EUROBANK EFG A.D. BEOGRAD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Eurobank EFG a.d. Beograd

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Serbia and the regulations of the National Bank of Serbia. This responsibility includes: designing, implementing and maintaining internal controls 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 that 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 Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Eurobank EFG a.d. Belgrade as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Serbia, the regulations of the National Bank of Serbia and the provisions disclosed in Note 2 to the financial statements.

Saša Todorović

Saša Todorović
Licensed Auditor

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o. Beograd

Belgrade, 4 March 2011

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Contents:

All amounts are expressed in 000 RSD unless otherwise stated

	Note	2010	2009
Interest income	6	12,069,827	12,755,781
Interest expenses	6	(4,432,296)	(4,257,341)
Net interest income		**7,637,531**	**8,498,440**
Fee and commission income	7	2,313,961	2,319,962
Fee and commission expense	7	(176,583)	(151,921)
Net fee and commission income		**2,137,378**	**2,168,041**
Net gains from sale of securities	8	114,232	99,031
Net foreign exchange gains/(losses)	9	(8,958,990)	(3,775,801)
Operating and other income	10	248,952	114,112
Net provisions and impairment losses on loans and advances	11	(2,322,527)	(2,980,780)
Salaries, benefits and other personal expenses	12	(2,021,621)	(1,821,893)
Depreciation expenses	13	(554,512)	(655,589)
Operating and other expenses	14	(3,179,529)	(2,941,138)
Income arising from change in value of assets and liabilities	15	44,635,446	53,593,982
Expenses arising from change in values of assets and liabilities	15	(35,002,608)	(49,456,907)
Profit before tax		**2,733,752**	**2,841,498**
Income tax	16	(187,773)	(145,914)
Profit/(loss) from creation/reduction in deferred tax assets	16	74,836	55,564
Profit after tax		**2,620,815**	**2,751,148**
Earnings per share			
Basic earnings per share	17	10.31	10.82
Diluted earnings per share			

	Note	2010	2009
Assets			
Cash and cash equivalents	18	2,845,717	15,712,403
Callable deposits and credits	19	28,838,371	21,643,084
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	20	694,881	579,335
Loans, advances and deposits	21	128,675,746	94,983,102
Securities (excluding own shares)	22	11,994,523	5,399,952
Equity investments	23	20,479	20,479
Other lending	24	376,596	331,957
Intangible assets	25	1,438,979	1,261,135
Property, plant and equipment	26	4,194,952	4,443,440
Deferred tax assets	27	301,432	223,368
Other assets, prepayments and accrued income	28	1,508,303	2,242,190
Total assets		**180,889,979**	**146,840,445**
Liabilities			
Transaction deposits	29	9,693,394	8,576,012
Other deposits	30	105,903,710	97,545,290
Borrowings	31	21,592,143	21,933
Interest, fees and commissions payable and change in fair value of derivatives	32	3,605	727
Tax liabilities	33	25,299	12,746
Provisions	34	328,863	285,752
Liabilities from profit	35	54,718	700
Deferred tax liabilities	27	3,228	-
Other liabilities, accruals and deferred income	36	2,216,202	1,949,283
Total liabilities		**139,821,162**	**108,392,443**
Shareholders' equity			
Share capital and other capital	37	31,481,926	31,481,926
Reserves	37	6,937,520	4,186,372
Accumulated gains	37	28,556	28,556
Current year profit	37	2,620,815	2,751,148
Total shareholders' equity		**41,068,817**	**38,448,002**
Total liabilities and shareholders' equity		**180,889,979**	**146,840,445**
Off-Balance Sheet items			
Funds managed on behalf of third parties	38	1,498,841	1,714,129
Guaranties, sureties, assets pledged as collateral and irrevocable commitments	38	30,539,812	65,742,340
Guaranties, sureties and collaterals received	38	25,025,245	16,627,301
Derivatives	38	7,552,811	4,688,902
Other off-balance sheet items	38	254,374,189	222,787,128
		318,990,898	**311,559,800**

Belgrade, 28 February 2011

On behalf of the Bank:

Philippos Karamanolis, President of the Executive Board

Slavica Pavlovic, Chief Financial Officer

All amounts are expressed in 000 RSD unless otherwise stated

	2010	2009
Cash inflow from operating activities		
Inflow from interest	11,117,094	12,592,066
Inflow from fees and commissions	2,348,242	2,145,786
Inflow from other operating income	589,239	207,361
	14,054,575	**14,945,213**
Cash outflow from operating activities		
Outflow from interests	(3,255,155)	(6,371,677)
Outflow from fees and commissions	(191,763)	(133,292)
Outflow from gross salaries, benefits and other personal expenses	(1,994,984)	(2,201,209)
Outflow from taxes, contributions and other duties charged to income	(409,216)	(118,159)
Outflow from other operating expenses	(2,934,827)	(2,522,958)
	(8,785,945)	**(11,347,295)**
Net cash inflow from operating activities	**5,268,630**	**3,597,918**
Decrease in loans and investments, and increase in deposits		
Decrease in securities	-	-
Increase in deposits	-	14,137,162
	-	**14,137,162**
Increase in loans and investments, and decrease in deposits		
Increase in loans and placements with banks and other financial organizations	(31,135,209)	(12,184,124)
Increase in securities	(5,744,781)	(5,159,851)
Decrease in deposits	(1,478,893)	
	(38,358,883)	**(17,343,975)**
Net cash inflow for operating activities before profit tax		
Profit tax paid	(80,698)	(406,125)
Dividends paid	-	-
Net cash inflow for operating activities	**(33,170,951)**	**(15,020)**
Cash flow from investing activities		
Cash inflow from investing activities		
Inflow from selling of long term investments	-	-
Inflow from selling of intangible assets and fixed assets	1,952	2,672
	1,952	**2,672**
Cash outflow from investing activities		
Outflow for obtaining equity instruments		-
Outflow for purchase of intangible assets and fixed assets	(489,428)	(1,233,773)
	(489,428)	**(1,233,773)**
Net cash flow from investing activities	**(487,476)**	**(1,231,101)**
Cash flow from financing activities		
	20,590,895	
Inflow from share issue	-	-
Net cash inflow from financing activities	**20,590,895**	**-**
Cash inflow	**34,647,422**	**29,085,047**
Cash outflow	**(47,714,954)**	**(30,331,168)**
Net cash inflow/(outflow)	**(13,067,532)**	**(1,246,121)**
Cash at the beginning of the year	**15,712,403**	**15,345,227**
Foreign exchange gains	19,820,947	18,399,862
Foreign exchange losses	(19,620,101)	(16,786,565)
Cash at the end of the reporting period	**2,845,717**	**15,712,403**

All amounts are expressed in 000 RSD unless otherwise stated

	Share and other capital	Share premium	Other reserves	Retained earnings/ Accumulated loss	Total shareholder's equity
As at 1 January 2009	**25,429,927**	**6,051,999**	**568,083**	**3,646,845**	**35,696,854**
Distribution of profit	-	-	3,618,289	(3,618,289)	-
Current period profit	-	-	-	2,751,148	2,751,148
As at 31 December 2009	**25,429,927**	**6,051,999**	**4,186,372**	**2,779,704**	**38,448,002**
Distribution of profit	-	-	2,751,148	(2,751,148)	-
Current period profit	-	-	-	2,620,815	2,620,815
As at 31 December 2010	**25,429,927**	**6,051,999**	**6,937,520**	**2,649,371**	**41,068,817**

1. General information

Eurobank EFG A.D. Beograd has been established by merger of Eurobank EFG a.d. Beograd and Nacionalna Štedionica Banka a.d. that was completed on 20 October 2006.

The Shareholders' Assembly of the Nacionalna Štedionica Banka a.d. Beograd and the Shareholders' Assembly of the EFG Eurobank a.d. Beograd that were held on 28th July 2006 have adopted the Decision on Merger of the Nacionalna Štedionica Banka a.d. Beograd with EFG Eurobank a.d. Beograd.

On 20th October 2006, the Business Register Agency issued the Decision on merger with acquisition of the Nacionalna Štedionica Banka a.d. Beograd with EFG Eurobank a.d. Beograd by which the process of merger with acquisition has been affected.

On the same date the Business Registers Agency issued the decision regarding the change of the Bank's name to Eurobank EFG Štedionica a.d. Beograd.

The Bank is registered in Serbia for carrying out payment, credit and deposit operations in the country and abroad. The bank operates in accordance with Law on Banks and other Financial Institutions based on principles of liquidity, safety and profitability.

In October 2009 the Bank has changed its registered office to Vuka Karadžića 10. Previous registered office of the Bank was in Kolarčeva 3 in Belgrade.

As at 31 December 2008, the Bank has changed business name to "Eurobank EFG A.D. Beograd". Previous business name of the Bank was "Eurobank EFG Štedionica A.D. Beograd"

As at 31 December 2010 the Bank had 1,619 employees (31 December 2009: 1,604 employees). The Bank's network comprises of 117 branches (31 December 2009: 119 branches)

The Bank's Registration number is 17171178. The Bank's Tax identification number is 100002532.

These financial statements have been approved for issue by the Board of Directors on 25 February 2011. The approved financial statements may be amended based on the auditor's opinion, in accordance with legislation.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The financial statements have been prepared in accordance with Accounting and Auditing Law which requires full compliance with IFRS, as well as in accordance with regulations of the National bank of Serbia. These regulations are as follows: Rules on the Forms and Content of Items in Financial Statement Forms to be Completed by Banks (Official gazette of RS no. 74/2008, 3/2009, 12/2009 and 5/2010), Rules on the Chart of Accounts and Content of Accounts within the Chart for Banks (Official gazette of RS no. 98/2007, 57/2008 and 3/2009), Accounting and Auditing Law (Official gazette of RS no. 111/2009)

Decision of Ministry of Finance Republic of Serbia no. 401-00-380/2010 on 25th October 2010 (Official gazette of RS no. 77/2010 and 95/2010) sets official translation of basic International Accounting Standards (IAS) and International Standards of Financial Reporting (IFRS) issued by International Accounting Standards Board (IASB) as well as interpretations of standards issued by International Financial Reporting Interpretations Committee (IFRIC) up to 1st January 2009, which are in use on the date of preparation of accompanying financial statements.

Up to date of accompanying financial statements preparation not all amendments and supplements of existing standards, revised standards and new interpretations issued by IASB and IFRIC, which are in force in current reporting period, i.e. which are first time adoption for the financial year starting 1st January 2010. Mentioned amendments and supplements and new interpretations which are not officially translated in Republic of Serbia are disclosed in Note 2.1. a and Note 2.1.b).

The applied accounting policies differ from the IFRS requirements in the following materially significant areas:

1. The Bank has not made certain disclosures in accordance with IAS 1 – Presentation of financial statements since the presentation of the financial statements is defined by the National Bank of Serbia.
2. "Off-balance sheet assets and liabilities" are disclosed in the balance sheet form (Note 38). In accordance with IFRS, off-balance sheet items do not represent either assets or liabilities.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

a) Amended and new standards and interpretations effective after 1 January 2010

The amended and new standards and interpretations effective from 1 January 2010 are listed below:

- IFRS 3 (Revised) 'Business combinations' and IAS 27 (Revised) 'Consolidated and Separate Financial Statements'
- IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement'
- IFRS 1 (Amendment) 'First-time Adoption of International Financial Reporting Standards' – Additional Exemptions for First-time Adopters
- IFRS 2 (Amendment) 'Share-based payment'

- IFRS 5 (Amendment), 'Noncurrent Assets Held for Sale and Discontinued Operations'
- IAS 27 'Consolidated and Separate Financial Statements'
- IFRIC 15 'Agreements for the Construction of Real Estate'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
- IFRIC 17 'Distribution of Non-cash Assets to Owners'
- IFRIC 18 'Transfers of Assets from Customers'
- Amendments of several standards and interpretations of standards as result of annual improvement for 2009 – IFRS 2, IFRS 8, IAS 7, IAS 17, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16

The above stated amendments and revisions did not have a materially significant impact on the Bank's financial statements.

b) Standards and Interpretations issued but not yet effective

The following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2010 have not been early adopted:

- IAS 12 (Amendment) 'Income Taxes'
- IAS 24 (Revised) 'Related Party Disclosures'
- IAS 32 (Amendment) 'Financial Instruments: Presentations'
- IFRS 7 (Amendment) 'Financial Instruments: Disclosures'
- IFRS 9 Financial instruments (effective from 1 January 2013)
- IFRIC 14 IAS 19 (Amendments) 'The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction'
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011) – IFRS1, IFRS 3, IFRS 7, IAS 27, IAS 34, IFRIC 13
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010)
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011)
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012)
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011)

The new standards and interpretations are not expected to significantly affect the Bank's financial statements.

These financial statements do not comply with all requirements of IFRS. Therefore, these financial statements are not prepared to present financial position of the Bank, result and cash flows in accordance with accounting principles accepted outside of Republic of Serbia.

c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at the fair value,
- Financial instruments at fair value through profit or loss are measured at fair value and
- Liabilities from trading activities are measured at the fair value.

2.2. Comparatives

Comparative figures i.e. opening balances represent the financial statements of the Bank as at 31 December 2009.

The financial statements for the year ended 31 December 2010 and 2009, have been prepared in accordance with Rules on Forms and Content of Individual Items in Financial Statement Forms to be Completed by Banks and Other Financial Organizations (Official gazette of RS no. 74/2008, 3/2009, 12/2009 and 5/2010), Rules on the Chart of Accounts and Content of Accounts within the Chart for Banks and Other Financial Organizations (Official gazette of RS no. 98/2007, 57/2008 and 3/2009) and Accounting and Auditing Law (Official gazette of RS no. 111/2009).

2.3. Foreign currency translation

a) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Assets and liabilities denominated in foreign currencies have been translated into the functional currency at the market rates of exchange ruling at the balance sheet date and exchange differences are accounted for in the income statement.

b) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in RSD (Republic Serbia Dinar), which is the Bank's functional and presentation currency.

2.4. Derivatives

The Bank uses derivative financial instruments such as foreign currency derivative contracts to hedge its risks associated with interest rate and foreign currency fluctuations.

Derivative financial instruments, including foreign exchange contracts, forward currency agreements, currency swaps, and other derivative financial instruments, are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Embedded derivatives

The Bank negotiates a foreign currency clause with the beneficiaries of the loans. Foreign-currency clause is an embedded derivative that is not accounted for separately from the host contract since the economic characteristics and risks of the embedded derivative are closely related to the host contract. Gains/losses arising on this basis are recorded in the income statement as foreign exchange gains/losses.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable 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.

2.5. Income statement

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b) Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other services.

Loan origination fees 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 interest rate method. Loan origination fees are presented within Interest income (Note 6).

2.6. Property and equipment

All property and equipment are stated at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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.

All amounts are expressed in 000 RSD unless otherwise stated

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	75
Computer equipment	5-7
Furniture and other equipment	6-9
Motor vehicles	5

The assets' residual value represents the estimated amount that the Bank might obtain at present through the sale of the asset, decreased by the estimated cost of sale. If the Bank expects to utilize the asset until the expiration of its useful life, then the residual value amounts to zero. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating expenses in the income statement.

Change of accounting estimate – useful lives of property pland and equipment

After analyisis performed, estimations of useful lives of computer hardware items were changed as of 1 January 2010, in order to better reflect their actual useful lives.

Changes in estimated useful lives in years were as follows:

	2010	**2009**
Computer hardware	5-7	2-4

Changes in estimated useful lives have resulted in the depreciation expense in the period since introduction of change until 31 December 2010 being lower by RSD 39,764 thousand than it would have been if no change in estimate had been performed. Consequenlty, total carrying amount of the property, plant and equipment is higher by the amount of RSD 39,764 thousand as at 31 December 2010 than it would have been if no changes in the estimate had taken place.

2.7. Intangible assets

Licenses

Licenses are initially recognized at cost. They have limited useful life and are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (from 3 to 10 years).

Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (from 5 to 15 years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the cost of the software development employees and an appropriate portion of relevant overheads.

All amounts are expressed in 000 RSD unless otherwise stated

Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding 10 years).

Change of accounting estimate – useful lives of intangible assets

After analyisis performed, estimations of useful lives of intangible assets were changed as of 1 January 2010, in order to better reflect their actual useful lives.

Changes in estimated useful lives in years were as follows:

	2010	2009
Software	5-15	5-10

Changes in estimated useful lives have resulted in the amortization expense in the period since introduction of change until 31 December 2010 being lower by RSD 78,422 thousand than it would have been if no change in estimate had been performed. Consequenlty, total carrying amount of the intangible assets is higher by the amount of RSD 78,422 thousand as at 31 December 2010 than it would have been if no changes in the estimate had taken place.

2.8. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

a) Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated for at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost
- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative 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. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Held-to-maturity investments are stated at amortized cost using effective interest method. The amortized cost is calculated taking into consideration all discount and premiums received at the date of purchase.

d) Available-for-sale financial assets

Available-for-sale investments are those 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.

e) Investment in associates

Associated entities are those legal entities in which the Bank has a significant influence, and which are neither dependant entities nor joint investments.

The Bank's investment in its associates is initially recognized at cost. At the balance sheet date, investment in an associate is stated at cost.

f) Accounting treatment and calculation

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognized at fair value increased for transactions costs for all financial assets not held at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the income statement. Dividends on equity instruments are recognized in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.9. Impairment of financial assets

a) Assets carried at cost and amortized cost

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The estimated period between a loss occurring and its identification is determined by the local management for each identified portfolio type. In general, the periods used vary between three and twelve months; in exceptional cases longer periods are warranted.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current interest rate determined under the contract.

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, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in impairment charge for credit losses.

b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

2.10. Provision for potential loses in accordance with the requirements of the National Bank of Serbia

In accordance with the Decision of the Central Bank of Serbia, the Bank is obliged to classify loans, other placements, guarantees and other on balance sheet and off-balance sheet exposures into the categories A, B, C, D and E, based on evaluation of their collectability and associated risk exposures, which depends upon the number of days the payments are in arrears, the financial position of the counterparty, and the quality of the collaterals obtained on the exposure. An estimate of the provision for potential losses is calculated by applying the percentages of 0% for A category, 5%-10% for B category, 20%-35% for C category, 40%-75% for D category and 100% for E category.

For the difference in provision calculated in accordance with the requirements of the Central bank and impairment losses calculated in accordance with policy described in the Note 2.9 Bank is required to create special reserve from profit for potential loses in accordance with the requirements of this Decision. Banks with not sufficient profit for creation of special reserve or operating with losses are obliged to disclose amount of uncovered provisions for potential losses as deductible item in capital adequacy calculation (Note 37).

2.11. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to purchase and sale ('reverse repos') are recorded as callable deposits and credits (Note 19). The difference between purchase and sale price is treated as interest and accrued over the life of the agreements using the effective interest method.

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

2.14. Leases

The Bank is the lessee
The leases entered into by the Bank are primarily operating leases. With an operating lease, a significant part of both risk and benefits remains with the lessor. 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.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

The Bank is the lessor
A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

The Bank is leasing the assets under an operating lease. The asset under operating lease is included in the balance sheet of the Bank based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

2.15. Income tax and deferred income tax

Income tax presents the amount calculated and paid to the tax authorities based on legislations of Republic of Serbia. Estimated monthly instalments are calculated by the Tax authority and paid in advance on a monthly basis.

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. Tax return is submitted to tax authorities 10 days after submission of the financial statements, i.e. until the 10 March of the following year.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences between the tax basis of assets and liabilities at the balance sheet date, and their amounts disclosed for reporting purposes, which will result in taxable amounts for future periods. Deferred tax assets are recognized for all deductible temporary differences, unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be sufficient to enable realization (utilization) of deductible temporary differences, unused tax assets and unused tax liabilities.

Current and deferred income tax is recognized in the current year income statement.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future

2.16. Employee benefits

a) Employee's benefits

Short term benefits to employees include salaries and social contributions. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to make payments to the pension fund of Republic of Serbia in accordance with the defined contribution plan. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

b) Other employee's benefits

The Bank provides other benefits for the retirement. An employee is usually entitled to these benefits if they were employees of the Bank until reaching the prescribed age for retirement and the minimum required years of employment. The above mentioned benefits are accumulated during the service. The defined retirement obligations are estimated annually by an independent certified actuary through the projected credit unit valuation method. The present value of benefit obligations is determined by discounting the expected future cash payments by reference to the interest rates of the high quality bonds expressed in the same currency, which mature approximately at the same period when retirement obligations are due.

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.17. Repossessed properties

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in "Other Assets". Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value. Any gains or losses on liquidation are included in "Other operating income".

2.18. Related party transactions

Related parties include associates, fellow subsidiaries, directors, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. Transactions of similar nature are disclosed on an aggregate basis. All banking transactions entered into with related parties are in the normal course of business and on an arm's length basis.

2.19. Provisions

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

2.20. Share capital

a) Share issue costs

Share issue costs directly attributable to the issue of new shares are shown in equity as a deduction.

b) Dividends on ordinary shares

Dividends are recognized as liabilities for the period in which the decision of their payment has been reached. Dividends approved for the year after the balance sheet date are dealt with in the subsequent events note.

2.21. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement.

2.22. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central Bank, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

2.23. Assets managed on behalf of third parties

The bank manages foreign currency frozen bonds issued by Republic of Serbia on behalf of the state and acts as an agent in this business.

3. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly 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 in a group, or national or local economic conditions that correlate with defaults on assets in the group. 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) Income tax

The Bank is subject to income taxes in Serbia. Certain estimates are required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Fair value of financial assets and liabilities

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

All amounts are expressed in 000 RSD unless otherwise stated

4. Financial assets per categories and classes

Financial assets per categories and classes are as follows:

	2010	2009
Loans and receivables	128,675,746	94,983,102
Financial assets at fair value through profit or loss	2,473,681	764,567
Held-to-maturity financial assets	18,324,558	11,651,496
Available for sale financial assets	6,059	-
Total	**149,480,044**	**107,399,165**

5. Risk management policies

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Risk management is done through specialized Risk management department. The Bank has defined procedures for risk identification, measurement and risk management in accordance with regulations and best practices.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Bank is exposed to the following most important risks:

5.1. Credit risk
5.2. Market risk
5.3. Liquidity risk
5.4. Operational risks

Market risk includes:

- foreign currency risk
- interest rate risk
- other price risks

5.1. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, sector risk, repayment risk, etc.).

5.1.1. Management of credit risk

The Bank approves loans in accordance with business policy and by adjusting maturity dates of loans approved and interest rates with the purpose of loans, type of the loan or client and creditworthiness of its clients.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

The Board of Directors has delegated responsibility for the approval of credit exposures to several different levels in accordance with the limits set forth by the Board. The underlying foundation of the credit processes is the application of the "four-eye principle" on one side from the Business Units and on the other side from Risk Management for all exposures above the business unit level of approval. In case of exposures approved within the business unit level of approval, the "four-eye principle" is ensured within that business unit.

Business Units, under the Corporate Banking Division, incorporate the following:

- Large Corporate (LC) Department
- Small & Medium Enterprises (SME) Department

Business Units, responsible for retail lending operations, incorporate the following:

- Consumer lending unit
- Mortgage lending unit
- Small Business lending unit

The Risk Management Division (RMD) incorporates the following units handling credit risk:

- Credit Risk Department (CRD)
- Credit Control Department (CCD)
- Non-Performing Loans Department (NPL)

Credit Control Department and Credit Risk Department are responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. This task is performed by Credit Control Department

- Credit Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned, and provides independent credit opinion. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, countries and industries (for loans and advances), and by issuer, credit rating band and market liquidity (for investment securities).

- Developing and maintaining the Bank's risk grading policy in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is maintained by Credit Control Department. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework for wholesale placements consists of eleven grades and for retail exposures of fourteen grades (delinquency based) reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews.

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types is the responsibility of Credit Control Department. Regular reports are provided to various Bank bodies on the credit quality of portfolios and appropriate corrective action is taken. One of its main tasks is providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

The bank has developed and adopted a credit policy for each lending business unit. Each credit policy of Eurobank EFG a.d. (hereafter: the Credit Policy) defines basic concepts, guidelines and rules that ensure the proper management of the process of approving, disbursing, monitoring and collecting of loans and other exposures.

Credit Policy defines:

- the goals of the credit policy,
- the basic concepts of credit policy,
- lending principles,
- the organization of credit operations,
- responsibilities and decision making,
- the procedure for granting loans and other placements,
- credit risk,
- collateral instruments,
- procedures for collecting outstanding amounts,

For the purposes of implementing the relevant Credit Policy, the Bank has also passed other necessary acts, decisions, rules, procedures, etc.

When assuming credit risk, the Bank applies the following fundamental rules:

A prerequisite for every financing transaction is the understanding of the economic background of the transaction.

A loan is granted only when the Bank has sufficient information on the borrower's creditworthiness. The Bank will not grant a loan (or increase an existing one) to a borrower who is unwilling or unable to provide sufficient information.

Collateral is accepted only to support an exposure. It cannot serve as a substitute for the borrower's ability to meet obligations (exception: Lombard loans, cash collateralized loans, etc.).

The large and largest exposures towards any borrower (or group of connected borrowers), exposures towards connected persons as well as the total exposure of the Bank (both on and off-balance sheet), is kept within limits prescribed by the Law on Banks and relevant decisions of the National bank of Serbia.

The Bank approves new loans or decides to extend or not to extend the existing ones based on the customer rating of the borrower and its development, as well as details and characteristics of the transaction.

All Bank credit facilities are based on relevant approvals, which lay down the terms and other conditions for their implementation. The approval levels and limits are defined by the relevant Board of Directors Decision on approval levels.

For wholesale placements, there are 5 approval authority levels with the highest one being Board of Directors (or other nominated authority) in case of large exposures and exposures to related parties.

For retail placements, there are also different approval levels depending on the type of business (consumer lending, mortgage lending or SBB lending), with the highest authority being specific Credit Commission for each business type.

In each committee/commission, risk management has the right of vote. All decisions must be unanimous.

In addition to the client's creditworthiness, risk limits are also determined taking into account various collateral instruments. Risk exposure to individual borrower, including banks, is limited and includes both balance and off-balance sheet risk exposures. The total risk exposure per individual client (or group of related parties) with regards to the limits, is considered and analysed prior to completion of the transaction.

In order to ensure the safety of the business operations, and based on the estimated risks of potential losses, the Bank calculates provisions, which arise from loans and off-balance sheet exposures. Levels of provision are related to the risk grade of the placement.

Risk grading system for wholesale clients

The 11 grade system derives the rating of the borrower (and not the credit facility) is based on the weighted average of the following risk parameters:

- Financials
- Sector
- Management
- Operations

In addition, other factors such as debt servicing, change in the borrower's ownership, etc., may affect the final rating of a customer.

The credit rating is based on a profound analysis of qualitative and quantitative factors:

Qualitative factors: are those that deal with the borrower's management, industry, operating conditions, etc.

Quantitative factors: are those that refer to a set of various ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to financial statements etc.)

Credit related commitments
The primary purpose of undrawn credit commitments is to ensure that funds are available to a customer in accordance with the agreement.

Guarantees and letter of credits carry the same credit risk as loans.

5.1.2. Impairment and provisioning policy

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). Individually impaired assets are those which have been individually assessed for impairment and for which an impairment loss has been recognized. For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. Accounts in portfolios of homogeneous loans are treated as impaired once facilities are 90 days or more overdue for consumer and SBB placements, and 180 days or more overdue for mortgage placements.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank. The term 'past due financial asset' is defined as 'day-1 delay'. That is when a counterparty has failed to make a payment when contractually due. The buckets used by the Bank for the purpose of this disclosure are:

- Consumer Lending: 1 – 89 days past due
- Mortgage: 1 – 179 days past due
- SBB: 1– 89 days past due (loans for which specific provisions have been recognized are excluded).
- Corporate Lending: 1 – 359 days past due and internal grading score below eight (loans which have been recognized as individually impaired are excluded).

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Impairment of wholesale placements

For exposures to borrowers with a rating of 8 or worse, NPV charge is calculated in accordance with IAS 39 requirements. This charge is added up to the amount of provisions calculated in accordance with the appropriate provisioning rate and the sum represents total provisions.

Impairment of retail placements

The classification of retail clients is based on the full delinquency analysis. The required provisions are computed by applying the appropriate provisioning rate to the net exposure per each product group and per each delinquency bucket. In case of individually impaired loans, future expected cash-flows are discounted in accordance with IAS 39 requirements, in order to obtain the appropriate impairment charge.

Special reserves

For both wholesale and retail placements, 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, and other relevant regulations of the National Bank of Serbia.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when it is determined that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For unsecured retail loans, write off decisions generally are based on a product specific past due status. Any write-off is approved by the relevant body in accordance with the decision of Board of Directors.

5.1.3. Collaterals

For a majority of placements granted to borrowers, the Bank will require collateral instrument. Collateral generally is not held over loans and advances to banks. Most often the collateral consists of one or more of the following collateral instruments (or instruments for credit support):

- cash deposits in dinars and foreign currencies,
- guarantees from the government, government funds or first class banks,
- guarantees from parent companies, other legal entities and individual persons,
- letters of comfort from parent companies,
- mortgage over real estate,
- pledge over movable property,
- own blank bills of exchange,
- pledge over shares or ownership stakes
- a pledge over other securities (e.g. bonds) or precious metals,

- assignment of receivables (with or without notification) etc.,
- assignment of insurance policies.

The Bank reserves the right to request any other type of instruments (or variation of the above instruments) which it may deem necessary.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated periodically in accordance with the relevant credit policy.

5.1.4. Credit monitoring

The Bank constantly monitors the state of the borrower's business and any change in its creditworthiness. To this end, besides the regular evaluation of financial statements, the responsible business units carry out regular checks of the borrower's business operations.

The monitoring of the borrower is institutionalized through regular credit reviews. Credit reviews are prepared by the relevant business unit and approved by the relevant approval authority. In case of wholesale customers, the review frequency depends on their risk grade.

All amounts are expressed in 000 RSD unless otherwise stated

5.1.5. Maximum exposure to credit risk before collateral held or other credit enhancements:

	2010	2009
Balance sheet assets		
Callable deposits and credits	8,809,775	7,016,111
Interest, fees and commission receivable	694,881	579,335
Loans and advances to banks	37,968,310	31,231,576
Loans and advances to customers:		
- Corporate lending	31,442,008	10,044,745
- Consumer lending (including credit cards)	19,182,012	18,333,676
- Mortgages	23,329,291	17,786,624
- Small business lending	16,754,125	17,586,481
Securities (excluding own shares)	11,994,523	5,399,952
Other lending	376,596	331,957
Other assets, prepayments and accrued income	1,488,568	2,228,722
	152,040,089	**110,539,179**
Off-balance sheet items		
Payment guarantees and performance bonds	21,989,402	26,372,698
Loan commitments and other credit related liabilities	7,017,604	7,154,453
	29,007,006	**33,527,151**
As at 31 December	**181,047,095**	**144,066,330**

5.1.6. Loans and advances

Loans and advances are summarized as follows:

	31 December 2010		**31 December 2009**	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired	82,551,673	37,968,309	55,111,787	31,231,576
Past due but not impaired	5,303,418	-	6,409,630	-
Impaired	7,618,597	-	5,398,881	-
Total gross amount	**95,473,688**	**37,968,309**	**66,920,298**	**31,231,576**

All amounts are expressed in 000 RSD unless otherwise stated

a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2010 can be assessed by reference to the Bank's standard grading system. The following information is based on that system:

	31 December 2010		31 December 2009	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired - grades:				
Satisfactory risk (wholesale grades 1 to 6)	30,604,291	37,968,309	9,370,862	31,231,576
Watch list and special mention (wholesale grade 7)	60,296	-	22,302	-
Total retail	51,887,086	-	45,718,623	-
Total gross amount	**82,551,673**	**37,968,309**	**55,111,787**	**31,231,576**

b) Loans and advances past due but not impaired

Loans and advances past due but not impaired as at 31 December 2010 are as follows:

	Retail customers		Wholesale		
31 December 2010	**Mortgages**	**Consumer lending**	**Small Business lending**	**Corporate lending**	**Total**
Past due up to 29 days	14,119	1,067,549	385,721	335,362	1,802,751
Past due 30 - 89 days	633,582	1,304,564	968,132	271,988	3,178,266
Past due 90 - less than 1 year	294,426	-	-	27,975	322,401
Total gross amount	**942,127**	**2,372,113**	**1,353,853**	**635,325**	**5,303,418**
Fair value of collateral	922,526	371,345	587,581	436,467	2,317,919

Loans and advances past due but not impaired as at 31 December 2009 are as follows:

	Retail customers		Wholesale		
31 December 2009	**Mortgages**	**Consumer lending**	**Small Business lending**	**Corporate lending**	**Total**
Past due up to 29 days	14,990	1,874,916	1,039,241	238,275	3,167,422
Past due 30 - 89 days	293,234	1,289,969	1,392,922	62,452	3,038,577
Past due 90 - less than 1 year	160,677	-	-	42,954	203,631
Total gross amount	**468,901**	**3,164,885**	**2,432,163**	**343,681**	**6,409,630**
Fair value of collateral	457,084	539,960	1,236,418	209,354	2,442,816

All amounts are expressed in 000 RSD unless otherwise stated

c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, as at 31 December 2010 are as follows:

	Retail		**Wholesale**	
31 December 2010	**Mortgages**	**SBB**	**Corporate lending**	**Total**
Individually impaired loans - gross	298,879	5,406,759	706,164	6,411,802
Fair value of collateral	278,061	3,039,714	237,202	3,554,977

The breakdown as at 31 December 2009 is as follows:

	Retail		**Wholesale**	
31 December 2009	**Mortgages**	**SBB**	**Corporate lending**	**Total**
Individually impaired loans - gross	102,837	3,335,439	645,762	4,084,037
Fair value of collateral	92,231	2,003,616	234,702	2,330,548

5.1.7. Securities, treasury bills and other eligible bills

As at 31 December 2010, the Bank has reverse repo transactions of purchase and sale of securities with the Central Bank in the amount of RSD 8,809,775 thousand (Note 19), Republic of Serbia Ministry of Finance dinar bonds in the total amount of RSD 10,242,390 thousand, and foreign currency trading securities of Republic of Serbia (frozen savings bonds) in the amount of RSD 1,730,759 (Note 22). The above mentioned bonds and trading securities are not rated. The rating of country is BB- based on Standard and Poor's rating.

As at 31 December 2009, the Bank has repo transactions of purchase and sale of securities with the Central Bank in the amount of RSD 7,016,111 thousand (Note 19), treasury bills of Ministry of Finance in the amount of RSD 4,635,385 thousand, and trading securities of Republic of Serbia (frozen savings bonds) in the amount of RSD 753,443 (Note 22). The above mentioned bills and trading securities are not rated. The rating of country is *BB-* based on Standard and Poor's rating.

5.1.8. Repossessed collateral

As at 31 December 2010 Bank had the following assets that were obtained by taking possession of collateral held as security:

Nature of assets	**Carrying amount**	
	2010	**2009**
Residential property	12,415	12,415

All amounts are expressed in 000 RSD unless otherwise stated

5.1.9. Concentration of risks of financial assets with credit risk exposure

a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the geographical sectors of our counterparties:

	Serbia	Greece	Western Europe	Total
Callable deposits and credits	8,809,775	-	-	**8,809,775**
Interest, fees and commission receivable	683,579	11,302	-	**694,881**
Loans and advances to banks	570,000	37,286,809	111,501	**37,968,310**
Loans and advances to customers:				
- Corporate lending	31,442,008	-	-	**31,442,008**
- Consumer lending	19,182,012	-	-	**19,182,012**
- Mortgages	23,329,291	-	-	**23,329,291**
- Small business lending	16,754,125	-	-	**16,754,125**
Securities (excluding own shares)	11,988,464	-	6,059	**11,994,523**
Other lending	376,596	-	-	**376,596**
Other assets, prepayments and accrued income	1,479,747	2,237	6,584	**1,488,568**
As at 31 December 2010	**114,615,597**	**37,300,348**	**124,144**	**152,040,089**
As at 31 December 2009	**79,266,540**	**31,163,349**	**109,290**	**110,539,179**

All amounts are expressed in 000 RSD unless otherwise stated

b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of our counterparties:

	Commerce and services	**Construction**	**Financial services**	**Manufacturing**	**Private individuals**	**Other**	**Total**
Callable deposits and credits	-	-	8,809,775	-	-	-	**8,809,775**
Interest, fees and commission receivable	249,564	62,743	3,471	66,823	281,677	30,603	**694,881**
Loans and advances to banks	-	-	37,968,310	-	-	-	**37,968,310**
- Corporate lending	17,987,760	2,034,944	240,393	6,190,249	-	4,988,662	**31,442,008**
- Consumer lending	-	-	-	-	19,182,012	-	**19,182,012**
- Mortgages	-	-	-	-	23,329,291	-	**23,329,291**
- Small business lending	5,530,466	726,279	27,299	2,799,783	7,371,005	299,293	**16,754,125**
Securities (excluding own shares)	-	-	20,263	-	-	11,974,260	**11,994,523**
Other lending	79,967	17,394	8,992	15,741	83	254,419	**376,596**
Other assets, prepayments and accrued income	205,816	78,139	91,983	70,719	968,548	73,363	**1,488,568**
As at 31 December 2010	**24,053,573**	**2,919,499**	**47,170,486**	**9,143,315**	**51,132,616**	**17,620,600**	**152,040,089**
As at 31 December 2009	**13,245,855**	**1,293,305**	**38,445,273**	**4,995,965**	**45,991,542**	**6,567,239**	**110,539,179**

All amounts are expressed in 000 RSD unless otherwise stated

5.2. Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

5.2.1. Foreign exchange risk

Exposure to foreign currency risk is monitored on regular basis by complying with the requirements of the National Bank of Serbia. The Bank manages its foreign currency position by granting loans that are indexed to foreign currency. The Bank also actively manages the foreign currency risk by careful estimation of the open foreign currency positions and compliance with the risk ratios prescribed by the National Bank of Serbia as well as the limits prescribed in the internal acts enacted by the Bank's management and risk management commission.

5.2.2. Interest rate risk

Interest rate risk is the exposure of bank's financial condition to adverse movements in interest rates. Generally, there are two ways on which the bank could be affected by changes in interest rates. Firstly, changes in interest rates are affecting the value of banks assets, liabilities and off-balance sheet items, and secondly, it impacts banks future cash flows that the bank will obtain. Interest rate risk could come in the variety of forms, including repricing risk, yield curve risk and basis risk. The Bank's interest rates are set taking into account the market interest rates and other factors (such as cost of risk, reserve requirement, etc.) and the Bank regularly adjusts them.

The purpose of the interest rate management activities is to optimize the net interest income, and to maintain the interest margins on a consistent level in accordance to the Bank's business strategy. The management is based on maturities matching of the assets and liabilities' on the basis of: macro and micro economic estimations, estimations of the conditions for achieving liquidity, and the estimation of the interest rates' trends.

5.2.3. Sensitivity analysis

The management of interest rate risk and currency risk against gap limits is supplemented by monitoring the sensitivity of the Bank's income statements to various interest rate and foreign currency rate scenarios. The sensitivity of the income statement is the effect of the assumed changes in interest rates and FX rate on the net interest income for one year.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates and FX rates (assuming no asymmetrical movements in yield curves and constant balance sheet position) is as follows:

	Sensitivity of income statement	
Interest rate sensitivity	**2010**	**2009**
Increase in basis points		
+100 bps parallel shift	(27,683)	(21,127)
Foreign exchange sensitivity		
10% depreciation of RSD	(60,310)	(1,022)

5.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations which can have a negative result on the Bank's financial results and equity. The Bank manages liquidity risk by obtaining different funding sources that include:

- customer's deposits with different maturities
- deposits from the money market and available lines with financial institutions
- available lines form the majority shareholder
- available lines from international financial institutions
- share capital

Sources of liquidity are regularly reviewed so as to maintain a wide diversification by currency, geography, provider, product and term.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

All amounts are expressed in 000 RSD unless otherwise stated

Non – derivative cash flow

The amounts disclosed in the table below are the contractual undiscounted cash flows for the years 2010 and 2009.

a) *Balance sheet items*

As at 31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Transaction and other deposits	116,885,278	881,143	687,616	2,026,210	1,762,038	122,242,285
Borrowings	40,182	-	647,425	22,442,517	634,295	23,764,419
Subordinated liabilities	-	529,852	-	-	-	529,852
Other liabilities	28,903	-	-	-	-	28,903
Total liabilities (contractual maturity dates)	**116,954,363**	**1,410,995**	**1,335,041**	**24,468,727**	**2,396,333**	**146,565,459**
Assets held for managing liquidity risk (contractual maturity dates)	**81,718,968**	**4,205,325**	**20,609,558**	**25,100,466**	**43,454,054**	**175,088,371**

As at 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Transaction and other deposits	63,225,009	4,811,686	37,478,863	2,109,574	445,092	108,070,224
Borrowings	21,932	-	-	-	-	21,932
Subordinated liabilities	-	-	-	479,444	-	479,444
Other liabilities	14,173	456,411	-	-	-	470,584
Total liabilities (contractual maturity dates)	**63,261,114**	**5,268,097**	**37,478,863**	**2,589,018**	**445,092**	**109,042,184**
Assets held for managing liquidity risk (contractual maturity dates)	**72,518,221**	**967,651**	**11,763,044**	**22,443,257**	**33,220,328**	**140,912,501**

b) *Off-balance sheet items*

As at 31 December 2010	No later than 1 year	1-5 years	Over 5 years	Total
Loan commitments	2,844,324	3,118,965	1,054,315	7,017,604
Guarantees and acceptances	1,322,643	10,568,640	10,098,119	21,989,402
Other irrevocable commitments	627,459	905,347	-	1,532,806
Operating lease	104,671	-	-	104,671
Capital commitments	51,215	-	-	51,215
Total	**4,950,312**	**14,592,952**	**11,152,434**	**30,695,698**
As at 31 December 2009				
Loan commitments	11,525,211	3,383,569	1,045,672	15,954,452
Guarantees and acceptances	628,994	15,833,701	9,910,003	26,372,698
Other irrevocable commitments	22,257,254	1,157,935	-	23,415,189
Operating lease	93,167		-	93,167
Capital commitments	41,640	-	-	41,640
Total	**34,546,266**	**20,375,205**	**10,955,675**	**65,877,146**

Derivative cash flow

As at 31 December 2010 the Bank did not have any derivative cash flow.

5.4. Operational risk

Operational risk is the risk of negative effects on the financial result and capital of the bank caused by human error, inadequate internal procedures and processes, inadequate management of the information system and other systems in the bank, as well as by unforeseeable external events (economic environment, changes in the banking system, technological development etc.). Part of this risk is ***legal risk***, arising from bank's failure to comply with the legal or contractual provisions, negatively affecting the operations or status of the Bank

They are monitored per business lines and per operational loss event types, and regularly reviewed in order to take corrective actions where necessary

5.5. Capital management

The Bank maintains an actively managed capital base to cover risk inherent to the business. The Bank's objectives, when managing capital, which is a broader concept than "equity" on the face of the balance sheet, are:

- To comply with the capital requirements set by the National Bank of Serbia
- To provide an adequate level of capital so as to enable the Bank to continue its operations as a going concern
- To maintain a strong capital base to support the development of its business.

Capital adequacy, as well as the use of the Bank's capital is monitored on a monthly basis by the Bank's management.

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

- The minimum amount of the capital of EUR 10 million
- Capital adequacy ratio of 12%

The Bank's total capital comprises of tier 1 and tier 2 capital and deductible items.

Tier 1 capital: share capital from ordinary shares, share premium, statutory reserves, cumulative loss or gain, capital gain and loss from purchased own shares, intangible investments and purchased own actions as tier 1 deductible items.

Tier 2 capital: share capital from preference shares, share premium from preference shares, revaluation reserves related to fixed assets and share in capital, retained earnings for general banking risks up to 1.25% of risk-weighted assets, subordinated liabilities up to 50% of tier 1 capital, and purchased own preference shares as Tier 2 capital deductible items.

Deductible items: collective impairment allowances, share in capital of banks or other financial institutions exceeding 10% of capital of the organisation that is invested into, and 10% of the investing bank capital and the amount of the tier 2 capital of the bank which exceeds its tier 1 capital.

The risk weighted balance and off-balance assets are determined in accordance with the prescribed risk ratios for all types of assets. When calculating the capital adequacy ratio, and in accordance with the regulations of the National Bank of Serbia, the overall risk-weighted balance and off-balance assets are increased for the calculated foreign currency and price risk.

All amounts are expressed in 000 RSD unless otherwise stated

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

	2010	2009
TIER 1 capital	30,618,997	30,774,958
TIER II capital	110,298	196,578
Deductible items		
Shortfall amount of provisions against potential losses	(11,853,295)	(12,158,730)
Investments in shares over 10%	(20,479)	(20,479)
Total regulatory capital	**18,855,521**	**18,792,327**
Risk weighted assets:		
Balance sheet	104,413,843	78,424,188
Off-balance sheet	14,956,117	23,641,704
FX risk	666,862	60,354
Price risk	671,923	384,006
Total risk weighted assets	**120,708,745**	**102,510,252**
Capital adequacy	**15.6%**	**18.3%**

There have been no material changes in the Bank's management of capital during the period.

5.6. Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognized stock exchange) exists, is the best evidence of the fair value of a financial instrument. However market prices are not available for a significant number of financial assets and liabilities held by the Bank. Therefore, for financial instruments where no market price is available, the fair values of financial assets and liabilities are estimated using present value or other estimation and valuation techniques based on current prevailing market conditions.

The values derived using these techniques are significantly affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rates used. The following methods and assumptions indicate that the fair values of financial assets and liabilities approximate their carrying amounts:

a) Trading assets, derivatives and other transactions undertaken for trading purposes as well as treasury bills, available-for-sale securities and assets and liabilities designated at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then the fair values are estimated using valuation techniques based on observable market data.

b) Substantially all of the Bank's other financial assets and liabilities are at floating rates of interest, which re-price at frequent intervals. Therefore the Group has no significant exposure to fair value fluctuations and the carrying value of the financial assets and liabilities is substantially equivalent to their fair values, unless otherwise stated.

All amounts are expressed in 000 RSD unless otherwise stated

5.6.1. Assets and liabilities measured at fair value

a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
Frozen bonds (Note 22)	1,730,759	-	-	1,730,759
Equities (Note 22)	15,315	-	-	15,315
Treasury bonds (Note 22)	727,607	-	-	727,607
Total assets	**2,473,681**	**-**	**-**	**2,473,681**
Total liabilities	**-**	**-**	**-**	**-**

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
Frozen bonds (Note 22)	753,443	-	-	753,443
Equities (Note 22)	11,124	-	-	11,124
Total assets	**764,567**	**-**	**-**	**764,567**
Total liabilities	**-**	**-**	**-**	**-**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1.

5.7. Financial crisis

Recent volatility in global and Serbian financial markets

The on going global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and, at times, higher interbank lending rates and very high volatility in stock markets.

The first signs of financial crisis in Serbia became apparent at the beginning of October 2008. At the beginning of 2009 the Serbian government has introduced various measures in order to lessen impact of the crisis. The market has partly stabilized in the course of 2009 and 2010, with slowly recovering lending activities and deposit market returning to pre-crisis level.

Impact on liquidity

As mentioned above, after significant withdrawal of retail deposits in the end of 2008, situation in the market has improved, especially towards the end of 2009. At the same time, the liquidity of interbank market has also shown signs of recovery after significant decrease at the end of 2008. Therefore, in the course of 2010, the Bank has undertaken various steps in order to increase its deposit base.

Impact on borrowers

Borrowers of the Bank have been affected by the lower liquidity situation and depreciation of the local currency which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

Impact on collateral (especially real estate)

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

All amounts are expressed in 000 RSD unless otherwise stated

6. Interest income and expense

	2010	2009
Interest income		
Interest income from dinar assets		
Loans	9,180,897	10,804,688
Deposits	956,646	439,434
Securities	536,271	358,631
Other placements	747,563	890,659
Interest income from foreign currency assets		
Loans	206,925	11,267
Deposits	285,289	112,383
Securities	102,859	21,415
Other placements	53,377	117,304
	12,069,827	**12,755,781**
Interest expense		
Interest expense from dinar liabilities		
Borrowings	(875)	-
Deposits	(487,224)	(638,763)
Other liabilities	(1,103)	-
Interest expense from foreign currency liabilities		
Borrowings	(417,206)	(17,227)
Deposits	(3,525,888)	(3,601,351)
	(4,432,296)	**(4,257,341)**
Net interest income	**7,637,531**	**8,498,440**

7. Fee and commission income and expense

	2010	2009
Fees and commissions income		
Fees for banking services	1,320,165	1,202,143
Commissions from issued guarantees and other sureties	896,834	1,003,858
Other fees and commissions	96,962	113,961
	2,313,961	**2,319,962**
Fees and commissions expense		
Fees for domestic payment transactions	(21,182)	(18,455)
Fees for payment transactions abroad	(11,694)	(11,243)
Commissions for received guarantees and sureties	(10,549)	(18,469)
Other fees and commissions	(133,158)	(103,754)
	(176,583)	**(151,921)**
Net fees and commissions income	**2,137,378**	**2,168,041**

All amounts are expressed in 000 RSD unless otherwise stated

8. Net gains/(losses) from sale of securities at fair value through profit and loss

	2010	2009
Gain from securities	114,425	109,236
Loss from securities	(193)	(10,205)
Net (losses)/gains	**114,232**	**99,031**

9. Net foreign exchange gains/ (losses)

	2010	2009
Foreign exchange gains	39,576,583	47,094,936
Foreign exchange losses	(48,535,573)	(50,870,737)
Net foreign exchange rate gains/(losses)	**(8,958,990)**	**(3,775,801)**

10. Operating and other income

	2010	2009
Collected written-off claims	176,492	22,886
Maintenance of dormant accounts	-	58,361
Lease of premises	7,102	3,104
Gains from sale of fixed and intangible assets	1,655	746
Lease of safe boxes	42	83
Collected damages and lawsuits	799	149
Other income	62,862	28,783
Total	**248,952**	**114,112**

All amounts are expressed in 000 RSD unless otherwise stated

11. Net provisions and impairment losses on loans and advances

	2010	2009
Income from releases of provisions and reversal of impairment losses on loans and advances		
Reversal of impairment for balance sheet items		
Interest, fees and commission receivables (Note 20)	8,846	1,066
Loans, advances and deposits (Note 21)	10,185	57,974
Other placements (Note 24)	-	8,319
Other assets (Note 28)	6,028	21
	25,059	**67,380**
Release of provision for off-balance sheet items		
Release of provisions for court proceedings (Note 34)	7,672	182
Release of provisions for off-balance sheet positions (Note 34)	23,897	765
Total	**56,628**	**68,327**
Expenses for provisions and impairment losses on loans and advances		
Impairment for balance sheet items		
Interest, fees and commission receivables, change in fair value of derivatives and other receivables (Note 20)	(214,801)	(238,226)
Loans, advances and deposits (Note 21)	(2,085,328)	(2,673,204)
Other lending (Note 24)	(40,859)	(128,770)
Other assets, prepayments and accrued income (Note 28)	(681)	(4,316)
	(2,341,669)	**(3,044,516)**
Provisions for off-balance sheet items (Note 34)	(26,619)	-
Provisions for legal cases (Note 34)	(150)	(2,450)
Provision for retirement (Note 34)	(10,717)	(2,141)
Total	**(2,379,155)**	**(3,049,107)**
Net income/(expense) from indirect write-off of lending and provisioning	**(2,322,527)**	**(2,980,780)**

12. Salaries, benefits and other personal expenses

	2010	2009
Salaries	1,408,255	1,278,302
Tax on salaries and benefits	226,082	204,616
Contributions on salaries and benefits	321,281	292,107
Fees for temporary and occasional assignments	6,012	2,996
Other personal expenses	59,991	43,872
Total	**2,021,621**	**1,821,893**

13. Depreciation and amortization expenses

	2010	2009
Intangible assets (Note 25)	168,522	218,540
Property, plant and equipment (Note 26)	385,990	437,049
Total	**554,512**	**655,589**

All amounts are expressed in 000 RSD unless otherwise stated

14. Operating and other expenses

	2010	2009
Administrative expenses	1,726,080	1,617,806
Non-material expenses (excluding taxes and contributions)	724,644	696,649
Contributions	333,353	301,886
Materials	171,930	168,671
Taxes	88,415	83,177
Write off of receivables	21,104	12,735
Disposals and write-offs of intangible assets and PPE	11,545	22,246
Legal expenses and taxes	72,841	28,508
Other expenses	29,617	9,460
Total	**3,179,529**	**2,941,138**

Detailed breakdown of administrative expenses is presented in the table below:

	2010	2009
Transportation services	79,850	76,622
Communication services	122,800	128,709
Telephone	42,450	46,977
Software maintenance	390,917	365,903
Hardware maintenance	66,065	77,605
Maintenance of fixed assets	34,780	24,697
ATM maintenance	16,483	9,141
Marketing and advertising	338,656	259,917
Donations	19,935	24,098
Rent	558,530	585,045
Other services	55,614	19,092
Total	**1,726,080**	**1,617,806**

As of 31 December 2010, non-material expenses in the amount of RSD 724,644 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 270,502 thousand, security and safeguarding expenses in the amount of RSD 35,743 thousand, services of youth organization in the amount of RSD 57,436, cleaning services in the amount of RSD 30,985 thousand, collection services in the amount of RSD 35,662 thousand, information system services in the amount of RSD 26,554 thousand, intellectual services in the amount of RSD 33,206 thousand and other expense.

As of 31 December 2009, non-material expenses in the amount of RSD 696,649 thousand comprise of the following expenses: deposit insurance expenses in the amount of RSD 246,752 thousand, security and safeguarding expenses in the amount of RSD 76,744 thousand, services of youth organization in the amount of RSD 49,634, cleaning services in the amount of RSD 40,358 thousand, collection services in the amount of RSD 31,361 thousand, information system services in the amount of RSD 25,060 thousand, intellectual services in the amount of RSD 23,654 thousand and other expense.

All amounts are expressed in 000 RSD unless otherwise stated

15. Income and expenses arising from revaluation of assets and liabilities

	2010	2009
Income arising from change in value of assets and liabilities		
Placements and receivables - exchange rate gains	43,767,383	53,352,158
Loans revalued with retail price index	-	-
Liabilities	863,971	238,724
Increase of market value of derivatives	4,092	3,100
	44,635,446	**53,593,982**
Expenses arising from change in value of assets and liabilities		
Placements and receivables - exchange rate losses	(33,967,939)	(49,195,802)
Liabilities	(1,034,669)	(261,105)
	(35,002,608)	**(49,456,907)**
Net income/(expense) from change in value of assets and liabilities	**9,632,838**	**4,137,075**

16. Income tax

Income tax is composed of the following taxes:

	2010	2009
Current income tax	(187,773)	(145,914)
Deferred tax	74,836	55,564
Total	**(112,937)**	**(90,350)**

The tax on the Bank's profit or loss before tax differs from the theoretical amount that would arise using the average tax rate:

	2010	2009
Profit/ (Loss) before tax	2,733,752	2,841,498
Tax calculated at the rate of 10%	(273,375)	(284,150)
Tax effect of non-deductible expenses	(102,171)	(7,679)
Tax effect from the current year result	**(375,546)**	**(291,829)**
Tax effect of temporary differences	(11,411)	879
Tax effect of recognized deferred tax on tax credits	86,247	54,686
Utilized unrecognized tax credits	187,773	145,914
Income tax income	**(112,937)**	**(90,350)**

All amounts are expressed in 000 RSD unless otherwise stated

As at 31 December 2010, corporate tax payable amounts to RSD 54,018 thousand, and comprise of corporate tax liability in the amount of RSD 187,773 thousand for the profit realized in 2010 which is off set with prepaid corporate tax in previous years in the amount of RSD 133,755 thousand. Breakdown is as follows:

	2010	2009
Current tax liability for the profit realized	187,773	145,914
Prepaid corporate tax	(133,755)	(145,914)
Total	**54,018**	**-**

17. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Profit attributable to equity holders of the Company	2,620,815	2,751,148
Weighted average number of ordinary shares in issue	254,224	254,224
Basic earnings per share (expressed in RSD per share)	**10.31**	**10.82**

18. Cash and cash equivalents

	2010	2009
In dinars		
Current account	471,354	6,634,912
Cash in hand	720,262	553,024
In foreign currency		
Foreign currency accounts	191,007	7,104,326
Cash in hand	1,447,230	1,402,345
Other cash and cash equivalents	15,864	17,796
Total	**2,845,717**	**15,712,403**

In accordance with the Decision of the National bank of Serbia (Official Gazette of Republic of Serbia no. 116/2006, 3/2007, 31/2007, 93/2007, 35/2008, 94/2008, 100/2008, 107/2008, 110/2008, 112/2008, 12/2009, 39/2009, 44/2009, 47/2009, 111/2009, 12/2010 and 78/2010), mandatory reserves in local currency are included in the balance of the current account, therefore it is not presented separately. As at 31 December 2010 calculated mandatory reserves in local currency amounted to RSD 499,900 thousand (in 2009: RSD 4,287,552 thousand). The Bank can use mandatory reserves to maintain its liquidity.

19. Callable deposits and loans

	2010	2009
Reverse repo with the NBS	8,809,775	7,016,111
Mandatory reserves in foreign currency	20,028,596	14,626,973
Total	**28,838,371**	**21,643,084**

Pursuant to NBS Decision on mandatory reserves the Bank is obligated to set aside funds for mandatory reserves in foreign currency on the separate account with NBS.

All amounts are expressed in 000 RSD unless otherwise stated

As of March 2010, the Decision on mandatory reserves was amended and with the effect that the dinar amount of the calculated foreign currency reserve gradually decreased over the period as well as the percentage used in calculation of foreign currency reserve related to foreign currency deposits, with regards to the base mandatory reserve from February 2010.

Mandatory reserve is calculated as a percentage of an average monthly balance of foreign currency deposits and indexed liabilities from dinar deposits, loans, securities, and other dinar liabilities, as well as indexed dinar deposits received from transaction the Bank carries out for and on behalf of third parties, which exceed the amount of placements disbursed by the bank from those deposits.

20. Interest, fees and commission receivables, change in fair value of derivatives and other receivables

	2010	2009
Receivables in dinars		
Interest	811,789	619,481
Fees	181,036	132,016
Sales	9,711	8,542
Increase in fair value of derivatives	4,092	-
Other receivables	37,935	
Receivables in foreign currency		
Interest	13,392	25,592
Fees	4,318	5,155
Interest, fees and commission receivable, gross	**1,062,273**	**790,786**
Less: Provision for impairment	(367,392)	(211,451)
Interest, fees and commission receivable, net	**694,881**	**579,335**

Movements in provision for impairment are presented below:

	2010	2009
Opening balance	211,451	74,094
New provisions (Note 11)	214,801	238,226
Release of provision (Note 11)	(8,846)	(1,066)
Net foreign exchange	26,831	7,432
Write off	(76,845)	(107,235)
Closing balance	**367,392**	**211,451**

Derivative assets:

	2010			2009		
		Fair values			Fair values	
Derivatives held for trading	**Contract/ notional amount**	**Assets**	**Liabilities**	**Contract/ notional amount**	**Assets**	**Liabilities**
Currency swaps	527,491	4,092	-	-	-	-
Interest rate swaps	809,322	-	-	-	-	-
Total	**1,336,813**	**4,092**	**-**	**-**	**-**	**-**

All amounts are expressed in 000 RSD unless otherwise stated

21. Loans, advances and deposits

	2010								2009
	Domestic banks	**Financial institutions**	**Companies**	**Entrepreneurs**	**Individuals**	**Foreign entities**	**Other clients**	**Total**	**Total**
Deposits in dinars									
Other deposits	570,000	-	-	-	-	5,350,000	-	5,920,000	8,800,000
Deposits in foreign currency									
Other deposits	-	-	-	-	-	31,936,809	-	31,936,809	22,337,825
Other special purpose deposits	-	-	-	-	-	111,500	-	111,500	93,751
Placements in dinars									
Investment loans	-	-	2,357,943	717,948	-	-	-	3,075,891	2,117,238
Overdrafts	-	-	215,884	183,214	438,456	-	175	837,729	1,178,966
Working capital loans	-	-	27,755,619	7,550,653	-	-	74,476	35,380,748	21,521,643
Mortgage loans	-	-	-	-	23,267,485	-	-	23,267,485	17,680,211
Other loans	-	-	5,381,782	134,188	20,234,929	-	10,110	25,761,009	24,031,849
Placements in foreign currency									
Import loans	-	-	2,952,255	-	-	-	292	2,952,547	329,302
Other placements	-	-	106,310	-	-	-	4,091,969	4,198,279	61,089
Loans and placements, gross	**570,000**	**-**	**38,769,793**	**8,586,003**	**43,940,870**	**37,398,309**	**4,177,022**	**133,441,997**	**98,151,874**
Less: Provisions	-	-	(2,102,857)	(1,270,487)	(1,387,360)	-	(5,547)	(4,766,251)	(3,168,772)
Loans and placements, net	**570,000**	**-**	**36,666,935**	**7,315,515**	**42,553,510**	**37,398,309**	**4,171,477**	**128,675,746**	**94,983,102**

All amounts are expressed in 000 RSD unless otherwise stated

Interest rates for indexed loans to legal entities ranged between 3.43% and 12.81% per annum and for RSD loans between 13.00% and 30.00%.

The Bank approves foreign currency indexed RSD loans to retail customers, where the interest rate ranges from 2.1% - 26.0% per annum and RSD loans with interest rates between 11.95% and 33.8%.

Movements in provisions for loans and advances to customers are presented below:

	Corporate	Consumer	Mortgage	SBB	Total
Opening balance 2009	**322,094**	**1,017,957**	**27,920**	**584,660**	**1,952,631**
New provisions (Note 11)	110,746	912,401	27,690	1,622,367	2,673,204
Release of provision (Note 11)	(727)	(58,034)	-	787	(57,974)
Net foreign exchange	18,402	52,695	4,188	37,399	112,684
Write off	(111,050)	(832,044)	-	(568,679)	(1,511,773)
Opening balance 2010	**339,465**	**1,092,975**	**59,798**	**1,676,534**	**3,168,772**
New provisions (Note 11)	194,651	411,256	57,741	1,421,680	2,085,328
Release of provision (Note 11)	-	(10,185)	-	-	(10,185)
Net foreign exchange	45,097	60,485	24,184	235,152	364,918
Write off	(17,568)	(307,790)	(127)	(517,097)	(842,582)
Closing balance 2010	**561,645**	**1,246,741**	**141,596**	**2,816,269**	**4,766,251**

22. Securities (excluding own shares)

	2010	2009
Securities in dinars		
Securities at FVtPL		
RS Ministry of Finance bills	727,607	
Shares	15,315	11,124
Securities held to maturity		
RS Ministry of Finance bills	9,514,783	4,635,385
Securities in foreign currency		
Securities at FVtPL		
Frozen savings bonds	1,730,759	753,443
Securities available for sale		
Shares	6,059	-
	11,994,523	**5,399,952**

Foreign currency frozen bonds are bonds issued by Republic of Serbia based on the Law on Settlement of Public Debt of the Federal Republic of Yugoslavia arising from the Citizens' Foreign Exchange Savings (Official Gazette of Republic of Serbia no. 36/2002). Bonds are zero-coupon bonds and they are transferable. Bonds are denominated in EUR and payable either in EUR or in RSD and are registered in the Central register. Bonds are actively traded in the Belgrade Stock Exchange.

All amounts are expressed in 000 RSD unless otherwise stated

23. Equity investments

	2010	2009
Equity shares	20,479	20,479
	20,479	**20,479**

As at 31 December 2010 the Bank is holding 25.56% of the voting rights of the EFG Leasing a.d. Beograd (31 December 2009: 25.56%).

24. Other lending

	2010	2009
Other placements in dinars		
Factoring	93,794	-
Payments claimed under issued guarantees	8,685	11,749
Other placements	822	936
Covered letters of credit	942	793
Other placements in foreign currency		
Payments claimed under issued guarantees	444,067	424,918
Other mandatory deposits	4,220	3,836
Other placements	9,373	13,339
Other lending, gross	**561,903**	**455,571**
Less: Provisions	(185,307)	(123,614)
Other lending, net	**376,596**	**331,957**

Movements in provision for impairment are presented below:

	2010	2009
Opening balance	**123,614**	3,309
New provisions (Note 11)	40,859	128,770
Release of provision (Note 11)	-	(8,319)
Net foreign exchange	23,884	(146)
Write off	(3,050)	-
Closing balance	**185,307**	**123,614**

All amounts are expressed in 000 RSD unless otherwise stated

25. Intangible assets

	Licenses and software	In course of construction	Total
At 1 January 2009			
Cost	1,549,651	102,908	1,652,559
Accumulated amortization	(545,166)	-	(545,166)
Net book value	**1,004,485**	**102,908**	**1,107,393**
Year ended 31 December 2009			
Opening net book value	1,004,485	102,908	1,107,393
Additions	-	372,282	372,282
Transfers	447,437	(447,437)	-
Amortization (Note 13)	(218,540)	-	(218,540)
Closing net book value	**1,233,382**	**27,753**	**1,261,135**
At 31 December 2009			
Cost	1,997,088	27,753	2,024,841
Accumulated amortization	(763,706)	-	(763,706)
Net book value	**1,233,382**	**27,753**	**1,261,135**
Year ended 31 December 2010			
Opening net book value	1,233,382	27,753	1,261,135
Additions	22	346,344	346,366
Transfers	324,461	(324,461)	-
Amortization (Note 13)	(168,522)	-	(168,522)
Closing net book value	**1,389,343**	**49,636**	**1,438,979**
At 31 December 2010			
Cost	2,312,868	49,636	2,362,504
Accumulated amortization	(923,525)	-	(923,525)
Net book amount	**1,389,343**	**49,636**	**1,438,979**

Book value of intangible assets does not materially differ from fair value.

All amounts are expressed in 000 RSD unless otherwise stated

26. Property and equipment

	Land and buildings	Equipment and other assets	In course of construction and advances	Total
At 1 January 2009				
Cost	1,294,135	1,737,973	2,245,692	5,277,800
Accumulated depreciation and impairment	(417,792)	(789,773)		(1,207,565)
Net book value	**876,343**	**948,200**	**2,245,692**	**4,070,235**
Year ended 31 December 2009				
Opening net book amount	876,343	948,201	2,245,691	4,070,235
Additions	1,375	12,595	711,192	725,162
Transfers from advances included in Other assets	-	109,509	-	109,509
Transfers	2,824,484	96,875	(2,921,359)	-
Disposals		(1,272)	-	(1,272)
Write off	(19,375)	(2,871)	-	(22,246)
Donated assets	-	(899)	-	(899)
Depreciation (Note 13)	(171,516)	(265,533)	-	(437,049)
Closing net book value	**3,511,311**	**896,605**	**35,524**	**4,443,440**
At 31 December 2009				
Cost	4,060,696	1,902,691	35,524	5,998,911
Accumulated depreciation and impairment	(549,385)	(1,006,086)	-	(1,555,471)
Net book value	**3,511,311**	**896,605**	**35,524**	**4,443,440**
Year ended 31 December 2010				
Opening net book amount	3,511,311	896,605	35,524	4,443,440
Additions	-	1,652	152,825	154,477
Transfers from advances included in the Other assets	-	1,399	-	1,399
Transfers	89,075	59,316	(148,391)	-
Disposals	-	(6,800)	-	(6,800)
Write off	(6,118)	(5,049)	-	(11,167)
Donated assets	-	(407)	-	(407)
Depreciation (Note 13)	(179,388)	(206,602)	-	(385,990)
Closing net book value	**3,414,880**	**740,114**	**39,958**	**4,194,952**
At 31 December 2010				
Cost	4,121,104	1,876,281	39,958	6,037,343
Accumulated depreciation and impairment	(706,224)	(1,136,167)	-	(1,842,391)
Net book value	**3,414,880**	**740,114**	**39,958**	**4,194,952**

All amounts are expressed in 000 RSD unless otherwise stated

Book value of property and equipment does not materially differ from fair value.

Rental expenses in the amount of RSD 558,530 thousand (2009: RSD 585,045 thousand) in relation to the rental of property are included in the operating expenses (Note 14).

As at 31 December 2010 there are no charges over the Bank's fixed assets.

27. Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December:

	2010	2009
Deferred tax assets	301,432	223,368
Deferred tax liabilities	(3,228)	-
	298,204	**223,368**

Deferred tax is recognized on temporary differences, losses carried forward and unused tax credits.

	2010	2009
Deferred tax assets on unused tax credits		
- from 2007	134,712	215,185
- from previous years	166,720	-
Deferred tax liabilities on temporary differences	(3,228)	8,183
	298,204	**223,368**

Movements in deferred tax assets

	2010	2009
Opening balance of deferred tax (assets)	223,368	167,804
Changes during the year:	-	-
Decrease/(increase) of deferred tax liabilities and (decrease)/ increase of deferred tax assets related to temporary differences	(11,411)	878
Deferred tax assets on tax credits	86,247	54,686
Total deferred tax (expense)/income for the year	**74,836**	**55,564**
Deferred tax assets	**298,204**	**223,368**

Deferred income tax income relates to the following items:

	2010	2009
Depreciation	(11,411)	878
Tax credits	86,247	54,686
	74,836	**55,564**

As at 31 December 2010 the Bank has unrecognized deferred tax assets on the tax credits in the amount of RSD 82,057 thousand. Tax credits are from the year 2003 to 2005 and will expire 10 years from date of origination. Management believes it is not certain that the future profits will enable utilization of these tax credits.

All amounts are expressed in 000 RSD unless otherwise stated

28. Other assets, prepayments and accrued income

	2010	2009
Prepayments and accrued income in dinars		
Accrued interest	554,790	493,967
Other accrued income	55,491	44,899
Prepayments	90,362	64,060
Other prepayments and accrued income	8,943	29,921
Prepayments and accrued income in foreign currency		
Accrued interest	19,915	2,412
Interest prepayments	574,902	1,404,021
Other prepayments and accrued income	579	85
	1,304,982	**2,039,365**
Other receivables in dinars		
Employees	243	343
Advances for current assets	39,658	22,370
Advances for property, plant and equipment	26,842	2,217
For prepaid taxes and contributions	843	1,304
For prepaid income tax	-	53,057
Cards receivables	14,265	17,009
Suspense and temporary accounts	(4,549)	(6,332)
Other receivables in dinars	112,097	102,694
Other receivables in foreign currency		
Employees	64	1
Advances for current assets	3,910	6,830
Suspense and temporary accounts	2,665	815
Other receivables	7,900	22,860
	203,938	**223,168**
Inventory		
Assets received in collection of claims	12,809	12,809
Material	6,926	659
	19,735	**13,468**
Other assets, gross	**1,528,655**	**2,276,001**
Less: Impairment	(19,958)	(33,417)
Less: Other provisions	(394)	(394)
Other assets, net	**1,508,303**	**2,242,190**

All amounts are expressed in 000 RSD unless otherwise stated

Movements in provision for impairment are presented below:

	2010	2009
Opening balance	33,417	28,653
New provisions (Note 11)	681	4,316
Release of provision (Note 11)	(6,028)	(21)
Net foreign exchange	2,231	2,280
Write off	(10,343)	(1,811)
Closing balance	**19,958**	**33,417**

29. Transaction deposits

	2010	2009
Transaction deposits in dinars		
Banks and other financial organizations	5,351	9,638
Companies	1,461,146	1,670,619
Entrepreneurs	470,856	514,578
Private individuals	881,485	919,351
Foreign entities	30,501	117,747
Other clients	193,760	207,752
Transaction deposits in foreign currency		
Banks and other financial organizations	50,294	33,474
Companies	2,317,600	1,848,317
Entrepreneurs	19,400	9,879
Private individuals	3,982,941	2,989,002
Foreign entities	270,528	250,721
Other clients	9,532	4,934
Total	**9,693,394**	**8,576,012**

All amounts are expressed in 000 RSD unless otherwise stated

30. Other deposits

	2010								2009
	Domestic banks and other financial institutions	**Public sector**	**Companies**	**Entrepreneurs**	**Private individuals**	**Foreign entities**	**Other clients**	**Total**	**Total**
Other deposits in dinars									
Savings deposits	-	-	-	-	111,203	110	-	111,313	67,670
Special purpose deposits	-	-	216,825	361	16,211	15,599	-	248,996	70,361
Deposits pledged as collateral	-	9,626	14,275	-	6,733	-	3,220	33,854	30,300
Other deposits	2,186,873	90,001	3,456,210	5,100	-	840,000	1,394,421	7,972,605	4,230,709
Other deposits in foreign currency									
Savings deposits	-	-	-	-	59,095,742	1,642,094	-	60,737,836	50,319,439
Special purpose deposits	560,555	-	322,645	-	22,001	10,066	19,673	934,940	1,118,632
Deposits pledged as collateral	-	-	115,111	996	1,739,138	1,803	-	1,857,048	2,637,414
Other deposits	3,045,195	-	4,322,549	15,081	4,631	26,412,875	206,787	34,007,118	39,070,765
Total	**5,792,623**	**99,627**	**8,447,615**	**21,538**	**60,995,659**	**28,922,547**	**1,624,101**	**105,903,710**	**97,545,290**

The interest rate calculated on demand corporate deposits in local currency up to 10.8% per annum, while interest rate on foreign currency deposits is up to 5.3%. Term corporate deposits in local currency carry interest rate from 3.0% to 14.5% per annum and corporate foreign currency term deposits carry interest rate from 1.7% to 6.5% per annum.

The interest rate on the current and demand deposits of citizens ranged from 0.50% up to 9.44% per annum, depending on the currency and maturity. Interest rate on foreign currency term deposits varied from 2.20% to 9.13% while interest rate on RSD term deposits of citizens ranged from 6.5% to 13% per annum.

31. Borrowings and other financial liabilities

	2010	2009
Borrowings in dinars		
Other financial liabilities in dinars	14,593	829
Borrowings in foreign currency		
Borrowings	21,551,962	-
Other financial liabilities in foreign currency	25,588	21,104
Total	**21,592,143**	**21,933**

As at 31 December 2010, borrowings in foreign currency in the amount of RSD 21,551,962 comprise:

Counterparty	Borrowing date	Maturity date	Interest rate	Currency	Amount in original currency (in thousands)	Amount in dinars (in thosands)
European Investment Bank	11.05.2010	5.10.2017	0.78%	CHF	7,453	629,374
European Investment Bank	28.07.2010	7.28.2016	1.65%	EUR	6,593	695,550
European Investment Bank	20.05.2010	5.20.2016	1.52%	EUR	11,729	1,237,362
European Bank for Reconstruction an Development	15.11.2010	10.8.2014	4.16%	EUR	30,000	3,164,946
EFG Eurobank Ergasias	26.03.2010	12.31.2013	3.02%	EUR	150,000	15,824,730
Total						**21,551,962**

32. Interest, fees and commissions payable and change in fair value of derivatives

	2010	2009
Liabilities in dinars		
Interest	577	78
Fees and commissions	2,667	392
Liabilities in foreign currency		
Interest	361	257
	3,605	**727**

33. Tax liabilities

	2010	2009
Withholding tax	5,688	-
Value added tax	13,050	8,180
Other taxes and contributions	6,561	4,566
Total	**25,299**	**12,746**

All amounts are expressed in 000 RSD unless otherwise stated

34. Provisions

	2010	2009
Provisions for off-balance sheet exposures	130,189	111,571
Provisions for legal cases (Note 39 b)	81,758	82,808
Provision for retirement indemnities	30,554	22,280
Provisions for bonuses	70,945	55,080
Other provisions	15,417	14,013
Total	**328,863**	**285,752**

As at 31 December 2010 other provisions in the amount of RSD 15,417 thousand (31 December 2009: RSD 14,013 thousand), relate to the provision made in relation to potential unauthorised withdrawal of money related to frozen bonds.

Movements in total provisions:

	Bonus provisions	Retirement indemnities	Legal cases	Other provisions	Off-balance sheet	Total
Opening balance 2009	-	**24,415**	**75,441**	**12,948**	**104,258**	**217,062**
Reclassification from liabilities for gross salaries	89,600	-	-	-	-	89,600
New provisions (Note 11)	-	2,141	2,450	-	-	4,591
Release of provisions (Note 11)	(34,520)	-	(182)	-	(765)	(35,467)
Indemnities paid	-	(4,276)	-	-	-	(4,276)
Net exchange gain/loss	-	-	5,100	1,065	8,077	14,242
Closing balance 2009	**55,080**	**22,280**	**82,809**	**14,013**	**111,570**	**285,752**
Provisions paid during the year	(55,080)	(2,444)	(490)	-	-	(58,014)
New provisions	70,945	10,717	150	-	26,619	108,432
Release of provisions (Note 11)	-	-	(7,672)	-	(23,897)	(31,569)
Indemnities paid	-	-	-	-	-	-
Net exchange gain/loss	-	-	6,961	1,404	15,897	24,262
Closing balance 2010	**70,945**	**30,554**	**81,758**	**15,417**	**130,189**	**328,863**

Principal actuarial assumptions used for retirement indemnities (expressed as weighted averages):

	2010	2009
	%	%
Discount rate	7.5%	7.5%
National average salary increase	4.5%	4.0%
Inflation rate	3.5%	3.0%

35. Liabilities from profit

	2010	2009
Liabilities from profit	700	700
Income tax	54,018	-
Total	**54,718**	**700**

All amounts are expressed in 000 RSD unless otherwise stated

36. Other liabilities, accruals and deferred income

	2010	2009
Liabilities for salaries and benefits		
Net salaries	10	-
Temporary and occasional assignments	14	-
Other liabilities towards employees	545	302
	569	**302**
Other liabilities in dinars		
Operations managed on behalf of third parties	6,017	6,105
Advances received	229	461
Suppliers	98,843	75,373
Temporary and suspense accounts	6,061	130,465
Financial leasing	18,253	17,233
Other liabilities	33,671	33,314
Other obligations in foreign currency		
Advances received	32,145	65,299
Suppliers	55,418	126,541
Other liabilities	1,325	1,317
	251,962	**456,108**
Accruals and deferred income in dinars		
Accrued interest expense	26,248	16,132
Other accrued expenses	68,584	59,764
Deferred income from fees	690,804	597,951
Deferred interest income	139,297	116,817
Other accruals and deferred income	62,242	31,432
Accruals and deferred income in foreign currency		
Accrued interest expense	430,242	176,536
Other accrued expenses	9,316	1,547
Other accruals and deferred income	9,447	13,250
	1,436,180	**1,013,429**
Subordinated liabilities in foreign currency		
Subordinated liabilities	527,491	479,444
Total	**2,216,202**	**1,949,283**

During 2005, the Bank received subordinated loan from the majority shareholder EFG Eurobank Ergasias, Athens in the amount of EUR 5,000 thousand (as at 31 December 2010: RSD 527,491 thousand). The loan was granted for a period of six years at variable interest rate.

All amounts are expressed in 000 RSD unless otherwise stated

37. Shareholder's equity

Capital of the bank comprises of share capital, share premium, statutory reserves, revaluation reserves and accumulated losses:

	2010	2009
Share capital and other capital		
Share capital common shares	25,422,400	25,422,400
Share capital preference shares	4,800	4,800
Share premium	6,051,999	6,051,999
Other capital	2,727	2,727
	31,481,926	**31,481,926**
Statutory reserves	303,549	303,549
Reserves for potential losses	6,403,579	3,652,431
Other reserves	230,392	230,392
	6,937,520	**4,186,372**
Accumulated gains	28,556	28,556
Accumulated losses	-	-
Current year profit	2,620,815	2,751,148
	2,649,371	**2,779,704**
Total shareholder's equity	**41,068,817**	**38,448,002**
Number of issued shares	**254,272**	**254,272**

Nominal value of the shares amounts to RSD 100,000 per share.

According to the Agreement signed between the Republic of Serbia and EFG Eurobank Ergasias on 28 March 2008 regarding the donation of 1,502 ordinary shares to the Republic of Serbia, on 26 March 2010 the Government of the Republic of Serbia decided to execute a put option towards EFG Eurobank Ergasias.

Executing put option on 29 March 2010 the Republic of Serbia as the seller and EFG Eurobank Ergasias as the buyer signed SPA for 1,502 ordinary shares the nominal value of which is RSD 100,000 per share representing 0.59% of share capital at the price of RSD 151,208.17 per share amounting to total RSD 227,115 thousands.

All amounts are expressed in 000 RSD unless otherwise stated

The shareholders structure of the Bank as at 31 December 2010 is presented in the table below:

Shareholder	**Ordinary shares**	**%**	**Preference shares**	**%**	**Total shares**	**%**
EFG Eurobank Ergasias	141,868	55.80%	17	35.42%	141,885	55.80%
Berberis Investments Limited	3,690	1.45%	-	0.00%	3,690	1.45%
EFG N.E. BV Holding Company Holland	108,666	42.74%	-	0.00%	108,666	42.74%
Agromerkantilija zemljoradnicka zadruga	-	0.00%	3	6.25%	3	0.00%
AKT	-	0.00%	1	2.08%	1	0.00%
Bambi Banat	-	0.00%	3	6.25%	3	0.00%
Buducnost	-	0.00%	2	4.17%	2	0.00%
Dunav AD	-	0.00%	1	2.08%	1	0.00%
Habit pharm	-	0.00%	5	10.42%	5	0.00%
Kopaonicanka ZP	-	0.00%	2	4.17%	2	0.00%
Saobracajni institut CIP	-	0.00%	3	6.25%	3	0.00%
Siemens IT solutions and service	-	0.00%	2	4.17%	2	0.00%
Stem	-	0.00%	1	2.08%	1	0.00%
TP Beogradelektro	-	0.00%	6	12.50%	6	0.00%
Trustex	-	0.00%	1	2.08%	1	0.00%
ZZ Bajina Basta	-	0.00%	1	2.08%	1	0.00%
Total	**254,224**	**100.00%**	**48**	**100.00%**	**254,272**	**100.00%**

The reconciliation of the movements in number of common and preference shares is as follows:

	Common shares	**Preference shares**
Closing balance 2009	**254,224**	**48**
Closing balance 2010	**254,224**	**48**

Share issues and the changes in the Eurobank EFG's share capital structure

During 2010 the Bank did not perform any capital increase.

Share premium
Share premium represents the difference between the market price and nominal value of the shares. As at 31 December 2010 the Bank's share premium was RSD 6,051,999 thousand (31 December 2009: RSD 6,051,999).

Statutory reserves
Statutory reserves in the amount of RSD 6,937,520 thousand (31 December 2009: RSD 4,186,372 thousand) are formed in accordance with the law regulations and the Statute of the Bank, whereas the reserves in the amount of RSD 6,403,579 thousand (31 December 2009: RSD 3,652,431 thousand) represent the special reserves for the impairment of assets and off-balance sheet items in accordance with the Decision of the National Bank of Serbia.

Shortfall amount of provisions against potential losses
As at 31 December 2010, the shortfall amount of special reserve for potential credit losses for balance sheet and off-balance sheet exposures classified according to the Decision of the National Bank of Serbia amounted to RSD 11,853,296 thousand (31 December 2009: RSD 12,158,730 thousand).

All amounts are expressed in 000 RSD unless otherwise stated

38. Off-balance sheet

a) Funds managed on behalf of third parties

	2010	2009
Funds managed on behalf of public sector - agriculture		
- Short-term	496,644	683,217
- Long-term	746,440	871,756
Long-term loans - young couples program	255,757	159,156
Total	**1,498,841**	**1,714,129**

b) Guarantees, sureties, assets pledged as collateral and irrevocable commitments

	2010	2009
In dinars		
Issued guarantees and other sureties	2,030,627	714,181
Irrevocable commitments from undisbursed loans and placements	5,618,276	5,591,719
Other irrevocable commitments	1,151,730	9,976,504
In foreign currency		
Issued guarantees and other sureties	19,958,774	25,658,517
Irrevocable commitments from undisbursed loans and placements	1,399,329	1,562,734
Other irrevocable commitments	381,076	22,238,685
Total	**30,539,812**	**65,742,340**

c) Guaranties, sureties and collaterals received

	2010	2009
Mortgage loans insured with National Mortgage Insurance Corporation	25,025,245	16,627,301
Total	**25,025,245**	**16,627,301**

d) Derivatives

	2010	2009
Derivatives	7,552,811	4,688,902
Total	**7,552,811**	**4,688,902**

All amounts are expressed in 000 RSD unless otherwise stated

e) Other off-balance sheet items

	2010	2009
Collaterals received	88,521,774	73,171,535
Received guarantees and letters of credit	7,123,396	6,347,945
Foreign currency frozen bonds in Central register	133,588,362	125,209,422
Securities from reverse repo transactions with NBS	8,800,000	7,000,000
Securities of NBS and Ministry of finance	7,694,580	4,766,740
Other off-balance assets	8,646,077	6,291,486
Total	**254,374,189**	**222,787,128**

39. Contingent liabilities and commitments

a) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2010	2009
Not later than one year	104,671	93,167
Later than one year but no later than five years	-	-
Later than five years	-	-
	104,671	**93,167**

b) Litigations

As at 31 December 2010, there are three legal claims filed against the Bank in respect of payments of frozen bonds made to unauthorized persons based on forged documents. Although, the Bank acts as an Agent of the Government of the Republic of Serbia, servicing “old foreign currency savings bonds” the Bank has made provision for claims related to the frozen bonds payments in the amount of RSD 77,334 thousand (31 December 2009: RSD 78,535 thousand) .

As at 31 December 2010, the provision for other legal cases amounted to RSD 4,424 thousand (31 December 2009: RSD 4,273 thousand) – Note 34.

40. Compliance with regulatory requirements

The Bank is obliged to comply with ratios defined by the Law on Banks and Other financial institutions. As at 31 December 2010 the Bank's ratios were in compliance with the prescribed levels:

Business indicators	**Determined level**	**2010**
Capital adequacy	min 12%	15.63%
Long term investments indicator	max 60%	22.25%
Exposure to related parties	max 20%	7.12%
Large exposures indicator	max 400%	47.10%
Liquidity indicator:		
first month of reporting period	min 1	1.37
second month of reporting period	min 1	2.30
last month of reporting period	min 1	2.36
Currency risk	max 30%	3.54%

As at 31 December 2010, the Bank was in compliance with all regulatory requirements.

41. Related parties transactions

Eurobank EFG is subsidiary of EFG Eurobank Ergasias listed in the Athens Stock Exchange. EFG Eurobank Ergasias is a member of the worldwide EFG Group and its ultimate parent company is Private Financial Holding Limited which is owned and controlled indirectly by members of the Latsis family. As at 31 December 2010 the EFG Group holds 44.82% of EFG Eurobank Ergasias ordinary shares and voting rights through 100% controlled subsidiaries. The remaining ordinary shares and voting rights are held by institutional and retail investors.

The Bank enters daily into transactions with major shareholders and other related parties in the ordinary course of business. Transactions with related parties at 31 December 2010 are presented in the table below:

All amounts are expressed in 000 RSD unless otherwise stated

	Eurobank Ergasias	IMO Investment Property	EFG Property Services	EFG Leasing	RECO Real Property	EFG Securities Serbia	EFG Asset Fin	EFG Business services	EFG New Europe Funding BV	Private bank Luxembourg
Assets										
Foreign currency account	170,695	-	-	-	-	-	-	-	-	-
Interest and fee receivables	9,222	-	-	-	-	-	-	-	-	-
Loans to customers and deposits	37,286,809	794,000	-	-	-	-	-	-	-	-
Equity shares	-	-	-	20,479	-	-	-	-	-	-
Other receivables	4,317	-	-	10	-	-	-	-	-	-
Total assets	**37,471,043**	**794,000**	**-**	**20,489**	**-**	**-**	**-**	**-**	**-**	**-**
Liabilities										
Due to customers	27,274,509	73,317	65,856	2,251,865	158,248	-	45,526	7,751	-	-
Borrowings	15,824,730	-	-	-	-	-	-	-	-	-
Subordinated liabilities	527,491	-	-	-	-	-	-	-	-	-
Interest payable	10,601	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-
Total liabilities	**43,637,331**	**73,317**	**65,856**	**2,251,865**	**158,248**	**-**	**45,526**	**7,751**	**-**	**-**
Income										
Interest income	1,137,560	25,911	90	39	-	-	102	-	-	-
Net gains from securities	53,924	-	-	-	-	-	-	-	-	-
Fee income	15,420	2,022	123	690	3,735	-	235	5	216	-
Rental income	-	321	3,377	2,485	-	919	-	-	-	-
Total income	**1,206,904**	**28,254**	**3,590**	**3,214**	**3,735**	**919**	**337**	**5**	**216**	**-**
Expenses										
Interest expense	534,946	-	3,129	40,286	1,188	-	1,174	656	-	-
Rent expense	-	-	-	-	-	-	-	-	-	-
Fee expenses	9,538	-	12,526	-	-	-	1,700	-	-	-
Services	26,149	-	-	-	-	-	-	-	-	-
Total expenses	**570,633**	**-**	**15,655**	**40,286**	**1,188**	**-**	**2,874**	**656**	**-**	**-**
Off-balance sheet										
Letter of guarantees	2,488,866	-	-	-	382,262	-	-	-	-	922,218
SPOT transactions	932,961	-	-	-	-	-	-	-	-	-
Other off-balance sheet (undrawn commitments)	-	101,000	-	31	-	-	-	-	-	-

All amounts are expressed in 000 RSD unless otherwise stated

Transactions with related parties at 31 December 2009 are presented in the table below

	Eurobank Ergasias	IMO Investment Property	EFG Property Services	EFG Leasing	EFG Asset Fin	Business exchange	Romania IT Shared Services	RECO Real Property	EFG New Europe Funding BV	EFG Securities Serbia	EFG Business Services
Assets											
Foreign currency account	7,080,306	-	-	-	-	-	-	-	-	-	-
Interest and fee receivables	18,983	-	-	-	-	-	-	-	-	-	-
Loans to customers and deposits	31,137,825	-	7,644	9	-	-	-	-	-	73,479	-
Equity shares	-	-	-	20,479	-	-	-	-	-	-	-
Other receivables	6,427	-	-	-	-	-	-	-	115	2,301	140
Total assets	**38,243,541**	**-**	**7,644**	**20,488**	**-**	**-**	**-**	**-**	**115**	**75,780**	**140**
Liabilities											
Due to customers	33,771,840	11,741	29,130	1,406,753	49,135	-	-	115,271	-	7,077	12,083
Borrowings	-	-	-	-	-	-	-	-	-	-	-
Subordinated liabilities	479,444	-	-	-	-	-	-	-	-	-	-
Interest payable	14,182	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	17,233	-	-	-	-	-	-	-
Total liabilities	**34,265,466**	**11,741**	**29,130**	**1,423,986**	**49,135**	**-**	**-**	**115,271**	**-**	**7,077**	**12,083**
Income											
Interest income	1,592,409	3,402	1,696	1,149	18	-	-	-	-	4,296	-
Net gains from securities	60,806	-	-	-	-	-	-	-	-	-	-
Fee income	-	495	318	456	-	-	-	3,450	962,641	413	17
Rental income	-	326	1,059	-	-	-	-	-	-	2,276	-
Total income	**1,653,215**	**4,223**	**3,073**	**1,605**	**18**	**-**	**-**	**3,450**	**962,641**	**6,985**	**17**
Expenses											
Interest expense	360,400	-	1,449	17,244	6,684	-	-	1,915	-	298	1,978
Rent expense	-	-	-	-	7,617	-	-	-	-	-	-
Fee expenses	27,511	-	-	-	-	-	-	-	-	-	-
Services	-	13,475	11,835	-	-	3,410	244,015	-	-	-	-
Total expenses	**387,911**	**13,475**	**13,284**	**17,244**	**14,301**	**3,410**	**244,015**	**1,915**	**-**	**298**	**1,978**
Off balance sheet											
Letter of guarantees	6,190,508	-	-	-	-	-	-	363,581	-	-	-
SPOT transaction	10,027	-	-	-	-	-	-	-	-	-	-
Other off balance sheet (undrawn commitments)	-	-	-	93,332	70,500	-	-	-	-	722	-

As at 31 December 2010, loans to employees amounted to RSD 2,457,925 thousand (31 December 2009: RSD 1,542,403 thousand). All loans are given under terms defined in the Bank's lending policy and interest rates vary from 2.17% to 10.03% for mortgage loans, while for consumer loans interest rates vary from 6.0% to 18.3%.

All amounts are expressed in 000 RSD unless otherwise stated

a) *Payments to directors and key management personnel*

	2010	2009
Salaries and other contributions	95,326	80,489
	95,326	**80,489**

42. Foreign Exchange rates

The official exchange rates of major currencies which were used for translation of balance sheet items as at 31 December were as follow:

	31 December	
	2010	**2009**
USD	79.2802	66.7285
EUR	105.4982	95.8888
CHF	84.4458	64.4631

43. Reconciliation of loans, deposits and other liabilities with clients

As required by the Accounting and Auditing Law, the Bank has performed reconciliation of loans, deposits and other liabilities with clients as at 31 October 2010.

44. Board of directors

Members of the Board of directors of Eurobank EFG as at 31 December 2010 are listed below:

Chairman	Members
Karakasis Theodoros	Piergiorgio Pradelli
	Stavros Ioannou
	Nikolaos Aliprantis
	Evagelos Kavvalos
	Angelos Tsichrintzis
	Slobodan Slovic
	Ivan Vujacic

45. Events after the reporting period

There were no significant events after balance sheet date that would require disclosure in the Financial Statements.