NOVA BANKA A.D. BANJA LUKA

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

This is English translation of the Report originally issued in Serbian language (For management purposes only)

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INDEPENDENT AUDITOR'S REPORT
TO SHAREHOLDERS OF NOVA BANKA A.D. BANJA LUKA

We have audited the accompanying financial statements of Nova banka a.d., Banja Luka (hereinafter referred as to "the Bank"), which comprise the balance sheet as at 31 December 2010, income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Law on Accounting and Auditing of the Republic of Srpska, and regulations of the Banking Agency of the Republic of Srpska, governing financial reporting of banks, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2010, and of its financial performance and cash flows for the year then ended, in accordance with the Law on Accounting and Auditing of the Republic of Srpska and regulations of the Banking Agency of the Republic of Srpska governing financial reporting of banks.

Bijeljina, 18 March 2011
On behalf of Revidere d.o.o. Bijeljina

Rajko Radović
Authorized auditor

Belgrade, 18 March 2011
On behalf of Ernst & Young Beograd d.o.o.

Mirjana Kovačević
Authorized auditor

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

INCOME STATEMENT for year ended 31 december 2010

	Note	2010. KM thousand	2009. KM thousand
Interest and similar income	4	44.084	41.339
Interest and similar expenses	4	(20.765)	(18.697)
NET INTEREST AND SIMILAR INCOME		**23.319**	**22.642**
OPERATING INCOME	5	37.356	38.930
Operating and direct expenses	6	(20.309)	(16.727)
Operating expenses	7	(30.462)	(33.209)
NON-INTEREST EXPENSES		**(50.771)**	**(49.936)**
PROFIT BEFORE TAX		**9.904**	**11.636**
Income tax	8	(1.297)	(1.265)
NET PROFIT		**8.607**	**10.371**

Banja Luka, 18 March 2011

On behalf of
Nova banka a.d. Banja Luka

General Manager
Mr.Milan Radović

BALANCE SHEET for year ended 31 december 2010

	Note	31.12.2010.	31.12.2009.
		KM thousand	*KM thousand*
ASSETS			
Cash and deposit accounts	9	240.728	270.749
Securities held for trading	10	1.583	2.047
Securities held to maturity	10	234	-
Loans to banks	11	5.942	3.246
Loans and overdue receivables	12	575.016	522.583
Business premises and other fixed assets	13	26.946	30.046
Investments	14	1.878	1.795
Other assets	15	17.994	15.963
Impairment	12,15	(30.539)	(23.236)
TOTAL ASSETS		**839.782**	**823.193**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Liabilities			
Deposits	16	555.604	584.372
Borrowings	17	184.031	144.517
Subordinated liabilities	18	997	1.126
Other liabilities	19	10.531	11.553
Provisions for risk-bearing off-balance sheet items	20	2.004	3.617
Total liabilities		**753.167**	**745.185**
Shareholders' equity			
Share capital - ordinary shares	21	63.146	53.293
Share premium	21	8.070	8.070
Retained earnings	21	8.608	10.372
Reserves		2.517	1.999
Provisions for credit losses	21	4.274	4.274
Total shareholders' equity		**86.615**	**78.008**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**839.782**	**823.193**
Off-balance sheet items	22	121.502	128.595

Banja Luka, 18 March 2011

On behalf of
Nova banka a.d. Banja Luka

General Manager
Mr. Milan Radović

STATEMENT OF CHANGES IN EQUITY for year eneded 31 December 2010

KM thousand	Share capital - ordinary shares	Share capital - preference shares	Share premium	Reserves	Revaluation reserves	Retained earnings	Provisions for credit losses	Total
Balance at 31 December 2008	50.716	-	8.070	1.811	47	3.750	-	64.394
Issue of shares (the 13th share issue) from retained earnings	2.577	-	-	-	-	(2.577)	-	-
Conversion of preference shares to ordinary shares-the 12th share issue	-	-	-	-	-	-	-	-
Cancellation of reserves for securities	-	-	-	-	(47)	-	-	(47)
Reconciliation of book value and fair value of securities available for sale	-	-	-	-	-	-	-	-
Transfer part of retained earnings to reserves	-	-	-	188	-	(188)	-	-
Dividend payment according to decision of General Assembly	-	-	-	-	-	(984)	-	(984)
Profit for the year	-	-	-	-	-	10.371	-	10.371
Balance at 31 December 2009	53.293	-	8.070	1.999	-	10.372		73.734
Correction of opening balance	-	-	-	-	-	-	4.274	4.274
Balance at 31 December 2009 after corrections	53.293	-	8.070	1.999	-	10.372	4.274	78.008
Issue of shares (XV) from retained earnings	9.853	-	-	-	-	(9.853)	-	-
Cancellation of reserves for securities	-	-	-	-	-	-	-	-
Transfer from retained earnings to reserves	-	-	-	518	-	(518)	-	-
Dividend payment to owners of ordinary shares according to the decision of General Assembly	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	8.607	-	8.608
Balance at 31 December 2010	63.146	-	8.070	2.517	-	8.608	4.274	86.615

Banja Luka, 18 March 2011

On behalf of
Nova banka a.d. Banja Luka

General Manager
Mr. Milan Radović

CASH FLOW STATEMENT for the year eneded 31 December 2010

	2010	2009
	KM thousand	*KM thousand*
Cash flows from operating activities		
Interest, fees and commissions receipts	56.855	65.439
Interest paid	(17.297)	(18.944)
Recovered receivables written-off	613	2.432
Payments to employees and suppliers	(22.150)	(23.909)
Payments on off-balance sheet contracts	(391)	-
Loans and placements to customers, net of repayments	(55.416)	(68.145)
Deposits from customers	(28.768)	17.322
Income tax paid	(2.065)	(153)
Net cash flow from operating activities	**(68.619)**	**(25.958)**
Cash flows from investment activities		
Short-term loans to financial institutions	(2.806)	(2.545)
Dividend receipts	-	22
Receivable matured securities held to maturity	8	-
Purchases/sales of intangible assets	(837)	(359)
Purchases/sales of tangible assets	(801)	(1.318)
Sale of investments in share in other related companies	-	-
Loans (repayment of loans) to other related parties	39.385	33.183
(Purchases)/proceeds from other investments	816	3.318
Net cash from investing activities	**35.765**	**32.301**
Cash flows from financing activities		
Proceeds from share issue	-	-
Dividends paid	-	(517)
Net cash from financing activities	**-**	**(517)**
Net increase/decrease in cash and cash equivalents	(32.854)	5.826
Cash and cash equivalents at the beginning of the period	270.749	268.743
Effects of changes in foreign exchange rates	2.833	(3.820)
Cash and cash equivalents at the end of the period (Note 9)	**240.728**	**270.749**

Banja Luka, 18 March 2011

On behalf of
Nove banke a.d. Banja Luka

NOVA BANKA AKCIONARSKO DRUŠTVO BANJA LUKA

General Manager
Mr. Milan Radović

1. GENERAL INFORMATION

Nova Banka a.d., Banja Luka (hereinafter referred to as: "the Bank") was founded in October 1992, and registered with the Court Register by the Decision of the Commercial Court in Bijeljina No. Fi.-292/92 under the name of Eksim Banka a.d., Bijeljina. Pursuant to the Decision of the Commercial Court in Bijeljina No. Fi.-352/94 from July 1994, the Bank changed its name to Eksport-Import Banka a.d., Bijeljina, and as per the Decision of the Commercial Court in Bijeljina No. Fi.-598/99 dated 17 June 1999, the Bank officially recorded the change of its name into Nova banka a.d., Bijeljina. In 2007, pursuant to the Decision of the Commercial Court in Banja Luka the Bank moved its headquarters and started operating under the name of Nova Banka a.d. Banja Luka.

In December 2002, the Bank's Assembly set up the Decision on the status change by acquisition of Agroprom banka a.d. Banja Luka. As of 1 January 2003, Agroprom banka a.d. Banja Luka operated as the Bank's branch.

The major shareholder of the Bank is Potesa Adriatic Fund (Note 21) with 35.72% of the share capital.

The Bank is registered in the Republic of Srpska to conduct all banking operations.

The Bank is registered to perform deposit operations, credit and guarantee operations, operations with cash, foreign currency and exchange operations, emission and depo-operations, clearing and settlement services, mediation in trade of securities, purchase and debt collection and other banking and financial activities in accordance with the Law on Banks of the Republic of Srpska.

The Bank's Head Office is located in Banja Luka, 37 Kralja Alfonsa XIII St.

The Bank operates through its Headquarters in Banja Luka and 10 branches located in Bijeljina, Banja Luka, East Sarajevo, Zvornik, Brčko, Trebinje, Doboj, Sarajevo, Ljubuška, Foča and through special department for trading with securities-Broker Nova.

The Bank's operations are organized in divisions, departments and sectors.

As of 31 December 2010 the Bank had 414 employees (as of 31 December 2009: 408 employees).

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Bank's financial statements for the year ended 31 December 2010 are prepared in accordance with the regulations of the Republic of Srpska, based on the Law on Accounting and Auditing ("The Official Gazette of the Republic of Srpska, No. 67/2005 and No. 36/2009), the Law on Banks of the Republic of Srpska, the Regulations of the Banking Agency of the Republic of Srpska and the Central Bank of Bosnia and Herzegovina and other regulations in the Republic of Srpska, which regulate banks' operations and financial reporting.

Pursuant to the Law on Accounting and Auditing of the Republic of Srpska, all legal entities located in the Republic of Srpska are obligated to apply International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), Code of ethics for professional accountants and accompanying instructions, explanations and guidelines defined by International Accounting Standards Board (IASB), and all accompanying instructions, explanations and guidelines defined by the International Federation of Accountants (IFAC).

The Bank prepared its financial statements applying accounting policies explained in Note 3. The accounting policies are based on accounting regulations and by-laws of the Republic of Srpska, regulations of the Banking Agency of the Republic of Srpska and tax regulations in the Republic of Srpska which differ from requirements of International Accounting Standards and International Financial Reporting Standards.

Financial statements of the Bank are prepared by using the historical cost method, except for securities available for sale, which are valued using fair value method.

In 2009 rulebook was passed on the account framework and content of accounts in the Chart of Accounts for banks and other financial institutions which came into force on 1 January 2010. The new rulebook stipulates that the balance and changes in assets, sources of funds, revenues and expenditures, as well as the calculation of banks' financial results should be recorded in accordance with The International Accounting Standards and International Financial Reporting Standards. The date of transferring to the new chart of accounts was the 1 January 2010, however, because of comparability of data, banks were required to draft reports under the new chart of accounts and new forms of the Ministry of Finance of the Republic of Srpska also as at 31 December 2009.

On 12 January 2010 Finance Minister of Republic of Srpska issued „Decision of the submission of the general financial statements for the period 1 January-31 December 2009" that was published in the Official Gazette No. 4/2010 from 27 January 2010. In above mentioned Decision it is defined the obligation for preparing financial statements according to regulations on Accounting and Auditing, and on the forms that are prescribed in the rulebook on content and form of Financial Statements. According to aforementioned decision, the Bank prepared and delivered Financial statements (Balance sheet, Income statement, Statement of changes in equity, Cash flow statement and Notes to financial statements) to the Agency for the intermediation, information and financial services.

Despite the implementation of the new chart of accounts in accordance with the regulations of the Ministry of Finance, all by-laws of the Banking Agency remained in effect. In addition to keeping the books in accordance with IAS, the bank is obliged to establish provisions for general and specific loan loss provisions and to notify the Agency in accordance with the Decision on the form and content of reports submitted by banks to the Banking Agency.

Given the differences between the requirements of International Financial Reporting Standards and certain requirements of accounting rules and regulations of the Banking Agency of Republic of Srpska, the Bank can not make a declaration of full compliance of the financial statements with the requirements of all standards and interpretations issued by the International Accounting standards Board.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

Financial statements of the Bank are prepared by using the historical cost method, except for securities available for sale, which are valued using fair value method.

The Bank keeps and prepares the financial statements expressed in Convertible Marks (KM), official reporting and functional currency in the Republic of Srpska. The Bank's financial statements are expressed in thousands of KM, except when otherwise indicated.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Bank's accounting policies, management has exercised its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Impairment losses on loans and advances

The Bank reviews its problem loans and other placements at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and placements, the Bank also forms a collective (group) impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This estimate takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Long-term employee benefits

The cost of the long-term employee benefits is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and future turnover rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES

Interest and fee income and expense

Interest income and expenses and other operating income and expenses are recognized on an accrual basis. Interest income and expenses are recognized for all interest bearing financial instruments using the effective yield method.

Provisions for doubtful interest are evaluated based upon probable recoverability and are a part of provision for bad and doubtful debts. Interest is suspended for all loans that are presented at court or are deemed uncollectible, and deducted from interest income. Interest accrued is written off to the extent that there is no realistic prospect of recovery.

Fees receivable and payable are recognized when earned or incurred. Fees and commissions consist mainly of fees for international payments, guarantees given and other Bank services.

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

Balance sheet and income statement items stated in the financial statements are recorded using currency of primary economic environment (functional currency). As disclosed in Note 2 the financial statements are stated in thousands of Convertible Marks (KM), which represents functional and official reporting currency of the Bank.

Foreign currency transactions are translated into KM at the official exchange rates ruling at the date of each transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into KM at the official exchange rates of the Central Bank of Bosnia and Herzegovina prevailing at the balance sheet date. Foreign exchange gains or losses arising upon the translation of financial assets and liabilities are credited or debited, as appropriate, to the income statement.

Commitments and contingencies denominated in foreign currency are translated into KM at the Central Bank of Bosnia and Herzegovina's official rate prevailing at the balance sheet date.

Loans and advances in KM, with contracted foreign currency rate clause, are translated into KM at the official exchange rates prevailing at the balance sheet date. Income or expenses arising upon the translation of assets by applying contractual foreign currency clause are credited or debited, as appropriate, to the income statement.

Financial instruments

(i) Initial recognition of financial instruments

Financial assets and financial liabilities are recognized in the Bank's balance sheet on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument.

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

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date the assets is delivered to the counterparty.

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 of the Bank determines the classification of its investments on initial recognition.

(ii) Financial assets at fair value through profit or loss

This category includes two sub-categories: financial assets held for trading and assets designated at fair value through profit or loss at inception. Financial assets held for trading have been primarily acquired for generating profit from short-term price fluctuations. Trading financial assets are recorded in the balance sheet at fair value. Gains or losses on financial assets held for trading are recognized in the income statement.

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Loans and advances and allowance for loan impairment

All loans and advances are recognized when cash is advanced to borrowers. Loans are measured at amortized cost using the effective yield method, net of any amounts written off and allowance for loan impairment.

The Bank negotiates a foreign currency clause with the beneficiaries of the loans. Loans and advances in KM with contracted foreign currency clause, i.e. with index linked to the KM-euro foreign exchange rate, are revalued in accordance with the contract signed for each of the loans. Income and expenses resulting from the application of foreign currency clause are recorded in the Income statement, as exchange gains/losses.

In accordance with the Bank's internal policy, the Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. 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.

Indicators which the Bank uses to determine whether there is objective evidence of an impairment loss include the following: defaults in contractual payments of principal or interest, borrower is experiencing significant financial difficulty, including the probability of bankruptcy or other financial reorganization, breach of loan covenants or conditions, deterioration of the borrower's competitive position, deterioration in the value of collateral and other observable data indicating that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

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

If objective evidence of impairment exists, impairment loss is measured as the difference between the carrying amount of loan and its estimated recoverable amount. The estimated recoverable amount is the present value of the expected future cash flows, discounted at the financial asset's original effective interest rate. 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. The carrying amount of the loan is reduced through the use of allowance account and the amount of the impairment loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Loans and advances and allowance for loan impairment (continued)

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude).

The Bank regularly reviews the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

Impairment losses on loans and advances and other financial assets carried at amortized cost are charged to the income statement. A write off is made when all or part of a claim is deemed uncollectible, pursuant to a court decision, or based on decisions made by the Shareholders' Assembly or the Board of directors.

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

(iv) Material assets obtained through collection of receivables

The Bank acquired fixed assets through the enforcement of security over loans and advances. Material assets obtained through collection of receivables are measured at the lower of its carrying amount and fair value less cost to sell.

(v) Available-for-sale financial investments

Financial investment intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available-for-sale". Available-for-sale financial investments comprise equity instruments of banks and other legal entities.

After initial measurement, financial investment classified as available-for-sale are subsequently measured at fair value. Fair values of securities on stock market are based on current prices of supply. Unrealized gains and losses are recognized directly in equity (within revaluation reserves), until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recognized in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the income statement. Equity instruments that do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are inappropriate and unworkable, are measured at cost, less any allowance for impairment.

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) Available-for-sale financial investments (continued)

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. 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, less any impairment loss on that financial asset previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement, increases in their fair value after impairment are recognized in directly in equity.

(vi) Renegotiated loans

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

(v) Deposits from other banks and customers

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

(viii) 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.

(ix) Borrowings and other financial liabilities

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Government, amounts due to credit institutions, amounts due to customers, as well as preference shares. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the borrowings are derecognized as well as through the amortization process.

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a "guarantee" over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise cash and cash equivalents including mandatory reserve with the Central bank of Bosnia and Herzegovina, as well as assets on the current accounts with domestic and foreign banks.

Operating lease

Leases which does not transfer to the Bank substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases.

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and intangible assets

Property and equipment and intangible assets are measured at their cost less accumulated depreciation.

Depreciation and amortization of property and equipment and intangible assets is provided on a straight-line method, applying prescribed annual rates, in order to write off the assets over their estimated useful lives.

The applied annual depreciation rates are as follows:

Buildings	1.3%
Computers and related equipment	20.0%
Vehicles	12.5% - 15%
Intangible assets	20.0%
Other equipment and furniture	10.0% - 16.5%

Assets in course of construction are not depreciated. Depreciation on these assets will begin when the related assets are brought into use.

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

Maintenance expenses are recorded in the income statement at the moment they occur. Expenses related to reconstruction and improvement, changing capacity or fixed assets purpose, is capitalized and the purchase value of fixed assets is increased.

Impairment of non-financial assets

At each reporting day Bank's management reviews if current events or changes of circumstances indicates that the carrying amounts of Bank's non-financial assets can be impaired, if there are indications that non-financial assets can be impaired. If there is such indication exists, meaning that the annual testing of impairment is needed, the Bank estimates revocable amount of the assets. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of the asset's net selling price and value in use.
Previously recognized impairment loss is reviewed only in case that there is a change in estimations used to determine recoverable amount, from the moment the impairment loss is recognized. In that case, book value of assets is increased to the revocable amount.

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantees

In ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees, performance bond, acceptances and other. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition the Bank's liability under each guarantee should be measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to the financial guarantees is taken to the income statements. The premium received is recognized in the income statements on a straight line basis over the life of the guarantee.

Provisions

A provision is recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Employee benefits

Employee taxes and contributions for social security

In accordance with the regulations prevailing in the Republic of Srpska, the Bank has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Long term employee benefits

In accordance with the Labour Law, Industry employment agreement and Manual on employment, the Bank has an obligation to disburse an employment retirement benefit to a retiree upon the retirement. The long-term liabilities with referring to the severance payments and jubilee awards represent present value of the defined benefit obligation determined through actuarial valuation.

Asset management on behalf of third parties

The Bank manages funds for the account and on behalf of third parties and charges fees for these services. These funds are not included in the Bank's balance sheet and they are disclosed within off-balance sheet records.

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions for loan and other losses

In accordance with the Decision of the Banking Agency of the Republic of Srpska (hereinafter referred to as"Decision") on Amending of the Decision on Minimum Standards for Credit Risk Management and classification of assets of banks standards and criteria that the bank has to establish and implement in the assessment, monitoring, control, credit risk management and classification of its assets are prescribed. Bank's risk bearing assets, in terms of this decision are loans, deposits with banks, interest rates and fees, securities held to maturity, securities available for sale, the shares in other legal entities and other balance sheet items in which the bank is at risk of collection, and issued guarantees, bills, acceptances and other forms of guarantees, uncovered letters of credit, irrevocable approved and unused credits and all other items that are potential liabilities.

In accordance with the Decision, credits and other balance sheet assets and risk bearing off-balance items are classified into the following categories: A ("pass"), B ("watch"), C ("substandard assets"), D ("doubtful assets") and E ("loss"). Pursuant to the Decision, the Bank makes 2% provisions for general risk-bearing provisions for category A, while the provisions for categories B, C, D and E are the following:

category B: watch	5% - 15%
category C: substandard assets	16% - 40%
category D: doubtful assets	41% - 60%
category E: loss	100%

Application of international accounting standards from 01 January 2010. there was a certain change in the balance sheet items of the Bank. In accordance with the Decision, the assets classified in category E, even when it is 100% impaired, are recorded in the balance sheet until the Bank conducts actions for termination of obligations of the debtor, in accordance with legal regulations governing contractual relationships and internal policies and procedures of the Bank. Also, if the in the classification, assets migrate to non-performing assets, the accrued and unpaid interest, which had previously been recognized as interest income, the Bank shall impair the value of uncollected receivables in accordance with International Accounting Standards.

In accordance with the Decision, reserves for loan losses represents a reserve that the Bank in assessing asset's quality and qualifications of assets items, forms, taking into account the already established impairment of balance sheet assets and provisions for losses of off-balance sheet items. The amount of estimated losses, net of allowance balance sheet assets and provisions for losses of off-balance sheet items are created from retained earnings based on the decisions of the General Assembly and is recorded under the allowance for loan losses. If the Bank is unable to cover lacking reserves, they are still recorded as a deduction from equity and adjusted in the following calculations to the final coverage.

3.1. SUMMERY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Income tax is calculated in accordance with tax regulations of the Republic of Srpska. Income tax is payable at 10% of the taxable income reported in Tax return. The taxable income represents profit reported in the income statement adjusted for certain income and expenses, as prescribed by the tax regulations, and it could be reduced for certain tax reliefs.

Shareholders' equity

Shareholders' equity consists of ordinary shares, net of any transaction costs, reserves and retained earnings.

Comparative data

In order to conform with the presentation in the current year, certain adjustments have been made in comparative data on the balance sheet and changes in equity, due to changes in regulations governing the banking and financial reporting.

Financial statements for 2009. have been prepared in accordance with the Law on Accounting and Auditing of Republic of Srpska, who has prescribed IAS or IFRS as the basis for the preparation of the financial statements.

Considering the application of international accounting standards as at 01 January 2010. , the Banking Agency of the Republic of Srpska passed in 2010. a Directive on the revised form of forming, recording and reporting of the allowance for credit losses as well as the Decision on amendments of decision on minimum standards for credit risk management and classification of bank assets.

In accordance with changed accounting rules and regulations of the Banking Agency of the Republic of Srpska, there was a change of certain balance sheet positions as at 01 January 2010. and in order to compare the data with the presentation in the current year the Bank made some corrections as at 31 December 2009. The effects of adjustments are presented in the balance sheet. Effects of adjustments for prior periods are related to implementation of IAS 39 and 37 and change of methodology of provision calculation resulting in increase of total asset and liabilities by 5.252 thousands :

- increase in assets based on returning from off-balance in the balance of loans previously classified in category E in the amount of KM 3,676 thousand and suspended interest and other assets in the amount of KM 1,997 thousand and increased allowances for impairment of assets amounting to KM 421 thousand;

- increase in liabilities is based on the established provisions for credit losses in the amount of KM 4,274 thousand (reserves from ABRS regulation) and the reserve for off-balance sheet items risky assets in the amount of KM 978 thousand

4. INTEREST INCOME AND EXPENSES

	2010	2009
	KM thousand	*KM thousand*
Interest and similar income based on:		
Interest bearing deposits with deposit institutions	829	1.665
Due from other banks	67	78
Securities held to maturity	15	-
Loans and advances	43.173	39.596
Total interest and similar income	**44.084**	**41.339**
Interest and similar expenses based on:		
Deposits	15.740	14.576
Due to other banks	-	4
Borrowings	5.000	4.073
Subordinated liabilities and bonds	25	30
Other interest and similar expenses	-	14
Total interest and similar expenses	**20.765**	**18.697**
Net interest income	**23.319**	**22.642**

Interest income and expense, analyzed by types of placements and related sources, are as follows:

	2010		2009	
	Income	Expenses	Income	Expenses
	KM thousand	*KM thousand*	*KM thousand*	*KM thousand*
Banks	896	96	1.743	2.488
Companies	25.588	5.889	23.005	3.651
Public sector	3.911	5.162	1.805	6.916
Retails	13.528	3.311	14.783	4.909
Other customers	161	6.307	3	733
Total	**44.084**	**20.765**	**41.339**	**18.697**
Interest and similar income, net	**23.319**		**22.642**	

5. OPERATING INCOME

	2010	2009
	KM thousand	*KM thousand*
Loans fees	3.087	2.339
Off-balance sheet items fees	3.852	4.106
Domestic clearing and settlement fees	10.812	19.225
Foreign exchange gains	3.887	2.256
Trading income	-	107
Other operating income	15.718	10.897
Total	**37.356**	**38.930**

5. OPERATING INCOME (continued)

Other operating income includes:

	2010	2009
	KM thousand	*KM thousand*
Reversal of impairment losses and recovery of receivables previously written off	12.225	7.702
Recovery of evident interest	613	-
Income from sale of investments in share of other legal entities	6	5
Credit cards membership fees	363	405
Income from previous years	-	3
Dividends	2	22
Other operating income	2.509	2.760
Total	**15.718**	**10.897**

Reversal of impairment losses and recovery of receivables previously written off:

	2010	2009
	KM thousand	*KM thousand*
Reversal of impairment losses on loans and recovery of receivables previously written off (Note 12)	3.999	5.357
Reversal of impairment losses on other assets (Note 15)	1.868	-
Reversal of impairment losses and recovery of receivables previously written off on off-balance assets (Note 20)	6.358	2.345
	12.225	**7.702**

6. OPERATING AND DIRECT EXPENSES

	2010.	2009.
	KM thousand	*KM thousand*
Provision for potential credit and other losses	17.915	14.516
Other operating and direct expenses	2.394	2.211
Total	**20.309**	**16.727**

Structure of credit loss expense

	2010	2009
	KM thousand	*KM thousand*
Provision for potential credit losses (Note 12)	10.477	10.693
Provision for the risks of other assets (Note 15)	2.693	1.183
Provision for the risks of off-balance risk assets (Note 20)	4.745	2.640
	17.915	**14.516**

Other operating and direct expenses include:

	2010	2009
	KM thousand	*KM thousand*
Fees and commissions – Central Registry and Stock Exchange	111	85
Fees for payment cards operations	689	752
Fees for banking services	409	273
Other fees and commissions	769	682
Fees for clearing and settlement services	416	419
Total	**2.394**	**2.211**

7. OPERATING EXPENSES

	2010	2009
	KM thousand	*KM thousand*
Gross salaries and contributions expenses	11.503	12.537
Business premises, fixed assets and overheads	9.088	9.720
Other operating expenses	9.871	10.952
Total	**30.462**	**33.209**

Business premises, fixed assets and overheads include:

	2010	2009
	KM thousand	*KM thousand*
Office supplies, overhead costs, fuel	2.239	1.363
Fixed asset maintenance cost and rents	3.458	3.879
Depreciation (Note 13)	4.391	4.478
Total	**9.088**	**9.720**

7. OPERATING EXPENSES (continued)

Other operating expenses relate to:

	2010	2009
	KM thousand	*KM thousand*
Materials	25	24
Production services	3.357	3.441
Non-material expenses	4.468	5.662
Other personal expenses	156	172
Taxes	255	83
Contributions	39	165
Provisions for severance compensations	3	34
Jubilee awards	17	-
Other expenses	1.551	1.371
Total	**9.871**	**10.952**

8. INCOME TAX

Current tax for the year ended 31 December 2010 was calculated by applying the rate of 10% on taxable income reported in the Tax Return for Tax authorities of the Republic of Srpska. Also, current tax for the Brčko district (apart from current tax within Republic of Srpska) is KM 38 thousand.

	2010	2009
	KM thousand	*KM thousand*
Profit before tax	9.904	11.636
Reconciliation of income and expenses	3.062	1.016
Taxable basis	**12.966**	**12.652**
Tax rate	*10%*	*10%*
Income tax	**1.297**	**1.265**

9. CASH AND CASH DEPOSITS WITH DEPOSIT INSTITUTIONS

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Cash on hand and non-interest bearing deposits		
Cash on hand - local currency	6.533	5.563
Cash on hand - foreign currency	4.671	3.134
Business unit gyro account	242	199
Checks denominated in foreign currency	-	198
	11.446	**9.094**
Interest bearing deposits		
Short-term loans and placements denominated in KM	3.000	3.500
Foreign currency accounts with foreign banks	17.344	30.911
Short term deposits with foreign banks	92.902	62.587
Balances with the Central bank	116.036	164.657
	229.282	**261.655**
Total	**240.728**	**270.749**

Balances with the Central Bank

As of 31 December 2009 assets KM 116.036 thousand were maintained for the mandatory reserve purposes on the account held with the Central Bank of Bosnia and Herzegovina.

The mandatory reserve was maintained in the manner defined by the Decision of the Central Bank of Bosnia and Herzegovina on determination and maintenance of mandatory reserves and determination of income for the reserve, whereby the following are prescribed: the basis for obligatory reserve calculation, calculation period, obligatory reserve rate, as well as income for the obligatory reserve amount with the Central Bank.

Deposits and funds borrowed represent the basis for calculating the mandatory reserve, regardless of their currency. The mandatory reserve is calculated according to the balance at the end of each working day during period, preceding the maintenance period. The period for calculating the mandatory reserve begins as of 1st, 11th and 21st day of each month and concludes on 10th, 20th and the last day in a month. The Bank is obligated to submit a report to the Central Bank of Bosnia and Herzegovina on the balance of its deposits and loans in KM, within three days after the end of the period.

In line with the Decision on the amendment of Decision on determining and maintaining obligatory reserves and determination of interest for reserves, obligatory reserve rate is 14% for short term deposits and loans and 7% on long term deposits and loans.

In line with the Decision Central bank calculates the interest on the total amount of the obligatory reserve during the calculating period in the following way: applicable rate for the obligatory reserves is 0,50% and the rate for the amount exceeding the obligatory reserves equals to the average interest rates that the Central bank carried out on the market on overnight deposits during the same period.

10. SECURITIES

As of 31 December 2010, securities held for trading amounted to KM 1.583 thousand (31 December 2009: KM 2.047 thousand). During 2010 the Bank realized profit from securities held for trading in the amount of KM 10 thousand.

As of 31 December 2010, securities held to maturity amounted to KM 234 thousand (31 December 2009: KM 0).

11. DUE FROM OTHER BANKS

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Short-term deposits to banks	5.942	3.246
Total	**5.942**	**3.246**

Due from other banks relate to short-term deposits with ProCredit bank and Privredna banka, Sarajevo as well as transactions with Western Union.

12. LOANS AND OVERDUE RECEIVABLES

a. A summary by types of loans

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Short-term loans	137.914	228.738
Long-term loans	411.861	278.235
Overdue receivables	25.241	15.610
Total	**575.016**	**522.583**
Impairment	**(28.914)**	**(22.436)**
Net loan amount	**546.102**	**500.147**

12. LOANS AND OVERDUE RECEIVABLES (continued)

b. A summary by type of customers:

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Short-term loans		
Public and state-owned enterprises	784	784
Corporate	106.274	101.001
Government and government institutions	9.677	21.604
Banks	2.093	3.000
Retail	19.076	24.355
Other	10	6
Current maturities	91.554	77.988
Total short-term loans	**229.468**	**228.738**
Long-term loans		
Public and state-owned enterprises	1.619	1.648
Corporate	206.378	178.631
Government and government institutions	46.092	26.068
Retail	137.605	141.005
Other clients	20.167	8.871
Current maturities	(91.554)	(77.988)
Total long-term loans	**320.307**	**278.235**
Overdue receivables		
Government and government institutions	29	33
Corporate	19.080	11.893
Retail	5.200	2.136
Other	932	1.548
Total overdue receivables	**25.241**	**15.610**
Total	**575.016**	**522.583**
Impairment	**(28.914)**	**(22.436)**
Net loan amount	**546.102**	**500.147**

12. LOANS AND OVERDUE RECEIVABLES (continued)

Impairment

Changes in provisions for credit losses were as follows:	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Balance at begining of the year	22.436	17.100
New provisions (Note 6)	10.477	10.693
Cancellation of provisions (Note 5)	(3.999)	(5.357)
Balance as at 31 December	**28.914**	**22.436**

As of 31 December 2010 and pursuant to Article 91 of Law on Banks of the Republic of Srpska, the Bank has high credit risk exposure toward five individuals and their related parties in amount exceeding 15% of the Bank's equity. Sum of Bank's high credit risk exposure does not exceed 300% of the Bank's equity.

As of 31 December 2010 and pursuant to Article 91 of the Law on Banks of the Republic of Srpska, the Bank did not have the loans towards an individual customer or a group of related customers in the amount exceeding 40% of the Bank's core capital.

In accordance with the Decision on the Bank's interest rate, short term loans were granted to corporate clients at the annual interest rates ranging from 2% to 13%, depending on the type of loan, while long term loans were granted at annual interest rates ranging from 2,4% to 13%. Short term loans to retail customers were granted at annual interest rate ranging from 3,3% to 12% while long term loans were granted at the annual interest rate ranging from 3,3% to 13%. For loans granted from credit lines the interest rate is 6 month EURIBOR + margin ranging from 4,225% to 6,725%, and loans from IRB RS are granted in accordance to IRBRS requirements.

As of 31 December 2010 total amount of loans granted to the employees of the Bank is KM 9.201 thousand (out of which to management of the Bank KM 1.262 thousand).

c. Concentration of loans to customers

As of 31 December 2010 the concentration of the Bank's total placements to customers was significant in the following industries:

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Agriculture, hunting and fishing	13.360	12.267
Mining and industry	143.158	124.917
Civil construction	22.211	16.375
Trade	119.654	104.304
Services, tourism and catering	2.564	6.224
Transportation, warehousing, telecommunication	16.490	14.496
Finance	12.888	17.692
Real estate trading	26.254	19.025
Administration and other public services	53.343	35.384
Other	165.094	171.899
Placements to customers, gross as of 31 December	**575.016**	**522.583**
Impairment	**(28.914)**	**(22.436)**
Placements to customers, net as of 31 December	**546.102**	**500.147**

12. LOANS AND OVERDUE RECEIVABLES (continued)

d. Maturities of loans to customers

Maturity structure of loans to customers in terms of the remaining maturity as of 31 December 2010 is as follows:

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Up to 30 days	57.291	52.695
From 1 to 3 months	36.793	36.280
From 3 to 12 months	162.652	155.910
From 1 to 5 years	213.296	185.165
Over 5 years	104.984	92.533
Placements to customers, gross as of 31 December	**575.016**	**522.583**
Impairment	**(28.914)**	**(22.436)**
Placements to customers, net as of 31 December	**546.102**	**500.147**

13. BUSINESS PREMISES AND OTHER FIXED ASSETS

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Intangible assets, net	4.843	5.428
Property and equipment, net	22.103	24.618
Balance as of 31 December	**26.946**	**30.046**

a) Intangible assets

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Intangible assets	3.695	3.682
Licenses and software	4.738	3.624
Intangible assets in preparation	1.531	2.081
Advances	-	-
Depreciation	(5.121)	(3.959)
Net book value as of 31 December	**4.843**	**5.428**

13. BUSINESS PREMISES AND OTHER FIXED ASSETS (continued)

a) Intangible assets (continued)

Movements on intangible assets during 2010 were as follows:

	Intangible assets	Licenses and software	Intangible assets in preparation	Advances	Total
	KM thousand	*KM thousand*	*KM thousand*	*KM thousand*	*KM thousand*
COST					
Balance at 01 January 2009	3.419	2.874	2.637	14	8.944
Additions	263	750	569	-	1.582
Transfer	-	-	(1.125)	(14)	(1.139)
Disposals	-	-	-	-	-
Balance at 31 December 2009	**3.682**	**3.624**	**2.081**	**-**	**9.387**
Balance at 01 January 2010	3.682	3.624	2.081	-	9.387
Additions	-	-	577	-	577
Transfer	13	1.114	(1.127)	-	-
Disposals	-	-	-	-	-
Balance at 31 December 2010	**3.695**	**4.738**	**1.531**	**-**	**9.964**
ACCUMULATED DEPRICIATION					
Balance at 01 January 2009	1.552	1.221	-	-	2.773
Depreciation	645	541	-	-	1.186
Disposals	-	-	-	-	-
Balance at 31 December 2009	**2.197**	**1.762**	**-**	**-**	**3.959**
				-	-
Balance at 01 January 2010	2.197	1.762	-	-	3.959
Depreciation	629	533	-	-	1.162
Disposals	-	-	-	-	-
Balance at 31 December 2010	**2.826**	**2.295**	**-**	**-**	**5.121**
NET BOOK VALUE					
Balance at 31 December 2010	**869**	**2.443**	**1.531**	**-**	**4.843**
Balance at 31 December 2009	**1.485**	**1.862**	**2.081**	**-**	**5.428**

13. BUSINESS PREMISES AND OTHER FIXED ASSETS (continued)

b) Property and equipment

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Land	4.804	4.804
Business premises	8.553	8.431
Equipment	23.092	23.159
Assets under construction	810	567
Accumulated depreciation	(15.156)	(12.343)
Net book value as of 31 December	**22.103**	**24.618**

Movements on property and equipment during 2010 were as follows:

	Land	Business premises	Equipments and other assets	Assets under construction	Total
	KM thousand	*KM thousand*	*KM thousand*	*KM thousand*	*KM thousand*
COST					
Balance at 01 January 2009	4.804	8.337	20.777	2.851	36.769
Additions	-	229	135	907	1.271
Transfer	-	-	3.191	(3.191)	-
Sales	-	-	(590)	-	(590)
Write-offs	-	(135)	(354)	-	(489)
Balance at 31 December 2009	4.804	8.431	23.159	567	36.961
Balance at 01 January 2010	4.804	8.431	23.159	567	36.961
Additions	-	122	481	415	1.018
Transfer	-	-	172	(172)	-
Sales	-	-	(228)	-	(228)
Write-offs	-	-	(492)	-	(492)
Balance at 31 December 2010	4.804	8.553	23.092	810	37.259
ACCUMULATED DEPRICIATION					
Balance at 01 January 2009	-	106	9.693	-	9.799
Impairment	-	108	3.184	-	3.292
Sales	-	-	(416)	-	(416)
Write-offs	-	(14)	(318)	-	(332)
Balance at 31 December 2009	-	200	12.143	-	12.343
Balance at 01 January 2010	-	200	12.143	-	12.343
Impairment	-	110	3.119	-	3.229
Sales	-	-	(164)	-	(164)
Write-offs	-	-	(252)	-	(252)
Balance at 31 December 2009	-	310	14.846	-	15.156
NET BOOK VALUE					
Balance at 31 Dec 2010	**4.804**	**8.243**	**8.246**	**810**	**22.103**
Balance at 31 Dec 2009	**4.804**	**8.231**	**11.016**	**567**	**24.618**

14. INVESTMENTS IN NON-CONSOLIDATED RELATED PARTIES

Investments in non-consolidated related parties include investments in equity of the following legal entities:

	31 Dec 2010		31 Dec 2009	
	KM thousand	*% in total*	*KM thousand*	*% in total*
Nova leasing	860	63%	860	63%
Nova Real estate	450	10%	450	10%
ZIF Unioninvest fond ad	200	9%	200	9%
Centralni registar	207	7%	130	7%
Banjalučka berza, Banja Luka	266	9%	175	9%
SWIFT	31	-	31	-
Impairment of investments	(136)		(51)	
Total	**1.878**		**1.795**	

As of 31 December 2010, individual equity investments did not exceed 5% of the Bank's share capital. Also as of 31 December 2010 the total net carrying value of the Bank's equity investments in other legal entities and subsidiaries of those legal entities did not exceed 20% of the Bank's share capital, whereas the total amount of equity investments in other non-financial legal entities did not exceed 25% of share capital.

15. OTHER ASSETS

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Interest and fees receivable	5.421	4.498
Purchased receivables	578	738
Receivables from the Postal Service of the Republic Srpska	332	337
Advances for investments in business premises	550	308
Other advances	3.257	2.883
Receivables from debit and credit cards	1.008	953
Acquired assets	1.734	973
Accrued interest	2.318	1.308
Prepaid expenses	694	828
Inventories	96	82
Receivables from refunding fees	452	337
Deposits from operations with Central registry	17	63
Deferred tax receivables	-	65
Treasury shortages	-	-
Other receivables from operations	1.537	2.590
Total	**17.994**	**15.963**
Impairment	**(1.625)**	**(800)**
Other assets, net value	**16.369**	**15.163**

15. OTHER ASSETS (continued)

Movements on impairment during 2010 were as follows:	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Balance at the beginning of the year	800	547
New impairments (Note 6)	2.693	1.183
Cancellation of impairment (Note 5)	(1.868)	-
Effects of changes in accounting policies	-	(930)
Balance at 31 December	**1.625**	**800**

Interests and fees receivable

Interests and fees receivable as of 31 December 2010 were as follows:

	31 Dec 2010	31 Dec 2009
	KM thousand	*KM thousand*
Interest receivable		
Banks	39	56
Corporate	3.388	1.562
Retail	1.239	1.978
Government and other government institutions	60	29
Total interest receivable	**4.726**	**3.625**
Fees receivable		
Banks	-	-
Corporate	621	785
Retail	73	88
Foreign individuals	1	-
Total interest receivable	**695**	**873**
Total interest and fees receivable	**5.421**	**4.498**

16. DEPOSITS

	2010	2009
	KM thousand	*KM thousand*
Interest-bearing deposits		
Banks and other financial institutions	3.306	13.610
Public and state-owned enterprises	132.074	61.114
Corporate	70.611	62.042
Non-industrial customers	54.058	24.420
Government and state institutions	103.495	262.898
Foreign entities	72	1.758
Domestic individuals	105.870	66.656
Others	2.807	2.877
Total interestbearing deposits	**472.293**	**495.375**
Non interest bearing deposits		
Banks and other financial institutions	937	301
Public and state-owned enterprises	4.558	171
Corporate	13.600	23.113
Non-industrial customers	1.131	2.445
Government and state institutions	679	1.671
Foreign entities	1.987	388
Domestic individuals	60.324	60.762
Others	95	146
Total non-interest-bearing deposits	**83.311**	**88.997**
Total	**555.604**	**584.372**

The Bank calculates and pays interest on demand deposits from corporate clients at the interest rate of 0,30% per annum, while interest rates on term deposits in domestic and foreign currency was from 1,5% to 6,50% per annum, depending on the period, amount and currency. Also, on deposits on demand from retail customers interest rate was 0,30% per annum and for term deposits in domestic and foreign currency interest was ranging from 1,2% to 5,8% depending on the period and the amount.

17. BORROWINGS

	2010	2009
Short term borrowings	*KM thousand*	*KM thousand*
IRB RS-Development and Employment Fund of RS	433	290
IRB RS-Fund for development of the eastern part of RS	226	241
IRB RS-Residential fund	121	77
Total short term borrowings	**780**	**608**
Long term borrowings		
Development and Employment Fund of RS	7.405	10.942
IRB RS-Residential fund of RS	46.774	15.871
IRB RS Development and Employment Fund of RS	67.764	49.868
IRB RS Fund for development of the eastern part of RS	30.364	26.381
PCU-Ministry of Finance of RS	2.607	2.012
Ministry of Finance of RS	506	1.956
Federal ministry of finance	2.439	2.825
Ministry of industry of Sarajevo district	2.437	2.877
IFC	7.112	9.957
European Fund	15.843	21.220
Total long term borrowings	**183.251**	**143.909**
Total borrowings	**184.031**	**144.517**

Part of long term borrowings with maturity up to one year amounted to KM 780 thousand (2009: KM 608 thousand).

Long-term borrowings include funds granted by the Ministry of Finance of the Republic of Srpska (the Development and Employment Fund), Office for co-ordination of the World Bank projects, Banja Luka, over the periods from 3 to 10 years and at annual interest rate of 2,75%. The funds were borrowed for granting loans to enterprises in the areas of agriculture, food and industry production, bearing interest at the rate of 7,5% per annum.

Long-term borrowings from the International Finance Corporation relate to an Agreement on credit line signed in May 2006. In accordance with the Agreement, the loan is granted in the amount of EUR 10.000.000. The loan can be withdrawn upon the approval of IFC on the basis of the request submitted by the debtor (the Bank). All the withdrawals (except the last one) will be in the amount not less than EUR 1.000.000. Loan is due on 15 June 2013.

Long-term borrowings from the European Fund for Southeast Europe relate to general agreement on granting individual loans signed by the Bank and the European Fund for Southeast Europe (the Fund) on 26 June 2006. In accordance with the Agreement, the loan is granted in the amount of EUR 17.000.000 and it is to be repaid in semi-annual installments (on 31 March and 30 September) starting from 31 March 2007. Annual interest rate represents the sum of 6m EURIBOR and a margin which is defined in each individual loan agreement.

18. SUBORDINATED LIABILITIES

Subordinated liabilities as of 31 December 2010 in the amount of KM 997 thousand (31 December 2009 in the amount of KM 1.126 thousand) refer to USAID loans.

During 2003 the Bank bought loan portfolio from USAID in the amount of KM 4.825 thousand. The amount of KM 2.895 thousand was paid in August 2003, while the remaining amount of KM 1.930 thousand was subject of an Agreement on subordinated loan. Pursuant to the agreement, the Bank is obligated to repay the subordinated liabilities in 60 equal quarterly installments, starting from 01 December 2003, at interest rate of Euro Libor on annual level.

19. OTHER LIABILITIES

	2010	**2009**
	KM thousand	**KM thousand**
Interest and fees payable	517	467
Trade payables	181	816
Deferred income	136	137
Liabilities for deposited investments in other entities	214	259
Deferred fees	3.025	2.736
Other deferrals	2.403	1.246
Payment and credit card related liabilities	124	166
Taxes and contributions payable	109	192
Income tax liabilities	137	1.012
Liabilities from profit toward shareholders	-	527
Net salary liabilities	183	332
Non-allocated inflows	43	138
Liabilities with respect to postal orders	513	449
Asset management related liabilities	134	133
Accrued interest liabilities	2.160	2.068
Long-term employee benefits (jubilee awards, severance payments)	343	322
Other liabilities	309	553
'otal	**10.531**	**11.553**

20. PROVISIONS

	2010.	2009.
	KM thousand	*KM thousand*
Financial guarantee contracts	2.004	3.617
Balance as at 31 December	**2.004**	**3.617**

Movements in provisions were as follows:

	2010	2009
	KM thousand	*KM thousand*
Financial guarantee contracts		
Balance as of 1 January	3.617	3.322
Charge for the year	4.745	2.640
Reversal of impairment	(6.358)	(2.345)
Balance as at 31 December	**2.004**	**3.617**

21. SHAREHOLDER'S EQUITY

	31.12.2010.	31.12.2009.
	KM thousand	*KM thousand*
Share capital – ordinary shares	63.146	53.293
Share capital - preference shares	-	-
Share premiums	8.070	8.070
Retained earnings	8.608	10.372
Reserves	2.517	1.999
Provisions for credit losses	4.274	4.274
Total	**86.615**	**78.008**

Total Bank's share capital as of 31 December 2010, comprised 63.145.754 ordinary shares with nominal value of KM 1.000 each (31 December 2009: 45.142 ordinary shares with nominal value of KM 1.000, and 8.150.992 ordinary shares with nominal value of KM 1).

On 17 May 2010 Bank's Assembly issued a Decision to raise the XIV and XV issuance of shares.

The decision on XIV issuance of shares relates to the issuance of shares where 45.142 common shares of class A and nominal value 1.000 KM divides on 45.142.000 common shares with nominal value 1 KM.

The decision on XIV issuance of shares relates to the issuance of shares in value of 9.852.762 KM from retained profit from 2009.

21. SHAREHOLDER'S EQUITY (continued)

As of 31 December 2010, the Bank's most significant shaeholder's were as follows:

	Ordinary shares	% of total ordinary shares
Poteza Adriatic Fund BV, Amsterdam	22.558	35,72%
International Finance Corporation, Washington	4.970	7,87%
Avlijaš Goran	3.415	5,41%
Radanović Slobodan	3.366	5,33%
Prva Group plc, Ljubljana	2.897	4,59%
Invest Nova a.d. Bijeljina	1.936	3,07%
Ćurčić Slobodan	1.190	1,88%
Sivrić Zdenko	1.078	1,71%
Telrad d.o.o. Bijeljina	1.066	1,69%
Krajišnik Živojin	846	1,34%
Andžić Milorad	776	1,23%
Babić Radislav	746	1,18%
LD doo	741	1,17%
Kaldera Kompani d.o.o. Laktaši	670	1,06%
Lazarević Dušan	650	1,03%
Others	16.241	25,72%
Total	**63.146**	**100,00%**

All above stated changes of the Bank's shareholders are recorded with the Central Securities Registry of the Republic of Srpska.

On 31 December 2010, the Bank's monetary equity amounted to KM 63.146 thousand. As prescribed by the Law on Banks of the Republic of Srpska, minimal monetary equity amount is KM 15.000 thousand.

According to the Article 90, paragraph 3, of the aforementioned Law and the Decision on minimum standards for management of banks' capital, the minimal capital adequacy ratio of 12% is prescribed, together with the method for calculation of the capital adequacy ratio. As of 31 December 2009 capital adequacy ratio was 13,9% (31 December 2009: 15,1%).

22. OFFBALANCE SHEET ITEMS

	31.12.2010	*31.12.2009*
	KM thousand	*KM thousand*
Contingencies and commitments		
Payable guarantees	19.129	18.162
Performance guarantees	61.832	52.677
Uncovered letters of credit	2.278	2.040
Irrevocable loan liabilities	38.263	55.716
Total contingencies and commitments	**121.502**	**128.595**

Contingencies and commitments

Irrevocable commitments relate to unused approved loans which cannot be cancelled unilaterally, such as: overdrafts on current accounts, revolving loans to corporate customers, multipurpose frame loans, acquisition and other irrevocable commitments. Irrevocable commitments usually have fixed expiration dates or other provisions concerning expiration. Since the irrevocable commitments can expire before loan withdrawal by the customer, the total contracted amount do not necessarily represent future cash outflows. The Bank monitors maturity of the irrevocable commitments in respect of unused approved loans, because long-term commitments have higher level of credit risk than short-term commitments.

Funds managed on behalf of third parties

In thousand KM	**31.12.2010.**	**31.12.2009.**
Funds managed	20.018	21.076
Funds managed – loans IGA	753	879
Total:	**20.771**	**21.955**

Funds managed on behalf of third parties include the amount of KM 20.771 thousand (2009: KM 21.955 thousand) that relate to the loans on behalf of third parties.

In the given funds managed, amount of KM 11.327 thousand is related to Bank loans Agroprom ad Banja Luka classified as category E, which is in accordance with the Agreement of merger of banks in December 2002. remained in possession of current shareholders of Bank Agroprom ad Banja Luka and were not subject of transaction.

The said agreement and subsequently concluded an internal agreement in April 2003. year, stipulate that the Bank will collect loans classified in category E on its own behalf and on behalf of former shareholders of the Bank Agroprom ad Banja Luka , charing a fee of 1% of the collection of loans.

According to signed contracts, Bank on behalf of RS regions (Trebinje, Višegrad, Derventa) as well as on behalf of BiH Federation institutions (Sarajevo district), makes placement and collection of development loans for industrial and agricultural production in these districts. On 31 December 2010 total balance of receivables that refer to transaction on behalf of third parties (districts and other institutions) was KM 8.591 thousand.

Since 2002, Bank has made placement and collection of loans, on behalf of financial institution (IGA), approved for encouragement and development of production for export. On 31 December 2010 total balance of these receivables was KM 753 thousand.

Other managed funds in behalf of third parties (Polar invest, postal štedionioca) amount to 100 thousand.

23. RELATED PARTIES

Total loans granted to individuals related to the Bank (the Bank's management, members of the management, employees, significant shareholders) exceed 1% of the Bank's share capital. As of 31 December 2010, the Bank had loans granted to legal entities where the Bank has equity investments (Nova leasing and Nova Real estate), and loan granted to shareholder that own more than 5% of the Bank's share capital.

Loans to related parties are granted under standard market conditions and in accordance with the Bank's business policies.

24. "BROKER NOVA" BRANCH

The Branch "Broker Nova" located in Banja Luka has been established within the Bank for securities trading. In accordance with the Law on Securities market and the license issued by the Securities Commission of the Republic of Srpska, the Branch „Broker Nova" (financial exchange broker) performs the following activities:

- acting as an intermediary in buying and selling securities by order and for account of client (brokerage activities)
- trading securities for its own account to generate profit as a difference between the prices (dealing activities)

In 2010, total turnover of "Broker Nova" on the stock exchange amounted to KM 30.244 thousand and the number of transactions was 4.433 which make 8,67% of total turnover on the Banja Luka Stock exchange. From the total turnover, KM 12.272 thousand or 4.412 transactions refer to regular transactions and this amount represents 9,48% of all regular transactions on the Banja Luka Stock Exchange.

In 2010 the Branch "Broker Nova" has made KM 245 thousand of total income, which is 0,66% of Bank's operating income. Income structure is as follows: fee and commission income for brokerage activities amounted to KM 231,19 thousand or 94,2% and income from foreign transactions amounted to KM 13,74 thousand or 5,6%. Total income are greater than total income for 3% or KM 7 thousand which is equal to operating income in 2010.

The income statement of the branch "Broker Nova" is summarized below:

	31.12.2010.	31.12.2009.
INCOME STATEMENT	*KM thousand*	*KM thousand*
Fee and commission income	245	185
Other operating income	-	17
Other operating expenses	(238)	(300)
Net profit/(loss)	**7**	**(98)**

24. POSLOVANJE FILIJALE „BROKER NOVA (continued)

BALANCE SHEET

ASSETS	**31.12.2010.** *KM thousand*	**31.12.2009.** *KM thousand*
Cash and cash equivalents-on the current account of Nova Banka	227	184
Cash and cash equivalents (depositors)	603	684
Business premises and other fixed and intangible asset	6	9
Interest receivables and other assets	132	39
Total assets	**968**	**916**
LIABILITIES AND EQUITY		
Deposits	603	684
Other liabilities	358	330
Equity – (loss)/retained earnings	7	-98
Total liabilities and equity	**968**	**916**

The Branch "Broker Nova" operates in accordance with the Law on Securities Market and Rulebook on Exchange Brokers.

25. EVENTS AFTER BALANCE SHEET DATE

The Bank had no other significant events after balance sheet date which would have material effect on the financial statements.

26. LITIGATIONS

The most important lawsuit against the Bank is from the litigation of Farmaland a.d. Nova Topola, that also initiated lawsuit against Republic of Srpska in order to determine the shareholder's equity in Nova Banka a.d., Banja Luka in the amount of 0,323% and requested amount of 4.500 KM based on the ownership of the Bank shares. Farmaland is legal successor of PIK Mladen Stojanovic, whose capital was lost during the privatization of Agroprom banke a.d., Banja Luka. On January the 1, 2003 Agroprom Bank was merged with Nova Banka a.d., Banja Luka and on that day procecutor did not have shares in shareholder's equity of Agroprom banka. Considering that the Bank was not in any relation with the prosecutor, and the request of the procecutor does not have any legal basis, the Bank's management belive thta this litigation will be resolved in its favour and therefore did not make provisions for this case.