

Publishing the data and information of Srpska banka a.d. Belgrade As of 31.12.2011

Pursuant to the Law on Banks, the decision on publishing the data and information of the bank ("Official Gazette of RS", no. 45/2011), decision of Executive Board of Srpska Banka a.d. on adoption of criteria for determination of data and information which the bank is obliged to publish, conditions and method as well as time schedule of their publishing, no.1011/11 dated 29.12.2011, Srpska banka a.d. Belgrade (hereinafter Bank) published the report which includes all required data and information prescribed by the NBS.

The report shall be announced publically on Bank's website (www.srpskabanka.rs).

Publishing exclusively refers to Bank data, regarding the fact that the Bank does not perform the consolidation.

1. Business name and registered seat of the bank

Srpska banka a.d. Belgrade, Savska 23, Belgrade

2. Risk management strategy and risk management policy

The risk management system includes strategy and policy on risk management, procedures, methodologies and other documents regulating the business activities within the area of risk management, also including reporting to the authorities, as well as activities of internal audit and supervision.

Risk management system enables management of all risks for the Bank during its business activities. Strategic Bank business goals specify the dominant risk types in the subsequent period. The credit risk, foreign currency risk, operational risk shall have a final impact on the result and capital of the Bank and it shall require the majority of capital, as the provision against possible losses. The market risks that the Bank had and would have in the following period shall have significantly less effects due to Bank's business activities. Liquidity risk and interest risk shall mainly affect the Bank's result and considerably less the Bank's capital.

The risk management system provides that the Bank risk profile is always in compliance with the defined Bank activities towards the risks.

The credit risk is the most important risk section in the Bank risk profile and it related to the growth placement strategy to the clients – legal entities and individuals amounting up to 15% annually, with relative placement enhancement with the population in 2013 (20%). The credit portfolio structure shall remain in the existing relation between placement domination to corporate of more than 80%, retail of about 10% and other clients up to 10% portfolio. Regarding the credit risk, the impact of the following risk shall occur such as: risk of relatively rapid placement growth, placement concentration risk with certain clients and risk of payability decrease due to decrease of the debtor's foreign currency position. The bank shall also monitor and control these complementary risks.

In the process of implementation of new regulations of the NBS, the Bank has decided to use standardized approach in credit risk management, which is suitable for smaller banks, i.e. for the volume and structure of credit activity of the Bank.

Currency risk still has an important effect on the result and capital of the Bank, because it is expected that the share of foreign currency component in the structure of deposits will be about 30% in new assets, i.e. about 35% in total deposits. The Bank is planning to keep including all foreign currency positions and positions with currency clause from balance sheet and off-balance sheet assets in to the process of currency risk management. Limit of exposure of maximum 20% of Bank's regulatory capital will be complied with in the upcoming period as well, and a part of capital must be allocated as a provision for that risk.

Bank's operational risk becomes increasingly important with the widening of the network of business units (three branch offices per year have been planned), well as with inclusion of new products into offer and transfer to more complex IT support. New regulations of the NBS will certainly require that a part of the regulatory capital is allocated as a security from operational risk. The Bank has decided to use the principle of basic indicator to calculate necessary level of capital (capital requirement), based on average level of Bank's business activity.

Bank's Risk Management Strategy and Risk Management Policy define that the value of positions in the trading book should not exceed:

- 55% of total operations of the Bank for more than three business days in a calendar month;
- .5 billion RSD for more than three business days in a calendar month;
- the value of items in trading book shall not exceed at any moment 6% of total operations of the Bank or the amount of 2 billion RSD.

By fulfilling the said requirements, the Bank has no obligation to calculate and ensure coverage of capital requirements regarding market risks that arise from the items maintained in the trading book, but it shall calculate and ensure coverage of capital requirements related to credit and currency risk that arise from its banking book. For transactions that are exposed to market risk, the Banka defines limits, implements documented monitoring of positions, and individual and cumulative reporting. In case limits have been exceeded and conditions for the calculation of capital requirement for market risk have been met, the Bank shall apply the methodology defined in the procedure.

The Bank shall manage liquidity risk and interest rate risk in order to minimize expenditures from increased costs of obtaining of funds or negative gap in price of obtaining and investment of funds. The Bank shall use limits and principles for the management of these risks, which are specified in the previous overview of Bank's exposures to individual types of risks. Additionally, managing these risks will also include results of stress tests of Bank's exposures, which will be regularly performed by the Bank on the basis of scenario analyses or realistic assessments of possible changes in the surroundings. The Bank is monitoring liquidity risk through prescribed indicator of daily liquidity and internal models for monitoring liquidity (liquidity gap, liquidity ratio, monitoring deposit structure and risk limits). In its Liquidity Plan in case of occurrence of unforeseeable events – liquidity crisis and other internal acts for measuring and monitoring liquidity risk, defined quantitative indicators and determined critical values of such indicators that represent early warning indicators of negative trends in Bank's liquidity position.

All other possible exposures of the Bank to operational risks will be subject to monitoring and assessment of potential occurrence of significant losses in capital or financial result. In case of

strengthening of exposures to some other risks, the Bank shall revise the Bank's risk profile and determine additional capital requirement for that risk.

The strategy of risk management is realized through policies, procedures and methodologies for risk management. The Bank provides the realization monitoring of the adopted decisions and carries out their adjustments with significant changes in surroundings or Bank's risk portfolio.

The risk management policy is directed to complete view of possible risks in Bank business operations, especially assessment and control of:

- credit risk with settlement risk and counterparty risk;
- liquidity risk;
- interest risk;
- foreign currency risk and other market risks;
- concentration risk based on domination of one person of the group of related persons, geographic area, placement type or other risk factor;
- operational risk;
- Bank investment risk into other legal entities and basic assets;
- risk regarding the country of origin of the person towards whom the Bank has business activities
- other risks (decrease of receivables value, business operation compliance, strategic risk, etc.).

Bank shall also identify, monitor and manage the risk of business operations compliance of the Bank which especially includes sanction risk of regulatory authority and financial losses, as well as reputation risk.

Regarding organization, risk management is activity of the Management Board, Bank monitoring Board, Board for management of assets and liabilities, Executive Board and Credit Boards whose competences are specified in the regulations of NBS, Statute and other Bank documents. The Board is in charge of specification of strategies and policies of risk management policy adjustment and the Bank monitoring Board shall monitor the implementation of the adopted policies and suggests the measures for enhancement of the risk measures or measures for removal of defects and faults in existing procedures and processes. Executive Board shall adopt procedures, methodologies and other accompanying documents for close regulation of risk management procedures and control of their application. Board for management of assets and liabilities regularly monitors the impact of changes in the structure of assets and liabilities of the bank to certain risks and suggests the measures for enhancement of risk management process and capital of the Bank. The credit boards for legal entities and individuals shall make decisions on certain placements, based on proposal and risk assessment of the authorized departments.

Due to special and unique risk management system implementation and provision of functional and organizational separation of risk management activities of the Bank, the Bank formed the Department for risk management also within the Department, Management department portfolio, Department for liquidity risk management, markets risks, operational risk and Department for capital management.

Within its business operations, the Bank may have negatives i.e. it may be affected by significant defect in macroeconomic surroundings, such as: decrease of economic activity, global financial crisis, general non-liquidity in payments, increased disbalance of currency ratio, instant increase of prices and similar increasing the level of certain risks (credit risk, liquidity risk, foreign currency risk, etc.). In order to decrease the possible losses regarding this issue, the Bank shall

continuously monitor the condition within surroundings and adjust its risk activities by correcting the limits at the branches, region or type of risk level.

3. Bank capital

The total Bank capital includes basic and additional capital and deductible items.

The basic capital includes: share capital regarding ordinary shares, profit reserves and intangible investments as deductible items of the basic capital.

Additional capital includes revalorization reserves referring to basic assets and capital contributions.

Deductible items of the total capital include the required reserves.

The bank does not possess hybrid instruments, i.e. subordinate instruments, thus apart from revalorization reserves there are no other elements of the additional capital.

The following is the table showing Bank capital structure as of 31.12.2011.

		(000 RSD)
No.	Item	31.12.2011
1.	Elements included in the basic capital (1.1+1.2-1.3)	3.945.311
1.1.	Rated value of the paid shares	3.021.290
1.2.	Reserves from profit	934.566
1.3.	Intangible investments	10.544
2.	Elements included in the additional capital	434.342
2.1.	Part of revalorization bank reserves	434.342
3.	Deductible items from the basic capital	1.126.967
3.1.	Amount of the required reserve for the evaluated losses	1.126.967
4.	Total basic capital	2.818.344
5.	Total additional capital	434.342
6.	Total capital	3.252.686

4. Capital requirements and internal capital adequacy assessment

4.1 Capital adequacy and capital requirements of the Bank

The Law on banks regulates the minimum adequacy of the capital of 12% above which the banks are required to maintain the amount of their indicator through the relation between capital and risk weighted assets and risk non-balance items (credit and capital requirement) and increased for Bank activities within foreign currency risk (foreign currency request), market risk (market capital requirement) and operational risk (capital requirement for operational risk).

In compliance with the Decision on capital adequacy of the Bank, it shall calculate the capital requests for the following risks:

- credit risk – by application of standard approach;
- market risk – foreign currency risk within bank book and by standard approach implementation;
- operational risk – standard basic indicator implementation.

Capital requirements

(000 RSD)

No.	Item	31.12.2011
1.	Capital requirement for credit risk (1.1+1.2)	1.263.080
1.1.	Banks	73.080
1.2.	Corporate	1.108.949
1.3.	Individuals	79.594
1.4.	Miscellaneous	1.457
2.	Capital requirement for foreign currency risk	39.316
3.	Capital requirement for operational risk	172.374
4.	Total capital requirements (1 + 2+3)	1.474.769

As of 31.12.2012, the capital adequacy indicator amounts to 26,47%. At the fourth quarter of 2012, the capital adequacy was significantly increased in relation to the previous quarter resulting from the regulatory capital level increase and the total risk assets decrease. At this quarter, increase in assets classified at that basis occurred, of the calculated separate reserve. In the event of capital amount for adequacy requirements, the Bank carried out the decrease of basic capital for 1.126.967 thousand dinars which is the amount of the required reserve for evaluated losses. For cover of credit risk in bank and trade book, the Bank had to engage the part of capital amounting to 1.263.161 thousand dinars, for cover of foreign currency capital requirement, the part of capital amounting to 39.316 thousand dinars for covering the operational risk, the part of capital amounting to 172.374 thousand dinars. The contribution of trade item in the total Bank portfolio is below the stipulated limit, so the Bank has no obligation in calculating the capital requirements related to other market risks resulting from the items in trade book.

Capital adequacy indicator

(000 RSD)

No.	Item	31.12.2011
1.	Capital	3.252.686
2.	Assets weighted by credit risk	10.525.660
3.	Exposure to foreign currency risk	327.633
4.	Exposure to operational risk	1.436.447
5.	Capital adequacy indicator	26,47

4.2 The process of internal capital assessment and the methodology for each risk

The Bank is determined to a reliable risk management process which adequately identifies, measures, assesses and monitors risks through an internal capital adequacy assessment process. The Bank's assessment process encompasses all key elements of capital requirement assessment, capital planning and capital management, which ensures the necessary amount of capital according to the Bank's risk profile. The Bank provides capital required to cover the risks through assessing capital requirements for certain types of risk to which the Bank is exposed to during its operation. Also, the Bank monitors and maintains the required capital level, considering its compatibility with the legal minimal capital level and the capital requirement level.

The risks are assessed in terms of quantity and quality, depending on whether the effects of the risk will influence the Bank's financial result and capital.

The Bank annually plans its capital through its Bank Management Plan, which involves the assessment for the current year, and through the Bank Development Strategy, which represents a three-year projection. The Plan and Bank Development Strategy suggest that the current income should always be invested in capital increase of the Bank.

In accordance with guidelines of the National Bank of Serbia, the Bank has made a decision to accept the terms of the Pillar 1 through minimal capital requirement for credit risk, currency risk, and operating risk, and, where possible, through improvement of internal models for other risks which can have the effect on quality and quantity of the Bank's financial result and capital.

The internal capital adequacy assessment process is defined as follows:

- 1) Calculation of the minimum capital requirement according to requirements of Pillar 1, in accordance with guidelines of the National Bank of Serbia, by implementing the standardized approach to credit risk and market risk, and the access of the basic indicator for the operating risk.
- 2) Income forecast, profitability and budgeting of the capital while considering the overall business strategy of the Bank, proneness to risks and economic indicator projection.
- 3) Consideration of reserved capital in case of losses in previous years and determination of the recurrence probability in the majority of cases.
- 4) Testing the risk exposure through a scenario of resilience to the stress test. These scenario analysis tests mainly predict the very rare and worst-case scenarios in most cases.
- 5) Prediction of the influence of scenario analyses through modification of important factors in the Bank's operation (adjustment of the GAP of the discrepancy, adjustment of interest rates, portfolio diversification etc.) to the profitability and capital projection and, if necessary, additional capital distribution and making it a part of the Bank's internal capital.

The Bank calculates its total amount of the internal capital by taking into account the capital level calculated by taking the minimum capital requirement of each type of quantitatively determined risk and adding it to the corrections through using own access to calculate the internal capital, or stress tests.

The internal capital adequacy assessment process shall be done once a year. The internal capital is calculated for all other risks which are not a part of the regulatory framework, provided that the stress test does not show too much deviation, so that the capital requirement could be adjusted for basic risks as well. Stress testing involves assessing the potential effects of specific events and/or the change of several risk factors on the Bank's financial result and capital. Stress testing shall be done by:

- 1) analyzing sensitivity, which evaluates the effects the change of one risk factor has on the Bank's financial result and capital, or
- 2) making scenario-analysis, which evaluates the effects the simultaneous change of several risk factors has on the Bank's financial result and capital within clearly defined extraordinary (stress) conditions.

The Bank will take into consideration the results obtained through stress testing when assessing and maintaining the internal capital on a desired level. The Bank will include in stress tests all relevant risk factors specific to its business environment, including the macroeconomic environment factors.

4.3 Risk exposure, access and risk assessment

4.3.1 Credit risk

The Bank shall regard the following situations as mature unpaid receivables:

- the situation where the debtor's payment of any materially significant liabilities is overdue for more than 90 days in any material, in which case the debtor will be charged the late charge in accordance to the Decision on classification of the balance sheet assets and off-balance assets of the Bank.

- the problematic financial situation which could (and probably will) result in the inability to pay the liabilities to the Bank although that has not occurred yet, without taking into consideration the option of collecting by activating assets of insurance.

- open bankruptcy, liquidation or some other financial restructuring of the debtor.

The Bank regularly assesses the worthless balance sheet assets and off-balance items exposed to the credit risk on an individual and group basis.

According to the internal methodology, on each report day the Bank assesses if there is an objective evidence of decrease (depreciation) of the financial asset or a group of financial assets. The losses on depreciation are recognized only if there is objective evidence of depreciation as a result of one or more events that have occurred after the initial recognition of assets and in case they influence the predicted future cash flows of the financial asset or a group of them.

The objective evidence of depreciation exist if:

- the financial situation shows significant problems in operation;
- if there are data on due liabilities, regular delays in interest payment and/or base or not meeting other contractual provisions;
- if the bank, due to financial debtor difficulties significantly changes the conditions of payment of receivables regarding those who were initially contracted;
- in case it is evident that the liquidation procedure shall be established over the debtor or other type of his financial reorganization.

In the event of depreciation evaluation, the Bank performs firstly the individual evaluation of whether there are objective proofs on depreciation for every financial instrument which is individually significant, as well as group evaluation for financial instruments which are not individually significant. In case the Bank acknowledges that there are no objective proofs on depreciation for financial instruments, the Bank shall establish those assets as financial assets with similar characteristics of credit risk and performs the group depreciation evaluation. Assets for which the individual evaluation of depreciation is performed and for which the loss based on depreciation is listed, shall not be included in group depreciation evaluation.

In case there is objective proof on depreciation for financial instruments, the loss amount shall be defined as discrepancy between book-keeping value of the specified financial instrument and current value of expected cash flows in future, discounted by original interest rate.

For calculation of depreciation amount of balance assets and probable loss based on non-balance items, the Bank can consider cash flows based on assets activation of securities for receivables – mortgages, claims and other securities instruments for whose realization the placement is possible to be charged. The bank uses this possibility in case there is an objective proof on depreciation for balance assets or non-balance items and it was evaluated that it would not be possible to charge the placements (partially or completely) by regular procedures.

For group depreciation evaluation, the financial instruments are grouped based on similar characteristics of credit risk and internal classification system of the banks for individual's placements. The characteristics based on which the grouping is carried out are the type of placement and the number of days of delay. The evaluation of depreciation of receivables per

specified groups is done based on data on losses from previous periods for receivables with similar characteristics (for the specified type of product and number of days of delay in meeting the obligations towards the bank). For evaluation of depreciation of receivables from natural persons, the transitory scheme was prepared for the periods of previous three years. The bank regularly checks and tests the methodology and assumptions used for evaluation of future cash flows in order to decrease the differences between the evaluated losses and real losses.

4.3.1.1 Calculation of capital requirement for credit risk

For calculation of capital requirements for credit risk, Bank uses the standard approach based on risk weights. Risk weight for each single item of balance assets and non-balance item (hereinafter: Exposure) is defined based on class of Exposure and level of its credit quality.

Each single item of balance asset and non-balance item from bank book is distributed into one of the following exposure classes:

- 1) Exposure to countries and central banks;
- 2) Exposures to territorial autonomies and local self-government units;
- 3) Exposures to public administration bodies;
- 4) Exposures to international development banks;
- 5) Exposures to international organizations;
- 6) Exposures to banks;
- 7) Exposures to companies;
- 8) Exposures to individuals;
- 9) Exposures provided by mortgages at real estates;
- 10) Due unpaid receivables;
- 11) High risk exposures;
- 12) Exposures based on covered securities;
- 13) Exposures based on investment into open investment funds;
- 14) other Exposures.

The bank uses credit ratings AKI which performs application of rating in compliance with OECD methodology. The bank currently does not use these credit ratings AEKR considering the fact that non rating agency obtained the NBS permit for rating issuance. AKI ratings are used for exposures to countries and central banks, as well as banks regarding foreign persons.

For Exposures to banks, for the bank whose due time is longer than three months and for which there is no available credit rating of the selected rating agency, applies the weight of credit risk of the country where the debtor bank is registered or weight of credit risk 50%, depending on which is higher.

For Exposures to banks, for the bank whose due time is not longer than three months and for which there is no available credit rating of the selected rating agency, applies the weight of credit risk of the country where the debtor bank is registered or weight of credit risk 20%, depending on which is higher.

4.3.1.2 Net bank exposure per exposure classes prior to amortization techniques:

(000 RSD)

Net exposure		
Exposure classes	Balance items	Non-balance items
Exposure to countries and central banks	3.470.520	0
Exposure to banks	2.778.457	0
Exposure to companies	7.205.262	9.462.185
Exposure to individuals	795.537	306.557
Other exposures	2.852.715	36.081.427
Total	17.102.492	45.850.170

4.3.1.3 geographic distribution of exposures:

a) Exposure to countries and central banks

(000 RSD)

	Balance items	Non-balance items
Serbia	3.470.520	0
Total	3.470.520	0

b) Exposure to banks

(000 RSD)

	Balance items	Non-balance items
Serbia:	89.689	0
– Belgrade	80.593	0
– Vojvodina	2.801	0
– rest of Serbia	3.294	0
European Union	2.057.559	0
Rest of Europe	25.561	0
Rest of world	608.648	0
Total	2.778.457	0

c) Exposure to companies

(000 RSD)

	Balance items	Non-balance items
Serbia:	7.196.164	9.462.185
– Belgrade	2.521.463	8.367.224
– Vojvodina	1.810.360	356.044
– rest of Serbia	2.864.341	708.917
European Union	9.098	0
Total	7.205.262	9.462.185

d) Exposure to individuals

(000 RSD)

	Balance items	Non-balance items
Serbia:	795.535	306.510
– Belgrade	570.787	224.706
– Vojvodina	14.899	5.274
– rest of Serbia	209.848	76.530
Rets of Europe	3	48
Total	795.537	306.558

4.3.1.4 Distribution of exposures regarding the departments:

a) Exposure to banks

(000 RSD)

	Gross	Value correction and required reserve	Net
Banks	2.858.409	79.952	2.778.457
Total	2.858.409	79.952	2.778.457
of which due receivables	75.525	75.525	0

b) Exposure to companies

(000 RSD)

	Gross	Value correction and required reserve	Net
agriculture	612.431	447.997	164.434
mining and energetics	49.566	7.910	41.656
civil engineering	1.499.006	270.393	1.228.613
processing industry	5.475.416	1.285.608	4.189.808
trade	9.226.491	479.761	8.746.730
services, tourism and catering	133.864	51.262	82.602
traffic and connections	511.718	34.701	477.018
finances	1.242.121	125.924	1.116.197
state administration and other public services	126	36	89
miscellaneous	654.201	33.900	620.300
Total	19.404.939	2.737.491	16.667.448

c) Of this, overdue receivables

(000 RSD)

	Gross	Value correction and required reserve	Net
agriculture	389.746	379.380	7.877
mining and energetics	2.062	710	1.352
civil engineering	85.859	69.247	16.612
processing industry	639.346	426.005	213.341
trade	635.509	260.109	375.401

services, tourism and catering	47.371	45.364	2.007
traffic and connections	2.716	107	2.608
finances	54.655	1.389	53.266
state administration and other public services	126	36	90
miscellaneous	16.465	10.896	5.569
Total	1.873.855	1.195.732	678.123

d) Exposure to individuals

(000 RSD)

	Gross	Value correction and required reserve	Net
Exposure to individuals	1.343.116	241.022	1.102.094
Total	1.343.116	241.022	1.102.094
of which due receivables	219.411	195.434	23.976

4.3.1.5 Distribution of exposures regarding the due payments:

(000 RSD)

Exposure of banks to		to 90 days	91-180 days	181-365 days	From 1 to 5 years	Over 5 years	No established due time
countries and central banks	Balance	0	0	0	0	0	3.470.520
	Non-balance	0	0	0	0	0	0
banks	Balance	1.963.614	20.928	495.046	12.982	9.098	276.789
	Non-balance	0	0	0	0	0	0
companies	Balance	3.678.857	1.245.952	1.618.869	645.917	15.667	
	Non-balance	472.853	1.561.916	5.498.010	1.929.406	0	
individuals	Balance	83.383	84.638	144.900	307.529	175.086	0
	Non-balance	159.628	55.561	39.242	52.126	0	0
other exposures	Balance	0	0	0	0	0	2.852.715
	Non-balance	0	0	0	0	0	36.081.427

4.3.1.6 View of changes in value corrections of balance assets and reserves during the period:

(000 RSD)

	Initial state as of 01.01.2011	Increase during 2011	Decrease during 2011	Other adjustments	Final state as of 31.12.2011
Value correction of balance assets	1.416.878	966.205	498.810	2.088	1.886.361
Reserves per non-balance items	24.731	72.070	49.830	155	47.126

Total	1.441.609	1.038.275	548.640	2.243	1.933.488
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4.3.1.7 Distribution of exposures to classification categories:

(000 RSD)

Classification mark	Assets being classified					Special reserve	value corrections per MPC39	Reserve from profit
	Balance	Non-balance	Total	Deductible items	Base			
A	3.662.530	3.084.289	6.746.819	1.538.896	5.207.923	0	14.952	0
Б	3.169.550	1.445.722	4.615.272	485.062	4.130.210	82.604	102.789	7.656
B	3.707.620	968.591	4.676.211	156.259	4.519.952	677.993	131.685	474.258
Г	1.299.927	177.195	1.477.122	40.461	1.436.661	430.998	118.135	370.490
Д	1.800.462	225	1.800.687	126	1.800.561	1.800.560	1.564.218	274.564
Total	13.640.089	5.676.022	19.316.111	2.220.804	17.095.307	2.992.155	1.931.779	1.126.967

The amount of exposure prior to and after application of credit protection at credit quality level:

(000 RSD)

	Gross Exposure	Value corrections, reservations and required reserve	of which required reserve	Net Exposure	Value of Exposure after credit protection application
1 Total Exposure	66.398.803	3.435.597	1.126.967	62.963.205	19.246.317
View per exposure types:					
2 Balance items	20.365.054	3.252.018	990.473	17.113.036	17.102.492
3 Non-balance items	46.033.749	183.579	136.494	45.850.170	2.143.825
View per weighted credit risks:					
4 0%	42.791.896	376.764	1	42.415.132	6.361.947
5 10%	0	0	0	0	0
6 20%	2.660.122	3.746	3.740	2.656.376	2.656.376
7 35%	128.748	2.724	0	126.025	126.025
8 50%	88.720	0	0	88.720	88.720
9 75%	1.153.292	54.372	17.613	1.098.919	884.022
10 100%	19.064.936	2.699.112	1.087.593	16.365.823	8.917.016
11 150%	511.089	298.878	18.020	212.210	212.210

4.4 Techniques for mitigating credit risk

The Bank is using techniques for mitigating credit risk that are, in accordance with the Decision on capital adequacy of banks, acceptable in case of application of standardized approach for determining the capital necessary to cover credit risk.

The Bank may adjust the credit risk weighted assets for the effects of techniques for mitigating credit risk if, for the purpose of mitigating this risk, it is using suitable instruments of credit protection and if the requirements for recognition of credit protection have been fulfilled. The amount of credit risk weighted assets calculated after adjustments for the effects of techniques

for mitigating that risk may not be higher than the amount assets weighted with this risk calculated before such adjustment.

The Bank may use more than one instrument of credit protection to reduce credit risk under one Exposure and, in such case, it shall divide the respective Exposure in such a manner that every part thereof is covered by one instrument of credit protection and shall, for each of these parts, separately calculate the amount of credit risk weighted assets.

For the purpose of adjustment of credit risk weighted assets for effects of the techniques of mitigating that risk, the Bank may use the following instruments of credit protection:

1) instruments of tangible credit protection, namely security instruments in the form of financial assets;

2) instruments of intangible credit protection, namely guarantees, other types of sureties and counter-guarantees (including other similar instruments of intangible credit protection).

Suitable security instruments in the form of financial assets are:

1) cash and cash equivalents deposited with the banks;

2) debt securities of states or central banks with available credit rating of a selected rating agency or agency for the financing of export that corresponds to the level of credit rating 4 or better;

3) debt securities of banks with available credit rating of a selected rating agency that corresponds to the level of credit rating 3 or better;

4) debt securities of companies with available credit rating of a selected rating agency that corresponds to the level of credit rating 3 or better;

5) debt securities with available short term credit rating of a selected rating agency that corresponds to the level of credit rating 3 or better;

6) shares or convertible bonds that are included in the main exchange index;

7) gold.

Guarantees, other types of sureties and counter-guarantees are regarded as suitable instruments of intangible credit protection if the providers of credit protection are:

1) states or central banks;

2) territorial autonomies and units of local self government;

3) international development banks;

4) international organizations specified in this category of exposures;

5) public administrative bodies for which credit risk weight is assigned in the manner that is prescribed for exposures toward states or central banks or for exposures toward banks;

6) Banks;

7) companies, including parent company and subsidiaries of the Bank, with available credit rating of a selected rating agency that corresponds to the level of credit rating 2 or better.

Among the instruments of tangible credit protection, Banks, within the meaning of the Decision on Capital Adequacy of Banks, in most cases accept cash deposited with the Bank, and among instruments of intangible credit protection, state guarantees.

The Bank recognizes instruments of tangible credit protection for mitigation of credit risk in case the following requirements have been fulfilled:

1) they are sufficiently liquid, i.e. easily marketable;

2) their value does not change significantly with time – in order to ensure certainty of credit protection;

3) that contractual relation under which these instruments were obtained entitles the Bank to timely cash out or transfer, retain or keep the property used to provide credit protection in case of default on the part of debtors of the Bank, i.e. debtor's bankruptcy, liquidation or occurrence of another contracted credit event that is related to that debtor;

4) that the degree of correlation between the values of such instruments and creditworthiness of the debtor is not high.

The Bank recognizes instruments of intangible credit protection for mitigation of credit risk in case the following requirements have been fulfilled:

- 1) the credit protection is direct;
- 2) the level or the amount of credit protection is clearly determined and is indisputable;
- 3) the agreement under which the instruments of credit protection were obtained do not contain provisions that:
 - enable the provider of credit protection to unilaterally terminate this agreement,
 - increase the cost of credit protection as the result of deterioration of credit quality of the related exposure,
 - affect the obligation of the provider of credit protection to make timely payment in case the debtor of the Bank under the respective exposure fails to make any payment obligation as it falls due, or
 - enable the provider of credit protection to shorten the period for which that protection was contracted;
- 4) that they can be realized in accordance with applicable law;
- 5) that the Bank manages concentration risk that can appear as the result of use of these instruments and that it has documented the way in which the strategy for the use of such documents is included in the overall risk management system.

The Bank recognizes real estate mortgage as a credit protection instrument and in this it requires that appraised value is obtained from licensed appraisers and opinions of professional Department in charge of legal operations on the possibility of establishing security instruments. The Bank regularly requires an independent appraisal, and at least once every three years, and more frequently when, on the basis of external information, it is estimated that there was market disturbance that can affect the value of collateral.

Exposure covered with instruments for mitigation of credit risk by exposure category:

(000 RSD)

Exposure category	The amount of exposure covered with financial assets	The amount of exposure covered with intangible credit protection
Exposure toward states and central banks;	0	0
Exposure toward territorial autonomies and units of local self-government;	0	0
Exposure toward public administrative bodies;	0	0
Exposure toward international development banks;	0	0
Exposure toward international organizations;	0	0
Exposure toward banks;	0	0

Exposure toward companies;	2.242.674	2.065.309
Exposure toward individuals;	673	0
High risk exposures;	0	0
Exposures from covered bonds;	0	0
Exposure from investment into open investment funds;	0	0
Other exposures	0	0
Total	2.243.347	2.065.309

4.5 Market risks

The Risk Management Strategy and Policy of the Bank specified that the value of items in trading book shall not exceed:

- 5% of total operations of the Bank for more than three business days in a calendar month;
- 1.5 billion RSD for more than three business days in a calendar month;
- the value of items in trading book shall not exceed at any moment 6% of total operations of the Bank or the amount of 2 billion RSD.

By fulfilling the said requirements, the Bank has no obligation to calculate and ensure coverage of capital requirements regarding market risks that arise from the items maintained in the trading book, but it calculates and ensures coverage of capital requirements related to credit and currency risk.

For the needs of calculation of capital for the coverage of exposure to market risks, the Bank is applying standardized approach.

The Bank manages currency risk and pays attention to prevent negative effects on financial result of the Bank, which occur on the basis of change of inter-currency exchange rates and exchange rate of foreign currencies against RSD (negative foreign exchange differences).

The Bank is monitoring on a daily basis the movement of indicators of currency risk and maintains this risk within the limit prescribed in the Decision on Capital Adequacy of the NBS.

Capital requirement for currency risk is calculated by multiplying the sum of total Net open position and absolute value of Net open position in gold with 12%. Total net foreign currency open position represents absolute value of the total long, i.e. total short currency position, depending on which of these two values is higher. Total long currency position represents the sum of all long currency positions of the Bank by individual currency. Total short currency position represents the sum of all short currency positions of the Bank by individual currency.

Calculation of open currency position by individual currency, i.e. open position in gold, shall include:

- Net spot position, which represents the difference between foreign currency assets (decreased by value adjustment) and foreign currency liabilities in that currency (including not yet due interest) i.e. the difference between assets and liabilities in gold;

- Net "forward" adjustment, which equals the difference between all amounts that will be received and all amounts that will be paid on the basis of foreign currency forward agreements (or forward agreements on gold), including foreign currency futures agreements (or futures agreements on gold) and hypothetical amount from currency swaps that is not included in the "spot" position,

- irrevocable guarantees, uncovered letters of credit and similar off-balance items on the basis of which it is certain that the Bank will make payment, and is probable that it will not be able to recover such funds;

- Net delta equivalent of all currency options or gold options;

- Market value of options that are neither currency options nor gold options, and the subject of agreement of which is expressed in foreign currency.

The Bank is regularly, on the basis of available information on planned outflows, i.e. inflows of funds in foreign currency, performing stress tests of currency risk indicators. Additionally, the Bank has established a system of limits in order to ensure control of movement of foreign currency risk indicators within the prescribed limits.

4.6 Operational risks

For the purpose of calculation of capital for covering the exposure to operational risk, the Bank is using the basic indicator approach.

Capital requirement for operational risk calculated by applying this approach is equal to the amount of three-year average of exposure indicator, calculated on the basis of relevant Net income, multiplied with the rate of capital requirement of 15%. Three-year average of exposure indicator represents mathematical mean value of that indicator for the previous three years. If, for any of the previous three years, the exposure indicator was negative or equal zero, that amount shall not be included in calculation of the three-year average, but this average is calculated as the ratio of the sum of positive values of indicators of exposure and the number of years in which these values were realized.

Exposure indicator is calculated on the basis of data from revised annual financial statements.

Exposure indicator is calculated as the sum of Net income from interest and Net non-interest bearing income on the basis of the following elements:

- income and expenditures from interest;
- income from dividends and participations;
- income and expenditures from fees and commissions;
- profit and loss from sale of securities;
- income and expenditures from change in value of assets and liabilities;
- income and expenditures from exchange rate differences;
- other income from regular operations.

The following is not included in the calculation of indicators of exposure:

- expenditures from indirect write-offs of investments from balance sheet items;
- expenditures from provisioning for off-balance items;
- other expenditures from regular operations;
- realized profit/loss from financial asset that is not intended for trade;
- other income that does not come from regular operations of the Bank.

(000 RSD)

	2008	2009	2010	Average	Capital requirement as of December 31, 2011
Amount of exposure indicator	1.145.320	911.572	1.390.586	1.149.159	172.374

Total	1.145.320	911.572	1.390.586	1.149.159	172.374
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4.7 Interest rate risk

The Bank identifies interest rate risk in banking book as the possibility of occurrence of negative effects on financial result and capital of the Bank because interest rates change, whereby the Bank is exposed to interest risk on the basis of items that are maintained in banking book.

Exposure to interest rate risk is estimated on a monthly basis. Based on the analysis of all active and all passive items from the banking book, the Bank identifies interest sensitive positions. Depending on the type of interest rate defined in the agreement, the interest sensitive positions of assets and liabilities are classified into positions with variable and positions with fixed interest rate, and then the amount of disparity is determined by maturity intervals. Gap analysis is used to identify the exposure to interest rate risk in cases when the basis of passive interest rate or maturity of clients' deposits is different from the basis of active interest rate, i.e., maturity of approved loans.

Table below shows sensitivity of the Bank's income statement to reasonably possible changes of interest rates with continuous maintenance of other variables. Sensitivity of income statement is effect of assumed changes in interest rates on Net income from interest in one year on financial assets and liabilities that are based on interest rates as of December 31, 2011.

(000 RSD)		
Currency	Change in percentage point	Sensitivity to income statement
EUR	1%	-4.074
USD	1%	-6.134
RSD	1,50%	35.934

The Bank is making scenarios for change in economic value of the banking book for small changes in interest rates, as well as stress interest shock that implies a parallel change in average interest rate – increase or decrease by 200 base points.

4.8 Exposure arising from equity investments in the banking book

The Bank does not have exposures from equity investments in its banking book.

SRPSKA BANKA a.d.