Official Gazette of the Republic of Serbia", no. 95/2009), the Bank allocate 20% of calculated obligatory reserve in foreign currency to its gyro account in Dinars.

The Bank is obliged to maintain the average daily balance of allocated obligatory reserve in Dinars on its gyro account during the period.

The calculated obligatory reserve in Dinars for December 2009 amounted to RSD 2.968.506 thousand and it was in line with the aforementioned Decision of the National Bank of Serbia.

Interest rate on the average balance of the obligatory reserve in Dinars set aside equalled to 2,5% annually during 2009.

16. REVOCABLE DEPOSITS AND LOANS

In RSD thousand

	2009	2008
In Dinars		
Repo placements with the National Bank of Serbia	1.302.097	6.106.114
In foreign currency		
Obligatory reserve held with the National Bank of Serbia	4.748.987	3.252.664
Balance as of 31 December	**6.051.084**	**9.358.778**

The obligatory reserves in foreign currency represents the minimal reserve in foreign currency allocated in line with the National Bank of Serbia's (NBS) decision on Required Reserves of Banks held with the NBS ("Official Gazette of the Republic of Serbia", no. 47/2009), which prescribes that banks are required to calculate and allocate the obligatory reserves of 45% (2008: 45%) of the average daily balance of foreign currency deposits in a preceding month.

As an exception to this rate, the Bank calculates the obligatory reserve in foreign currency as follows: (a) by applying the rate of 100% on the portion of foreign currency reserving base comprised of foreign currency deposits kept by leasing companies at special accounts held with the Bank for the previous month, (b) by applying the rate of 20% on the portion of foreign currency reserving base consisting of subordinated liabilities, up to the level of that portion of the foreing currency base from September 2008, (c) by applying the rate of 40% on the basis of liabilities for foreign currency savings held with the Bank, and (d) at the rate of 0% on positive difference between the portion of the base in foreign currencies for deposits and loans received from abroad for the previous month and that portion of the base from September 2008 and on positive difference between portion of base in the foreign currencies consisting of subordinated liabilities for the previous month and that portion of base in foreign currencies from September 2008.

The Bank fully comply with conditions from Decision on special measures of support to financial stability ("Official Gazette of the Republic of Serbia", no. 95/2009), and then it has the right to allocate 20% of calculated obligatory reserve in foreign currency to its gyro account in Dinars.

The calculated obligatory reserve in foreign currency for December 2009 amounted to EUR 49.526 thousand, and comprised the following: the amount of EUR 15.959 thousand relating to foreign currency deposits and loans, the amount of EUR 43.100 thousand relating to foreign currency savings placed with the Bank, the amount of EUR 2.160 thousand related to subordinated liabilities and the amount of EUR 550 thousand relating to foreign currency reserves that leasing companies held at the special bank account, and the obligatory reserve in foreign currency was in compliance with the aforementioned Decision of the National Bank of Serbia.

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

Receivables from repo transactions amounting to RSD 1.302.097 thousand as of 31 December 2009 relate to purchase of treasury bills from the National Bank of Serbia with maturity period ranging from 12 to 14 days, bearing an interest at the rate ranging from 9,5% to 10,00% per annum.

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

In RSD thousand

	2009	2008
In Dinars		
Interest and fees receivable:		
- Banks	8.657	18.433
- Public companies	3.679	557
- Other companies	164.006	145.784
- Entrepreneurs	12.416	11.961
- Public sector	216	339
- Retail customers	27.160	17.471
- Foreign entities	5	71
- Agriculture	2.862	1.212
- Other	2	-
Receivables from sales	31.895	21.886
	250.898	**217.714**
In foreign currency		
Interest and fees receivable:		
- Banks	16	-
- Other companies	191.936	205.372
- Entrepreneurs	44	40
- Foreign entities	5	4
	192.001	**205.416**
Gross receivables	**442.899**	**423.130**
Less: Allowance for impairment	(233.714)	(229.549)
Balance as of 31 December	**209.185**	**193.581**

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

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

In RSD thousand

	2009	2008
Interest and fees receivable		
Balance as of 1 January	228.939	200.249
Charge for the year	331.384	323.543
Reversal of impairment losses	(328.968)	(337.748)
Foreign exchange differences	1.682	42.895
Balance as of 31 December	**233.037**	**228.939**
Receivables from sales		
Balance as of 1 January	610	1.586
Charge for the year	246	-
Reversal of impairment losses	(200)	(1.077)
Foreign exchange differences	21	101
Balance as of 31 December	**677**	**610**
Total		
Balance as of 1 January	229.549	201.835
Charge for the year (Note 8)	331.630	323.543
Reversal of impairment losses (Note 8)	(329.168)	(338.825)
Foreign exchange differences	1.703	42.996
Balance as of 31 December	**233.714**	**229.549**

18. LOANS AND ADVANCES

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

In RSD thousand

	2009			2008		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In Dinars						
Loans and advances:						
- Banks	409.101	121.228	530.329	2.832.087	-	2.832.087
- Public companies	364.438	17.011	381.449	380.252	11.253	391.505
- Other companies	7.481.221	7.548.773	15.029.994	5.862.870	7.625.784	13.488.654
- Enterprises	311.362	497.550	808.912	317.546	645.378	962.924
- Public sector	4	220.475	220.479	41	209.757	209.798
- Retail customers	757.454	11.978.022	12.735.476	530.690	11.153.997	11.684.687
- Foreign entities	9	-	9	5	-	5
- Agriculture	83.793	585.590	669.383	163.843	456.102	619.945
Total	**9.407.382**	**20.968.649**	**30.376.031**	**10.087.334**	**20.102.271**	**30.189.605**
In foreign currency						
Loans and advances:						
- Banks	563.382	-	563.382	-	-	-
- Public companies	-	-	-	2.498	-	2.498
- Other companies	1.529.013	899.047	2.428.060	2.552.707	183.968	2.736.675
- Public sector	850	11.908	12.758	12.026	-	12.026
- Foreign entities	351.588	-	351.588	19.152	-	19.152
Total	**2.444.833**	**910.955**	**3.355.788**	**2.586.383**	**183.968**	**2.770.351**
Gross loans and advances	**11.852.215**	**21.879.604**	**33.731.819**	**12.673.717**	**20.286.239**	**32.959.956**
Less: Allowance for impairment (Note 18(d)):						
- Individually assessed			(1.130.052)			(2.416.783)
- Collectively assessed			(2.381.329)			(493.680)
			(3.511.381)			**(2.910.463)**
Balance as of 31 December			**30.220.438**			**30.049.493**

Short-term loans in Dinars were granted to companies for financing their activities in the field of trade, processing industry, engineering, services and tourism, energetics, agriculture and food processing industry, as well as for other purposes, at the rates ranging from 3% to 17,5% per annum, i.e., from 3,95% to 17,5% per annum for long term loans in Dinars. Interest rate for long-term loans granted to legal entities in foreign currencies ranged from 5,7% to 9,7% per annum.

The most significant individual outstanding balances of loans and advances in the amount over the RSD 10 million relate to the domestic banks in the amount of RSD 943 million and customers from the following sectors: mining and manufacturing in the amount of RSD 5.479 million, trading, repair of motor vehicles, motorcycle and subjects for personal use and household in the amount of RSD 3.379 million, trading and renting of real estates in the amount of RSD 2.055 million, construction in the amount of RSD 1.725 million, representing in total 44,98% of gross loans and advances to customers as of 31 December 2009.

18. LOANS AND ADVANCES (Continued)

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

Loans and advances to retail customers, comprising consumer and cash loans are granted with interest rate ranging from 17% to 20% per annum. For cash loans indexed in EUR the participation or foreign currency deposit is minimum 10%, while for the consumer loans indexed in EUR the participation or foreign currency deposit is minimum 30%.

The interest rate on permitted overdrafts on citizens' accounts is ranging from 27% to 29% per annum, while the Bank accrues interest on non-permitted overdrafts on citizens' accounts at the rate of 4% per month.

Interest rate on credit cards granted to retail customers is 24% per annum.

Receivables from foreign entities amounting to RSD 351.588 thousand as of 31 December 2009, relate to the short-term deposit up to seven days with Erste Bank AG, Vienna, bearing an interest at the rate ranging from 0,16% to 3,85% per annum, depending on currency.

(b) Maturity Structure of Loans and Advances

The maturity of gross loan portfolio, based on the remaining period on the balance sheet date to the contractual maturity date, as of 31 December 2009 and 2008, is as follows:

In RSD thousand

	2009	2008
Loans in arrears (overdue receivables)	3.878.122	2.860.618
Up to 30 days	948.819	1.944.378
From 1 to 3 months	684.632	1.107.537
From 3 to 12 months	6.340.642	5.785.335
Over 1 year	21.879.604	21.262.088
	33.731.819	**32.959.956**

Maturity structure of loans in arrears is presented in the table below:

In RSD thousand

	2009	2008
Up to 30 days	643.579	329.410
From 1 to 3 months	202.088	589.320
From 3 to 12 months	712.792	162.764
Over 1 year	2.319.663	1.779.124
	3.878.122	**2.860.618**

18. LOANS AND ADVANCES (Continued)

(c) Industry Concentration of Loans and Advances

As of 31 December 2009 and 2008, the gross loan portfolio is concentrated on the following sectors:

	In RSD thousand 2009	2008
Trading	4.652.793	4.555.405
Manufacturing	6.396.901	5.990.818
Construction	1.965.761	2.168.712
Production and supply with electrical energy	99.146	31.229
Services and tourism	4.039.412	3.438.320
Agriculture and food processing	661.959	409.678
Retail customers	12.735.485	11.684.692
Domestic and foreign banks and other financial organizations	1.445.299	2.851.239
Public sector	233.237	221.824
Agricultural producers	669.383	619.945
Entrepreneurs	808.912	962.924
Other	23.531	25.170
	33.731.819	**32.959.956**

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

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

	In RSD thousand 2009	2008
Balance as of 1 January	2.910.463	2.302.119
Charge for the year (Note 8)	4.378.396	4.811.054
Reversal of impairment losses (Note 8)	(3.734.251)	(4.408.016)
Carve out of allowances	(323.255)	-
Foreign exchange differences	280.028	205.306
Balance as of 31 December	**3.511.381**	**2.910.463**

19. SECURITIES (EXCLUDING TREASURY SHARES)

In RSD thousand

	2009	2008
In Dinars		
Securities available-for-sale	172.656	259.415
Securities at fair value through profit or loss	975.871	-
Securities held-to-maturity:		
– treasury bills of the National Bank of Serbia	4.482.445	852.064
– discounted corporate bills	1.783.985	1.411.891
	7.414.957	**2.523.370**
In foreign currency		
Securities held-for-trading	1.356	168.316
Securities available-for-sale	20.719	16.683
	22.075	**184.999**
Total securities	**7.437.032**	**2.708.369**
Less: Allowance for impairment	(225.271)	(306.793)
Balance as of 31 December	**7.211.761**	**2.401.576**

Interest rate on the receivables from treasury bills of the National Bank of Serbia with maturities between 1 to 12 months, range from 9,5% to 17,75% per annum.

Interest rates on the receivables from corporate customers in respect of bills of exchange with maturity between 1 to 12 months range from 12,5% to 26,26% per annum.

Movements in allowance for impairment of securities held to maturities and available for sale during the year were as follows:

In RSD thousand

	2009	2008
Balance as of 1 January	306.793	307.386
Charge for the year (Note 8)	347.361	285.557
Reversal of impairment losses (Note 8)	(324.993)	(377.501)
Foreign exchange differences	(53.749)	82.170
Other movements	(50.141)	9.181
Balance as of 31 December	**225.271**	**306.793**

The equity investments as of 31 December 2009 amounted to RSD 47 thousand, and they did not significantly change as compared to the previous year (31 December 2008: RSD 46 thousand). Therefore, they have not been disclosed in a separate note.

20. OTHER PLACEMENTS

	2009	In RSD thousand 2008
In Dinars		
Purchase of receivables	1.177.132	292.312
Receivables for guarantees paid	174.030	-
Other placements	8.052	48
	1.359.214	**292.360**
In foreign currency		
Other placements	23.726	18.730
	23.726	**18.730**
Gross other placements	**1.382.940**	**311.090**
Less: Allowance for impairment	(196.054)	(9.814)
Balance as of 31 December	**1.186.886**	**301.276**

Allowance for impairment of other placements as of 31 December 2009 mostly relates to allowance for impairment of overdue receivables for guarantees in the amount of RSD 166.184 thousand.

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

	2009	In RSD thousand 2008
Balance as of 1 January	9.814	32.259
Charge for the year (Note 8)	173.814	35.145
Reversal of impairment losses (Note 8)	(32.875)	(45.927)
Foreign exchange differences	45.301	(11.663)
Balance as of 31 December	**196.054**	**9.814**

21. TANGIBLE AND INTANGIBLE ASSETS

In RSD thousand

	Land and buildings	Equipment	Leased equipment	Constru-ction in progress	Total tangible assets	Intangible assets
COST						
Balance as of 1 January 2008	**686.802**	**681.123**	**242.169**	**2.182**	**1.612.276**	**49.557**
Additions	-	-	-	194.083	194.083	31.502
Transfers	79.439	116.186	-	(195.625)	-	-
Disposals and write-offs	(5.369)	(95.354)	(234.899)	-	(335.622)	(4.174)
Balance as of 31 December 2008	**760.872**	**701.955**	**7.270**	**640**	**1.470.737**	**76.885**
Additions	-	-	-	79.086	79.086	38.242
Transfers	8.790	77.566	(7.270)	(79.086)	-	11.508
Disposals and write-offs	(1.012)	(36.997)	-	-	(38.009)	-
Balance as of 31 December 2009	**768.650**	**742.524**	**-**	**640**	**1.511.814**	**126.635**
ACCUMULATED DEPRECIATION AND AMORTIZATION						
Balance as of 1 January 2008	**146.154**	**368.355**	**239.583**	**-**	**754.092**	**14.261**
Depreciation and amortization (Note 10)	18.069	86.741	2.423	-	107.233	9.512
Disposals and write-offs	(2.088)	(88.280)	(234.899)	-	(325.267)	(4.174)
Balance as of 31 December 2008	**162.135**	**366.816**	**7.107**	**-**	**536.058**	**19.599**
Depreciation and amortization (Note 10)	19.088	98.775	163	-	118.026	17.813
Disposals and write-offs	(306)	(23.934)	(7.270)	-	(31.510)	-
Balance as of 31 December 2009	**180.917**	**441.657**	**-**	**-**	**622.574**	**37.412**
Net book value as of:						
- 31 December 2009	**587.733**	**300.867**	**-**	**640**	**889.240**	**89.223**
- 31 December 2008	**598.737**	**335.139**	**163**	**640**	**934.679**	**57.286**

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

Due to incomplete cadastrial records the Bank does not have title deeds for buildings with net book value of RSD 66.731 thousand (31 December 2008: RSD 78.089 thousand). The Bank's management has taken all necessary measures in order to obtain title deeds.

Net book value of equipment as of 31 December 2009 mostly relates to computer and telecommunication equipment and office furniture. Net book value of intangible assets as of 31 December 2009 mostly relates to softwares and licenses.

The Bank's management concluded that there were no indications of impairment of the tangible and intangible assets as of 31 December 2009.

22. OTHER ASSETS

	2009	In RSD thousand 2008
In Dinars		
Other receivables:		
- Advances paid	48	8.772
- Receivables from employees	26.014	12.810
- Inventories	53.712	67.698
- Value added tax	-	13
- Other receivables	64.321	80.590
Accruals:		
- Accrued interest	208.628	71.362
- Other accruals	16.806	27.647
	369.529	**268.892**
In foreign currency		
Other receivables:		
- Advances paid	16.793	1.540
- Receivables from employees	27	151
- Other receivables	43.645	42.516
Accruals:		
- Accrued interest	9.548	11.025
- Accrued interest expenses	235.525	-
	305.538	**55.232**
Gross other assets	**675.067**	**324.124**
Less: Allowance for impairment	(99.647)	(135.652)
Balance as of 31 December	**575.420**	**188.472**

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

	2009	In RSD thousand 2008
Balance as of 1 January	135.652	136.233
Charge for the year (Note 8)	34.198	10.077
Reversal of impairment losses (Note 8)	(40.897)	(1.346)
Foreign exchange differences	(29.306)	(9.312)
Balance as of 31 December	**99.647**	**135.652**

23. SIGHT DEPOSITS

In RSD thousand

	2009			2008		
	In Dinars	In foreign currency	Total	In Dinars	In foreign currency	Total
Other banks	2.969	-	2.969	-	-	-
Financial organizations	349.734	536.394	886.128	32.514	1.013.017	1.045.531
Companies	2.305.062	725.631	3.030.693	2.271.487	763.845	3.035.332
Public companies	61.598	-	61.598	56.871	-	56.871
Public sector	7.821	-	7.821	9.489	-	9.489
Entrepreneurs	352.789	-	352.789	341.195	-	341.195
Retail customers	1.091.109	862.887	1.953.996	983.737	702.548	1.686.285
Agriculture	119.927	-	119.927	113.124	-	113.124
Foreign entities	28.556	88.260	116.816	33.167	763.331	796.498
Other customers	8.806	-	8.806	1.387	-	1.387
Balance as of 31 December	**4.328.371**	**2.213.172**	**6.541.543**	**3.842.971**	**3.242.741**	**7.085.712**

The Bank pays interest on sight deposits of companies in Dinars and foreign currencies ranging from 1,00% to 15,8% per annum, depending on the currency.

Sight deposits of retail customers in dinars earn interest at the rate ranging from 0,00% do 3,00% per annum.

The most significant depositors are from the following sectors: insurance in the amount of RSD 526 million, mining and manufacturing in the amount of RSD 445 million, financial companies in the amount of RSD 205 million, and hotels, traffic and connection companies in the amount of RSD 127 million, representing in total 19,94% of sight deposits as of 31 December 2009.

24. OTHER DEPOSITS

In RSD thousand

	2009			2008		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In Dinars						
Savings deposits:						
- Retail customers	364.659	34.535	399.194	288.233	25.601	313.834
- Foreign entities	4.450	6.240	10.690	1.268	883	2.151
Specific purpose deposits	45.676	334.469	380.145	64.972	128.537	193.509
Other deposits	5.310.789	4.302	5.315.091	3.734.327	11.074	3.745.401
Total	**5.725.574**	**379.546**	**6.105.120**	**4.088.800**	**166.095**	**4.254.895**
In foreign currency						
Savings deposits:						
- Retail customers	5.145.574	2.843.507	7.989.081	4.848.152	2.988.380	7.836.532
- Foreign entities	31.259	128.631	159.890	11.353	55.601	66.954
Specific purpose deposits	244.586	976.179	1.220.765	4.065.626	1.338.280	5.403.906
Other deposits	5.035.700	3.476.228	8.511.928	6.268.190	445.216	6.713.406
Total	**10.457.119**	**7.424.545**	**17.881.664**	**15.193.321**	**4.827.477**	**20.020.798**
Balance as of 31 December	**16.182.693**	**7.804.091**	**23.986.784**	**19.282.121**	**4.993.572**	**24.275.693**

Fixed-term deposits in dinars and foreign currency are deposited with interest rates ranging from 2,00% to 11,00% per annum depending on the currency and the period the funds have been deposited for. Specific purpose deposits bear interest from 0,00% to 4,00% per annum.

Short-term deposits in dinars deposited by retail customers earn interest at rates ranging from 9,5% to 11% per annum, depending on the period that the funds have been deposited for. The interest rate on the short-term retail customers' deposits in foreign currency range from 0,30% to 6,00% per annum, depending on the currency and the period the funds have been deposited for.

Long-term deposits deposited by retail customers in foreign currency earn interest at rates ranging from 6,40% to 7,00% per annum for EUR, and from 0,52% to 5,10% per annum for other currencies, depending on the period that the funds have been deposited for. Specific purpose deposits are not interest-bearing.

Out of the total amount of other deposits as of 31 December 2009, 31% relates to 52 deponents with the deposited amount ranging from RSD 5 thousand to RSD 1.850 thousand, while the remaining 69% relates to deponents with deposited amount lower than RSD 5 thousand. Three largest deponents relate to banks, insurance and oil industry with deposited amounts over RSD 500 thousand per deponent and account for 17% of other deposits at the balance sheet date. Seven deponents from the different industries have deposited amounts ranging from RSD 100 thousand to RSD 500 thousand, and they accounts for 5% of the other deposits, while 42 deponents have deposits ranging from RSD 5 thousand to RSD 100 thousand and account for 9% on other deposits at the reporting date.

24. OTHER DEPOSITS (Continued)

Structure of other deposits by customer type is presented in the table below:

In RSD thousand

	2009	2008
Banks	17	4.714.501
Financial organizations	2.839.747	428.030
Public companies	15.000	11.500
Public sector	46.033	851.390
Companies	5.177.284	7.872.095
Retail customers	13.541.442	9.155.615
Foreign banks	1.890.181	1.025.189
Foreign entities	355.594	179.651
Entrepreneurs	5.294	21.983
Agriculture	305	331
Other customers	115.887	15.408
Balance as of 31 December	**23.986.784**	**24.275.693**

25. BORROWINGS

In RSD thousand

	2009	2008
Borrowings from:		
- banks in Dinars - short-term borrowings	1.100.000	-
- banks in Dinars - long-term borrowings	5.317	7.089
- other financial institutions - in foreign currency - long-term borrowings	5.124.011	-
- foreign banks - overnight loans in foreign currency	-	4.598.728
	6.229.328	**4.605.817**
Other short-term borrowings in foreign currency	1.985.950	193.101
Balance as of 31 December	**8.215.278**	**4.798.918**

As of 31 December 2009, borrowings mostly relate to long-term borrowings in foreign currency with maturity period of 5 years from Erste GCIB Finance I.B.V., Holland in the amount of RSD 4.314.996 thousand.

Interest rates on borrowings are ranging from 1,47% to 3,15% per annum, depending on the currency and the maturity period.

Other short-term liabilities in foreign currency amounting to RSD 1.985.950 thousand as of 31 December 2009 mostly relate to liabilities for forwards contracts for purchase of foreign currencies.

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

In RSD thousand

	2009	2008
Interests and fees payable:		
In Dinars		
- Banks	297	-
- Corporate customers	260	299
- Entrepreneurs	6	6
- Foreign entities	1.955	175
	2.518	**480**
In foreign currency		
- Banks	-	5.109
	-	**5.109**
Balance as of 31 December	**2.518**	**5.589**

27. PROVISIONS

In RSD thousand

	2009	2008
Provision for off-balance sheet exposures (a)	138.722	274.298
Provisions for long-term employee benefits (b):		
- retirement benefits	59.547	67.454
- jubilee awards	82.707	79.978
Provisions for litigation (c)	42.000	336.105
Balance as of 31 December	**322.976**	**757.835**

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

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

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

27. PROVISIONS (Continued)

(b) Provision for retirement benefits has been recorded in the Bank's financial statements on the basis of an independent actuary's calculation as of the balance sheet date, and it is stated in the amount of present value of the defined benefit obligation, determined by discounting estimated future outflows. The discounted rate used by the actuary was 5,55%, representing the adequate rate under IAS 19 "Employee Benefits", in the absence of a developed market for high quality corporate bonds. Provision was determined in line with the Bank's Collective agreement and the assumption of average salary increase rate of 8% per annum.

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

Movements in provisions during the year were as follows:

		In RSD thousand
	2009	2008
Provisions for off-balance sheet exposures		
Balance as of 1 January	274.298	109.878
Charge for the year (Note 8)	1.455.874	2.111.657
Reversal of provision (Note 8)	(1.603.239)	(1.859.755)
Other changes	11.789	(87.482)
	138.722	**274.298**
Provisions for long-term employee benefits - retirement benefits and jubilee awards		
Balance as of 1 January	147.432	117.741
Interest expenses and current service costs	21.077	22.758
Benefits paid during the year	(26.133)	(10.935)
Actuarial losses relating to jubilee awards	2.887	13.830
Actuarial (gains)/losses relating to retirement benefits	(3.009)	4.038
	142.254	**147.432**
Provisions for litigation		
Balance as of 1 January	336.105	138.820
Charge for the year (Note 9)	19.897	197.652
Amounts utilized during the year	(314.002)	(1.793)
Other movements	-	1.426
	42.000	**336.105**
Balance as of 31 December	**322.976**	**757.835**

Provisions for litigation utilized in the amount of RSD 314.002 thousand mostly relate to payments to Sintelon a.d., Bačka Palanka in the amount of RSD 287.254 thousand and Vojvođanska banka a.d. Novi Sad in the amount of RSD 24.285 thousand for the long-standing legal proceedings that had adverse outcome for the Bank in 2009.

28. OTHER LIABILITIES

In RSD thousand

	2009	2008
In Dinars		
Trade payables	7.866	105
Advances received	3.453	3.326
Liabilities with respect to net salaries and contributions	3.180	2.779
Taxes, contributions and other duties	568	567
Accruals and deferrals:		
- Interest accrued	37.376	38.102
- Deferred interest income	79.019	4.543
- Deferred loan origination fees	179.212	158.352
- Accrued liabilities for unused holidays	50.879	50.187
- Other accruals	308.284	342.025
Other liabilities	130.941	33.126
	800.778	**633.112**
In foreign currency		
Advances received	5.252	4.333
Subordinated liabilities	1.035.599	956.891
Accruals:		
- Interest accrued	136.782	111.371
- Other	1.124	1.993
Other liabilities	432	9
	1.179.189	**1.074.597**
Balance as of 31 December	**1.979.967**	**1.707.709**

Outstanding balance of subordinated liabilities as of 31 December 2009 and 2008 is presented in the following table:

In RSD thousand

Creditor	Currency	Contracted amount	Maturity date	Interest rate	31 Dec 2009	31 Dec 2008
Erste Group Bank AG, Vienna	EUR	10.800.000	20.12.2015.	Euribor+ 2,4% p.a.	1.035.599	956.891
Total		**10.800.000**			**1.035.599**	**956.891**

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

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

29. EQUITY

(a) Equity Structure

The Bank's equity structure is presented in the table below:

	2009	In RSD thousand 2008
Share capital – ordinary shares /i/	10.040.000	10.040.000
Other capital	-	10.329
Share premium /ii/	124.475	124.475
Reserves from profit /iii/	344.724	-
Revaluation reserves /iv/	14.939	15.639
Retained earnings	15.882	12.872
Profit for the year	391.277	334.396
Balance as of 31 December	**10.931.297**	**10.537.711**

/i/ Share Capital

As of 31 December 2009, subscribed and paid in share capital of the Bank comprised 1.004.000 ordinary shares, with nominal value of RSD 10.000 (31 December 2008: 1.004.000 ordinary shares, with nominal value of RSD 10.000). In 2009 and 2008, there were no changes on share capital.

The majore shareholder of the Bank is EGB CEPS HOLDING GMBH, Vienna holding 74 % of the shares as of 31 December 2009. The shareholder structure of the Bank as of 31 December 2009 and 2008 is as follows:

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

/ii/ Share Premium

Share premium amounting to RSD 124.475 thousand as of 31 December 2009 and 2008 resulted from positive difference between the achieved selling value of shares and their nominal value. During 2008, the Bank covered its accumulated losses in the amount of RSD 2.104.457 thousand out of the share premium.

/iii/ Reserves from Profit

Reserves from profit amounting to RSD 344.724 thousand as of 31 December 2009, were formed in accordance with the General Assembly's Resolution dated 24 April 2009 on creating special reserves for estimated potential losses on risky balance sheet and off-balance sheet placements from profit for 2008 in the amount of RSD 334.395 thousand, and from transfer of other unnominated capital of RSD 10.329 thousand to the Bank's reserves.

29. EQUITY (Continued)

(a) Equity Structure (Continued)

/iv/ Revaluation Reserves

Revaluation reserves amounting to RSD 14.939 thousand as of 31 December 2009 (31 December 2008: RSD 15.639 thousand), have been established as a result of fair value adjustments of securities available-for-sale, as adjusted for the effects of deferred taxes arising from revaluation of these securities.

/v/ Special Reserves for Estimated Losses

Special reserves for estimated losses arising from credit risk contained in the Bank's loan portfolio are calculated in accordance with the National Bank of Serbia's Decision on Classification of Bank Balance Sheet Assets and Off-balance Sheet Items ("Official Gazette of the Republic of Serbia", no. 129/2007, 63/2008 and 104/2009). As of 31 December 2009, required special reserves against estimated losses on balance sheet assets and off-balance sheet items, after being reduced for allowances for impairment of balance sheet assets and provision for losses for off-balance sheet items, and calculated in accordance with the aforementioned Decision of the National Bank of Serbia (Note 2.9.), amounts to RSD 2.268.714 thousand (31 December 2008: RSD 1.097.472 thousand). The shortfall amount of the special reserves for estimated losses, subsequent to the transfer of retained earnings from 2008 amounts to RSD 1.923.990 thousand (31 December 2008: RSD 1.097.472 thousand). In accordance with the National Bank of Serbia regulations, the Bank has no right to make payment of dividends before these reserves are covered.

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

The Bank is obliged to reconcile the scope and the structure of its operations and risky placements with the performance indicators prescribed by the Law on Banks and the relevant decisions of National Bank of Serbia brought on the basis of the aforementioned law. As of 31 December 2009, the Bank was in compliance with all prescribed performance indicators. The Bank's performance indicators as of 31 December 2009 are as follows:

Performance indicators	Prescribed	Realized
1. Capital	Minimum EUR 10 million	EUR 99.723.909
2. Capital adequacy ratio	Minimum 12%	25,06%
3. Permanent investments indicator	Maximum 60%	9,46%
4. Related parties exposure	Maximum 20%	12,68%
5. Indicator of large and the largest permissible loans	Maximum 400%	27,37%
6. Liquidity ratio:		
- in the first month of the reporting period	Minimum 1	1,38
- in the second month of the reporting period	Minimum 1	1,36
- in the third month of the reporting period	Minimum 1	1,31
7. Foreign currency risk indicator	Maximum 20%	1,49%
8. Exposure to a group of related parties	Maximum 25%	14,69%
9. Exposure to an entity related to the Bank	Maximum 5%	1,09%
10. Bank's investments in legal entities which are not in the finacial sector	Maximum 10%	0,17%

30. OFF-BALANCE SHEET ITEMS

In RSD thousand

	2009	2008
Funds managed on behalf of third parties (a)	527.757	418.431
Guarantees and other irrevocable commitments (b)	12.270.385	14.187.250
Derivatives (c)	401.069	-
Other off-balance sheet items (d)	13.384.598	22.923.521
Balance as of 31 December	**26.583.809**	**37.529.202**

(a) Funds Managed on Behalf of Third Parties

In RSD thousand

	2009	2008
Placements on behalf of third parties in dinars:		
- short-term	6.437	5.747
- long-term	521.320	412.684
Balance as of 31 December	**527.757**	**418.431**

Funds managed on behalf of third parties mostly relate to assets of the Ministry of Agriculture which represent the source of long-term loans to agricultural activities and citizens' housing loans subsidised by the Ministry of Finance.

(b) Guarantees and Other Irrevocable Commitments

In RSD thousand

	2009	2008
In dinars		
Payment guarantees	1.272.266	4.717.360
Performance bonds	953.104	517.229
Acceptances	63.312	60.184
Limits	932.969	974.103
Irrevocable commitments for undisbursed loans and placements	2.844.786	2.610.130
Other contingencies and commitments	13.329	211.576
	6.079.766	**9.090.582**
In foreign currency		
Payment guarantees	176.681	393.955
Performance bonds	232.534	157.729
Limits	224.061	157.600
Irrevocable commitments for undisbursed loans and placements	4.794	7.903
Letters of credit	5.552.549	4.379.481
	6.190.619	**5.096.668**
Balance as of 31 December	**12.270.385**	**14.187.250**

30. OFF-BALANCE SHEET ITEMS (Continued)

(b) Guarantees and Other Irrevocable Commitments (Continued)

Irrevocable committments relate to approved unwithdrawn loans which cannot be cancelled such as: current accounts overdrafts, corporate revolving loans, multipurpose frame facilities and other irrevocable committments.

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

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

As of 31 December 2009, provision for guarantees and other irrevocable commitments amounts to RSD 138.722 thousand (31 December 2008: RSD 274.298 thousand).

(c) Derivatives

Derivatives in the amount of RSD 401.069 thousand as of 31 December 2009 completely relate to receivables for foreign exchange swaps (FX swaps) from Erste Group Bank AG, Vienna.

(d) Other Off-balance Sheet Items

In RSD thousand

	2009	2008
Suspended interest receivables	390.600	86.834
Foreign currency sale and purchase	2.518.137	8.099.321
LORO guarantees	5.191.480	6.648.745
Received counter guarantees	9.981	2.994.596
Records of public foreign currency saving bonds	2.803.502	2.884.724
Other	2.470.898	2.209.301
Balance as of 31 December	**13.384.598**	**22.923.521**

31. RELATED PARTY DISCLOSURES

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

(a) The Bank enters into transactions with the Parent Company – majority shareholder Erste Bank der Oesterreichischen Sparkassen AG, Vienna and other members of Erste Group. Outstanding balance of receivables and payables as of 31 December 2009 and 2008, as well as income and expenses, resulting from transactions with shareholders and other Bank's related parties are presented in the following table:

In RSD thousand

	2009		2008	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Receivables				
Cash and cash equivalents	43.404	-	771.281	-
Interest, fees and commissions receivable	5	1	74	-
Loans and advances	351.588	112	19.143	394
Other placements	-	7.601	-	-
Other assets	579	34.084	1.371	129
	395.576	**41.798**	**791.869**	**523**
Payables				
Transaction deposits	7.140	159.879	2.413	853.179
Other deposits	1.848.180	2.484.047	1.025.189	680.725
Borrowings	-	4.314.996	4.598.728	-
Interest, commissions and fees payable	23.261	21.568	2.488	1.887
Provisions	-	38	40	32
Other payables	1.036.163	23.500	960.932	275
	2.914.744	**7.004.028**	**6.589.790**	**1.536.098**
Off-balance sheet items				
Guarantees and other warranties	10.677	-	10.064	-
Irrevocable commitments	81.075	5.657	58.183	-
Other off-balance sheet items	6.696.894	30.301	6.290.000	28.512
	6.788.646	**35.958**	**6.358.247**	**28.512**

In RSD thousand

	2009		2008	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	2.496	1	1.839	4.984
Interest expense	(102.554)	(127.698)	(51.813)	(35.225)
Fee and commission income	7.447	2.529	6.483	4.707
Fee and commission expense	(28.555)	(5.194)	(33.506)	(1.310)
Other operating income	618	3.347	-	2.365
Operating and other expenses	(37.250)	(283.843)	(80.144)	(179.185)

31. RELATED PARTY DISCLOSURES (Continued)

(a) The above stated balances of receivables and payables, as well as income and expenses arising from transactions with related parties represent the result of usual business activities. The Bank collects and pays interest based on the usual market terms. As of 31 December 2009 and 2008, the Bank had no impaired placements with the related parties.

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

In RSD thousand

	Balance as of 31 December 2009	Income/ (expenses) 2009	Balance as of 31 December 2008	Income/ (expenses) 2008
Overdrafts, credit cards, cash and consumer loans	4.049	7.811	3.646	8.536
Housing loans	52.120	-	49.933	-
Other placements and receivables	2.112	92	1.924	2.720
Total allowances for impairment	384	-	360	-
Deposits	35.043	5.617	90.787	3.847

(c) Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2009 and 2008, are presented in the table below:

In RSD thousand

	2009	2008
Salaries of the members of the Executive Board	38.436	54.498
Remunerations to the members of the Board of Directors	9.037	7.844
Total	**47.473**	**62.342**

32. RISK MANAGEMENT

32.1. Introduction

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

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

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

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

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

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

Risk Management is committed to the following organs/bodies:

Board of Directors and Executive Board

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

Assets and Liability Management Committee

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

32. RISK MANAGEMENT (Continued)

32.1. Introduction (Continued)

Risk Management Department

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

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

Risk Control Unit

Risk Control Unit within the Risk Management Department is responsible for monitoring compliance with the principles, policies and limits defined by the Bank. This primarily involves monitoring of market risks and monitoring of risks resulting from the new products' implementation and complex transactions. This unit also provides complete risk coverage in terms of monitoring, control and reporting thereon.

Treasury Department

Treasury department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Assets and Liability Management Unit

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

Internal Audit

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

32. RISK MANAGEMENT (Continued)

32.1. Introduction (Continued)

Risk Management and Reporting System

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

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

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

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

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

32.2. Credit Risk

Credit risk is the risk that credit beneficiaries will not be able to discharge contractual obligations to the Bank, whether fully or partially.

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

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

32. RISK MANAGEMENT (Continued)

32.2. Credit Risk (Continued)

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

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

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

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

Credit-related Risks

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

Loan Concentration Risk

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

Derivative Financial Instruments

Derivative financial instruments lead to the Bank's exposure to credit risk in case their fair value is positive. Such credit risk is limited by determining the maximum far value of the total derivatives' portfolio, as well as determination of the maximum positive fair value of each individual transaction. As of 31 December 2009, the Bank had foreign exchange swap (FX swap) with Erste Group Bank AG, Vienna amounting to CHF 3.110.000, i.e. RSD 200.481 thousand.

32. RISK MANAGEMENT (Continued)

32.2. Credit Risk (Continued)

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

The breakdown of maximum credit risk exposure, presented in gross, before allowances for impairment and collaterals held, as of 31 December 2009 and 2008 is presented in the table below:

In RSD thousand

	31 Dec 09	31 Dec 08
Exposure to credit risk by balance sheet items:		
Interest, fees and commission receivable, changes in fair value of derivatives and other receivables	442.899	405.183
Loans and advances	33.380.231	32.940.804
Securities	1.977.360	1.687.989
Equity investments	2.163	3.494
Other placements	736.922	311.090
Other assets	217.665	277.550
Total	**36.757.240**	**35.626.110**
Exposure to credit risk by off-balance sheet items:		
Payment guarantees	1.448.947	5.111.315
Performance bonds	1.185.638	674.958
Uncovered letters of credit	5.543.209	4.372.714
Acceptances	63.312	60.184
Limits	1.157.030	1.131.703
Irrevocable commitments	2.849.580	2.618.033
Other off-balance sheet items	13.329	211.576
Total	**12.261.045**	**14.180.483**
Total exposure	**49.018.285**	**49.806.593**

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

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

The maximum credit exposure to any client or group of related debtors as of 31 December 2009 amounted to RSD 7.079.535 thousand (2008: RSD 5.075.643 thousand), without deductions (collateral or other means of credit risk protection), i.e., the amount of RSD 2.074.898 thousand (2008: RSD 1.754.523 thousand), net of collaterals.

32. RISK MANAGEMENT (Continued)

32.2. Credit Risk (Continued)

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

Breakdown of maximum credit risk exposure (gross risk balance and off-balance assets subject to classification), as of 31 December 2009 and 2008, before taking into account collaterals held or other credit enhancements, is presented in the table below:

In RSD thousand

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

In RSD thousand

	Accounts with NBS, other banks and placements with banks	Loans and advances to customers and other placements	Equity investments and securities	Interests, fees and other assets	Guarantees and other commit-ments	Total 2008
Serbia	2.977.862	30.274.032	1.691.483	682.733	14.180.483	49.806.593
European Union	-	-	-	-	-	-
Total	**2.977.862**	**30.274.032**	**1.691.483**	**682.733**	**14.180.483**	**49.806.593**

32. RISK MANAGEMENT (Continued)

32.2. Credit Risk (Continued)

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

The Bank's credit risk exposure analysis, by industry sectors, before and after taking into account collateral held and other credit enhancements, as of 31 December 2009 and 2008 is presented in the table below:

In RSD thousand

	Gross maximum exposure 2009	Net maximum exposure 2009	Gross maximum exposure 2008	Net maximum exposure 2008
Retail	13.778.562	6.469.829	12.747.501	10.305.463
Processing industry and mining	14.549.889	6.978.444	13.921.997	8.371.902
Trade	6.872.403	4.406.791	6.560.328	4.278.400
Energy	113.709	11.937	42.293	42.293
Agriculture, hunting, fishing and forestry	857.772	288.138	579.688	427.419
Civil engineering	3.053.383	1.739.527	2.682.989	1.998.564
Traffic and communications, tourism, hospitality and services	6.678.831	5.103.160	8.257.608	3.766.799
Entrepreneurs	875.837	400.130	1.098.772	694.235
Agriculturalist	672.884	139.286	579.963	245.986
Banks	1.096.061	1.096.061	2.977.862	2.977.862
Other financial institutions	92.532	91.265	51.125	51.125
Other	376.422	358.011	306.467	287.779
Total	**49.018.285**	**27.082.579**	**49.806.593**	**33.447.827**

32. RISK MANAGEMENT (Continued)

32.2. Credit Risk (Continued)

(b) Portfolio Quality

The Bank manages the quality of its financial assets using the internal classification of placements. The following tables present the quality of portfolio (gross placements and off-balance sheet exposure) by types of placements, and based on the Bank's classification system, as of 31 December 2009 and 2008:

In RSD thousand

	Neither past due nor impaired				
	High quality level	Standard quality level	Sub-standard quality level	Due or individually impaired	Total 2009
Placements to banks	10.112	958.803	-	12.433	981.348
Placements to customers:					
Corporate customers	3.116.776	2.181.331	5	615.575	5.913.687
Small size and medium size companies	5.633.283	4.714.205	399.366	2.862.643	13.609.497
Entrepreneurs	712.411	58.714	-	55.500	826.625
Retail customers	12.339.806	327.809	9.860	769.085	13.446.560
Securities and equity investments	521.442	1.242.370	2.537	213.174	1.979.523
Guarantees and other commitments					
Guarantees and acceptances	1.838.644	812.050	19.025	28.178	2.697.897
Letters of credit	5.333.105	210.104	-	-	5.543.209
Unused commitments	3.258.274	741.005	1.965	5.366	4.006.610
Other off balance sheet items	11.159	2.170	-	-	13.329
Total	**32.775.012**	**11.248.561**	**432.758**	**4.561.954**	**49.018.285**

32. RISK MANAGEMENT (Continued)

32.2. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

In RSD thousand

	Neither past due nor impaired				
	High quality level	Standard quality level	Sub-standard quality level	Due or individually impaired	Total 2008
Placements to banks	8.303	2.845.009	-	31.789	2.885.101
Placements to customers:					
Corporate customers	2.964.055	2.429.418	851.914	585.739	6.831.126
Small size and medium size companies	5.288.450	3.244.319	666.511	1.665.983	10.865.263
Entrepreneurs	920.448	43.702	-	24.256	988.406
Retail customers	11.781.057	75.624	2.578	505.472	12.364.731
Securities and equity investments	747.526	669.708	8.889	265.360	1.691.483
Guarantees and other commitments					
Guarantees and acceptances	1.657.603	4.009.224	157.525	22.105	5.846.457
Letters of credit	4.372.714	-	-	-	4.372.714
Unused commitments	3.267.443	476.188	249	5.856	3.749.736
Other off balance sheet items	211.576	-	-	-	211.576
Total	**31.219.175**	**13.793.192**	**1.687.666**	**3.106.560**	**49.806.593**

32. RISK MANAGEMENT (Continued)

32.2. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

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

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

In RSD thousand

2009	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2009
Placements to banks	25.738	-	-	**25.738**
Placements to customers:				
- Corporate customers	19.080	144.407	98.752	**262.239**
- Small size and medium size companies	163.839	5.701	1.450.584	**1.620.124**
- Entrepreneur	1.130	1.236	29.138	**31.504**
- Retail customers	110.224	55.664	506.357	**672.245**
Total	**320.011**	**207.008**	**2.084.831**	**2.611.850**

In RSD thousand

2008	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2008
Placements to banks	696	-	482	**1.178**
Placements to customers:				
- Corporate customers	1.261	6.700	38.686	**46.647**
- Small size and medium size companies	12.963	9.395	63.425	**85.783**
- Entrepreneur	-	-	14.224	**14.224**
- Retail customers	104.518	39.719	279.170	**423.407**
Total	**119.438**	**55.814**	**395.987**	**571.239**

Fair value of collaterals arising from the aforementioned past due but not impaired loans and advances to customers amounts to RSD 233.279thousand as of 31 December 2009 (31 December 2008: RSD 99.762 thousand).

Collateral and Other Credit Enhancements

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

32. RISK MANAGEMENT (Continued)

32.2. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

Collateral and Other Credit Enhancements (Continued)

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

Assessment of Impairment of Financial Assets

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

- **Individual Impairment Assessment**

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

- **Collective Impairment Assessment**

Allowances for impairment are assessed and established collectively for loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated quarterly, and more frequently, if required.

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

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

- **Special Reserves for Estimated Losses**

For both corporate and retail loans, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates special reserves for estimated losses as defined by the Decision on the Classification of Banks Balance Sheet Assets and Off Balance Sheet Items (see Note 2.9.). Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans.

32. RISK MANAGEMENT (Continued)

32.2. Credit Risk (Continued)

(c) *Default Loans*

The Bank gives special attention to default loans by monitoring the total outstanding balance and the trend of these amounts. Default loans are monitored at the Bank level, regional level and in accordance with the product criteria (for individuals) and the industrial sector the customers belongs to, as well as the maturity structure (for corporate clients and entrepreneurs). In accordance with the regulations, default loans related to corporate clients and entrepreneurs are monitored at customer level, and, for individuals, at the level of each loan.

As of 31 December 2009, default loans amounted to RSD 4.728.373 thousand (31 December 2008: RSD 2.991.753 thousand). Impairment loss of default loans recognized in the balance sheet amounted to RSD 3.532.174 thousand (31 December 2008: RSD 2.672.579 thousand).

Default off-balance sheet items amounted to RSD 32.467 thousand as of 31 December 2009 (31 December 2008: RSD 23.148 thousand), while the related provisions for those items amounted to RSD 19.227 thousand (31 December 2008: RSD 19.018 thousand).

(d) *Rescheduled Loans*

As of 31 December 2009, gross rescheduled loans and placements amounted to RSD 165.504 thousand (31 December 2008: RSD 155.261 thousand).

32.3. Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank would not be able to discharge its liabilities when they fall due. To reduce or to limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows in Dinars and foreign currency and the availability of high grade collateral which could be used to secure additional funding, if required. The Bank manages its assets and liabilities in such a way that it can meet its due liabilities at all time, as well as to have customers disposing their funds held with the Bank in accordance with agreed terms.

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

The Assets and Liabilities Management Unit and Risk Control Department monitor on a daily basis liquidity risk ratio (LIK) in order to have a daily indicator falling into the limits imposed by the Contingency Business plan (CFP).

32. RISK MANAGEMENT (Continued)

32.3. Liquidity Risk and Funding Management (Continued)

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

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

The level of liquidity is expressed using the liquidity ratio which is determined as the proportion of the sum of the liquid assets of the first and second level (cash, assets on accounts with other banks, deposits with the National Bank of Serbia, receivables in the process of realisation, irrevocable credit lines approved to the Bank, quoted financial instruments and other receivables due within a month) and the sum of liabilities on demand without determined maturity date and liabilities with fixed maturity up to a month. In 2009 and 2008, the Bank had an indicator of daily liquidity exceeding the legally-prescribed levels.

The aforementioned ratio in 2009 and 2008 was as presented in the table below:

	2009	2008
Average during the period	1,26	1,48
Highest	1,38	2,08
Lowest	1,11	1,07
As of 31 December	1,31	1,15

32. RISK MANAGEMENT (Continued)

32.3. Liquidity Risk and Funding Management (Continued)

Maturity Analysis of Financial Liabilities

The table below analyses the Bank's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts discloses in the table are the contractual undiscounted payments.

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

In RSD thousand

2009	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2009
Borrowings and deposits	9.425.086	13.127.325	9.806.974	5.339.108	1.045.112	38.743.605
Interest and fees payable	42.250	96.073	483.325	685.522	112.424	1.419.594
Subordinated liabilities	-	-	49.314	986.285	-	1.035.599
Total	**9.467.336**	**13.223.398**	**10.339.613**	**7.010.915**	**1.157.536**	**41.198.798**

In RSD thousand

2008	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2008
Borrowings and deposits	14.730.978	14.653.763	5.448.046	1.121.090	206.446	36.160.323
Interest and fees payable	64.283	105.962	293.790	33.226	17.107	514.368
Subordinated liabilities	-	-	-	-	956.891	956.891
Total	**14.795.261**	**14.759.725**	**5.741.836**	**1.154.316**	**1.180.444**	**37.631.582**

32. RISK MANAGEMENT (Continued)

32.3. Liquidity Risk and Funding Management (Continued)

Maturity Analysis of Financial Liabilities (Continued)

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

In RSD thousand

2009	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2009
Guarantees, acceptances and letters of credit	4.976.069	55.792	908.899	826.757	1.411.953	61.636	8.241.106
Irrevocable commitments	466.409	23.524	135.534	1.578.375	1.507.765	308.332	4.019.939
Total	**5.442.478**	**79.316**	**1.044.433**	**2.405.132**	**2.919.718**	**369.968**	**12.261.045**

In RSD thousand

2008	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2008
Guarantees, acceptances and letters of credit	221.343	3.564.105	372.656	3.728.099	1.839.470	493.498	10.219.171
Irrevocable commitments	24.709	303.492	249.295	2.361.948	366.795	655.073	3.961.312
Total	**246.052**	**3.867.597**	**621.951**	**6.090.047**	**2.206.265**	**1.148.571**	**14.180.483**

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

In order for the Bank to overcome the problem of short-term liquidity, on 15 July 2009, EUR 100 million borrowing from Erste Group Bank was approved, with the repayment period of five years, which is to be realized through Erste GCIB Finance I.B.V., Holland, leading to the decrease in liquidity risk. During 2009, the Bank withdrew EUR 45 million, such reducing short-term debenture on the domestic market.

32. RISK MANAGEMENT (Continued)

32.3. Liquidity Risk and Funding Management (Continued)

Maturity Mismatch Analysis

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period on the balance sheet date to the contractual maturity date. The following table presents Maturity Mismatch report as of 31 December 2009:

In RSD thousand

	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2009
ASSETS							
Cash and cash equivalents	5.268.997	-	292.585	-	-	-	5.561.582
Revocable deposits and loans	1.336.107	34.010	136.039	612.174	1.484.057	2.448.697	6.051.084
Interest and fees receivable, sales, changes in fair value of derivatives and other receivables	177.966	-	-	31.219	-	-	209.185
Loans and advances	4.172.730	502.058	2.335.498	7.039.046	8.880.534	7.290.572	30.220.438
Securities	433.327	441.494	2.269.006	4.066.621	1.313	-	7.211.761
Equity investments	-	-	-	-	-	47	47
Other placements	122.932	7.674	7.577	828.972	181.847	37.884	1.186.886
Intangible assets	-	-	-	-	-	89.223	89.223
Tangible assets	-	-	-	-	-	889.240	889.240
Other assets	48.982	71.095	454.121	-	-	1.222	575.420
Total assets	**11.561.041**	**1.056.331**	**5.494.826**	**12.578.032**	**10.547.751**	**10.756.885**	**51.994.866**
LIABILITIES AND EQUITY							
Demand deposits	46.847	46.847	187.388	843.246	2.044.233	3.372.982	6.541.543
Other deposits	7.140.094	2.568.302	3.197.329	9.806.974	1.024.111	249.974	23.986.784
Borrowings	3.069.323	16.627	-	-	4.314.996	814.332	8.215.278
Interest and fees payable and changes in fair value of derivatives	2.518	-	-	-	-	-	2.518
Provisions	-	-	-	322.976	-	-	322.976
Tax liabilities	-	-	-	5.807	-	-	5.807
Deferred tax liabilities	-	-	-	8.696	-	-	8.696
Other liabilities	475.360	97.752	371.256	49.314	986.285	-	1.979.967
Total liabilities	**10.734.142**	**2.729.528**	**3.755.973**	**11.037.013**	**8.369.625**	**4.437.288**	**41.063.569**
Total equity	-	-	-	-	-	10.931.297	**10.931.297**
Total liabilities and equity	**10.734.142**	**2.729.528**	**3.755.973**	**11.037.013**	**8.369.625**	**15.368.585**	**51.994.866**
Maturity mismatch/net liquidity gap as of:							
- 31 December 2009	**826.899**	**(1.673.197)**	**1.738.853**	**1.541.019**	**2.178.126**	**(4.611.700)**	
- 31 December 2008	**(3.808.748)**	**187.212**	**(767.853)**	**1.174.367**	**7.371.631**	**(4.156.609)**	

32. RISK MANAGEMENT (Continued)

32.4. Market Risk

In its ordinary course of business, the Bank is exposed to market risks, which primarily include the risk of changes in interest rates, foreign exchange risk (risk of fluctuations of foreign exchange rate) and other market risks.

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

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

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

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

32.4.1. Interest Rate Risk

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

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

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

32. RISK MANAGEMENT (Continued)

32.4. Market Risk (Continued)

32.4.1. Interest Rate Risk (Continued)

The following table shows Reprising Gap report, i.e. the Bank’s exposure to the interest rate risk as of 31 December 2009.

The table includes the Bank’s assets and liabilities categorized by the earlier of contractual re-pricing or maturity dates.

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year	Non-interest bearing	Total
ASSETS							
Cash and cash equivalents	1.537.339	-	-	-	-	-	1.537.339
Correspondent accounts	85.798	171.598	257.396	140.398	842.388	-	1.497.578
Obligatory reserve	58.004	116.007	174.011	348.022	6.264.394	-	6.960.438
Securities	1.630.074	1.414.712	1.000.497	1.736.246	226	-	5.781.755
Loans and advances to banks	2.594.970	-	-	-	-	1.676	2.596.646
Loans and advances to customers	9.228.652	962.603	2.736.093	3.799.059	14.112.722	415.773	31.254.902
Other assets	-	-	646.018	-	-	1.720.190	2.366.208
Total assets	**15.134.837**	**2.664.920**	**4.814.015**	**6.023.725**	**21.219.730**	**2.137.639**	**51.994.866**
LIABILITIES AND EQUITY							
Due to banks	2.988.494	1.035.599	-	-	5.317	12.665	4.042.075
Due to financial institutions	16.583	809.016	4.314.996	-	-	-	5.140.595
Demand deposits	474.731	949.463	1.424.194	776.833	4.660.999	-	8.286.220
Time deposits	8.059.415	1.925.844	2.753.911	6.536.816	1.055.635	9.893	20.341.514
Other liabilities	-	-	-	-	-	3.253.165	3.253.165
Equity	-	-	-	-	-	10.931.297	10.931.297
Total liabilities and equity	**11.539.223**	**4.719.922**	**8.493.101**	**7.313.649**	**5.721.951**	**14.207.020**	**51.994.866**
Net exposure to interest rate risk:							
- 31 December 2009	**3.595.614**	**(2.055.002)**	**(3.679.086)**	**(1.289.924)**	**15.497.779**	**(12.069.381)**	
- 31 December 2008	**1.029.624**	**(2.564.025)**	**529.449**	**(1.598.756)**	**10.841.332**	**(8.237.624)**	

32. RISK MANAGEMENT (Continued)

32.4. Market Risk (Continued)

32.4.1. Interest Rate Risk (Continued)

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

The following table presents income statement's sensitivity to the reasonably possible changes of interest rates (1%) with other variables held constant. Income statement's sensitivity represents the effect of predicted changes in interest rates on net interest income in one year on financial assets and liabilities based on interest rates as of 31 December 2009 and 2008.

In RSD thousand

Currency	Change in percentage	Income statement sensitivity 2009	Change in percentage	Income statement sensitivity 2008
Increase of percentage:	1%		1%	
RSD		43.570		64.261
EUR		(48.184)		(27.458)
Decrease of percentage:	1%		1%	
RSD		(43.570)		(64.261)
EUR		48.184		27.458

32.4.2. Foreign Exchange Risk

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

The Bank manages foreign exchange risk, striving to prevent adverse effects of changes of cross-currency rates and foreign exchange rates comparing to Dinar (foreign currency losses) on the Bank's financial result, as well as on customers' ability to repay loans in foreign currency. For the purposes of protection against the foreign currency risk, the Bank monitors the changes in foreign currency exchange rate on the financial market on daily basis, carries out the policy of low level exposure to the foreign currency risk and contracts the foreign currency clause with its customers.

Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign currency risk, as well as risk by specific currencies. Risk control unit daily monitors movements in indicators of foreign exchange risk. The positions are monitored on a daily basis to ensure positions are maintained within established limits.

In accordance with National Bank of Serbia's requirements, the Bank regularly maintains its foreign currency position – foreign exchange risk indicator within maximal regulatory limits, determined in proportion to capital, in accordance to which the Bank is obligated to ensure that its total net open foreign currency position does not exceed 20% of its regulatory capital.

32. RISK MANAGEMENT (Continued)

32.4. Market Risk (Continued)

32.4.2. Foreign Exchange Risk (Continued)

During 2009, the Bank strictly paid attention to keep the foreign currency risk indicator with the prescribed limit. The foreign currency indicator, at the end of each working day, was lower than 20% comparing to the Bank's capital.

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

In RSD thousand

Position	EUR	USD	CHF	Other currencies	Total
Net spot position	**(288.948)**	**(21.640)**	**188.966**	**(5.563)**	**(127.185)**
Assets in foreign currency	27.301.231	2.578.113	1.600.576	60.133	31.540.053
Liabilities in foreign currency	27.590.179	2.599.753	1.411.610	65.696	31.667.238
Net forward positions	**200.588**	**-**	**(200.480)**	**-**	**108**
Long position	200.588	-	-	-	200.588
Short position	-	-	200.480	-	200.480
Long open position				**14.011**	**14.011**
Short open position	**88.360**	**21.640**	**11.514**	**19.574**	**141.088**
Net open foreign currency position	-	-	-	-	**141.088**
Regulatory capital	-	-	-	-	**9.562.406**
Foreign exchange risk ratio					
- 31 December 2009					**1,49%**
- 31 December 2008					**2,65%**

The following table presents the Bank's exposure to foreign currency risk as of 31 December 2009 and 2008 of its non-trading assets and liabilities.

The analysis presented calculates the effect of the reasonable changes in the exchange rate with other variables held constant. Negative values refer to potential decreases in the income statement or equity, while the positive values refer to its increases.

In RSD thousand

Currency	Changes in the exchange rate (%) 2009	Effect to the income statement before taxation 2009	Changes in the exchange rate (%) 2008	Effect to the income statement before taxation 2008
EUR	2%	(1.767)	2%	4.006
CHF	2%	(230)	2%	301
USD	2%	(433)	2%	(133)

32. RISK MANAGEMENT (Continued)

32.4. Market Risk (Continued)

32.4.2. Foreign Exchange Risk (Continued)

The following table presents the Bank's exposure to foreign exchange risk (including the foreign currency clause) as of 31 December 2009. The table includes assets and liabilities at their carrying amounts.

In RSD thousand

	EUR	USD	CHF	Other curren-cies	Total foreign currency	Total in local currency	Total
ASSETS							
Cash and cash equivalents	779.286	1.451.494	14.052	42.183	2.287.015	3.274.567	5.561.582
Revocable deposits and loans	4.748.987	-	-	-	4.748.987	1.302.097	6.051.084
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	136.695	13	1.418	4	138.130	71.055	209.185
Loans and advances	20.898.903	1.115.880	1.584.862	17.946	23.617.591	6.602.847	30.220.438
Securities	160.494	7.219	-	-	167.713	7.044.048	7.211.761
Equity investments	-	-	-	-	-	47	47
Other placements	285.354	-	-	-	285.354	901.532	1.186.886
Intangible assets	-	-	-	-	-	89.223	89.223
Tangible assets	-	-	-	-	-	889.240	889.240
Other assets	291.512	3.507	244	-	295.263	280.157	575.420
Total assets	**27.301.231**	**2.578.113**	**1.600.576**	**60.133**	**31.540.053**	**20.454.813**	**51.994.866**
LIABILITIES AND EQUITY							
Demand deposits	2.116.350	72.715	13.715	10.392	2.213.172	4.328.371	6.541.543
Other deposits	18.993.890	616.909	1.378.317	48.485	21.037.601	2.949.183	23.986.784
Borrowings	5.194.832	1.907.641	808	6.680	7.109.961	1.105.317	8.215.278
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	2.518	2.518
Provisions	74.284	13.180	-	-	87.464	235.512	322.976
Tax liabilities	-	-	-	-	-	5.807	5.807
Deferred tax liabilities	-	-	-	-	-	8.696	8.696
Other liabilities	1.285.107	2.487	18.770	139	1.306.503	673.464	1.979.967
Total liabilities	**27.664.463**	**2.612.932**	**1.411.610**	**65.696**	**31.754.701**	**9.308.868**	**41.063.569**
Total equity	-	-	-	-	-	10.931.297	**10.931.297**
Total liabilities and equity	**27.664.463**	**2.612.932**	**1.411.610**	**65.696**	**31.754.701**	**20.240.165**	**51.994.866**
Net foreign currency position as of:							
- 31 December 2009	**(363.232)**	**(34.819)**	**188.966**	**(5.563)**	**(214.648)**	**214.648**	
- 31 December 2008	**2.497.075**	**(2.879.343)**	**3.146**	**17.960**	**(361.162)**	**361.162**	

32. RISK MANAGEMENT (Continued)

32.5. Exposure Risk

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

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

In 2009, the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities anticipated by the relevant procedures and decisions on loan approval, the Bank kept the adequacy of its placements and investments in line with the performance indicators prescribed by the National Bank of Serbia (see Note 29(b)).

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

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

32.6. Investment Risk

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

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

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

In 2009, the Bank maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled with the indicators prescribed by the National Bank of Serbia.

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

32. RISK MANAGEMENT (Continued)

32.7. Country Risk

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

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

The Bank implements the policy of the country of origin risk management in such a way that it constantly monitors its exposure to this type of the risk and measures it through the rating of countries.

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

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

32.8. Operational Risk

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

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

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

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

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

Operational risk events are collected in a single database. The Bank uses several tools for the identification and assessment of the impact of operational risks, such as Risk Mapping methods, Risk assessment methods and Key Risk indicators methods.

32. RISK MANAGEMENT (Continued)

32.8. Operational Risk (Continued)

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

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

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

32.9. Capital Management

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

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

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

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

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

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

32. RISK MANAGEMENT (Continued)

32.9. Capital Management (Continued)

Since the value of trade book items does not exceed 5% of the Bank's business, or exceed the value of RSD 15 million more than three working days in the calendar month, the Bank does not calculate capital requirements in relation to other market risks.

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

In RSD thousand

	2009	2008
Regulatory capital		
Tier 1 capital		
Paid portion of the share capital comprising ordinary and preference share capital, except cumulative preference shares	10.040.000	10.040.000
Share premium related to ordinary and preference shares, except cumulative preference shares	124.475	124.475
All types of Bank's reserves formed from retained earnings after tax, except general banking risks' reserve	344.724	-
Portion of retained earnings	15.882	12.872
Intangible assets	(89.223)	(57.286)
	10.435.858	**10.120.061**
Tier 2 capital		
Portion of revaluation reserves related to tangible assets and equity instruments	14.939	15.639
Subordinated liabilities	1.035.599	956.891
	1.050.538	**972.530**
Total Tier 1 and Tier 2 capital	**11.486.396**	**11.092.591**
Deductible items		
Shortfall amount of the special reserves for potential losses	(1.923.990)	(1.097.472)
Total (1)	**9.562.406**	**9.995.119**
Risk weighted assets		
Balance sheet	33.055.998	33.155.378
Off-balance sheet items	4.956.575	4.181.910
Open foreign currency position	141.088	257.920
Total (2)	**38.153.661**	**37.595.208**
Capital adequacy (1/2 x 100)	*25,06%*	*26,58%*

32. RISK MANAGEMENT (Continued)

32.10. Judgements on the Effects of the Global Financial Crisis

The effects of the global financial crises started to become felt in Serbia in the last quarter of 2008, first impacting the banking sector through a significant withdrawal of the deposits in retail banking, which had a further impact on the general liquidity crisis, fluctuation and decrease in the exchange rate of the Dinar against foreign currencies and decrease in the commercial activities and the purchasing power of the population and economy.

The National Bank of Serbia and the Government of the Republic of Serbia introduced a set of measures in order to mitigate the effects of the crisis, maintain the stability of the banking sector, as well as establishing the conditions for reviving the commercial activities through more favourable financing terms and conditions. Measures undertaken by the National Bank of Serbia to maintain stability in the midst of the financial crisis are contained in the following documents:

- Decision on Temporary Measures for Preserving Financial Stability in the Republic of Serbia;
- Decision on Special Measures for Preserving Financial Stability;
- Monetary Policy Programme of the National Bank of Serbia for 2009; and
- Monetary Policy Programme of the National Bank of Serbia for 2010.

The goal of these measures is to enable security of commercial banks by obtaining a loan from the National Bank of Serbia for the overcoming of temporary liquidity difficulties; increase of the liquidity of the banking sector jeopardized by a reduced confidence into the banking sector and money market, by amendments to the regulations regarding statutory reserve for foreign sources and other debts until mid-2010; overcoming of difficulties at repayment of the Bank's customers' loans; measures for stimulating credit activities and an increase of the insured amount of deposit from EUR 3,000 to EUR 50,000.

In 2009, the aforementioned measures resulted in the stabilisation of the banking sector liquidity and regaining citizens' confidence in the banking system, which is primarily reflected in the return of the drawn deposits and increase of retail savings.

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

In 2009, the Bank consolidated its deposit base. In the last quarter of 2009, individuals' deposits in foreign currencies increased by EUR 18.580 thousand, while Dinar deposits increased by RSD 56.924 thousand.

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

32. RISK MANAGEMENT (Continued)

32.11. Fair Value of Financial Assets and Liabilities

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

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

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

Financial Instruments whose Fair Value approximates Their Carrying Value

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

Fixed-rate Financial Instruments

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

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

Financial Instruments Measured at Fair Value

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

Fair value of the financial instruments traded on the active market (securities held for trading and the portion of available-for-sale securities) is based on quoted market prices at the balance sheet date. These instruments are included in Level 1 of the fair value measurement hierarchy.

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33. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

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

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

		In RSD thousand
	2009	**2008**
Up to 1 year	75.200	62.621
From 1 to 5 years	99.598	105.613
	174.798	**168.234**

(b) Litigation

As of 31 December 2009, the Bank acted as a defendant in a certain number of legal proceedings. The total estimated value of damage claims arising from litigations amounts to RSD 60.324 thousand (31 December 2008: RSD 336.342 thousand).

The final outcome of the legal proceedings still in course is uncertain. As disclosed in Note 27 to the financial statements, as of 31 December 2009 the Bank recognized provision of RSD 42.000 thousand (31 December 2008: RSD 336.105 thousand) for potential losses that might arise as a result of the adverse outcome of litigations. The Bank's management considers that no material losses will arise from the remaining litigations still in course, other than those provided for.

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

(c) Tax Risks

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

34. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

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

The Bank submitted the confirmations to its customers and debtors with the outstanding balance of receivables/payables as of 31 November 2009. Based on the exchanged confirmations, the following receivables and payables remained unreconciled:

The disputed confirmations amounted to RSD 2.303.670 thousand, and the confirmations amounting RSD 2.281.515 thousand were reconciled with customers and debtors until the date of approval of the accompanying financial statements.

The total amount of disputed confirmations relates to:

- Loans and receivables in the amount of RSD 20.304 thousand; and
- Accounts payable in the amount of RSD 1.851 thousand.

The underlying reason for disputed confirmations is the method of posting and recording interests, fees and commissions and payments.

Returned confirmations, due to incorrect addresses comprise receivables amounting to RSD 264.296 thousand. Total amount of reconciled receivables is RSD 23.228.639 thousand.

35. EXCHANGE RATES

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

		In RSD
	2009	**2008**
EUR	95,8888	88,6010
USD	66,7285	62,9000
CHF	64,4631	59,4040

36. EVENTS AFTER THE REPORTING PERIOD

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

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