

**SRPSKA BANKA A.D., BEOGRAD**

**Financial Statements  
Year Ended December 31, 2013 and  
Independent Auditors' Report**

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

**INDEPENDENT AUDITORS' REPORT**

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

1. We were engaged to audit the accompanying financial statements of Srpska banka a.d., Beograd (the "Bank"), which comprise the balance sheet as of december 31, 2013, ad the related income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the statistical annex.

*Management's Responsibility for the Financial Statements*

2. Management is responsible for the preparation and fair presentation of these financial stateents in accordance with the Law on Accounting of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks, as well as for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and the Law on Audit of the Republic of Serbia. Because of the significance of matters described in *Basis for Disclaimer of Opinion* paragraphs, however, we were unable to obtain sufficient appropriate audit evidence to provide a basis for our audit opinion.

*Basis for Disclaimer of Opinion*

4. As disclosed in Note 24 to the financial statements, as of December 31, 2013 assets acquired in lieu of debt collection totaling RSD 4,588,807 thousand include the amount of RSD 2,198,319 thousand pertaining to the inventories of stripped overburden acquired pursuant to the relevant agreement on fulfillment replcement, whereby the liabilities of the borrower Koncern Farmakom MB d.o.o., Šabac and its related parties to the Bank for previously approved loans were settled. According to the Bank's accounting policies, assets acquired in the form of invnetories are measured at the lower of the carrying value of receivables in lieu of which the assets are received and the net realizable value. The aforesaid assets acquired are stated in the bank's financial statements in the amount of the carrying value of receivables collected through the acquisition of these assets. As of December 31, 2013, the Bank's management did not hire an independent appraiser to asses the market value of the assets acquired. Accordingly, we were unable to statisfy ourselves as to the adequacy of of the reported value of the overburden inventories or effects this matter could have on the accompanying financial statements of the Bank for the year 2013.
5. As disclosed in Note 9 to the financial statements, as of December 31, 2013, the Bank calculated impairment allowance and provisions for potential imapirment losses of loans and advances in accordance with its internally adopted methodology and calculated and formed reserves for estimated losses in accordance with the regulations of the National bank of Serbia. In 2013 certain borrowers and groups of related entities where the Bank had significant risk exposures, experienced decline of business acitivities, problems in earning operating income and inability to service their liabilities toward creditors and suppliers, which resulted in blocking accounts of such borrowers. As of December 31, 2013, the Bank's management calculated impairment allowance and provisions based on the information available as well as on the anlyses of the current and future financial position of borrowers, potential restructuring and adoption of the peliminary reorganization plans, or sales of borrowers' assets and other collaterals. Applying the audit sampling method, we reviewed the assumptions used in calculation of the impairment allowance and provision amounts reported in the accompanying financial statements. In our opinion, as of December 31, 2013, impairment allowance and provisions calculated in accordance with the Bank's internal methodology are understated by at least RSD 690 million. Accordingly, the Bank's loss for the year 2013 was also understated by at least the aforesaid amount.

(Continued)

**INDEPENDENT AUDITORS' REPORT**

**To the Board of Directors and Shareholders of Srpska banka a.d., Beograd (Continued)**

*Basis for Disclaimer of Opinion (Continued)*

6. As disclosed in Notes 23 and 31 to the financial statements, as of December 31, 2013, non-current assets held for sale included the amount of RSD 571,300 thousand related to a property held for sale, which is located in Belgrade. In accordance with the requirements of IFRS 5 –“Non-Current Assets Held for Sale and Discontinued Operations,” non-current assets held for sale are measured at the lower of fair value less costs to sell and the carrying value as at the reporting date. The reported amount of the aforesaid property as of December 31, 2013 was determined based on the assessment of the market value performed by an independent appraiser. However, due to the decreased volume of activity in the real estate market of the Republic of Serbia, particularly in instances of buildings of comparable size and location, we could not satisfy ourselves as to the adequacy of the fair value determined and measurement of the aforesaid non-current assets held for sale or to the effects this matter might have on the accompanying financial statements of the Bank for the year 2013.
7. The accompanying financial statements have been prepared on a going concern basis. As disclosed in Notes 31(b) and 38 to the financial statements, the Bank is obligated to maintain the scope and structure of its operations and risk-weighted assets with the performance and adequacy indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia. As of December 31, 2013, the capital adequacy ratio as calculated by the Bank equaled 8.07%, which is a departure from the prescribed minimum capital adequacy ratio of 12%. Between December 31, 2013 and the independent auditors' report date, i.e. on January 31, 2014 and on February 28, 2014 the capital adequacy ratio as calculated by the Bank was 6.63% and 4.26%, respectively. The decrease in the capital adequacy ratio was primarily due to the allocation of funds into reserves for estimated losses in accordance with the NB Decision on Classification of Balance Sheet Assets and Off-balance Sheet Items and measures taken that gave rise to significant limitations to the Bank's core activity, which measures were still effective up to and as of the issue date of independent auditors' report. Pursuant to the National Bank of Serbia's Decision dated December 11, 2013, one of the measures imposed on the Bank was suspension of lending, guarantee issuing and arranging other off-balance sheet liabilities with inherent contingent payments by the Bank to all legal entities and private individuals, which led to discontinuation of these activities and hence to decrease in the Bank's operating income in the period subsequent to the aforesaid Decision date. As of December 31, 2013, in addition to the capital adequacy ratio, the Bank did not comply with the legally prescribed limits in respect of another 3 ratios (January 31, 2014: another 4 ratios; February 28, 2014: another 4 ratios). Furthermore, given the fact that, under Decision on Classification of Balance Sheet Assets and Off-balance Sheet Items, for inventories acquired in lieu of debt collection of RSD 2,198,319 thousand as of December 31, 2013, reserves for estimated losses are to be set aside in full amount after a year from the acquisition date in case these are not disposed of within a year, potential additional allocation to reserves for estimated losses in this respect during 2014 will cause additional decrease in the capital adequacy ratio. Any measures that the National Bank of Serbia might take with regard to the aforesaid non-compliance cannot currently be anticipated. The ability of the Bank to continue as a going concern is dependent on the continuous support of the Bank's shareholders and capital increase in the amount required to meet all the requirements stipulated by the Law on banks and relevant decisions of the National Bank of Serbia governing the operations of banks. The management's plans are disclosed in Note 2.5 to the financial statements. The aforesaid facts indicate the existence of material uncertainties which may cast significant doubt about the Bank's ability to continue as a going concern. The accompanying financial statements for the year 2013 do not include potential adjustments that might arise from these uncertainties.

*Disclaimer of Opinion*

8. Because of the potentially material significance of the effects that may arise from the uncertainties described in paragraphs 4 to 7, we do not express an opinion on the financial statements of Srpska banka a.d., Beograd for the year 2013.

(Continued)

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

**INDEPENDENT AUDITORS' REPORT**

**To the Board of Directors and Shareholders of Srpska banka a.d., Beograd (Continued)**

*Report on Other Legal and Regulatory Requirements*

Management of the Bank is responsible for the preparation of the annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia, which is not an integral part of the accompanying financial statements. In accordance with the Law on Audit of the Republic of Serbia, our responsibility is to express an opinion on the compliance of the annual business report for the year 2013 with the financial statements for the same financial year. In our opinion, the financial information disclosed in the annual business report for 2013 is consistent with the with the audited financial statements for the year ended December 31, 2013, which ought to be viewed within the context of matters described in *Basis for Disclaimer of Opinion* paragraphs and potential effects of these matters on the audited financial statements for FY 2013.

Belgrade, March 31, 2014

Nada Sudić  
Certified Auditor

**INCOME STATEMENT**  
**Year Ended December 31, 2013**  
**(Thousands of RSD)**

	<b>Note</b>	<b>2013</b>	<b>2012</b>
<b>INCOME AND EXPENSES FROM OPERATIONS</b>			
Interest income	5	1,882,473	2,526,813
Interest expenses	5	<u>(770,127)</u>	<u>(726,134)</u>
<b>Net interest income</b>		<u>1,112,346</u>	<u>1,800,679</u>
Fee and commission income	6	333,560	363,141
Fee and commission expenses	6	<u>(30,088)</u>	<u>(31,962)</u>
<b>Net fee and commission income</b>		<u>303,472</u>	<u>331,179</u>
Net losses on the sale of equity investments (interests)		-	(241)
Net foreign exchange losses	7	(15,294)	(156,573)
Dividend and other income from equity investments		543	1,659
Other operating income	8	36,172	79,125
Net impairment losses and provisions	9	(76,537)	(763,322)
Staff costs	10	(608,521)	(503,881)
Depreciation and amortization	11	(107,261)	(90,839)
Operating and other expenses	12	(1,082,898)	(984,615)
Gains on the valuation of assets and liabilities	13	1,333,658	1,617,952
Losses on the valuation of assets and liabilities	14	<u>(1,234,765)</u>	<u>(1,312,023)</u>
<b>(LOSS)/PROFIT FROM CONTINUING OPERATIONS</b>		<u>(339,085)</u>	<u>19,100</u>
<b>(Loss)/profit before taxes</b>		<u>(339,085)</u>	<u>19,100</u>
Loss on decrease in deferred tax assets and creation of deferred tax liabilities	15	1,200	9,829
<b>NET (LOSS)/PROFIT</b>		<u>(340,285)</u>	<u>9,271</u>
<b>EARNINGS PER SHARE</b>		<u>-</u>	<u>31</u>

Notes on the following pages form an integral part of these financial statements.

These financial statements were approved by the Board of Directors of Srpska banka a.d., Beograd on February 27, 2014.

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

Snežana Savić  
Head of Accounting

Srđan Nikolić  
Member of the Executive  
Board

Vesna Jakanović  
Chairman of the Executive  
Board  
(since March 18, 2014)

**BALANCE SHEET**  
**As of December 31, 2013**  
**(Thousands of RSD)**

	<b>Note</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>			
Cash and cash equivalents	16	2,612,158	1,682,356
Revocable loans and deposits	17	5,997,552	4,547,318
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	18	596,875	493,052
Loans and advances to customers	19	8,400,467	9,773,006
Securities (excluding treasury shares)	20	1,733,693	744,385
Equity investments		500	500
Other investments	21	1,776,403	1,134,901
Intangible assets	22	19,206	4,013
Property, equipment and investment property	22	1,654,798	1,725,109
Non-current assets held for sale and assets from discontinued operations	23	613,585	581,658
Other assets	24	4,651,296	66,148
<b>Total assets</b>		<b>28,056,533</b>	<b>20,752,446</b>
<b>LIABILITIES AND EQUITY</b>			
Transaction deposits	25	3,344,684	1,687,685
Other deposits	26	17,942,408	11,916,784
Borrowings	27	1,770,980	1,722,421
Interest, fee and commission payables and fair value adjustments of derivatives	28	10,720	3,326
Provisions	29	154,685	163,538
Tax payables		4,544	10,794
Deferred tax liabilities	15	12,292	11,092
Other liabilities	30	504,533	572,840
<b>Total liabilities</b>		<b>23,744,846</b>	<b>16,088,480</b>
Share capital	31	3,021,750	3,021,750
Reserves from profit	31	1,206,279	1,196,726
Revaluation reserves	31	423,943	435,937
(accumulated losses)/retained earnings	31	(340,285)	9,553
<b>Total equity</b>		<b>4,311,687</b>	<b>4,663,966</b>
<b>Total liabilities and equity</b>		<b>28,056,533</b>	<b>20,752,446</b>
<b>OFF-BALANCE-SHEET ITEMS</b>			
Managed funds	32	7,757,414	6,304,552
Commitments	32	9,666,522	10,398,542
Other off-balance sheet items	32	49,212,307	47,582,310

Notes on the following pages form an integral part  
of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
**Year Ended December 31, 2013**  
**(Thousands of RSD)**

	<u>Share Capital</u>	<u>Other Capital</u>	<u>Reserves from Profit</u>	<u>Revaluation Reserves</u>	<u>(Accumulated Losses)/Retained Earnings</u>	<u>Total Capital</u>
Balance at January 1, 2012	3,021,290	460	934,566	434,342	262,160	4,652,818
Available-for-sale securities valuation effects	-	-	-	1,877	-	1,877
Transfer of realized gains on the sale of securities available for sale	-	-	-	(282)	282	-
Profit for the year	-	-	-	-	9,271	9,271
Transfer to reserves	-	-	262,160	-	(262,160)	-
Balance at December 31, 2012	<u>3,021,290</u>	<u>460</u>	<u>1,196,726</u>	<u>435,937</u>	<u>9,553</u>	<u>4,663,966</u>
Available-for-sale securities valuation effects	-	-	-	(1,636)	-	(1,636)
Investment property appraisal effects (Note 22)	-	-	-	(10,358)	-	(10,358)
Loss for the year	-	-	-	-	(340,285)	(340,285)
Transfer to reserves	-	-	9,553	-	(9,553)	-
Balance at December 31, 2013	<u>3,021,290</u>	<u>460</u>	<u>1,206,279</u>	<u>423,943</u>	<u>(340,285)</u>	<u>4,311,687</u>

Notes on the following pages form an integral part  
of these financial statements.

**CASH FLOW STATEMENT**  
**Year Ended December 31, 2013**  
**(Thousands of RSD)**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Cash inflows from operating activities</b>	<u>2,112,776</u>	<u>2,513,541</u>
Interest receipts	1,752,451	2,095,989
Fee and commission receipts	323,609	336,767
Receipts of other operating income	36,173	79,126
Receipts from dividends and profit distribution	543	1,659
<b>Cash outflows from operating activities</b>	<u>(7,187,150)</u>	<u>(2,282,497)</u>
Interest payments	(762,733)	(747,065)
Fee and commission payments	(30,088)	(31,962)
Payments to, and on behalf of, employees	(669,735)	(501,718)
Taxes, contributions and other duties paid	(152,304)	(128,674)
Payments of other operating expenses	(5,572,290)	(873,078)
<b>Net cash (used in)/generated by operating activities prior to increases or decreases in loans and deposits</b>	(5,074,374)	231,044
<b>Decrease in loans and increase in deposits received</b>	<u>8,926,729</u>	<u>587,085</u>
Increase in bank and customer deposits	7,717,278	587,085
<b>Increase in loans and decrease in deposits received</b>	<u>(2,961,051)</u>	<u>(4,323,060)</u>
Increase in loans and advances to banks and customers		(2,263,120)
Increase in securities at fair value through profit and loss, trading investments and short-term securities held to maturity	(2,961,051)	(2,059,940)
<b>Net cash generated by/(used in) operating activities</b>	891,304	(3,504,931)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Cash outflows from investing activities</b>	<u>(62,789)</u>	<u>(58,858)</u>
Outflows for the purchase of intangible assets, property and equipment	(62,789)	(58,858)
<b>Net cash used in investing activities</b>	(62,789)	(58,858)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Cash inflows from financing activities</b>	<u>7,119</u>	<u>1,960,653</u>
Inflows from borrowings	13,903	1,959,299
(Outflows)/inflows from the sale of securities	(6,784)	1,354
<b>Cash outflows from financing activities</b>	<u>-</u>	<u>(247,865)</u>
Repayment of borrowings	-	(247,865)
<b>Net cash generated by financing activities</b>	<u>7,119</u>	<u>1,712,788</u>
<b>Total net inflows</b>	11,046,624	5,061,279
<b>Total net outflows</b>	<u>(10,210,990)</u>	<u>(6,912,280)</u>
<b>Net cash increase/(decrease)</b>	835,634	(1,851,001)
<b>Cash and cash equivalents, beginning of year (Note 16)</b>	1,682,356	3,336,358
Foreign exchange gains on translation of cash, net	94,168	196,999
<b>Cash and cash equivalents, end of year (Note 16)</b>	<u>2,612,158</u>	<u>1,682,356</u>

Notes on the following pages form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***1. BANK'S ESTABLISHMENT AND ACTIVITY**

Srpska banka a.d. Beograd (hereinafter the "Bank") was established through the transformation of a specialized organization within the National Bank of Yugoslavia (NBY) – Military Service, based on the Decision of the National Bank of Yugoslavia no. 920 as of November 4, 1996. The Bank was inscribed in the Register maintained by the Commercial Court of Belgrade pursuant to the Decision number VI/FI-19015/96 as of November 14, 1996.

Pursuant to the Bank's Articles of Incorporation dated September 17, 1996, it was decided that the Bank should commence its operations on January 1, 1997. Until September 1, 2003, the Bank operated as YU GARANT BANKA a.d., Beograd. On November 5, 2004, the Bank inscribed the legal successor of the Federal Republic of Yugoslavia in the Decision numbered XI Fi 11391/04.

The founder and majority owner of the Bank is the Republic of Serbia whose interest in share capital as of December 31, 2013 totaled 99.06%.

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

The Bank's headquarters are in Belgrade, at no. 25, Savska Street. It is comprised of one affiliate, 15 branches and 9 sub-branches. At December 31, 2013, the Bank had 384 employees (December 31, 2012: 427 employees).

The Bank's registration number is 07092288, and its tax identification number is 100000387.

The Bank's Board of Directors adopted these financial statements on February 27, 2014.

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

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law on Accounting (hereinafter referred as: the "Law", Official Gazette of the Republic of Serbia no. 63/2013). As a large legal entity, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance and which were in effect as at December 31, 2002.

The amendments to IAS, as well as the newly issued IFRS and the related interpretations issued by the IASB and the IFRIC, in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (the "Ministry") and published in the Official Gazette of the Republic of Serbia no. 77 of October 25, 2010.

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

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.1. Basis of Preparation and Presentation of Financial Statements (Continued)**

Standards and interpretations in issue but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.2 and 2.3.

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

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

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

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

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

As of the financial statements issuance date, the following standards and amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Serbia:

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

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.2. Standards and Interpretations in Issue but not yet Translated and Adopted (Continued)**

- “Conceptual Framework for Financial Reporting 2010” being an amendments to “Framework for the Preparation and Presentation of Financial Statements” (effective for transfer of assets from customers received on or after September 2010);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);
- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction” – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).
- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.2. Standards and Interpretations in Issue but not yet Translated and Adopted (Continued)**

- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012),
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to various standards “Improvements to IFRSs (2009-2011 Cycle)” issued in May 2012, resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013);
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013).

**2.3. Standards and Interpretations in Issue not yet in Effect**

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

- IFRS 9 “Financial Instruments” and subsequent amendments (effective date was not yet determined);
- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – Mandatory Effective Date and Transition Disclosures (effective for annual periods beginning on or after January 1, 2015);
- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions Statements' (effective for annual periods beginning on or after July 1, 2014);
- Amendments resulting from Annual Improvements 2010-2012 Cycle issued in December 2013 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);
- Amendments resulting from Annual Improvements 2011-2013 Cycle issued in December 2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);
- IFRS 9 “Financial Instruments” (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) issued, implementing additional disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 Statements' (will become effective when IFRS 9 is applied);

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.3. Standards and Interpretations in Issue not yet in Effect (Continued)**

- Amendments to IAS 36 "Impairment of Assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 "Financial Instruments:" Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014);
- IFRIC 21 "Levies" (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Exemption from Consolidation of Subsidiaries under IFRS 10 'Consolidated Financial Statements' (effective for annual periods beginning on or after January 1, 2014);
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016).

**2.4. Comparative Information**

Comparative information comprises the audited financial statements of the Bank for the year 2012.

**2.5. Management's Plans for Continuation of Operations**

The Bank's management has prepared a comprehensive Business Plan which includes a detailed analysis of the current situation of the Bank and guidelines, plans and measures for business policy implementation in the forthcoming period. The Bank's Executive Board and Board of Directors have both adopted the aforesaid Business Plan as well as the proposed measures which, alongside the necessary capital increase by the shareholders, would enable overcoming the existing inconsistencies with the requirements prescribed by the Law on Banks and Decision of the National Bank of Serbia governing the operation of banks and continuation of the Bank as a going concern.

The Business Plan includes the following analyses and rationale:

- of the Bank's operations in 2013;
- of the Bank's strategic goals in the forthcoming period;
- SWOT analysis based on the Bank's market position;
- methods, measures and activities the implementation of which will allow the bank to move in the desired direction of development and Business Plan realization.

Methods, measures and activities the implementation of which will allow the bank to move in the desired direction of development and Business Plan realization are the following:

- focus on cooperation with the Serbian Defense Industry;
- sales of acquired assets;
- changes to the organizational structure, improvement to the corporate management practices and development of human resources;
- capital increase.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.5. Management's Plans for Continuation of Operations (Continued)**

As conclusion to the analyses and rationale of the plans and proposed business policy implementation in the forthcoming period, the Bank's Business Plan contains the following closing considerations:

- rationale of the necessity of the Bank's capital increase;
- analyses of the intended purpose for the capital increase funds;
- projected balance sheet and income statement for the period up to December 31, 2016;
- plan of activities and measures to be taken in order to foreclose assets acquired in lieu of debt collection;
- plan of capital expenditures.

The aforescribed Business Plan was submitted to the Ministry of Finance, National Bank of Serbia and Deposit Insurance Agency. Until this report issuance date, the Bank's management received no notification on any considerations or discussion regarding the aforesaid Business Plan on the part of the competent institutions.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.1. Interest Income and Expenses**

Interest income and interest expenses, including penalty interest and other income and expenses arising on interest-bearing assets and/or interest-bearing liabilities, are recorded in the income statement on an accrual basis as per matching principle in accordance with the agreements executed between the Bank and the customers.

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as available-for-sale, interest income and expenses are stated using the effective interest rate which precisely discounts the estimated future payments or receipts throughout the estimated life of an instrument or, where necessary, within the shorter period, to the net book value of financial assets or liabilities. When determining the effective interest rate, all contractual terms relating to the financial instrument are considered excluding the additional costs attributable to loan approval, but not the future credit losses.

Loan origination fees, that are an integral part of interest income, are calculated and collected one-off and in advance, are deferred and recognized as income on a proportionate basis throughout the loan repayment period (Note 28). In the Bank's assessment, proportionate deferral of fees is not materially different from effective interest approach.

The Bank ceases to present interest income from receivables that are over 360 days past-due. Such interest accrued is stated as suspended interest, which is included within off-balance sheet items. The Bank also suspends interest on all receivables that have changed status and become doubtful, bad or risk-weighted receivables. The suspended interest is calculated and recorded within off-balance sheet items (Note 32) until full collection of such receivables.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.2. Fee and Commission Income and Expenses**

Fee and commission income and expenses arising on banking services rendered/received are recognized in full as per "matching principle," i.e. on an accrual basis, and are determined for the period when they are realized/incurred, i.e. when the service is rendered.

The Bank earns income from fees and commissions arising from the wide range of services the Bank offers to its clients. Fee and commission income may be classified into the following categories:

**Fee and Commission Income from Services Rendered in a Certain Period**

Fees and commissions received for rendering services over a certain period are deferred over the service rendering period.

Loan approval fees for loans that are likely to be drawn and other loan-related fees are deferred (together with all additional costs) and presented within accruals, which are then credited to the income statement and presented under interest income over the instrument's maturity period.

**Fee and Commission Income Related to Execution of a Certain Operation**

Fees and commissions or components thereof related to the execution of a certain operation are recognized once the appropriate criteria have been fulfilled.

**3.3. Dividend Income**

Dividend income is recognized when the Bank's entitlement to dividend income receipt has been established.

**3.4. Foreign Exchange Translation**

Items included in the Bank's financial statements are presented in the functional currency, i.e., the currency of the primary economic environment in which the Bank operates. As disclosed in Note 2.1, financial statements are stated in thousands of dinars (RSD), which is the Bank's functional and presentation currency.

Transactions denominated in foreign currencies are translated into dinars at official exchange rates as determined in the interbank foreign exchange market at the date of each transaction. Monetary assets and liabilities stated in the foreign currency as of the balance sheet date are recalculated into dinars by applying the middle exchange rates as determined in the interbank foreign exchange market effective at that date (Note 39).

Foreign exchange positive or negative effects arising upon the translation of transactions and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains and losses (Note 7).

Gains and losses arising from translation of financial assets and liabilities indexed to a currency clause are carried through profit or loss of the respective period, i.e., recorded as gains and losses on the valuation of assets and liabilities (Notes 13 and 14).

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

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments**

When a financial asset or financial liability is recognized initially, the Bank measures it at its fair value, (except in the case of a financial asset or financial liability that are measured at fair value through profit or loss), as increased by transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on a trade date basis (or on a settlement date accounting basis) i.e. at the date when the Bank commits to purchase or sell the asset (the date when the Bank receives the asset purchased or transfers the asset sold).

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. Regular purchase or sale of financial assets is recognized by applying the computation as of the settlement date, or the date when the Bank has delivered the specific financial instrument to the counterparty.

**Derecognition of Financial Assets and Liabilities**

Financial assets cease to be recognized when the Bank loses control of the contractual rights governing such instruments, which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. When the contractual rights to the cash flows from the asset have been transferred or the Bank contractually agrees to transfer the asset but it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Bank recognizes the financial asset to the extent of its continuing involvement in the financial asset. Continuing involvement taking the form of guaranteeing the transferred asset is recognized as the lower of the amount of the asset and the maximum amount of the consideration received that the Bank could be required to repay.

Financial liabilities cease to be recognized when the Bank fulfills the obligations, or when the contractual repayment obligation has either been cancelled or has expired. Where an existing financial liability is substituted by another liability towards the same lender with substantially different terms or under a substantial modification of the terms of an existing financial liability, such substitute is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability while the difference between the original and new value of liability is carried through profit and loss.

**Classification of Financial Instruments**

The Bank's management classifies financial instruments upon their initial recognition. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Subsequent measuring of financial assets depends on their classification, as follows:

**3.5.1. Financial Assets at Fair Value to Profit and Loss**

This category includes two subcategories of financial assets: trading financial assets and those carried at fair value to profit and loss.

Upon initial recognition, no financial assets have been included within assets carried at fair value through profit and loss.

Financial assets are classified as trading instruments if the Bank acquired or incurred them principally for the purpose of selling or repurchasing them in the near term in order to derive profit from the short-term price fluctuations or as derivatives. The aforementioned assets are recorded at fair value in the Bank's balance sheet.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments (Continued)****3.5.1. Financial Assets at Fair Value to Profit and Loss (Continued)**

Trading securities comprise corporate shares and shares of other banks and insurance companies.

Gains and losses on the valuation and sale of financial assets at fair value are stated in the income statement.

**3.5.2. Securities Held-to-Maturity**

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

Securities held-to-maturity comprise discounted bills of exchange and other debt securities.

Upon initial recognition, securities held-to-maturity are recorded at amortized cost by applying the effective interest method less any allowance for impairment, i.e., accumulated impairment losses. The amortized cost is calculated by taking into account all discounts or premiums realized in the purchase, in the maturity period.

The Bank performs individual assessment so as to determine objective evidence of impairment of investments in securities held to maturity.

If there is objective evidence of impairment, the amount of loss arising from impairment of securities held to maturity is calculated as the difference between the carrying value of investments and the present value of expected cash flows discounted by applying the original interest rate, and stated in the income statement through the allowance account (Note 10).

If in the following year the amount of estimated impairment loss decreases owing to an event that ensued after the impairment was recognized, each amount of impairment previously recognized is decreased and the effects thereof are credited to the income statement.

Interest income from these instruments is calculated by applying the method of effective interest rate and is stated within interest income. Fees and commission being an integral part of effective interest income to these instruments are deferred and credited to income statement over the instrument's maturity period.

**3.5.3. Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. Loans and advances to banks and customers are recorded on the balance sheet from the moment these are disbursed to the borrower. All loans and advances are initially recognized at fair value.

After initial measuring, loans and advances to banks and customers are stated in the amount of principal outstanding, taking into account all discounts and premiums upon acquisition, less allowance for impairment. Income and receivables arising from interest accrued on these instruments are recorded within interest income/interest receivables. Interest which is a part of effective interest on these instruments is deferred and stated as accruals and credited to income statement within interest income over the instrument's maturity period.

The loans disbursed in dinars and index linked to EUR or USD exchange rate, are revalued in accordance with the agreement pertaining to each individual loan. The difference between the principal outstanding and the amount calculated by applying currency clause is stated within loans and deposits. Gains and losses arising from the application of a currency clause are carried through profit and loss as gains and losses on the valuation of assets and liabilities.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments (Continued)****3.5.3. Loans and Receivables (Continued)***Allowances for Impairment of Financial Assets and Risk Provisions*

In accordance with the Bank's internal policies, at each reporting date the Bank assesses whether there are any indications of the impairment of a financial asset or group of financial assets. Impairment losses are calculated only if there is objective evidence of impairment which resulted from one or several events that occurred after the initial recognition of an asset and when these events influence the estimated future cash flows from financial assets of a group of financial assets and effects can be reliably measured.

The objective evidence of impairment may include significant financial difficulties of debtors and groups of debtors, or defaults or delinquency in interest or principal repayment, or possibility that a bankruptcy proceeding or financial reorganization process may be initiated by the debtor, and when available information indicate that there is a measurable decrease in future cash flows such as changes in unsettled liabilities or economic conditions coinciding with departures from the agreed terms.

When determining the impairment of loans and advances to banks and customers measured at amortized cost, the Bank first makes individual assessment in order to determine whether there is objective evidence of impairment for each individually significant financial asset and performs collective assessment of impairment in financial assets that are not individually significant. If the Bank determines that there is no objective evidence of impairment in financial assets individually assessed for impairment, such assets are included into a group of financial assets with similar credit risk exposure and are assessed for impairment collectively. The assets assessed individually for impairment and for which the impairment loss is recognized or continues to be recognized, are not encompassed within the assessment of impairment on portfolio basis.

In case there is objective evidence of impairment, the amount of loss is determined as a difference between the loan carrying amount and its recoverable amount, which is considered to be the net present value of the estimated future cash flows, discounted at the initial interest rate contracted for that particular financial asset. If a loan is indexed to a floating interest rate, current effective interest rate is used.

The calculation of the present value of the estimated future cash flows arising from a collateralized financial asset, reflects the cash flows contingent on the realization of the instrument's securitization. In case a loan or a placement held to maturity bears a variable interest rate, the discount rate for measuring any impairment loss is the current interest rate stated in the respective agreement.

For the purposes of assessing the impairment loss on portfolio basis, financial assets are aggregated based on their similar exposure to credit risk and internal classification system applied in the Bank according to the assets' nature, branch of industry, geographical location, type of collaterals, the status of matured, but uncollected loans and the like. The future cash flows for the group of financial assets collectively classified are estimated for impairment based on contractual cash flows and the Bank's historical experience with losses on assets with similar characteristics of credit risk.

Historical data on incurring loss for the purposes of assessing impairment on portfolio basis are adjusted based on the currently available data reflecting the effects of past circumstances which influenced the period from which the forgoing experience with losses dates, with the aim to remove the effects which are non-existent in the current period. The Bank regularly verifies and reconsiders the methodology and assumptions used to decrease the differences between the estimated losses and actual losses incurred.

The carrying value of assets is decreased using the allowance account and losses on impairment of loans and receivables as well as other financial assets carried at amortized cost, are recorded in the income statement within allowance for impairment (Note 9).

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments (Continued)****3.5.3. Loans and Receivables (Continued)***Allowances for Impairment of Financial Assets and Risk Provisions (Continued)*

In case the amount of impairment loss on loans in the forthcoming period reverses due to the event which took place after the initial allowance for the impairment was made, such allowance is adjusted by the amount of reversal and the amount of adjustment is credited to the income statement as reversal of the allowance for impairment (Note 9).

The write-off of bad debts is performed based on decisions enacted by the Bank's Assembly, or the Board of Directors, when there is no real possibility to collect the receivables and when all collaterals have been exhausted.

*Rescheduled Loans*

Whenever possible, the Bank is more inclined to reschedule loans than to foreclose on collaterals. The reschedule may take the form of repayment deadline extension or of different terms of crediting. Once terms have been changed, the loan is not considered to be matured. Management controls rescheduled loans on an ongoing basis so as to ensure that all criteria are met and future payments discharged. The Bank continues to perform individual assessment for impairment applying the original effective interest rate.

**3.5.4. Securities Available-for-Sale**

Securities for which there is intention to hold them for an indefinite time period, and which can be sold to meet liquidity needs or due to fluctuation in the interest rates, foreign exchange rates or prices of capital, are classified as available-for-sale securities. Securities available for sale are comprised of equity instruments of other legal entities, as well as debt securities.

Upon initial recognition, securities available-for-sale, are stated at fair value. The fair value of securities quoted in the market is based on the current bid prices. Unrealized gains and losses arising from securities available-for-sale are credited or charged to revaluation reserves, until the security is sold, collected or in any other way realized, or until such security is impaired. When securities available-for-sale are disposed or their value is impaired, the accumulated fair value adjustments are recognized within equity in the income statement.

Equity investments in other legal entities which do not have quoted price in an active market and cannot be assessed by applying other reasonable methods, are not measured at fair value and are stated at cost less any allowance for impairment.

Dividends from financial assets available for sale are included in dividend and other income from equity investments when the Bank's right to inflows from dividends has been established.

In respect to equity investments and other securities available for sale, at the balance sheet date, the Bank assesses whether there is objective evidence that one or more investments have suffered impairment. In case equity investments in other legal entities classified as available for sale, objective evidence of impairment includes significant or prolonged decline in fair value below cost. When there is evidence of impairment, cumulative loss measured as the difference between cost and current value, as decreased for any amount of impairment loss on that investment, previously recognized on the income statement is removed from equity and charged to the income statement.

For debt instruments classified as available for sale, impairment is assessed using the same criteria as for financial assets initially stated at amortized cost. If in the ensuing year the fair value of a debt instrument increases or the increase may objectively be linked to an event that occurred after the impairment was charged to the income statement, the impairment loss is reversed and the related amount is credited to the income statement.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments (Continued)****3.5.5. Financial Instruments Issued and Other Financial Liabilities**

Financial instruments issued or components thereof are classified as liabilities when the substance of contracts governing such instruments indicates that the Bank is liable to make cash payments or deliver some other financial asset to the holder or to settle the liability otherwise than through cash payment or exchange of another financial instrument for a fixed number of own shares.

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

***Due to Banks and Customers***

Amounts due to banks and customers, as all other interest-bearing liabilities, are initially recognized at fair value, as reduced by all transaction costs except for the financial liabilities carried at fair value through profit and loss. Subsequent to initial recognition, interest-bearing deposits and borrowings are stated at amortized cost.

***Borrowings***

The liabilities arising from borrowings are initially stated at fair value net of any transaction costs. Borrowings are subsequently measured at amortized cost. Borrowings are classified within current liabilities unless the Bank is not unconditionally liable to discharge the liability within 12 months from the reporting date.

***Accounts Payable***

Accounts payable and other current liabilities are stated at their nominal values.

**3.5.6. Offsetting Financial Assets and Financial Liabilities**

The Bank offsets its assets and liabilities and the difference between their aggregates is recognized within the balance sheet, if, and only if, it has a legally enforceable right to set off the recognized amounts and intends either to settle them on a net basis, or to sell the asset and settle the liability simultaneously.

**3.6. Derivatives**

Derivatives are recognized at fair value and recorded as assets in instances of positive fair value or as liabilities in instances of negative fair value. The changes in fair value of derivatives are recognized in the income statement.

As of December 31, 2013 and 2012, the Bank had no derivatives and made no use of hedging accounting.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.7. Special Reserve for Estimated Losses on Balance Sheet Assets and Off-Balance Sheet Items**

Special reserve for estimated losses on balance sheet assets and off-balance sheet items is estimated in accordance with the requirements of the relevant NBS Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items of Banks (Official Gazette of the Republic of Serbia no. 94/2011, 94/2011, 57/2012, 123/2012, 43/2013 and 113/2013).

Total receivables from a single debtor (balance sheet and off-balance exposures) are classified into the categories from A to D, in accordance with the evaluation of their collectability. The collectability of receivables from one debtor is estimated based on the debtor's diligence in servicing its debt, as well as based on its financial position, number of days in default against interest and principal liabilities, as well as the quality of the collateral provided for the debt.

Pursuant to the classification of receivables, and in accordance with the aforesaid Decision issued by the National Bank of Serbia, the amount of special reserve for estimated losses is calculated by applying the following percentages to the categories: A (0%), B (2%), V (15%), G (30%) and D (100%).

In its internal acts the Bank has determined the criteria and methodology for determining the special reserves for estimated losses within the percentages prescribed by the aforesaid Decision issued by the National Bank, based on debtor days in default in settling liabilities, financial position, and analyses of its financial performance, cash flow adequacy and collaterals.

The amount of special reserve for estimated losses on balance sheet assets and off-balance sheet items represents equity deductible based on the Decision on Capital Adequacy.

**3.8. Cash and Cash Equivalents**

For the purposes of the cash flow statement, cash and cash equivalents include cash funds held on the Bank's account and cash on hand (in dinars or in foreign currencies), cheques and foreign currency funds held on the accounts with domestic and foreign banks (Note 16).

**3.9. Repurchase Transactions**

Repurchase transactions related to securities purchased under agreements to resell determining the exact date when these securities will be sold again are recognized in the balance sheet.

Cash used for the purposes above described, including matured interest, is recognized in the balance sheet. The difference between the purchase price and the price realized in resale is treated as interest income which matures during the respective agreement.

**3.10. Intangible Assets**

Intangible assets are comprised of software and licenses. Intangible assets are stated at cost net of accumulated amortization and impairment losses, if any.

The useful life of intangible assets is estimated as finite. Intangible assets with a finite useful life are amortized over their useful life. The period and method of amortization applied to intangible assets with finite useful life are reexamined once a year at the end of financial year.

The changes in the expected useful life or expected patterns of consumption of future economic benefits comprised in the asset are encompassed by changing the period or amortization method and are treated as changes in accounting estimates.

Amortization is provided for on a straight-line basis to the cost or revalued amount of intangible assets in order to write them down to the residual values over their useful lives using the following useful lives:

Software licenses	3 years
Other intangible assets	5 years

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.10. Intangible Assets (Continued)**

Amortization of intangible assets with finite useful lives is charged to the income statement (Note 11).

Expenditures arising from the development, maintenance or administration of computer software are expensed in the period in which these are incurred.

**3.11. Property and Equipment**

The Bank's fixed assets comprise buildings, equipment and other assets. Such assets are initially recognized at cost as increased by any acquisition related expenses, net of any trade discounts and rebates.

Subsequently, buildings are measured at revalued amount being their fair value at the revaluation date net of accumulated depreciation and accumulated impairment losses.

Buildings are stated at the appraised market value, less accumulated depreciation. The appraisal surplus is credited to the Bank's revaluation reserves. The frequency of revaluations depends on the volatility of the fair values of the buildings being revalued relative to their carrying values.

The Bank's equipment is stated at cost net of accumulated depreciation.

Subsequent expenditure is recognized as an increase in the cost of respective assets, when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Bank, and when the cost can reliably be measured. Repairs and maintenance are expensed as incurred and are stated under operating expenses within the income statement.

The depreciation of property and equipment is provided for on a straight-line basis in order to fully write-off the cost of such assets over their estimated useful lives as follows:

Buildings	up to 77 years
Computer equipment	up to 5 years
Other equipment	from 6 to 14 years

Changes in the expected useful life are treated as changes in accounting estimates. Depreciation of buildings and equipment commences in the month following the month when such assets are placed in use. Depreciation is not accrued for assets under construction. Accrued depreciation charge is recognized as an expense of the period in which it is incurred.

Gains and losses on the disposal or sale of property and equipment are credited or charged to the income statement, within other operating income or expenses.

The calculation of depreciation and amortization for tax purposes is performed in accordance with the Corporate Income Tax Law of the Republic of Serbia and the Rules on Classification of Fixed Assets into Groups and the Manner of Determining Depreciation for Tax Purposes, which gives rise to deferred taxes (Note 15(c)).

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.12. Non-Current Assets Held for Sale**

Recognition of non-current assets held for sale is performed in accordance with the intentions of the Bank's management to dispose of such assets, availability of such assets, the management's active plans for and dedication to the sale of the aforesaid assets in the near term.

Upon recognition, non-current assets held for sale are initially measured at the lower of the fair value less costs to sell and their carrying value. Subsequently, such assets are measured at fair value less expected costs to sell. In the event that the fair value less costs to sell is lower than the carrying value of such an asset, the value of an asset is reduced to the lower, the effects of which are recognized in the income statement of the current period, i.e. they are charged to revaluation reserves up to the amount of previously formed revaluation reserves based on the respective assets.

**3.13. Assets acquired in Lieu of Debt Collection**

Assets acquired in lieu of debt collection refer to assets of which the Bank has taken over ownership as a form of borrower settlement of liabilities arising from the previously approved loans. These assets are included within other assets (Note 24). Assets acquired in lieu of debt collection are temporarily held in order to be disposed of and are stated at the lower of the carrying value and net realizable value (market value less costs to sell).

**3.14. Leases**

Considering whether or not a particular agreement comprises leases or contains lease elements is based on the substance of the agreement and requires the assessment whether the fulfillment of conditions is dependent on the use of a certain asset or group of assets and whether the agreement transfers rights of use over the assets.

*a) Finance Lease – the Bank as a Lessee*

A finance lease transferring substantially all the risks and rewards incidental to ownership of an asset to the Bank is capitalized at the lease inception at the lower of the fair value of leased item or the present value of minimum lease payment and is recognized within property and equipment along with the related liability towards the lessor, stated within other liabilities. Capitalized assets taken under lease are depreciated over the lease term. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Such finance expenses are charged to the income statement within interest expenses.

*b) Operating Lease – the Bank as a Lessee*

A lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset is classified as an operating lease.

Lease payments under an operating lease are recognized as an expense on a straight-line basis at their inception over the lease term (Note 12).

**3.15. Impairment of Non-Financial Assets**

Pursuant to the adopted accounting policy, at the reporting date, the Bank's management reviews the carrying amounts of the Bank's tangible and intangible assets in order to determine the indications of impairment loss. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of net selling price and value in use. Impairment loss is recognized in the amount of the difference charged to expenses in accordance with IAS 36 "Impairment of Assets."

Non-financial assets (other than goodwill) that have suffered impairment are revised in each reporting period for potential reversal of impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.16. Provisions, Contingent Liabilities and Contingent Assets**

A provision is recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, 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. So as to reflect the best possible estimates, provisions are considered, determined and revised at each reporting date. Provisions are measured at the present value of expected outflows required to settle the present obligation applying the discount rate reflecting the current market estimate of time value of money.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are monitored per types and can be used for purposes for which it was initially recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements of the Bank. Contingent liabilities are disclosed in the notes to the financial statements (Note 35), unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements of the Bank. They are disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

**3.17. Employee Benefits****a) Employee Taxes and Contributions for Social Security – Defined Contribution Plans**

In accordance with regulatory requirements in the Republic of Serbia, the Bank is obligated to pay contributions to state social care funds. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the amounts computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the applicable government funds. The Bank is not obligated to pay benefits that represent the obligation of the Republic of Serbia Pension Fund. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

**b) Other Benefits Payable – Retirement Benefits and Jubilee Awards**

Pursuant the Collective Bargaining Agreement, the Bank is under obligation to pay retirement benefits in the amount of 3 average gross salaries in the Republic of Serbia in the month preceding the month the retirement benefit is paid out, according to the most recent information published by the Republic Statistical Office.

The costs and liabilities arising in connection with these plans are not secured through funds. Provisions for these benefits and related expenses are recognized in the amount of the present value of expected future cash flows applying the actuarial projected unit credit method. The actuarial gains and losses and expenses of previously rendered services are recognized in the income statement when they occur.

**c) Short-Term Compensated Absences**

Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. The expected costs of paid benefits are recognized in the amount of accumulated unused entitlements as of the balance sheet date expected to be used in the ensuing period. Liabilities or expenses arising from non-accumulating compensated absences are not recognized until such absences have been used.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.18. Equity**

Equity is comprised of share capital (common shares) and other capital, revaluation reserves and retained earnings/accumulated losses of the current and prior years (Note 31(a)).

Revaluation surplus from buildings is recorded within revaluation reserves.

Gains and losses arising from the change in the market value of securities available for sale are also recorded within revaluation reserves.

**3.19. Financial Guarantees**

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

Financial guarantees are initially recognized in the financial statements at their fair value at the date of guarantee issuance, after receiving guarantee issuance fees. Following the initial recognition, the Bank's liabilities arising from financial guarantees are measured at the higher of the amount of amortized premium and the best estimate of outflows that may be required to discharge a financial liability incurred as a result of a guarantee.

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

**3.20. Taxes and Contributions****(a) Income Taxes***Current Income Taxes*

Current income tax is payable at the legally prescribed rate of 15% (December 31, 2012: 10%) on the tax base determined within the tax balance and reported in the annual corporate income tax return. The taxable base stated in the income tax return includes the profit before taxation shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the Republic of Serbia, less any prescribed tax credits.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, current period tax losses stated in tax return may be used to reduce or eliminate taxes to be paid in future periods but only for duration of no longer than five ensuing years. Tax losses incurred prior to January 1, 2010 are available for carryforward for duration of ten ensuing years.

*Deferred Income Taxes*

Deferred income taxes are provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized.

Deferred tax assets and liabilities are determined at the tax rate expected to be applied in the period of the relevant asset realization/liability settlement. As at December 31, 2013, deferred tax assets and liabilities were provided at the rate of 15% (December 31, 2012: 15%).

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.20. Taxes and Contributions (Continued)****(b) Indirect Taxes and Contributions**

Indirect taxes and contributions include property taxes, value added tax, payroll taxes and contributions charged to the employer and various other taxes and contributions paid pursuant to effective republic and local tax regulations. These taxes and contributions are included within other operating expenses (Note 12).

**3.21. Earnings per Share**

Basic earnings per share are calculated by dividing net profit/(loss) attributable to shareholders, holders of common shares of the Bank, by weighted average number of common shares outstanding in the reporting period.

**3.22. Managed Funds**

Funds managed by the Bank on behalf of and for the account third parties for a fee are included in the Bank's off-balance sheet items (Note 32(a)). The Bank is not exposed to any risk based on the said assets.

**3.23. Segment Reporting**

An operating segment is the Bank's component involved in business activities earning income and incurring expenses (including income and expenses arising from transactions with the Bank's other components) whose business results are regularly examined by the Bank's managing body in order to decide on the resources allocated to this segment and determine the segment's performance, and for which separate financial information is available.

The patterns applied in the allocation of jointly incurred expenses are defined based on the Bank's management's best estimates.

Operating segments being reported are based on the manner of organizing business activities in the Bank and are presented in Note 36.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***4. SUMMARY OF KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

These estimations and assumptions are based on information available, as of the date of preparation of the financial statements. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review and when adjustments become necessary they are stated within the income statement for periods in which they became known.

What follows are the key assumptions in respect of the future events and other sources of estimations, uncertainties as of the balance sheet date which represent risk from material adjustments to the amounts of balance sheet items in the following fiscal year.

**(a) Impairment of Financial Assets**

The Bank assesses at each reporting date whether there is objective evidence that the value of a financial assets or group of financial assets has suffered impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that 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.

With regards to the assessment of impairment losses on loans, the Bank reviews the credit portfolio at least quarterly for the purpose of calculating the impairment in their value.

In the process of determining whether an impairment loss needs to be accounted for within the income statement, the Bank assesses whether there is reliable evidence showing a measurable decrease in the estimated future cash flows from the credit portfolio before the impairment, which can be identified within individual loans comprised in the portfolio. Such evidence may include available data indicative of unfavorable changes in debtor's settling its liabilities towards the Bank or in the national or local circumstances having adverse influences on the Bank's assets.

The Bank's management makes assessment based on its experience with losses incurred on loans from prior periods for all assets susceptible to credit risk and showing evidence of impairment similar to the one that existed in the credit portfolio at the time of planning future cash flows. The methodology and assumptions used in the assessment of amounts and time of future cash flows are subject to regular reviews with the aim to decrease differences between the estimated and actually incurred losses.

**(b) Determining the Fair Value of Financial Instruments**

The fair value of financial instruments traded on an active market at the balance sheet date are based on the quoted market bid and ask prices, before the decrease by transaction costs. The fair value of financial instruments which are not listed on an active market are determined using adequate measurement techniques including techniques of net present value, comparison with similar instruments for which there are market prices and other relevant models.

When market inputs are unavailable, these are determined through assessments that include a certain degree of judgments in the fair value assessment. Models of estimates reflect the current market situation at the date of assessment and do not have to correspond to the market terms before or after the date of measuring. Hence, measurement techniques are revised periodically so they would best reflect current market terms.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***4. SUMMARY OF KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)****(c) Useful Life of Intangible Assets, Property and Equipment**

Determining the useful life of intangible assets, property and equipment is based on historical experience with similar assets, as well as the anticipated technical development and changes affected by numerous economic and industrial factors. Adequacy of useful life is reexamined annually or whenever there are indications of significant changes in factors underlying the estimate of useful lives.

The impact of any changes in the aforementioned assumptions may significantly influence the financial position of the Bank, as well as the results of its operations. For instance: should the Bank decrease the useful life of intangible assets, property and equipment by 1% depreciation and amortization charge would additionally increase on annual basis by the amount of RSD 867 thousand.

**(d) Impairment of Non-Financial Assets**

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

Impairment assessment requires management to make subjective judgments in respect to cash flows, growth rates and discounting rates for cash generating units subject to assessment.

**(e) Provisions for Litigations**

The Bank is involved in a number of lawsuits arising in the everyday business operations in respect to commercial and contractual issues, as well as labor issues, which are resolved or considered in the regular course of business. The Bank estimates the probability of negative outcome of these issues, as well as amounts of likely or reasonable loss assessments.

Reasonable assessment encompass judgments made by management upon consideration of information provided in reports, settlements, assessment made by legal department, facts available, identification of potentially responsible parties and their ability to contribute to the resolution of the matter, as well as historical experience.

Provisions for litigation are recognized when the Bank has an obligation whose reliable estimate can be made by way of a careful analysis. The amount of provisions is subject to changes contingent on new events or new information coming to light.

The matters that either constitute a contingent liability or do not meet the criteria for provisioning are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

**(f) Deferred Tax Assets**

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

The Bank's management needs to make prudent assessments of deferred tax assets that should be recognized, based on the period when these arise and the amount of future taxable income and tax policy planning strategy.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 4. SUMMARY OF KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

**(g) Retirement Benefits and Other Post-Employment Benefits**

The cost of defined post-employment benefits to employees and/or retirement benefits are determined in an actuarial assessment. An actuarial assessment includes the assessment of a discount rate, future movements in salaries, mortality rates and employee turnover. Due to a long-term nature of these plans, significant uncertainties influence these assessments. Additional information is disclosed in Note 29 to the financial statements.

Had a discount rate been 1% higher, provisions for retirement benefits would have been by RSD 1,112 thousand lower and if a discount rate had been 1% lower than the one assessed by management, provisions for retirement benefits would have been by RSD 1,285 thousand higher as compared to the aforementioned provisions stated in the Bank's business books as of December 31, 2013.

## 5. INTEREST INCOME AND EXPENSES

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Interest income:</b>		
- National Bank of Serbia	72,867	32,880
- banks	13,613	33,016
- corporate customers	1,432,791	2,063,813
- entrepreneurs	2,381	2,633
- public sector	5,331	5,544
- retail customers	204,069	199,281
- non-residents	8,064	7,944
- bills of exchange	143,357	181,702
	<u>1,882,473</u>	<u>2,526,813</u>
<b>Interest expense:</b>		
- banks	207,555	256,349
- public companies	86,439	61,758
- other corporate customers	124,089	124,785
- entrepreneurs	254	147
- public sector	70,717	27,406
- retail customers	211,940	144,619
- non-residents	4,262	1,723
- other customers	64,871	109,347
	<u>770,127</u>	<u>726,134</u>
<b>Net interest income</b>	<u>1,112,346</u>	<u>1,800,679</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 5. INTEREST INCOME AND EXPENSES (Continued)

Interest income and expenses per classes of financial instruments are presented in the table below:

	Year Ended December 31,	
	2013	2012
<b>Interest income:</b>		
Cash and short-term assets	21,521	12,517
Deposits held with the National Bank of Serbia	33,583	9,150
Advances to banks	5,396	24,874
Advances to customers	1,678,616	2,298,569
Securities held-to-maturity	143,357	181,703
	<u>1,882,473</u>	<u>2,526,813</u>
<b>Interest expenses:</b>		
Deposits owed to banks	204,252	240,679
Deposits owed to customers	565,875	485,455
	<u>770,127</u>	<u>726,134</u>
<b>Net interest income</b>	<u>1,112,346</u>	<u>1,800,679</u>

## 6. FEE AND COMMISSION INCOME AND EXPENSES

	Year Ended December 31,	
	2013	2012
<b>Fee and commission income</b>		
Fees and commissions from domestic payment transfers	86,877	77,528
Fees and commissions from foreign payment transfers	10,439	7,087
Fees and commissions from current account banking services	11,117	14,125
Fees and commissions from operations with retail customers	62,148	66,495
Fees and commissions from payment card operations	31,152	34,462
Fees and commissions per guarantees and other sureties issued	115,866	145,087
Managed fund fees	1,336	1,058
Other fee and commission income	14,625	17,299
	<u>333,560</u>	<u>363,141</u>
<b>Fee and commission expenses</b>		
Fees and commissions arising from domestic payment transfers	22,003	25,744
Fees and commissions arising from international payment transfers	4,441	2,697
Fees and commissions on payment cards	467	381
Fees and commission paid for banking services	3,014	3,084
Other fee and commission expenses	163	56
	<u>30,088</u>	<u>31,962</u>
<b>Net fee and commission income</b>	<u>303,472</u>	<u>331,179</u>

## 7. NET FOREIGN EXCHANGE LOSSES

	Year Ended December 31,	
	2013	2012
Foreign exchange gains	2,635,658	4,652,272
Foreign exchange losses	<u>(2,650,952)</u>	<u>(4,808,845)</u>
<b>Net foreign exchange losses</b>	<u>(15,294)</u>	<u>(156,573)</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 8. OTHER OPERATING INCOME

	Year Ended December 31, 2013	2012
Gains on the sale of property and equipment	14	-
Collected receivables previously written off	15,150	-
Other operating income	21,008	79,125
	<u>36,172</u>	<u>79,125</u>

Other operating income totaling RSD 21,008 thousand in 2013 mostly refers to the reversal of liabilities for unused annual leaves in the amount of RSD 14,609 thousand and other income of RSD 3,429 thousand.

## 9. IMPAIRMENT LOSSES AND PROVISIONS, NET

	Year Ended December 31, 2013	2012
<b>Impairment losses and provisions</b>		
Impairment of assets included in the balance sheet:		
- interest, fee, commission and trade receivables (Note 18)	(228,936)	(255,556)
- loans and advances to customers (Note 19d)	(1,191,059)	(1,326,589)
- securities (Note 20)	(137,475)	(51,764)
- other investments (Note 21)	(235,164)	(329,122)
- other assets (Note 24)	(884)	(1,463)
	<u>(1,793,518)</u>	<u>(1,964,494)</u>
Provisions against off-balance sheet items (Note 29)	(106,542)	(228,179)
Provisions for retirement benefits (Note 29)	(538)	(4,104)
Cost of unused annual vacation leaves	(1,269)	(14,608)
	<u>(108,349)</u>	<u>(246,891)</u>
	<u>(1,901,867)</u>	<u>(2,211,385)</u>
<b>Reversal of impairment losses and provisions</b>		
Reversal of impairment of assets included in the balance sheet:		
- interest, fee, commission and trade receivables (Note 18)	140,658	80,632
- loans and advances to customers (Note 19d)	1,219,751	1,071,206
- securities (Note 20)	172,073	41,690
- other investments (Note 21)	124,539	110,060
- other assets (Note 24)	28,654	14,472
	<u>1,685,675</u>	<u>1,318,060</u>
Reversal of provisions for off-balance sheet items (Note 29)	115,293	130,003
Collected previously suspended interest	24,362	-
	<u>139,655</u>	<u>130,003</u>
	<u>1,825,330</u>	<u>1,448,063</u>
<b>Net impairment losses and provisions</b>	<u>(76,537)</u>	<u>(763,322)</u>

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***10. STAFF COSTS**

	<u>Year Ended December 31,</u> <b>2013</b>	<u>2012</u>
Net salaries and benefits	433,304	352,617
Payroll taxes and contributions charged to the employee	161,096	141,669
Other staff costs	14,121	9,595
	<u>608,521</u>	<u>503,881</u>

**11. DEPRECIATION AND AMORTIZATION CHARGE**

	<u>Year Ended December 31,</u> <b>2013</b>	<u>2012</u>
Depreciation and amortization charge:		
- property and equipment (Note 22)	103,048	83,894
- intangible assets (Note 22)	4,213	6,945
	<u>107,261</u>	<u>90,839</u>

**12. OPERATING AND OTHER EXPENSES**

	<u>Year Ended December 31,</u> <b>2013</b>	<u>2012</u>
Payroll contributions charged to employer	102,184	90,932
Non-material services	131,916	127,040
Rental of business premises	48,763	41,216
Maintenance of property and equipment	91,551	71,307
Telecommunications and postage	27,736	31,415
City development land fee	27,042	25,653
Marketing and advertising	10,109	17,647
Insurance premiums	27,185	22,279
Donations and sponsorships	78,015	30,909
Write-off of uncollectable receivables	412,869	381,903
Losses on the sale and retirement of property, equipment and intangible assets	31	16
Other	125,497	144,298
	<u>1,082,898</u>	<u>984,615</u>

**13. GAINS ON THE VALUATION OF ASSETS AND LIABILITIES**

	<u>Year Ended December 31,</u> <b>2013</b>	<u>2012</u>
Gains on the valuation of advances and receivables – currency clause	1,251,674	1,478,535
Gains on the valuation of securities	5,263	6,294
Gains on the valuation of liabilities – currency clause	76,721	133,123
<b>Total</b>	<u>1,333,658</u>	<u>1,617,952</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 14. LOSSES ON THE VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31, 2013	2012
Losses on the valuation of advances and receivables	1,143,744	1,134,966
Losses on the valuation of securities	7,059	7,883
Losses on the valuation of liabilities	83,962	169,174
	<u>1,234,765</u>	<u>1,312,023</u>

## 15. INCOME TAXES

## (a) Income tax components

Total income tax expense/(benefit) is comprised of the following:

	Year Ended December 31, 2013	2012
Current income taxes	-	-
Losses on creation of deferred tax liabilities	1,200	9,829
	<u>1,200</u>	<u>9,829</u>

## (b) Numerical reconciliation between tax expense and the product of the accounting results multiplied by the applicable tax rate

	Year Ended December 31, 2013	2012
<b>(Loss)/profit before taxes</b>	<u>(339,085)</u>	<u>19,100</u>
<b>Income taxes at the statutory tax rate of 15% (2012: 10%)</b>	<u>(50,863)</u>	<u>1,910</u>
Tax effects of permanent differences	1,588	(2,857)
Unrecognized current year tax losses	49,275	947
Effect of the change in tax rates	-	632
Changes in temporary differences between the present value of fixed and intangible assets recognized within the financial statements and their tax base values for tax purposes	1,200	9,197
<b>Total tax expense/(benefit) stated in the income statement</b>	<u>1,200</u>	<u>9,829</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 15. INCOME TAXES (Continued)

## (c) Deferred Tax Liabilities

Deferred tax liabilities relate to temporary differences between the carrying value of property, equipment and intangible assets and their tax bases, as well as to temporary differences arising from revaluation of fixed assets and fair value adjustment of securities available for sale.

Deferred tax liabilities were determined at the effective tax rate of 15%, which is the tax rate expected to be applied in the period of the relevant liability settlement.

The movements on deferred tax liabilities during the year are presented in the following table:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>Balance at January 1</b>	11,092	1,263
Effects of temporary differences charged/(credited) to the income statement	<u>1,200</u>	<u>9,829</u>
<b>Balance at December 31</b>	<u><u>12,292</u></u>	<u><u>11,092</u></u>

At December 31, 2013, the Bank did not recognize deferred tax assets in the amount of RSD 24,618 thousand (December 31, 2012: RSD 23,630 thousand), based on unused tax credits available for carryforward. The entitlement to carry forward unused tax credits expires within one to five years

The Bank did not recognize deferred tax assets due to the uncertainty over the availability of sufficient amounts of future taxable income against which deferred tax assets could be utilized.

## 16. CASH AND CASH EQUIVALENTS

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>In RSD:</b>		
Gyro account	1,102,192	1,037,410
Cash on hand	<u>221,968</u>	<u>239,838</u>
	<u>1,324,160</u>	<u>1,277,248</u>
<b>In foreign currencies:</b>		
Foreign currency accounts with foreign banks	426,340	192,820
Cash on hand	<u>861,658</u>	<u>212,288</u>
	<u>1,287,998</u>	<u>405,108</u>
<b>Balance as at December 31</b>	<u><u>2,612,158</u></u>	<u><u>1,682,356</u></u>

In accordance with the National Bank of Serbia Decision on Required Reserves of Banks with the National Bank of Serbia, the Bank is obligated to calculate the required RSD reserve applying the rates of 0% and 5% (depending on the contractually defined maturities) to the amount of the average daily RSD balances of liabilities during the preceding calendar month and maintain it on its gyro account held with the National Bank of Serbia.

As of December 31, 2013, the Bank's required RSD reserve amounted to RSD 1,367,385 thousand (December 31, 2012: RSD 1,040,077 thousand). The Bank was in full compliance with the aforesaid Decision of the National Bank of Serbia with regard to the calculation and maintenance of the required RSD reserve

The average interest rate applied to the amount of required RSD reserve set aside equaled 2.5% annually in 2013.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 17. REVOCABLE DEPOSITS AND LOANS

	December 31, 2013	December 31, 2012
<b>In RSD</b>		
Liquidity surpluses deposited with the National Bank of Serbia	-	554,500
	-	554,500
<b>In foreign currency</b>		
Required reserve with the National Bank of Serbia	5,997,552	3,992,818
<b>Balance as at December 31</b>	<u>5,997,552</u>	<u>4,547,318</u>

In accordance with the National Bank of Serbia Decision on Required Reserves of Banks with the National Bank of Serbia, the Bank is obligated to calculate the required foreign currency reserve applying the rate of 29% to the liabilities maturing within 730 days and the rate of 22% of to the liabilities with maturities of over 730 days, i.e. to the average daily balances of such liabilities during the preceding calendar month, and exceptionally at the rate of 50% to the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause. The required foreign currency reserve is deposited on the foreign account held with the National Bank of Serbia.

At December 31, 2013, the Bank's required foreign currency reserve was in compliance with the aforesaid Decision of the National Bank of Serbia. The average daily balance of allocated required foreign currency reserve does not accrue interest.

## 18. RECEIVABLES ARISING FROM INTEREST, FEES AND COMMISSIONS, TRADE, FAIR VALUE ADJUSTMENTS OF DERIVATIVES AND OTHER RECEIVABLES

	December 31, 2013	December 31, 2012
<b>In RSD:</b>		
<i>Fee and commission receivables:</i>		
- Other banks	114	112
- National Bank of Serbia	1,330	1,146
- Corporate customers	960,060	770,342
- Public sector	386	380
- Retail customers	8,480	7,670
- Other customers	1,390	27,802
	<u>971,760</u>	<u>807,452</u>
<i>Trade receivables</i>		
- Corporate customers	28,341	-
	<u>1,000,101</u>	<u>807,452</u>
<b>In foreign currencies:</b>		
<i>Interest, fee and commission receivables:</i>		
- Corporate customers	3,442	3,415
	<u>3,442</u>	<u>3,415</u>
<b>Gross receivables</b>	1,003,543	810,867
Less: Allowance for impairment	<u>(406,668)</u>	<u>(317,815)</u>
<b>Balance as at December 31</b>	<u>596,875</u>	<u>493,052</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 18. RECEIVABLES ARISING FROM INTEREST, FEES AND COMMISSIONS, TRADE, FAIR VALUE ADJUSTMENTS OF DERIVATIVES AND OTHER RECEIVABLES (Continued)

Interest, fee and commission receivables as of December 31, 2013 include interest of RSD 329,136 thousand based on currency clause-indexed loans approved (December 31, 2012: RSD 218,990 thousand).

Movements on the accounts of allowance for impairment are presented in the following table:

	December 31, 2013	December 31, 2012
Balance at January 1	317,815	138,810
Charge for the year (Note 9)	228,936	255,556
Reversal of impairment allowance (Note 9)	(140,658)	(80,632)
Foreign exchange losses	575	4,081
<b>Balance at December 31</b>	<b>406,668</b>	<b>317,815</b>

## 19. LOANS AND ADVANCES TO CUSTOMERS

## (a) Breakdown of Loans and Advances per Customer Type

	2013			2012		
	Short-Term	Long-Term	Total	Short-Term	Long-Term	Total
<b>In RSD</b>						
<i>Loans and deposits to customers:</i>						
- Corporate customers	6,359,382	1,289,782	7,649,164	7,694,711	1,351,685	9,046,396
- Public sector	22,351	-	22,351	25,021	-	25,021
- Retail customers	370,728	603,451	974,179	324,858	599,144	924,002
- Other customers	643,670	309,534	953,204	676,905	307,039	983,944
	<u>7,396,131</u>	<u>2,202,767</u>	<u>9,598,898</u>	<u>8,721,495</u>	<u>2,257,868</u>	<u>10,979,363</u>
<b>In foreign currency</b>						
<i>Loans and deposits to customers:</i>						
- National Bank of Serbia	419,023	-	419,023	434,387	-	434,387
- Corporate customers	27,513	7,144	34,657	27,292	7,086	34,378
- Other customers	6,879	-	6,879	6,823	-	6,823
	<u>453,415</u>	<u>7,144</u>	<u>460,559</u>	<u>468,502</u>	<u>7,086</u>	<u>475,588</u>
<b>Gross loans and advances to customers</b>	7,849,546	2,209,911	10,059,457	9,189,997	2,264,954	11,454,951
Less: Allowance for impairment (Note 19d)	-	-	(1,658,990)	-	-	(1,681,945)
<b>Balance at December 31</b>	-	-	8,400,467	-	-	9,773,006

As of December 31, 2013, short-term and long-term loans disbursed in RSD included loans approved with currency clause terms totaling RSD 5,755,579 thousand (December 31, 2012: RSD 5,633,789 thousand), whereof RSD 126,117 thousand relates to rail loans, and RSD 5,629,462 thousand to corporate loans.

Short-term corporate loans were approved for financing operating activities in the areas of trade, processing industry, construction industry, services and tourism, power industry, agriculture and food processing industry, as well as for other purposes, at the interest rates ranging from 0.87% to 2.2% monthly for RSD loans.

The Bank's most significant individual receivables based on loans extended relate to the following borrowers: Tigar a.d., Pirot, Inter-kop d.o.o., Šabac, IMK 14 oktobar – in restructuring, Kruševac, Simpo a.d., Vranje, Titel agro d.o.o., Titel, Koteks d.o.o., Beograd, and Beohemija d.o.o., Beograd, comprising 26.99% of the gross loans and advances to customers as at December 31, 2013.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***19. LOANS AND ADVANCES TO CUSTOMERS (Continued)**

Loans and advances to retail customers including consumer and cash loans (both short-term and long-term) were approved at interest rates ranging from 1.42% to 2% monthly.

The interest rate applied to overdraft facilities on current accounts of retail customers amounted to 2.5% monthly while the rate of 3.5% applied to unauthorized overdrafts on current accounts of retail customers. The interest rate to credit cards of retail customers ranged from 1.85% to 2.3% monthly.

Placements with the National Bank of Serbia of RSD 419,023 thousand (December 31, 2012: RSD 434,387 thousand) relate to the funds amounting to USD 5,041 thousand retained by the National Bank of Serbia as collateral for payment made in 1998 to JP Jugimport SDPR for technical support services rendered to the business partner from Kuwait.

Gross loans impaired as of December 31, 2013 totaled RSD 9,640,437 thousand, whereof individually impaired loans amounted to RSD 8,678,903 thousand whereas collectively impaired loans amounted to RSD 961,534 thousand (December 31, 2012: total gross loans - RSD 11,020,564 thousand; individually impaired loans - RSD 10,098,285 thousand; collectively impaired loans - RSD 922,279 thousand). Fair value of collaterals securitizing repayment of loans assessed as impaired amounted to RSD 3,627,095 thousand (December 31, 2012: RSD 4,070,118 thousand). The aforesaid collaterals comprise deposits placed, guarantees and mortgages assigned over property.

**(b) Maturities of Loans and Advances to Customers**

Maturities of loans and advances to customers presented in gross amounts per maturity outstanding as of December 31, 2013 and 2012 were as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Matured receivables	5,270,337	5,497,997
Within 30 days	922,477	966,182
From 1 to 3 months	410,743	753,656
From 3 to 12 months	1,296,399	2,036,841
Over 1 year	2,159,501	2,200,275
	<u>10,059,457</u>	<u>11,454,951</u>

The aging structure of the matured receivables was as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Within 30 days	503,274	624,175
From 1 to 6 months	1,597,437	2,465,378
From 6 to 12 months	911,052	1,162,872
Over 1 year	2,258,574	1,245,572
	<u>5,270,337</u>	<u>5,497,997</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

## (c) Concentration of Loans and Advances

The concentration of loans and advances to customers presented in the gross amount at December 31, 2013 and 2012 is significant in the following industries:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Trade	1,938,903	2,224,282
Processing industry	3,225,854	4,527,554
Civil engineering and construction industry	1,071,386	1,187,171
Services and tourism	624,829	248,184
Agriculture and food processing industry	356,448	769,352
Other	1,448,835	1,140,017
Retail customers	974,179	924,004
Domestic and foreign banks	419,023	434,387
	<b>10,059,457</b>	<b>11,454,951</b>

## (d) Movements on the Allowance for Impairment of Loans and Advances

Movements on the allowance for impairment accounts of loans and advances to customers are provided in the following table:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Balance at January 1	1,681,945	1,393,754
Charge for the year (Note 9)	1,191,059	1,326,589
Reversal of impairment allowance (Note 9)	(1,219,751)	(1,071,206)
Foreign exchange losses	5,737	32,808
<b>Balance at December 31</b>	<b>1,658,990</b>	<b>1,681,945</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 20. SECURITIES (EXCLUDING TREASURY SHARES)

	December 31, 2013	December 31, 2012
<b>In RSD</b>		
Trading securities	15,040	16,470
Securities available for sale	12,600	4,180
Securities held to maturity:		
– cheques from retail customers	7,361	7,363
– matured bills of exchange	540,426	-
– discounted bills of exchange	124,600	772,702
	<u>700,027</u>	<u>800,715</u>
<b>In foreign currencies</b>		
Securities available for sale	13,968	-
Securities held to maturity	1,065,423	15,603
	<u>1,079,391</u>	<u>15,603</u>
<b>Total securities</b>	1,779,418	816,318
<i>Less: Allowance for impairment</i>		
- Securities available for sale	(4,180)	(4,180)
- Securities held to maturity	(41,545)	(67,753)
	<u>(45,725)</u>	<u>(71,933)</u>
<b>Balance at December 31</b>	<u>1,733,693</u>	<u>744,385</u>

Securities available for sale in RSD encompass the shares of Kompanija Fidelinka, Subotica of RSD 4,180 thousand and shares of Razvojna banka Vojvodine – in bankruptcy of RSD 8,420 thousand, fully provided for. Securities available for sale in foreign currencies include the shares issued by Euroaxis bank Moscow of RSD 13,968 thousand. Securities held to maturity in foreign currencies include long-term bonds issued by the Government of the Republic of Serbia in the amount of RSD 1,065,423 thousand.

The effect of valuation of the aforesaid securities at market and at par values, the fair value having been determined according to the values of the aforesaid shares quoted at the Belgrade Stock Exchange as at the reporting date, amounting to RSD 1,636 thousand was recorded within revaluation reserves (please refer to the statement of changes in equity).

The interest rates on receivables from corporate bills of exchange received to be discounted and maturing within 1 to 12 months, ranged from 1.8 % to 2% monthly.

Movements on the allowance for impairment accounts of securities during the year are presented in the following table:

	December 31, 2013	December 31, 2012
Balance at January 1	71,933	61,859
Charge for the year (Note 9)	137,475	51,764
Reversal of impairment allowance (Note 9)	(172,073)	(41,690)
Transfer of the difference from the par value	8,390	-
<b>Balance at December 31</b>	<u>45,725</u>	<u>71,933</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 21. OTHER INVESTMENTS

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Other investments:		
- in RSD	1,848,030	1,095,418
- in foreign currency	471,034	469,646
<b>Other investments, gross</b>	<b>2,319,064</b>	<b>1,565,064</b>
Less: Allowance for impairment	(542,661)	(430,163)
<b>Balance at December 31</b>	<b>1,776,403</b>	<b>1,134,901</b>

Other RSD denominated investments at December 31, 2013 totaled RSD 1,848,030 thousand, mostly relating to the guarantee payments effected in the amount of RSD 765,162 thousand and factoring transaction investments in the amount of RSD 1,061,006 thousand .

Other foreign currency investments totaling RSD 471,034 thousand at December 31, 2013 mostly pertain to nostro secured guarantees of RSD 373,322 thousand, foreign currency sureties of RSD 9,360 thousand as well as investments placed with banks in bankruptcy of RSD 65,424 thousand, which were all fully provided for.

Movements on the allowance for impairment account of other investments during the year are presented in the following table:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Balance at January 1	430,163	205,000
Charge for the year (Note 9)	235,164	329,122
Reversal of impairment allowance (Note 9)	(124,539)	(110,060)
Foreign exchange losses	1,873	6,101
<b>Balance at December 31</b>	<b>542,661</b>	<b>430,163</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 22. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Equipment	Equipment Acquired under Lease	Constructi on in Progress	Total Property and Equipment	Intangible Assets
<b>Cost or revalued amount</b>						
<b>Balance, January 1, 2012</b>	1,431,104	355,703	-	219	1,787,026	129,518
Additions	-	55,138	223,838	-	278,976	951
Transfers to assets held for sale	-	219	-	(219)	-	-
Sales and disposals	-	(8,647)	-	-	(8,647)	-
<b>Balance, December 31, 2012</b>	1,431,104	402,413	223,838	-	2,057,355	130,469
Additions	-	26,524	530	5,715	32,769	19,406
Sales and disposals	-	(46,119)	-	-	(46,119)	(1,102)
<b>Balance, December 31, 2013</b>	1,431,104	382,818	224,368	5,715	2,044,005	148,773
<b>Accumulated depreciation and amortization</b>						
<b>Balance, January 1, 2012</b>	7,655	249,865	-	-	257,520	118,974
Charge for the year (Note 11)	18,602	42,371	22,384	-	83,357	7,482
Sales and disposals	-	(8,631)	-	-	(8,631)	-
<b>Balance, December 31, 2012</b>	26,257	283,605	22,384	-	332,246	126,456
Charge for the year (Note 11)	18,602	39,625	44,821	-	103,048	4,213
Sales and disposals	-	(46,087)	-	-	(46,087)	(1,102)
<b>Balance, December 31, 2013</b>	44,859	277,143	67,205	-	389,207	129,567
<b>Net book value:</b>						
- December 31, 2013	1,386,245	105,675	157,163	5,715	1,654,798	19,206
- December 31, 2012	1,404,847	118,808	201,454	-	1,725,109	4,013

As at December 31, 2013, the Bank had no buildings assigned under mortgage as collateral for the repayment of borrowings.

The net book value of buildings as of December 31, 2013 is comprised of the building at number 25 Savska Street and the building at number 63 Narodnih heroja Street. The Bank is in possession of complete ownership documentation thereof.

The net book value of equipment at December 31, 2013 mostly relates to computer and telecommunication equipment, office furniture and motor vehicles.

The net book value of intangible assets as of December 31, 2013 principally comprises investments in software and software licenses used by the Bank.

Equipment acquired under lease in the amount of RSD 224,368 thousand refers to the acquired equipment for realization of the IT infrastructure renewal and improvement project.

In the Bank's management assessment, as of December 31, 2013, there were no indications that property, equipment and intangible assets had suffered impairment.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 23. NON-CURRENT ASSETS HELD FOR SALE

Pursuant to the relevant decision enacted by the Bank's Shareholder Assembly, disposal, i.e. sale of the property located at no, 23 Skadarska Street was approved. The property comprises a fully constructed building, semi-prefabricated building and land. Given that conditions stipulated by IFRS 5 were met, in 2012 the Bank reclassified the aforesaid property to assets held for sale in the amount of RSD 581,658 thousand. Toward the end of 2013 a hired independent appraiser performed valuation of the building. Based on the appraised value of RSD 571,300 thousand, the carrying value thereof was reduced to the revalued amount in the Bank's books of account.

The Bank acquired the properties placed as collaterals securitizing the Bank's receivables per loans approved to customers. The acquired properties totaling RSD 42,285 thousand refer to the following:

Propeprty	Measurement Unit	Quantity	In RSD '000	Acquisition Date
Novi Sad, family house	m <sup>2</sup>	523.37	28,112	25/09/2013
Ležimir, arable field, class 5	ha	1.12	2,353	27/09/2013
Beograd, studio apartment	m <sup>2</sup>	48	8,606	26/09/2013
Loznica, 2-bedroom apartment	m <sup>2</sup>	51	3,214	27/09/2013
Total			42,285	

## 24. OTHER ASSETS

	December 31, 2013	December 31, 2012
<b>In RSD</b>		
<i>Other receivables:</i>		
- Advances paid	11,413	18,999
- Receivables from employees	763	812
<i>Inventories:</i>		
- Materials, spare parts and other inventories	7,692	8,581
- Assets acquired in lieu of debt collection	4,588,807	-
- Receivables for prepaid income taxes	9,103	9,103
- Other receivables	53,625	79,982
<i>Prepayments:</i>		
- Deferred interest receivables	8,685	12,194
- Other deferrals	11,115	7,514
	4,691,203	137,185
<b>In foreign currencies</b>		
<i>Other receivables:</i>		
- Other receivables	5,206	1,918
<i>Prepayments:</i>		
- Deferred interest receivables	105	32
	5,311	1,950
<b>Gross other assets</b>	4,696,514	139,135
Less: Allowance for impairment	(45,218)	(72,987)
<b>Balance at December 31</b>	4,651,296	66,148

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 24. OTHER ASSETS (Continued)

Tangible assets acquired in lieu of debt collection totaling RSD 4,588,807 thousand refer to the following:

Propeprty	Measurement Unit	Quantity	In RSD '000	Acquisition Date
Titel, forest and non-arable land	ha	14.53	1,298,626	28.08.2013.
Medveđa, overburden inventories	t	1,994,663	2,198,319	12.08.2013.
Makiš, inventories of goods per invoice and delivery note			185,099	30.09.2013.
Krnjača, arable field, class 2 and marsh, class 1	m2	273	40,202	24.10.2013.
Titel, stretch Rit, arable field, class 4	ha	10	170,060	30.12.2013.
Mišorin, arable fields, pastures, forests and marshes	ha	219.28	121,124	30.12.2013.
Lazarevac, commercial buildings	m2	679	140,833	25.12.2013.
Voždovac, building	m2		88,498	25.12.2013.
Buildings and business premises Šabac, Pančevo, Surdulica, Vranje and Niš	m2		346,046	25.12.2013.
			<u>4,588,807</u>	

Tangible assets acquired in lieu of debt collection refer to buildings, forests, fields, inventories of overburden and goods that were placed as collaterals securitizing repayment of loans the Bank extended to customers.

The Bank is in possession of titled deeds over the aforesaid properties, the Bank's management is taking all the necessary measures to sell the acquired assets.

Movements on the allowance for impairment account of other assets during the year are presented in the following table:

	December 31, 2013	December 31, 2012
Balance at January 1	72,987	85,995
Charge for the year (Note 9)	884	1,463
Reversal of impairment allowance (Note 9)	(28,654)	(14,472)
Other movements	1	1
<b>Balance at December 31</b>	<u>45,218</u>	<u>72,987</u>

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December 31, 2013

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

## 25. TRANSACTION DEPOSITS

	2013			2012		
	In RSD	In Foreign Currency	Total	In RSD	In Foreign Currency	Total
Corporate customers	1,577,354	553,836	2,131,190	473,850	467,356	941,206
Public sector	843	1,280	2,123	3,180	2,075	5,255
Retail customers	455,816	460,980	916,796	365,078	284,793	649,871
Foreign entities	2,915	31,164	34,079	1,636	3,709	5,345
Other customers	66,851	193,645	260,496	82,065	3,943	86,008
<b>Balance</b>						
<b>at December 31</b>	<b>2,103,779</b>	<b>1,240,905</b>	<b>3,344,684</b>	<b>925,809</b>	<b>761,876</b>	<b>1,687,685</b>

RSD denominated transaction deposits of legal entities accrued interest at the rates ranging from 0% to 7.6% annually.

RSD denominated demand deposits of retail customers accrued interest at the annual rate of 1.5%. Foreign currency denominated transaction deposits of retail customers accrued interest at the annual rate of 0.1% for deposits in EUR and USD and 0.05% for deposits in CHF.

The most significant deposits of the Bank at December 31, 2013 include those placed by Power Distribution Company Elektrovojvodina, Novi Sad, Hidroelektrane Đerdap d.o.o., Kladovo, Public Company Jugoiimport SDPR, Beograd, Serbian Association of Insurers from Belgrade, Kompanija Prva iskra – namenska proizvodnja a.d., Barič, Beograd, accounting for 47.97% of total transaction deposits at the balance sheet date

## 26. OTHER DEPOSITS

	2013			2012		
	Short-Term	Long-Term	Total	Short-Term	Long-Term	Total
<b>In RSD</b>						
Savings deposits:						
- Retail customers	463,543	-	463,543	162,645	-	162,645
- Non-residents	-	-	-	2,756	-	2,756
Special-purpose deposits	27,006	-	27,006	20,282	15,448	35,730
Other deposits	5,357,498	-	5,357,498	3,704,265	-	3,704,265
	<u>5,848,047</u>	<u>-</u>	<u>5,848,047</u>	<u>3,889,948</u>	<u>15,448</u>	<u>3,905,396</u>
<b>In foreign currencies</b>						
Savings deposits:						
- Retail customers	7,373,654	581,027	7,954,681	2,176,543	636,152	2,812,695
- Non-residents	33,382	22,928	56,310	31,023	27,294	58,317
Special-purpose deposits	1,153,588	2,076,117	3,229,705	2,785,414	423,551	3,208,965
Other deposits	853,665	-	853,665	1,817,693	113,718	1,931,411
	<u>9,414,289</u>	<u>2,680,072</u>	<u>12,094,361</u>	<u>6,810,673</u>	<u>1,200,715</u>	<u>8,011,388</u>
<b>Balance</b>						
<b>at December 31</b>	<b>15,262,336</b>	<b>2,680,072</b>	<b>17,942,408</b>	<b>10,700,621</b>	<b>1,216,163</b>	<b>11,916,784</b>

The Bank pays interest on time deposits in RSD and in foreign currency at the rates ranging from 0% to 13% annually for RSD funds, and from 0% to 5.75% annually for foreign currency funds depending on the depositing period and currency.

Special purpose deposits of customers accrued interest at the rates between 0% and 2% annually. Short-term dinar-denominated deposits placed by retail customers accrued interest at the rates ranging between 7% and 12.5% annually, depending on the period and amount of funds deposited.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

*All amounts expressed in thousands of RSD, unless otherwise stated.***26. OTHER DEPOSITS (Continued)**

The interest rate applied to short-term deposits of retail customers in foreign currency ranged between 1% and 5.25% annually, depending on the maturity period, amount of funds deposited and their currency. Long-term deposits of retail customers denominated in foreign currency were deposited at interest rates between 3.9% and 5.75% annually for EUR deposits and between 2.5% and 3.5% annually for deposits in other currencies, depending on the period and amount of funds deposited.

The most significant depositors of the Bank at December 31, 2013 were Public Company Jugoimport SDPR, Beograd, Beogradska banka a.d. – in bankruptcy, Beograd, the City of Novi Sad – Directorate for Finances, Dunav-RE a.d.o., Beograd, Beobanka a.d. - in bankruptcy, Beograd, Hidroelektrane Đerdap d.o.o., Kladovo, Astrabanka a.d. – in bankruptcy, Beograd, Kompanija Prva iskra – namenska proizvodnja a.d., Barič, Beograd, which accounted for 40% of total amounts owed to customers based on other deposits at the balance sheet date.

The structure of other deposits due to customers per customer type is presented in the following table:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Corporate customers	4,915,606	5,515,283
Public sector	1,293,575	136,295
Retail customers	8,433,401	2,996,591
Banks	707,034	1,011,619
Non-residents	57,878	62,627
Other customers	2,534,914	2,194,369
<b>Balance at December 31</b>	<b>17,942,408</b>	<b>11,916,784</b>

**27. BORROWINGS**

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
<b>Other current liabilities:</b>		
- in RSD	19,472	8,550
- in foreign currencies	1,751,508	1,713,871
	<b>1,770,980</b>	<b>1,722,421</b>
<b>Balance at December 31</b>	<b>1,770,980</b>	<b>1,722,421</b>

Foreign currency borrowings mostly relate to the debt with the Republic of Serbia for the funds provided by the European Investment Bank for placing these funds to the small and medium-sized enterprises as well as medium-sized market capitalization. The interest rate applied to these funds is variable and consists of 6-month EURIBOR and markup of the National Bank of Serbia of 0.3% annually. Until December 31, 2013 the Bank received long-term foreign currency funds in the amount of EUR 14,970 thousand, i.e. RSD 1,702,363 thousand as translated at the middle exchange rate of the National Bank of Serbia, in three tranches : EUR 9,600 thousand at the interest rate of 2.048% annually, EUR 3,200 thousand at the interest rate of 2.335% annually and EUR 2,170 thousand at the interest rate of 1.147% annually.

## NOTES TO THE FINANCIAL STATEMENTS

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

## 28. INTEREST, FEE AND COMMISSION PAYABLES AND CHANGE IN THE VALUE OF DERIVATIVES

	December 31, 2013	December 31, 2012
<i>Interest, fee and commission payable:</i>		
<b>In RSD</b>		
- Public companies	8,842	-
- Retail customers	2	9
- Banks	231	2,391
- Other customers	1,639	581
	<u>10,714</u>	<u>2,981</u>
<b>In foreign currencies</b>		
- Corporate customers	1	-
- Retail customers	5	345
	<u>6</u>	<u>345</u>
<b>Balance at December 31</b>	<u>10,720</u>	<u>3,326</u>

## 29. PROVISIONS

	December 31, 2013	December 31, 2012
Provisions for losses on off-balance sheet items (a)	140,292	148,390
Provisions for retirement benefits (b)	14,393	15,148
<b>Balance at December 31</b>	<u>154,685</u>	<u>163,538</u>

- (a) If there is no objective evidence that the Bank will incur irrecoverable cash outflow on a commitment, the estimates of probable losses on off-balance sheet items are made based on historical percentages of payments made over a period of five years. The percentage of collective assessment of probable losses on off-balance sheet items was determined at the level of 0.1% for performance bonds, i.e. 4% for payment guarantees and acceptances. With guarantees securitized with monetary deposits, deposits are excluded from the base for provision calculation.

For off-balance sheet items where there is objective evidence that the Bank will incur irrecoverable cash outflow on a commitment, the estimates of probable losses are made in the same manner as for balance sheet receivables with determined objective evidence of impairment, except for short-term off-balance sheet liabilities, where the expected irrecoverable cash outflows for a commitment are not discounted; instead, the amount of the probable loss on off-balance items is determined in the amounts equal to such outflows.

- (b) Provisions for retirement benefits of employees were formed based on a report compiled by a certified actuary as of the balance sheet date and are stated at the present value of expected future payments. On determining the present value of expected outflow of resources a discount rate of 8% was used, representing an adequate rate in accordance with IAS 19 - "Employee Benefits," in the absence of the developed market of high-quality corporate bonds. Provisions were determined pursuant to the Rules of Procedure that came into force as of December 22, 2011 and according to the assumed average salary growth in accordance with long-term projection of inflation rate.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 29. PROVISIONS (Continued)

Movements on the accounts of provisions during the year are presented in the following table:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>Provisions for losses on off-balance sheet items</b>		
Balance at January 1	148,390	47,085
Charge for the year (Note 9)	106,542	228,179
Reversal of unused provisions (Note 9)	(115,293)	(130,003)
Other movements (foreign exchange effects)	653	3,129
	<u>140,292</u>	<u>148,390</u>
<b>Provisions for retirement benefits</b>		
Balance at January 1	15,148	13,412
Charge for the year (Note 9)	538	4,104
Release of retirement benefits	(1,293)	(2,368)
	<u>14,393</u>	<u>15,148</u>
<b>Balance at December 31</b>	<u>154,685</u>	<u>163,538</u>

## 30. OTHER LIABILITIES

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>In RSD</b>		
Accounts payable	72,327	83,512
Net salaries and benefits	-	30,463
Taxes, contributions and other duties payable	1,269	30,751
Finance lease liabilities	150,464	188,682
Accruals:		
- accrued interest payable	31,164	31,147
- accrued loan origination fees	18,454	28,712
- other accruals	1,179	22,582
Other liabilities	118,113	96,455
	<u>392,970</u>	<u>512,304</u>
<b>In foreign currencies</b>		
Accruals:		
- accrued interest payables	106,515	56,788
Other liabilities	3,779	3,748
	<u>110,294</u>	<u>60,536</u>
<b>Balance at December 31</b>	<u>503,264</u>	<u>572,840</u>

The amount of RSD 150,464 thousand relates to the finance lease liabilities. The finance lease agreement was entered into with UniCredit Leasing Srbija d.o.o., Beograd for a lease term of 60 months, with a grace period of 3 months, pertaining to the acquisition of equipment and services for the IT infrastructure renewal and improvement project.

Within other liabilities of RSD 118,113 thousand, the largest portion of RSD 106,730 thousand pertains to liabilities per guarantee fund factoring.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 31. EQUITY

## (a) Bank's Equity Structure

The Bank's equity structure is presented as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Share capital – common shares /i/	3,021,290	3,021,290
Other capital	460	460
Revaluation reserves /ii/	423,943	435,937
Reserves from profit /iii/	1,206,279	1,196,726
(Accumulated losses)/retained earnings	<u>(340,285)</u>	<u>9,553</u>
<b>Balance at December 31</b>	<b><u>4,311,687</u></b>	<b><u>4,663,966</u></b>

*/i/ Share Capital*

As of December 31, 2013, subscribed and paid in capital of the Bank comprised of 302,129 common shares with the individual par value of RSD 10 thousand (December 31, 2012: 302,129 common shares with the individual par value of RSD 10 thousand). The Bank is organized as an open shareholding company with shares listed and traded in the Belgrade Stock Exchange.

The Bank's majority shareholder is the Republic of Serbia with 99.06% interest in the Bank's share capital, holding 299,278 shares at December 31, 2013. In accordance with the effective legislation, and at the request of minority shareholders, the controlling shareholder (Republic of Serbia) increased the number of shares in its possession through purchase of shares from minority shareholders.

Common shareholders are liable for and bear risk inherent in the Bank's business operations in proportion to the number of shares in their possession. Shares are transferable to other persons pursuant to the Articles of Incorporation. Common shareholders are entitled to dividend.

*/ii/ Revaluation Reserves*

As at December 31, 2013, revaluation reserves totaling RSD 423,943 thousand (December 31, 2012: RSD 435,937 thousand) were created by recording positive effects of valuation of buildings and remeasurement of available-for-sale securities to their fair market value.

*/iii/ Reserves from Profit*

Reserves from profit include special reserves for estimated losses, reserves for general banking risks and other reserves formed through allocation of profits in accordance with the relevant regulations of the National Bank of Serbia and the Bank's Statute and other enactments.

## (b) Bank's Performance Indicators – Compliance with Legally Prescribed Ratios

The Bank is required to maintain the scope and structure of its business operations and risk-weighted assets in compliance with the ratios prescribed by the Law on Banks and relevant decisions enacted by the National Bank of Serbia based on the aforesaid Law.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 31. EQUITY (Continued)

## (b) Bank's Performance Indicators – Compliance with Legally Prescribed Ratios (Continued)

As at December 31, 2013, due to change in the value, i.e. decrease in the regulatory capital, there were departures of the actual from the prescribed ratios in respect of the Bank's investments in fixed assets (capital expenditures), large exposures to two groups of related entities and foreign exchange risk ratio. The Bank's management has undertaken activities to reconcile the aforesaid inconsistencies with the legally prescribed ratios. The actually realized performance indicators of the Bank as of December 31, 2013 were as follows:

Performance indicators	Prescribed	Realized
	Minimum	
1. Capital	EUR 10 million	1,571,146
2. Capital adequacy ratio	Minimum 12%	8.07
3. The sum of Bank's investments	Maximum 60%	105.35
4. Total exposure to entities related to the Bank	Maximum 20%	0.23
5. The sum of all large and most significant exposures as compared to own assets	Maximum 400%	332.60
6. Average monthly liquidity ratios:		
– in the first month of reporting period	Minimum 1	2.60
– in the second month of reporting period	Minimum 1	2.37
– in the third month of reporting period	Minimum 1	2.65
7. Foreign exchange risk ratio	Maximum 20%	36.40
8. Exposure to a group of related entities	Maximum 25%	30.04
9. Exposure to a single entity related to the Bank	Maximum 5%	0.06
10. Investments in entities outside the financial sector	Maximum 10%	0.03

As at December 31, 2013, the Bank had the following large loans in excess of 10% of capital extended to a single entity or a group of related entities: Interkomerc d.o.o., Beograd, Tigar a.d., Piroć, Auto kuća Voždovac a.d., Beograd, JP Jugoimport-SDPR, Beograd, Rudnap Group a.d., Beograd, Benelli Motors d.o.o., Beograd, Zekstra d.o.o., Beograd, Simpo a.d., Vranje, IMK 14. Oktobar a.d., Kruševac – in restructuring, Beohemija d.o.o., Beograd, Titel - agro d.o.o. Titel, Grand D Inženjering d.o.o., Bor, Sonali Bank LTD, Banini d.o.o., Kikinda, Pro Logistic RPC d.o.o., Beograd, Euroguma d.o.o., Beograd, Energy Tyres Team d.o.o., Beograd, DP Novi Sad-Gas za distribuciju gasa, održavanje i izvođenje, Novi Sad, Holding korporacija Krušik a.d., Valjevo and Pink International Company d.o.o., Beograd. With the group of related entities Interkomerc d.o.o., Beograd (30.04%) and the customer Tigar a.d., Piroć (26.15%) the Bank's exposures exceeded 25 % of its own assets.

## 32. OFF-BALANCE SHEET ITEMS

	December 31, 2013	December 31, 2012
Managed funds (a)	7,757,414	6,304,552
Guarantees and other irrevocable commitments (b)	9,666,522	10,398,542
Other off-balance sheet items (c)	49,212,307	47,582,310
<b>Balance at December 31</b>	<b>66,636,243</b>	<b>64,285,404</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 32. OFF-BALANCE SHEET ITEMS (Continued)

## (a) Managed Funds

	December 31, 2013	December 31, 2012
RSD advances from managed funds		
- housing loans to the members of the Serbian Armed Forces	606,995	609,322
- loans for installment purchase of apartments	7,134,207	5,681,617
- loans for installment purchase of garages	668	671
- other	15,544	12,942
<b>Balance at December 31</b>	<b>7,757,414</b>	<b>6,304,552</b>

## (b) Guarantees and Other Irrevocable Commitments

	December 31, 2013	December 31, 2012
<b>In RSD</b>		
Acceptances		130,000
Payment guarantees	947,233	1,807,105
Performance bonds	760,415	875,956
Irrevocable commitments for undrawn loans and advances	465,519	645,716
	<u>2,173,167</u>	<u>3,458,777</u>
<b>In foreign currencies</b>		
Irrevocable commitments for undrawn loans and advances	626,832	6,032
Payment guarantees	152,623	176,078
Performance bonds	6,713,900	6,757,655
	<u>7,493,355</u>	<u>6,939,765</u>
<b>Balance at December 31</b>	<b>9,666,522</b>	<b>10,398,542</b>

Irrevocable commitments relate to unused loans approved that cannot be cancelled unilaterally as follows: overdrafts against current accounts, revolving loans to corporate customers, multi-purpose framework loans and other irrevocable commitments. Irrevocable commitments are usually indexed to fixed expiry dates or other provisions related to expiry.

Since irrevocable commitments may expire before loans are drawn by customers total amount agreed upon does not represent definite future cash outflows. The Bank monitors the maturity of irrevocable commitments arising from approved loans as long-term commitments carry a higher level of credit risk than short-term commitments.

As of December 31, 2013, foreign currency denominated performance bonds mainly relate to guarantees on behalf of the Public Company Jugoimport SDPR of RSD 6,669,912 thousand.

The Bank forms provisions for potential losses on guarantees and other risk weighted off-balance sheet items as in accordance with accounting policy disclosed in Note 29(a). As of December 31, 2013, reserves for potential losses on guarantees and on other commitments were formed in the amount of RSD 140,292 thousand (December 31, 2012: RSD 148,390 thousand).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 32. OFF-BALANCE SHEET ITEMS (Continued)

## (c) Other Off-balance Sheet Items

	December 31, 2013	December 31, 2012
Loro letters of credit records	30,203,987	29,365,525
Performance bonds until coming into force	1,429	89,085
Guarantees received from foreign banks and other financial organizations	507,259	354,718
Mortgages collateralizing loans and advances	16,519,803	15,788,901
Confirmations of the bank guarantees	721,947	1,488,200
Suspended interest	221,524	5,730
Other	1,036,358	490,151
<b>Balance at December 31</b>	<b>49,212,307</b>	<b>47,582,310</b>

Within loro letters of credit recorded as of December 31, 2013, the most significant amount of RSD 29,819,230 thousand is associated with the goods delivery agreements closed by the Public Company Jugoimport SDPR from Belgrade with foreign business associates (December 31, 2012: RSD 27,907,668 thousand).

## 33. RELATED PARTY DISCLOSURES

In the regular course of business, the Bank enters into business transactions with its shareholders, employees and other related parties.

The following balances of receivables and payables, as well as amounts of income and expenses arose on the regular course of the Bank's business. The Bank collects and pays interest accrued applying regular market interest rates.

(a) The Bank enters into business transactions and arrangements with the members of the Executive Board and other key managing staff and their related parties in the regular course of business based on general market terms. Balances of receivables and payables as well as effects of these transactions during the year are presented in the following table.

	Balance at December 31, 2013	Income/ (Expenses) in 2013	Balance at December 31, 2012	Income/ (Expenses) in 2012
Overdrafts against current accounts, credit cards and cash and consumer loans	3,831	345	2,326	228
Total allowance for impairment of loans and advances	(14)	-	(30)	-
Deposits	6,667	(117)	18,706	(560)
Commitments	2,197	-	1,385	-

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***33. RELATED PARTY DISCLOSURES (Continued)**

- (a) In addition to the abovementioned related parties, the Bank enters into business transactions with entities exercising significant influence on the Bank (shareholders), and parties that are significantly influenced by the Bank, such as Jugoimport SDPR from Belgrade, HK Krušik from Valjevo, IMK 14. oktobar from Kruševac and others. The balances of receivables and payables at the end of year, as well as the effects of transactions with entities having significant influence on the Bank are presented as follows:

	<u>Receivables</u>	<u>Payables</u>	<u>Financial Guarantees</u>	<u>Interest Income</u>	<u>Interest Expenses</u>
<b>2013</b>	1,175,236	4,231,389	7,179,198	154,325	50,873
<b>2012</b>	998,521	4,498,181	6,919,952	231,153	40,346

- (c) Remunerations to the members of the Executive Board and the Board of Directors (in their gross amounts) in 2013 and 2012 are presented in the following table:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Salaries of the members of the Executive Board	19,202	15,461
Remunerations to the members of the Board of Directors	12,204	8,267
<b>Total</b>	<u>31,406</u>	<u>23,728</u>

**34. RISK MANAGEMENT****34.1. Introduction**

Risk is inherent in banking activities; yet, it is managed through the continuous process of identifying, measuring and monitoring, establishing exposure limits and by applying other controls.

In its nature, the Bank is exposed to the following most significant risk types: credit risk, liquidity risk and market risk (comprising risk inherent in the interest rate movements, foreign exchange risk and other market risks). The Bank is also exposed to operational risk, counterparty risk, risk of exposure to a group of related parties, risk of investing in other legal entities and capital expenditure risk, as well as country risk, all of which are monitored on an ongoing basis.

Risk management in the Bank is an all comprising process entailing identification, analysis, ranking and control of all forms of business risks.

The Bank has adopted policies and procedures ensuring the control and application of all internal enactments of the Bank in respect to risk management. The risk management processes are of key importance for continued business dealings of the Bank and each individual working in the Bank shares the responsibility within the field of his/her competencies.

The independent process of risk management includes business risks encompassing changes in the environment, technology and industry. The Bank monitors these risks through the process of strategic planning.

**Risk Management Structure**

The Board of Directors and the Executive Board are responsible for risk identification and control. However, the Bank has established a special organizational unit – Risk Management Sector charged with the organization and implementation of risk management activities. In addition, the competencies of these Boards, being separate and mutually independent bodies, also include risk management and monitoring.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.1. Introduction (Continued)****Board of Directors and Executive Board**

The Board of Directors and the Executive Board are responsible for the overall risk management approach, risk strategy and principle approval, as well as for the implementation of principles, frameworks, policies and limits. They are in charge of the adoption of the relevant risk management decisions and monitoring thereof.

**Committee for Monitoring Business Activities**

The Committee for Monitoring Business Activities oversees the comprehensive risk management process in the Bank. The aforementioned Committee analyzes and adopts the proposals of policies and procedures in respect to risk management and analyzes and supervises the application and adequate implementation of the adopted policies and procedures.

**Risk Management Department**

The Risk Management Department identifies measures, assesses and manages risks to which the Bank is exposed in its operations. This Department is responsible for the implementation and maintenance of risk related procedures, ensuring an independent control process. It ensures comprehensive risk measuring and reporting in the system.

**Regulatory Compliance Department**

The Regulatory Compliance Department in the Bank is responsible for monitoring the compliance with the principles and policies defined in the Bank or external regulations. The Department is responsible for the independent risk control and monitors the risk arising from the introduction of new products and complex transactions.

**Asset and Liability Management Committee**

The Asset and Liability Management Committee monitors the Bank's risk exposure arising from the structure of its balance sheet receivables and payables and off-balance sheet items and proposes measures for interest rate risk management and in particular liquidity risk management. In addition, this Committee is mainly responsible for financing the Bank's liquidity.

**Internal Audit**

The process of risk management in the Bank is controlled by the Internal Audit examining the adequacy of procedures, as well as the compliance of the Bank with the adopted procedures. The Internal Audit discusses the results of its operations with the Bank's management and reports to the Committee for Monitoring Business Activities with reference to its findings and recommendations.

**Risk Management and Reporting Systems**

The Bank's risks are measured using methods that reflect losses that may be incurred in the regular course of business and anticipated losses reflecting the estimate of ultimate losses based on probability of events. The models use the probability derived from available current and historical data adjusted so as to reflect current economic environment.

Risk monitoring and control is primarily based on the establishment of procedures and limits. These limits reflect the Bank's business strategy and environment, as well as the risk level acceptable to the Bank. The Bank continually monitors and measures the capacity of acceptable level of risk exposure taking into account the total exposure to all types of risks and activities.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 34. RISK MANAGEMENT (Continued)

## 34.1. Introduction (Continued)

**Risk Management and Reporting Systems (Continued)**

Information collected from all business activities are reexamined and processed so as to identify, analyze and control these risks. Such information is presented and explained to the BoD, Executive Board, Committee for Monitoring Business Activities and managers of all business units. Reports encompass total credit risk exposure, placement forecast, departures from limits prescribed, market risk measurement, liquidity ratios and changes in risk profile. Based on these reports, the Executive Board and the BoD of the Bank consider the adequacy of allowances for impairment of placement value. The Asset and Liability Management Committee is also provided with an extensive quarterly risk report comprising all necessary information for assessing and drawing of the conclusion on risks the Bank is exposed to.

Daily reports are submitted to the members of the Bank's Executive Board and to the concerned directors containing data on the liquidity and foreign currency risk, as well as all other information.

The Bank's gross financial instruments (assets and liabilities) as of December 31, 2013, including off-balance sheet items were as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>Maximum risk exposure (gross)</b>		
<b>Financial assets</b>		
Cash and cash equivalents	2,612,158	1,682,356
Revocable loans and deposits	5,997,552	4,547,318
Interest, fee, commission and other receivables	1,003,543	810,867
Loans and advances to customers	10,059,457	11,454,951
Securities	1,779,418	816,317
Other investments	2,319,064	1,565,064
Other assets	64,057	92,358
	<u>23,835,249</u>	<u>20,969,231</u>
<b>Financial liabilities</b>		
Transaction deposits	3,344,684	1,687,685
Other deposits	17,942,408	11,916,784
Borrowings	1,770,980	1,722,421
Interest, fee and commission payables	10,720	3,326
Other liabilities	351,765	444,404
	<u>23,420,557</u>	<u>15,774,620</u>
<b>Off-balance sheet items</b>		
Payment guarantees	1,101,686	1,983,182
Performance bonds	7,472,186	7,628,834
Acceptances	-	130,000
Letters of credit, unsecured	-	4,776
Letters of credit, secured	95,761	5,532
Irrevocable commitments	1,092,649	651,749
	<u>9,762,282</u>	<u>10,404,073</u>

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.2. Credit Risk**

Credit risk is the risk that the Bank will suffer a loss due to the fact that its customers and contractual parties will be unable to fully or partially settle their liabilities to the Bank when and as due.

Based on the risk management policy, the Bank sets the rules and procedures defining the process of credit risk management in individual placements and risks on a portfolio level, i.e. delineating the procedures for identifying, measuring and tracking (controlling) loans and advances, particularly those with increased risk exposure.

The Bank controls and manages credit risk by setting limits that define the level of risk acceptable to the Bank in respect to individual customers, operating segments and types of business, as well as by monitoring exposure to these risks.

The Bank has established the process of monitoring the quality of loans so as to ensure timely identification of potential changes in customer creditworthiness, including regular control of collaterals. The limits for different clients are determining using the credit risk classification system classifying each customer into a proper credit rating group. The customer classification is subject to regular reviews.

The Risk Management Department identifies, measures and assesses credit risk according to debtor's creditworthiness and regularity in settling liabilities towards the Bank, and based on the quality of collaterals securing the Bank's receivables. The process of monitoring the quality of loans makes it possible for the Bank to assess potential losses that may arise from the risks to which the Bank is exposed and helps to determine corrective measures that are to be taken with this respect.

**Exposures Similar to Credit Risk**

The Bank issues guarantees and letters of credit to its customers based on which the Bank has contingent liabilities to make payments in favor of third parties. In this manner, the Bank is exposed to risks that are of similar nature as credit risk and can be overcome using the same control processes and procedures as those used for credit risk.

**Excessive Concentration Risk**

Concentration risk is the risk from loss due to an excessive volume of placements with a certain group of debtors. The concentration occurs in the situation where a significant number of customers belongs to the same or similar industry, same geographical area or have similar economic characteristics which may influence the settlement of contractual liabilities in case of a change in economic, political or some other circumstances which influence them in a like fashion. The concentration is indicative of a relative sensitivity of the Bank's operations to the changes that affect a certain industry or a geographic area.

In order to avoid excessive risk concentration, the Bank's policies and procedures comprise specific guidelines for the development and preservation of diversity of its portfolio. Hence, the Bank controls and manages identified credit risk concentrations. The risk concentration is managed by setting limits in respect to individual customers, sectors or areas.

**Financial Derivatives**

Derivative financial instruments lead to credit risk exposure in instance the fair value thereof is positive for the Bank. Credit risk of derivatives is limited by determining the maximum possible fair value of the total derivative portfolio as well as the maximum possible fair value of each transaction. The Bank is not exposed to such risk since it had no derivative financial instruments as of December 31, 2013 and 2012.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 34. RISK MANAGEMENT (Continued)

## 34.2. Credit Risk (Continued)

## (a) Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items

The breakdown of maximum credit risk exposures is presented in the gross amounts without taking into account collaterals as at December 31, 2013 and 2012 is provided in the following table:

	December 31, 2013	December 31, 2012
<b>Credit risk exposure per balance sheet assets:</b>		
Cash and cash equivalents (except for cash on hand)	426,340	192,820
Interest, fee and commission receivables, changes in fair value of derivatives and other receivables	1,002,174	809,406
Loans and advances to customers	9,614,226	10,991,741
Securities (excluding treasury shares)	1,779,918	816,817
Other investments	2,319,064	1,565,064
Other assets	64,057	101,304
<b>Total</b>	<u>15,205,779</u>	<u>14,477,152</u>
<b>Credit risk exposure per off-balance sheet items:</b>		
Payment guarantees	1,101,686	1,983,182
Performance bonds	7,472,186	7,628,834
Acceptances	-	130,000
Letters of credit, unsecured	-	4,776
Letters of credit, secured	95,761	5,532
Irrevocable commitments	1,092,649	651,749
<b>Total</b>	<u>9,762,282</u>	<u>10,404,073</u>
<b>Total credit risk exposure</b>	<u>24,968,061</u>	<u>24,881,225</u>

The above stated amounts do not include balance sheet assets and off-balance sheet items that are not classified in accordance with the National Bank of Serbia Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items. The aggregate amount balance sheet assets and off-balance sheet items of the bank totaled RSD 94,692,776 thousand as of December 31, 2013, whereof the balance sheet assets amounted to RSD 28,056,533 thousand, and off-balance sheet items amounted to RSD 66,636,243 thousand.

In case of financial instruments measured at fair value, amounts presented reflect their current exposure to credit risk, but not the maximum risk exposure that may arise in the future as the result of changes in fair values.

The total credit risk exposure is controlled by accepting collaterals (cash deposits and mortgages) and guarantees (sureties) from the customers which are legal entities.

As at December 31, 2013, the Bank had exposures with certain groups of related entities and eight legal entity customers in excess of 10% of the Bank's equity, totaling RSD 5,225,709 thousand, which represents 332.6% of the Bank's equity (December 31, 2012: RSD 6,129,164 thousand, which represents 248.78% of the bank's equity (net)).

As at December 31, 2013, the Bank's the maximum credit exposure to a single entity or a group of related entities amounted to RSD 670,417 thousand (December 31, 2012: RSD 856,344 thousand), without taking into account deductibles (collaterals securitizing the collection of receivables and other assets used as a hedge against credit risk), i.e. RSD 471,999 thousand, net (2012: RSD 728,986 thousand) which accounts for 30.04% of the Bank's own assets with collaterals.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 34. RISK MANAGEMENT (Continued)

## 34.2. Credit Risk (Continued)

## (a) Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items (Continued)

The breakdown of the Bank's credit risk exposure (gross risk-weighted balance sheet assets and off-balance sheet items subject to classification) per geographic area as of December 31, 2013 and 2012, before and after taking into account collaterals and other hedges against credit risk, is presented in the following table:

	Loans and Advances to Customers	Securities	Interest, Fees and Commissions and Other Assets	Guarantees and Other Commitments	Total, 2013
Serbia:					
- Belgrade	4,381,773	1,756,333	1,249,940	9,195,207	16,583,253
- Vojvodina	1,393,472	5,898	721,676	169,594	2,290,640
- the rest of Serbia	3,838,949	17,687	1,016,378	397,426	5,270,440
	<u>9,614,194</u>	<u>1,779,918</u>	<u>2,987,994</u>	<u>9,762,227</u>	<u>24,144,333</u>
European Union	-	-	99,666	-	99,666
Rest of Europe	32	-	376,264	55	376,351
Rest of the world	-	-	347,711	-	347,711
<b>Total</b>	<u>9,614,226</u>	<u>1,779,918</u>	<u>3,811,635</u>	<u>9,762,282</u>	<u>24,968,061</u>
	Loans and Advances to Customers	Securities	Interest, Fees and Commissions and Other Assets	Guarantees and Other Commitments	Total, 2012
Serbia:					
- Belgrade	3,586,326	577,702	844,121	9,597,635	14,605,784
- Vojvodina	2,703,094	209,385	420,613	338,323	3,671,415
- the rest of Serbia	4,702,287	14,126	828,385	468,062	6,012,860
	<u>10,991,707</u>	<u>801,213</u>	<u>2,093,119</u>	<u>10,404,020</u>	<u>24,290,059</u>
European Union	-	-	145,139	-	145,139
Rest of Europe	34	15,604	78,407	53	94,098
Rest of the world	-	-	351,929	-	351,929
<b>Total</b>	<u>10,991,741</u>	<u>816,817</u>	<u>2,668,594</u>	<u>10,404,073</u>	<u>24,881,225</u>

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

## 34. RISK MANAGEMENT (Continued)

## 34.2. Credit Risk (Continued)

## (a) Maximum Credit Risk Exposure per Balance Sheet and Off-Balance Sheet Items (Continued)

The breakdown of the Bank's credit risk exposure (gross risk-weighted balance sheet assets and off-balance sheet items subject to classification) per industry as of December 31, 2013 and 2012, before and after taking into account collaterals and other hedges against credit risk, is presented in the following table:

	Gross Maximum Exposure 2013	Net Maximum Exposure 2013	Gross Maximum Exposure 2012	Net Maximum Exposure 2012
Retail customers	1,274,700	1,180,199	1,232,636	1,142,174
Processing industry	5,215,887	4,125,785	6,722,182	5,907,295
Trade	10,464,473	10,004,030	10,576,102	10,044,714
Mining and energy sector	334,155	323,680	489,763	479,068
Agriculture, hunting, fishing and forestry	430,078	374,899	865,209	400,137
Construction industry	1,622,673	944,646	1,954,581	1,362,489
Traffic and communication	1,397,049	1,344,874	918,964	884,527
Services, tourism and catering industry	327,757	270,675	151,334	77,205
Other	1,976,312	1,869,764	208,622	199,463
Banks and financial sector	1,924,977	1,875,465	1,761,832	1,661,802
<b>Total</b>	<b>24,968,061</b>	<b>22,314,017</b>	<b>24,881,225</b>	<b>22,158,874</b>

## (b) Portfolio Quality

The quality of the Bank's financial assets is managed using internal loans and advances classification. The following table shows the portfolio quality (gross balance sheet assets and off-balance sheet items subject to classification) per types of loans and advances based on the Bank's system of classification as of December 31, 2013:

	Not Matured and Unimpaired			Matured or Individually Impaired	Total 2013
	High Quality	Standard Quality	Sub- standard		
<i>Loans and advances to banks</i>	820,101	-	84,581	-	904,682
<i>Loans to customers:</i>					
Corporate loans	159,457	740,611	1,034,331	3,808,802	5,743,201
SME loans	196,869	829,955	494,160	2,544,170	4,065,154
Retail loans	1,100,659	57,037	37,012	79,991	1,274,699
Securities	1,077,282	104,600	30,543	-	1,212,425
Other	40,558	495,553	1,740,189	28,839	2,305,139
<i>Guarantees and other commitments</i>	8,154,600	719,473	588,688	-	9,462,761
<b>Total</b>	<b>11,549,526</b>	<b>2,947,229</b>	<b>4,009,504</b>	<b>6,461,802</b>	<b>24,968,061</b>

The quality of the Bank's financial assets is managed using internal loans and advances classification. The following table shows the portfolio quality (gross balance sheet assets and off-balance sheet items subject to classification) per types of loans and advances based on the Bank's system of classification as of December 31, 2012:

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

## 34. RISK MANAGEMENT (Continued)

## 34.2. Credit Risk (Continued)

## (b) Portfolio Quality

	Not Matured and Unimpaired			Matured or Individually Impaired	Total 2012
	High Quality	Standard Quality	Sub-standard		
Loans and advances to banks	565,749	3	64,918	-	630,670
Loans to customers:					
Corporate loans	233,677	2,373,111	603,771	3,392,644	6,603,203
SME loans	445,270	594,696	391,595	2,034,698	3,466,259
Retail loans	771,087	54,544	19,633	77,015	922,279
Securities	44,087	728,061	1,265,775	-	2,037,923
Other	174,379	493,892	148,547	-	816,818
Guarantees and other commitments	8,260,966	1,411,806	731,301	-	10,404,073
<b>Total</b>	<b>10,495,215</b>	<b>5,656,113</b>	<b>3,225,540</b>	<b>5,504,357</b>	<b>24,881,225</b>

## Aging Analysis of Matured Unimpaired Loans and Advances to Customers

The aging analysis of loans to banks and customers that are matured but not entirely impaired as of December 31, 2013 and 2012 is presented in the following table:

<u>2013</u>	<u>Within 30 Days</u>	<u>From 31 to 90 Days</u>	<u>Over 91 Days</u>	<u>Total, 2013</u>
Advances to customers:				
- Loans to large enterprises	312,862	424,305	1,657,334	2,394,501
- SME loans	26,532	398,057	776,917	1,201,506
- Retail loans	6,180	2,104	6,118	14,402
<b>Total</b>	<b>345,574</b>	<b>824,466</b>	<b>2,440,369</b>	<b>3,610,409</b>
<u>2012</u>	<u>Within 30 Days</u>	<u>From 31 to 90 Days</u>	<u>Over 91 Days</u>	<u>Total, 2012</u>
Advances to customers:				
- Loans to large enterprises	927,719	636,207	842,946	2,406,872
- SME loans	1,170,305	43,707	340,728	1,554,740
- Retail loans	6,952	2,411	3,845	13,208
<b>Total</b>	<b>2,104,976</b>	<b>682,325</b>	<b>1,187,519</b>	<b>3,974,820</b>

As of December 31, 2013, the fair value of collaterals securing the repayment of the abovementioned matured unimpaired loans totaled RSD 1,011,889 thousand. The Bank had collaterals for a portion of matured but unimpaired placements as of December 31, 2013 in the form of mortgage assigned over property.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.2. Credit Risk (Continued)****(b) Portfolio Quality (Continued)****Collaterals and Other Hedges against Credit Risk**

The amount and the type of required collateral depends on credit risk rating estimated for each customer. The terms that apply to securitizing are determined separately upon determining the creditworthiness individually for each customer, type of credit risk exposure, investment maturity, as well as the amount itself. By way of its internal methodology, the Bank determines the types of collateral and parameters used in their measuring.

The basic types of collateral are the following: mortgage on property, cash deposits, sureties provided by third parties, pledges on securities and goods.

The Bank also accepts guarantees (co-sureties) from parent companies when approving loans to subsidiaries.

Management keeps track of the market value of collaterals and seeks additional collaterals pursuant to the relevant agreements. Also, management takes into account the market value of collaterals when reconsidering the adequacy of the investment's allowance for impairment.

As in accordance with the Bank's policies, foreclosed collaterals are held for sale in the regular course of business. In 2013, the Bank repossessed assets totaling RSD 4,650,991 thousand in lieu of debt collection. In this manner the amounts of outstanding receivables from a customer are either reduced or settled. It is unusual for the Bank to use for business purposes the assets acquired in lieu of debt collection.

**Financial Assets' Impairment Assessment**

The most significant factors taken into account in determining the impairment in placements involve the servicing principal and interest amounts with more than 60 days of default, weaknesses identified in the customer's cash flows, deterioration in customer credit rating, as well as departures from contractually defined terms. The Bank determines the amount of allowance for impairment per client.

The Bank determines the amount of allowance for impairment for each individual loan or investment. In determining the amount of allowance for impairment, the Bank takes into account the customer's ability to realize its business plans, customer's ability to improve results of operations in case of financial difficulties, the value at which collaterals may be realized and timelines in realizing collaterals, availability of the alternative financial support to customers, possibility of collecting receivables, as well as the time dimension of expected cash flows. Impairment is assessed at each balance sheet date, except in case of non-performing loans, when unforeseen circumstances call for higher attention and more frequent assessments. The impairment of financial guarantees and letters of credit is assessed and provisions are allocated in a similar way as in case of loans.

Pursuant to the regulations of the National Bank of Serbia, the Bank also calculates the special reserve for estimated losses that may arise from balance sheet assets and off-balance sheet items as in accordance with the internal methodology based on the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items (Note 3.7).

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.2. Credit Risk (Continued)****(c) Restructured Loans**

At December 31, 2013, the Bank had six restructured loans approved to the customers Irva investicije, Dorćol inženjering, PS Telefonija, Župljanka, Floriva and Projektomontaža in the aggregate amount of RSD 199,303 thousand.

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
SME loans	199,303	50,124
	<u>199,303</u>	<u>50,124</u>

**(d) Receivables in Default**

The Bank pays special attention to the supervision over receivables having the default status by monitoring the total balance and trend in the amounts of these receivables. Receivables in default are monitored per sectors and most significant industries (enterprises and entrepreneurs), whereas the structure of loans with retail customers is monitored per basic products (cash, consumer and housing loans, credit cards and the like).

Balances of receivables in default in the gross amounts as of December 31, 2013 and 2012 are presented in the following table:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Corporate customers and entrepreneurs	4,909,195	3,678,883
Retail customers	93,359	88,809
	<u>5,002,554</u>	<u>3,767,692</u>

The balance sheet assets having the status of receivables in default totaled RSD 5,002,554 thousand and the allowance for impairment of the aforesaid balance sheet assets being in default totaled RSD 1,806,554 thousand as of December 31, 2013 (December 31, 2012: receivables in default totaled RSD 3,767,692 thousand).

**34.3. Liquidity Risk and Financial Asset Management**

Liquidity risk is the risk that the Bank will be unable to discharge its liabilities when due. So as to decrease or curb its risk exposure, the Bank strives to diversify its sources of financing, to manage assets taking heed of their liquidity, to monitor future cash flows and the Bank's daily liquidity. This includes the estimate of future cash flows and existence of highly rated collateralals that may be used to provide additional financial assets, should the need arise.

The Bank maintains the portfolio comprised of highly liquid securities and diversified assets that may easily be converted into cash in case of unforeseen and adverse oscillations in the Bank's cash flows. The Bank also maintains the mandatory level of required reserves in RSD and in foreign currency as stipulated in the regulations of the National Bank of Serbia.

The Asset and Liability Management Committee is responsible for liquidity risk monitoring, liquidity risk management and proposal of measures to the Executive Board of measures and activities aiming to maintain liquidity, match maturities of assets and liabilities, plans reserves and finance other measures of significance for the Bank's financial stability.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 34. RISK MANAGEMENT (Continued)

## 34.3. Liquidity Risk and Financial Asset Management (Continued)

The Asset and Liability Management Committee keeps track of basic liquidity parameters striving to balance inflows and outflows of resources so that daily liquidity ratios move within the limits prescribed by the National Bank of Serbia. The basis for high quality management and ensuring the necessary liquidity level is the matching between maturities of investments and the maturity of their sources. Deciding on the placement maturity is based on the data on deposit maturities and particularly on the information on movements in deposits placed by significant depositors, as well as their needs on short notice. When making such decisions, the Bank takes special care whether the resources from short-term sources are used for long-term investments.

The liquidity level is shown by the liquidity ratio being the ratio between the sum of liquid assets of first and second ranks (cash, funds on accounts with other banks, deposits with the National Bank of Serbia, receivables in the process of settlement, financial instruments quoted on the market and other receivables of the Bank maturing within a month) and the sum of liabilities at sight that do not have defined maturity date and liabilities with a defined maturity date falling within a month.

The liquidity risk ratios during 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
Period's average	2.48	2.09
Maximum	3.39	2.92
Minimum	1.69	1.66
As of December 31	2.87	1.70

**Maturity Analysis of Financial Liabilities**

The table below shows the most significant financial liabilities of the Bank according to the remaining maturity date as of December 31, 2013 and 2012 based on contractually agreed undiscounted repayment amounts. The Bank expects that most depositors will not withdraw their deposits at the maturity date determined in the relevant contract.

2013	Within 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total, 2013
Transaction deposits	3,344,684	-	-	-	-	3,344,684
Other deposits	3,686,888	3,832,405	9,578,738	837,745	6,632	17,942,408
Borrowings	45,281	-	258,673	1,129,581	337,445	1,770,980
Interest, fee and commission payables	10,720	-	-	-	-	10,720
Tax payables	4,544	-	-	-	-	4,544
Other liabilities	357,436	6,780	31,271	109,046	-	504,533
	<u>7,449,553</u>	<u>3,839,185</u>	<u>9,868,682</u>	<u>2,076,372</u>	<u>344,077</u>	<u>23,577,869</u>
2012	Within 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total, 2012
Transaction deposits	1,687,685	-	-	-	-	1,687,685
Other deposits	2,806,270	3,493,168	4,378,699	1,235,134	3,518	11,916,789
Borrowings	10,987	-	-	1,096,678	614,759	1,722,424
Interest, fee and commission payables	3,324	-	-	-	-	3,324
Tax payables	10,793	-	-	-	-	10,793
Other liabilities	387,376	3,230	32,686	149,542	-	572,834
	<u>4,906,435</u>	<u>3,496,398</u>	<u>4,411,385</u>	<u>2,481,354</u>	<u>618,277</u>	<u>15,913,849</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 34. RISK MANAGEMENT (Continued)

## 34.3. Liquidity Risk and Financial Asset Management (Continued)

*Maturity Analysis of Financial Liabilities (Continued)*

The outstanding maturities of undrawn loans and cap amounts, i.e. irrevocable commitments, guarantees and letters of credit as of December 31, 2013 and 2012 are presented as follows:

<b>2013</b>	<b>At Demand</b>	<b>Within 3 Months</b>	<b>From 3 to 12 Months</b>	<b>From 1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total, 2013</b>
Guarantees	218,471	586,908	3,260,403	4,508,090	-	8,573,872
Letters of credit	5,438	23,966	26,187	-	40,170	95,761
Irrevocable commitments	197,148	7,738	265,919	-	621,844	1,092,649
	<u>421,057</u>	<u>618,612</u>	<u>3,552,509</u>	<u>4,508,090</u>	<u>662,014</u>	<u>9,762,282</u>
<b>2012</b>	<b>At Demand</b>	<b>Within 3 Months</b>	<b>From 3 to 12 Months</b>	<b>From 1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total, 2012</b>
Guarantees	143,122	637,305	3,643,034	5,188,555	-	9,612,016
Letters of credit	-	5,533	4,776	-	-	10,309
Irrevocable commitments	192,234	37,194	392,321	30,000	-	651,749
	<u>335,356</u>	<u>680,032</u>	<u>4,040,131</u>	<u>5,218,555</u>	<u>-</u>	<u>10,274,074</u>

The Bank expects that not all contingent liabilities and irrevocable commitments will be drawn before their maturity date.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 34. RISK MANAGEMENT (Continued)

## 34.3. Liquidity Risk and Financial Asset Management (Continued)

*Liquidity Gap Analysis*

The Bank's liquidity as its ability to discharge its liabilities when due depends on the balance sheet structure, on one hand, and on the matching between inflows and outflows of assets on the other.

The following table represents the analysis of maturities of assets and liabilities of the Bank based on contractually agreed terms of payment. The agreed due dates of assets and liabilities have been determined based on the maturity period outstanding as of the balance sheet date. The maturity structure of assets and liabilities as of December 31, 2013 is shown as follows:

	Within 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total 2013
<b>ASSETS</b>						
Cash and cash equivalents	2,612,158	-	-	-	-	2,612,158
Revocable loans and deposits	5,997,552	-	-	-	-	5,997,552
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	596,875	-	-	-	-	596,875
Loans and advances to customers	4,703,069	445,690	1,614,281	1,367,966	269,461	8,400,467
Securities	653,570	14,700	-	1,065,423	-	1,733,693
Equity investments	-	-	-	-	500	500
Other investments	1,365,399	411,004	-	-	-	1,776,403
Intangible assets	-	-	-	-	19,206	19,206
Property, equipment and investment property	-	-	-	-	1,654,798	1,654,798
Non-current assets held for sale and assets from discontinued operations	-	-	613,585	-	-	613,585
Other assets	49,611	11	4,600,797	258	619	4,651,296
<b>Total assets</b>	<b>15,978,234</b>	<b>871,405</b>	<b>6,828,663</b>	<b>2,433,647</b>	<b>1,944,584</b>	<b>28,056,533</b>
<b>LIABILITIES</b>						
Transaction deposits	3,344,684	-	-	-	-	3,344,684
Other deposits	3,686,888	3,832,405	9,578,738	837,745	6,632	17,942,408
Borrowings	45,281	-	258,673	1,129,581	337,445	1,770,980
Interest, fee and commission payables and fair value adjustments of derivatives	10,720	-	-	-	-	10,720
Provisions	154,685	-	-	-	-	154,685
Tax payables	4,544	-	-	-	-	4,544
Deferred tax liabilities	-	12,292	-	-	-	12,292
Other liabilities	356,167	8,048	31,271	109,047	-	504,533
<b>Total liabilities</b>	<b>7,602,969</b>	<b>3,852,745</b>	<b>9,868,682</b>	<b>2,076,373</b>	<b>344,077</b>	<b>23,744,846</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,311,687</b>	<b>4,311,687</b>
<b>Total liabilities and equity</b>	<b>7,602,969</b>	<b>3,852,745</b>	<b>9,868,682</b>	<b>2,076,373</b>	<b>4,655,764</b>	<b>28,056,533</b>
<b>Liquidity gap as of:</b>						
- December 31, 2013	8,375,265	(2,981,340)	(3,040,019)	357,274	(2,711,180)	
- December 31, 2012	7,372,321	(2,189,440)	(1,364,149)	(593,284)	(3,225,448)	

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.4. Market Risk**

Market risk relates to the risk that the fair value or expected future cash flows of financial instruments may fluctuate, due to changes in market variables such as interest rates and exchange rates. The Bank is not exposed to the risk inherent in the change of prices of equity instruments and prices of goods. Except for the concentration of foreign exchange market risk, the Bank does not have a significant market risk concentration in other items.

**34.4.1. Interest Rate Risk**

Interest rate risk is the risk of adverse effects on the Bank's financial result and equity contingent on the changes in interest rates. Interest rate risk is contingent on interest rate fluctuations that may affect future cash flows and the fair value of financial instruments.

The Bank's Executive Board set the limits for the amount of interest rates for defined time periods. The balance sheet positions are monitored on monthly basis so as to insure that the balance sheet positions are in accordance with the set policies and plans. The basis for establishing interest rates is market interest rates whose movements are used as reference values in adjusting the Bank's interest rates. The movements in interest rates may result in the increase or decrease in interest margins. The activity of interest rate risk management aims to optimize the proportion of these influences on the net interest income on one side and economic value of equity on the other side.

The Asset and Liability Management Committee manages the matching between assets and liabilities based on macroeconomic analysis and forecasts, forecasts how to achieve a matched liquidity structure, forecasts terms for achieving liquidity, analysis and forecast of trends in market interest rates for different segments of assets and liabilities.

The table below shows the sensitivity of the Bank's income statement to the reasonably expected changes in interest rates with all other variables remaining at the same level. The sensitivity of the income statement is the effect of expected changes in interest rates on the net interest income in a year, on financial assets and liabilities that are based on interest rates at December 31, 2013 and 2012.

Currency	Change in Percentage Point	Income Statement Sensitivity
<b>2013</b>		
EUR	+1%	-23,097
USD	+1%	1,776
RSD	+1,5%	-43,723
<b>2012</b>		
EUR	+1%	6,005
USD	+1%	-5,226
RSD	+1,5%	26,865

## NOTES TO THE FINANCIAL STATEMENTS

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## 34. RISK MANAGEMENT (Continued)

## 34.4. Market Risk (Continued)

## 34.4.1. Interest Rate Risk (Continued)

The following table presents the Bank's exposure to the changes in interest rates (repricing gap) as of December 31, 2013. Assets and liabilities are shown according to the earlier of the date of reconsidering interest or the maturity date.

	Within 1 Month	From 1 to 6 Months	From 6 to 12 Months	Over 1 Year	Non- Interest Bearing	Total
<b>ASSETS</b>						
Cash and cash equivalents	1,244,350	-	-	-	1,367,808	2,612,158
Revocable loans and deposits	-	-	-	-	5,997,552	5,997,552
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	-	-	-	-	596,875	596,875
Loans and advances to customers	4,703,069	445,690	1,614,281	1,637,427	-	8,400,467
Securities	653,570	14,700	-	1,065,423	-	1,733,693
Other placements	1,365,399	411,004	-	-	-	1,776,403
Intangible assets	-	-	-	-	19,706	19,706
Property, equipment and investment property	-	-	-	-	1,654,798	1,654,798
Non-current assets held for sale and assets from discontinued operations	-	-	-	-	613,585	613,585
Other assets	-	-	-	-	4,651,296	4,651,296
<b>Total assets</b>	<b>7,966,388</b>	<b>871,394</b>	<b>1,614,281</b>	<b>2,702,850</b>	<b>14,901,620</b>	<b>28,056,533</b>
<b>LIABILITIES AND EQUITY</b>						
Transaction deposits	1,787,569	-	-	-	1,557,115	3,344,684
Other deposits	2,913,011	5,835,484	5,464,220	775,285	2,954,408	17,942,408
Borrowings	-	1,716,193	1,016	8,128	45,643	1,770,980
Interest, fee and commission payables and fair value adjustments of derivatives	-	-	-	-	10,720	10,720
Provisions	-	-	-	-	154,685	154,685
Tax payables	-	-	-	-	4,544	4,544
Deferred tax liabilities	-	-	-	-	12,292	12,292
Other liabilities	3,367	17,064	20,987	109,046	354,069	504,533
<b>Total liabilities</b>	<b>4,703,947</b>	<b>7,568,741</b>	<b>5,486,223</b>	<b>892,459</b>	<b>5,093,476</b>	<b>23,744,846</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,311,687</b>	<b>4,311,687</b>
<b>Total liabilities and equity</b>	<b>4,703,947</b>	<b>7,568,741</b>	<b>5,486,223</b>	<b>892,459</b>	<b>9,405,163</b>	<b>28,056,533</b>
<b>Net interest rate risk exposure as of:</b>						
- December 31, 2013	<u>3,262,441</u>	<u>(6,697,347)</u>	<u>(3,871,942)</u>	<u>1,810,391</u>	<u>9,808,144</u>	
- December 31, 2012	<u>4,441,618</u>	<u>(1,491,982)</u>	<u>(263,668)</u>	<u>(1,016,348)</u>	<u>6,027,891</u>	

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.4. Market Risk (Continued)****34.4.2. Foreign Exchange Risk**

Foreign exchange risk is the risk from changes in the value of financial instruments and negative effects on the Bank's result and equity due to changes in exchange rates. Banking operations in various currencies conditions exposures to fluctuations in the exchange rates of several currencies.

The Bank manages foreign exchange risk striving to prevent adverse effects of the fluctuations in exchange rates of foreign currencies and dinar to foreign currency exchange rates (foreign exchange losses) as on the Bank's financial result, so on the debtor's ability to repay loans denominated in the same currency.

As a hedge against foreign exchange risk, the Bank monitors daily movements in exchange rates on the financial market, implements the policy of low foreign exchange exposure and indexes its loans and advances to a currency clause.

As in accordance with the regulatory requirements of the National Bank of Serbia, the Bank continually maintains its currency position – the ratio of its foreign exchange risk is within the legally set maximum as compared to the equity, where the Bank is liable to ensure that its total net open foreign currency position does not exceed 20% of its equity. As of december 31, 2013, the foreign exchange risk ratio equaled 36.40%.

The following table shows the currencies in which the Bank has significant exposures of its monetary assets at December 31, 2013 and 2012.

The analysis accounts for the result of reasonably expected fluctuations in exchange rates against RSD with all other variables remaining at the same level. Negative amounts provided in the table represent potential decrease in operating results or in equity, whereas positive amounts refer to possible increases.

<u>Currency</u>	<u>Exchange rate Fluctuations (%)</u> <b>2013</b>	<u>Effect on the Operating Profit before Taxes</u> <b>2013</b>	<u>Effect on Equity</u> <b>2013</b>
EUR	10%	-45.110	
USD	10%	-11.050	-0.83
<u>Currency</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>
EUR	10%	-16,013	
USD	10%	4,527	0.09

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December 31, 2013

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

## 34. RISK MANAGEMENT (Continued)

## 34.4. Market Risk (Continued)

## 34.4.2. Foreign Exchange Risk (Continued)

The following table shows the Bank's exposure to foreign exchange risk at December 31, 2013. The table includes assets and liabilities at their carrying values.

	EUR	USD	CHF	Other Currencies	Total FX Balance	Total in RSD	Total
<b>ASSETS</b>							
Cash and cash equivalents	1,118,055	71,465	66,351	32,127	1,287,998	1,324,160	2,612,158
Revocable loans and deposits	4,309,666	1,687,886	-	-	5,997,552	-	5,997,552
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	213,243	18,046	-	-	231,289	365,586	596,875
Loans and advances to customers	4,674,888	896,943	-	-	5,571,831	2,828,636	8,400,467
Securities	1,065,423	13,968	-	-	1,079,391	654,302	1,733,693
Equity investments	-	-	-	-	-	500	500
Other investments	551,848	171,303	-	-	723,152	1,053,251	1,776,403
Intangible assets	-	-	-	-	-	19,206	19,206
Property, equipment and investment property	-	-	-	-	-	1,654,798	1,654,798
Non-current assets held for sale and assets from discontinued operations	-	-	-	-	-	613,585	613,585
Other assets	12,883	2	-	-	12,885	4,638,411	4,651,296
<b>Total assets</b>	<b>11,946,006</b>	<b>2,859,613</b>	<b>66,351</b>	<b>32,127</b>	<b>14,904,097</b>	<b>13,152,436</b>	<b>28,056,533</b>
<b>LIABILITIES AND EQUITY</b>							
Transaction deposits	1,084,659	135,411	16,714	4,115	1,240,899	2,103,785	3,344,684
Other deposits	9,252,304	2,822,699	50,858	19,374	12,145,235	5,797,173	17,942,408
Borrowings	1,743,500	7,982	26	-	1,751,508	19,472	1,770,980
Interest, fee and commission payables and fair value adjustments of derivatives	6	-	-	-	6	10,714	10,720
Provisions	58,894	1,646	-	-	60,540	94,145	154,685
Tax payables	-	-	-	-	-	4,544	4,544
Deferred tax liabilities	-	-	-	-	-	12,292	12,292
Other liabilities	257,748	2,376	287	237	260,648	243,885	504,533
<b>Total liabilities</b>	<b>12,397,111</b>	<b>2,970,114</b>	<b>67,885</b>	<b>23,726</b>	<b>15,458,836</b>	<b>8,286,010</b>	<b>23,744,846</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,311,687</b>
<b>Total liabilities and equity</b>	<b>12,397,111</b>	<b>2,970,114</b>	<b>67,885</b>	<b>23,726</b>	<b>15,458,836</b>	<b>8,286,010</b>	<b>28,056,533</b>
<b>Net foreign currency position</b>							
- at December 31, 2013	(451,105)	(110,501)	(1,534)	8,401	(554,738)	4,866,425	
- at December 31, 2012	(220,562)	43,756	1,679	16,930	(158,197)	4,822,163	

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.5. Bank's Counterparty Exposure Risks**

The Bank's counterparty risks relate to the Bank's exposure to a single entity or towards a group of related entities, as well as the Bank's exposure to its related party.

Monitoring the Bank's exposure to a single entity or a group of related entities, as well as parties related to the Bank is under jurisdiction of the organizational part responsible for the approval of product engagement. Monitoring the Bank's exposure to this risk is the obligatory part of the process of approving engagements within the meaning that the body – the board approving the engagement, handles data on the total Bank's exposure to a customer or a group of related parties and the proportion of such exposure and the Bank's equity.

The Risk Management Department determines the ratio of large counterparty exposures to one entity or a group of related entities that exceed 10% of capital as the proportion of total exposure to these parties and the Bank's capital, comparing it to the review of large exposures per customer and their compliance with the previously approved limits set by the Board of Directors. The Department determines counterparty risk exposure to the Bank's related parties on quarterly basis as a proportion of total net exposure to these entities and the Bank's equity, comparing it to the prescribed 5% limit.

The Board of Directors needs to give its consent to exposure of the Bank towards customers or groups of related customers in cases where these aggregate to over 10% of capital, i.e. for any increase in this exposure that exceeds 20% of the Bank's capital. The Bank's Executive Board decides on placements made and debts incurred towards customers or a group of related customers that constitute large exposure to the Bank up to the amount determined in the risk management policy (over 20% of the Bank's capital).

**34.6. Bank's Investment Risks**

The Bank's investment risks include the risk of equity investments in other legal entities and capital expenditures. As in accordance with the regulations prescribed by the National Bank of Serbia, the capital adequacy must constantly be monitored and it is necessary to ensure that the Bank's investment in a single entity operating outside the financial sector does not exceed 10% of the Bank's capital, and that the Bank's total investments in entities outside the financial sector and capital expenditures do not exceed 60% of the Bank's capital.

The Bank's risk exposure arising from investments in other legal entities and capital expenditures is monitored by keeping the Bank's organizational part or the unit tasked with the acquisition of fixed assets and investments in legal entities informed of the current exposure and amount of capital so that timely steps could be taken to ensure compliance with the prescribed limits.

The Bank's Assembly sets the amount of capital expenditures and investments in intangible assets at the beginning of the year, based on the plan of capital expenditures and investments in intangible assets ranging within the limits prescribed by the National Bank of Serbia.

The Bank's Assembly also sets the limit for the amounts invested in other legal entities operating outside the financial sector within the limits prescribed by the NBS (as in accordance with the Decision on Risk Management in Banks, this limit is set at 10% of a bank's capital).

The Accounts Department monitors the compliance of acquisition with the approved plan of capital expenditures for the current year.

**34.7. Country Risk**

Risks that relate to the country of origin of the counterparty to which the Bank is exposed (country risk) include risks from adverse effects on the financial result and capital of the Bank arising in connection with the Bank's inability to collect receivables from such counterparty for political, economic or social circumstances in the country of origin of such entity.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.7. Country Risk (Continued)**

For measuring country risk, the Bank uses long-term credit rating of a debtor's country. For the assessment of the credit rating of a country, the Bank uses the credit rating assessment agreed upon by the authorized agencies for crediting exports of the countries signatories of the Organization for Economic Co-Operation and Development Agreement – (OECD).

Risk monitoring by analyzing the balance, changes and trends as the basis for country risk monitoring comprises changes in the OECD credit rating assessment schedule. The changes and updates of the list of country risk ratings are performed by employees in the Risk Management Department, whenever such changes are identified.

The Asset and Liability Management Committee and the Executive Board review and monitor country risk, keeping it at a level acceptable for the Bank's risk profile. The Management Board may define limits for placement of assets with corporate entities and banks in certain countries and regions, including the suspension of placements in the circumstances of significant political and economic events.

The Bank performs most of its activities on the territory of the Republic of Serbia, so the major part of the Bank's credit portfolio relates to domestic corporate and retail customers.

**34.8. Operational Risk**

Operational risk is the risk of loss arising from system failure, human errors, frauds or unforeseen external events. When controls cease to be effective, operational risk may compromise the Bank's reputation, give rise to legal issues or cause financial losses.

The Bank cannot eliminate all operational risks; however, through the introduction of a rigorous chart of accounts and by supervising and responding to potential risks, the Bank is able to manage these risks. The role of the operational risk management process is to identify, assess, control and reduce the operational risk probability and their impact, as well as losses contingent thereupon. Control includes effective duty segregation, access rights, authorizations and reconciliation of procedures, staff training and supervision process, including internal audit.

In the course of the Bank's operational risk management, the Bank implements quantitative and qualitative measures that are based on data gathered on losses incurred as a consequence of operational risk, as per categories determined according to sources of loss.

The Bank manages operational risk so as to minimize the influence of negative and failed internal processes, people and systems or external events on the Bank's financial result. The events that give rise to operational risks are classified and monitored by the Bank according to lines of business according to the type of event and the like) and according to the type of loss (loss, averted loss and the like). The Bank developed a database as a starting point for recording and monitoring risk events, which is updated by authorized employees on an ongoing basis.

In compliance with the prescribed requirements and stipulations of good business practice the Bank compiled the Business Continuity Plan to be used in case of unforeseen events.

**34.9. Capital Management**

The objectives of the Bank in respect to capital management, capital being a concept wider than the equity included in the balance sheet, are as follows:

- to comply with the requirements of the National Bank of Serbia, particularly to obtain sufficient available capital to cover all calculated capital requirements at all times;
- to ensure the business continuity, return to the shareholders and benefits to other stakeholders; and
- to provide an adequate capital base as a support to the further business development of the Bank's operations.

The Bank's management regularly monitors capital adequacy ratios of the Bank and other business ratios prescribed by the National Bank of Serbia and submits quarterly reports to the National Bank of Serbia on the ratio values realized.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

## 34. RISK MANAGEMENT (Continued)

## 34.9. Capital Management (Continued)

The Law on Banks and relevant decisions of the National Bank of Serbia stipulate that banks must maintain the minimum amount of capital in the dinar value of EUR 10 million calculated by applying the official middle exchange rate; its capital adequacy ratio must at all times be above 12%, and the scope and structure of its business activities must be in accordance with the regulatory Decision on Risk Management in Banks (RS Official Gazette nos. 45/2011, 94/2011, 119/2012, 123/2012, 43/2013 and 92/2013) and the Decision on Capital Adequacy (RS Official Gazette, no. 46/2011 and 92/2013).

The Bank manages its capital structure and makes adjustments in accordance with the changes in economic terms and risks inherent in the Bank's activities.

The aforementioned Decision of the National Bank of Serbia on Capital Adequacy delineates the manner of calculating the Bank's capital and its capital adequacy ratio. The Bank's total capital is comprised of core capital and supplementary capital, and deductibles defined, while risk-weighted balance sheet and off-balance sheet assets are determined in accordance with the prescribed risk weights for all types of assets. The Bank's core capital is defined in the decision and must amount to no less than 50% of the Bank's capital. Pursuant to the regulations of the National Bank of Serbia, when calculating the capital adequacy ratio, total risk-weighted balance sheet assets and off-balance sheet items are increased by the amount of open foreign currency position and capital requirements for foreign exchange, market and operational risks.

The following table shows the structure of total regulatory capital of the Bank as of December 31, 2013 and 2012, as well as the capital adequacy ratios:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
<b>Regulatory capital</b>		
Core capital	4,227,569	4,218,016
Supplementary capital	381,550	435,937
<b>Total core and supplementary capital</b>	<u>4,609,119</u>	<u>4,653,953</u>
<i>Capital deductibles:</i>		
Intangible assets	(19,206)	(4.013)
Accumulated losses	(340,285)	-
Required special reserves	(2,678,482)	(2,186,221)
<b>Total (1)</b>	<u>1,571,146</u>	<u>2,463,719</u>
<b>Risk-weighted balance sheet and off-balance sheet items</b>		
Balance sheet assets	15,188,407	11,960,072
Off-balance sheet items	1,427,352	2,513,697
Open foreign currency position	571,875	160,206
Operational risk*	2,270,010	1,665,767
<b>Total (2)</b>	<u>19,457,644</u>	<u>16,299,742</u>
<b>Capital adequacy ratio (1/2 x 100)</b>	<u>8.07%</u>	<u>15.12%</u>

## 34.10. Fair Value of Financial Assets and Liabilities

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

## NOTES TO THE FINANCIAL STATEMENTS

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

## 34. RISK MANAGEMENT (Continued)

## 34.10. Fair Value of Financial Assets and Liabilities (Continued)

The following table presents the fair values of financial instruments:

	Carrying Value		Fair Value	
	2013	2012	2013	2012
<b>Financial assets</b>				
Cash and cash equivalents	2,612,158	1,682,356	2,612,158	1,682,356
Deposits held with NBS	5,997,552	4,547,318	5,997,552	4,547,318
Interest, fee and commission receivables	596,875	493,052	596,875	493,052
Loans and advances to banks and customers	8,400,467	9,773,006	8,400,467	9,773,006
Securities	1,733,693	744,384	1,733,693	744,384
Other investments	1,776,403	1,134,901	1,776,403	1,134,901
Other assets	64,057	92,138	64,057	92,138
	<u>21,181,205</u>	<u>18,467,155</u>	<u>21,181,205</u>	<u>18,467,155</u>
<b>Financial liabilities</b>				
Transaction deposits	3,344,684	1,687,685	3,344,684	1,687,685
Other deposits	17,942,408	11,916,784	17,942,408	11,916,784
Borrowings	1,770,980	1,722,421	1,770,980	1,722,421
Interest, fee and commission payables	10,720	3,326	10,720	3,326
Other liabilities	351,765	444,404	351,765	444,404
	<u>23,420,557</u>	<u>15,774,620</u>	<u>23,420,557</u>	<u>15,774,620</u>

The following table presents the fair values of collaterals:

	Carrying Value		Fair Value	
	2013	2012	2013	2012
Mortgages	4,712,773	6,302,638	4,712,773	6,302,638
Pledge liens				
Deposits	2,827,415	2,781,109	2,827,415	2,781,109
Government guarantees	3,703,030	3,770,769	3,703,030	3,770,769
	<u>11,243,218</u>	<u>12,854,516</u>	<u>11,243,218</u>	<u>12,854,516</u>

The fair value of cash and cash equivalents, short-term deposits, other investments and other assets, transaction deposits, accounts payable and other short-term liabilities corresponds to their carrying value principally due to their short-term maturities. The Bank's financial instruments that are stated at amortized cost mostly have short-term maturities and carry a floating interest rate that reflects current market terms. Accordingly, the Bank assesses that the value at which the aforementioned financial instruments are stated corresponds to their market value. The fair value of loans and advances to customers equals their carrying value net of accumulated allowance for impairment.

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

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.10. Fair Value of Financial Assets and Liabilities (Continued)*****Financial Instrument whose Fair Value Approximates Their Carrying Value***

For financial assets and financial liabilities that are liquid or have short-term maturities (within 3 months) it is assumed that the carrying values approximate their fair value. This assumption also applies to demand deposits, savings deposits without definite maturities and financial instruments with floating interest rates.

***Financial Instruments with Fixed Interest Rates***

The fair value of financial assets and liabilities with the fixed interest rates, which are recorded at amortized value, are assessed by comparison of the market interest rates upon initial recognition to the current market rates that apply to similar financial instruments. The estimated fair value of deposits indexed to a fixed interest rate is based on discounted cash flows using the prevalent interest rates on the money market for contracts with similar interest rate risk exposure and maturities. For quoted debt instruments, fair values are calculated based on prices listed on the market. For financial instruments with no available market prices, a model of discounted cash flows is used, which is based on the yield curve of the current interest rate, which corresponds to the outstanding maturity of the instrument.

***Financial Instruments at Fair Value***

Financial instruments are measured at fair value based on information available on the market i.e. the use of quoted market prices at the reporting date.

**35. COMMITMENTS AND CONTINGENT LIABILITIES****(a) Operating Lease Liabilities**

Operating lease liabilities relate to the rental of business premises based on executed operating lease agreements.

The future minimum payments per non-cancellable operating lease agreements were as follows:

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Within a year	48,369	44,460
From 1 to 5 years	193,476	177,840
	<u>241,845</u>	<u>222,300</u>

**(b) Litigation**

The Bank's management does not anticipate materially significant losses to arise from the ongoing legal suits in the ensuing period. Accordingly, the accompanying financial statements do not include provisions for potential losses thereof.

The Bank is involved in lawsuits filed against third parties for the purpose of collecting its receivables. The Bank fully provided for all receivables from corporate and retail customers subject to litigation and charged provisions to the profit and loss of the prior and current years

## NOTES TO THE FINANCIAL STATEMENTS

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## 35. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

## (c) Taxation Risks

The Republic of Serbia taxation system is subject to revisions and amendments. The fiscal periods remain open for review by the tax authorities with regard to the tax-paying entity's tax liabilities for a period of five years. In various circumstances, the views of the taxation authorities may not concur with that of the Bank's management and the Bank may be assessed additional taxes, penalties and interest. The Bank's management is of the opinion that tax liabilities recorded in the accompanying financial statements have been appropriately stated.

## 36. SEGMENT REPORTING

## (a) Information on Profit and Loss, Assets and Liabilities per Segments

At December 31, 2013, for managing purposes, the Bank's business activities were organized in two main reporting segments:

- Corporate banking activities;
- Retail banking activities.

Given the Bank does not have a complex structure of various banking activities, the Bank's management concluded that the operating segments have been determined in accordance with IFRS 8 "Operating Segments," and that they are the same as segments previously identified according to IAS 14. Operating segments determined by the Bank meet the criteria of reporting segment definition as per IFRS 8.

Other Bank's activities, such as broker-dealer operations, do not constitute a separate reporting segment.

The segment results for the period from January 1 through December 31, 2013 were as follows:

	<b>Corporate Activities</b>	<b>Retail Activities</b>	<b>Other Segments</b>	<b>Total</b>
Interest income	1,576,146	206,450	99,877	1,882,473
Fee and commission income	211,764	86,609	35,187	333,560
Dividend and other income from equity investments	543	-	-	543
Net gains on the valuation of assets and liabilities	99,585	411	(1,103)	98,893
Foreign exchange gains	1,396,549	404,466	834,643	2,635,658
Other operating income	13,871	2,592	19,709	36,172
<b>Operating income</b>	<b>3,298,458</b>	<b>700,528</b>	<b>988,313</b>	<b>4,987,299</b>
Interest expenses	(189,292)	(212,194)	(368,641)	(770,127)
Fee and commission expenses	(29,228)	-	(860)	(30,088)
Net impairment losses and provisions	(70,498)	(4,436)	(1,603)	(76,537)
Staff costs	(92,645)	(191,228)	(324,648)	(608,521)
Depreciation and amortization	-	-	(107,261)	(107,261)
Other operating expenses	(470,889)	(189,328)	(422,681)	(1,082,898)
Foreign exchange losses	(1,289,898)	(455,815)	(905,239)	(2,650,952)
<b>Operating expenses</b>	<b>(2,142,450)</b>	<b>(1,053,001)</b>	<b>(2,130,933)</b>	<b>(5,326,384)</b>
<b>Profit/(Loss) from operations before taxes</b>	<b>1,156,008</b>	<b>(352,473)</b>	<b>(1,142,620)</b>	<b>(339,085)</b>
Income taxes	-	-	(1,200)	(1,200)
Gains on decrease in deferred tax liabilities	-	-	(1,200)	(1,200)
<b>Net profit/(loss)</b>	<b>1,156,008</b>	<b>(352,473)</b>	<b>(1,143,820)</b>	<b>(340,285)</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

## 36. SEGMENT REPORTING (Continued)

## (a) Information on Profit and Loss, Assets and Liabilities per Segments (Continued)

The segment results for the period from January 1 through December 31, 2012 were as follows:

	<b>Corporate Activities</b>	<b>Retail Activities</b>	<b>Other Segments</b>	<b>Total</b>
Interest income	2,287,912	201,914	36,987	2,526,813
Fee and commission income	274,993	83,400	3,748	363,141
Dividend and other income from equity investments	268	-	1,391	1,659
Net gains on the valuation of assets and liabilities	290,750	22,584	(7,405)	305,929
Foreign exchange gains	2,286,436	616,297	1,749,539	4,652,272
Other operating income	11,918	325	66,882	79,125
<b>Operating income</b>	<b>5,152,277</b>	<b>924,520</b>	<b>1,852,142</b>	<b>7,928,939</b>
Interest expenses	(312,667)	(144,766)	(268,701)	(726,134)
Fee and commission expenses	(29,307)	-	(2,655)	(31,962)
Net impairment losses and provisions	(894,978)	147,739	(16,083)	(763,322)
Losses on the sale of equity investments	-	-	(241)	(241)
Staff costs	(108,027)	(191,603)	(204,251)	(503,881)
Depreciation and amortization	-	-	(90,839)	(90,839)
Other operating expenses	(59,022)	(210,563)	(715,030)	(984,615)
Foreign exchange losses	(2,622,101)	(817,540)	(1,369,204)	(4,808,845)
<b>Operating expenses</b>	<b>(4,026,102)</b>	<b>(1,216,733)</b>	<b>(2,667,004)</b>	<b>(7,909,839)</b>
<b>Profit/(Loss) from operations before taxes</b>	<b>1,126,175</b>	<b>(292,213)</b>	<b>(814,862)</b>	<b>19,100</b>
Income taxes	-	-	(9,829)	(9,829)
Gains on decrease in deferred tax liabilities	-	-	(9,829)	(9,829)
<b>Net profit/(loss)</b>	<b>1,126,175</b>	<b>(292,213)</b>	<b>(824,691)</b>	<b>9,271</b>

Assets of operating segments at December 31, 2013 did not encompass cash and cash equivalents (RSD 1,244,773 thousand), required reserves in RSD and in foreign currency (RSD 7,364,937 thousand), intangible assets, property and equipment (RSD 1,674,004 thousand) and assets held for sale (RSD 613,585 thousand), since these assets are managed on the Bank level.

Liabilities of business segments at December 31, 2013 did not encompass borrowings (RSD 1,770,980 thousand), taxes payable (RSD 4,544 thousand), and deferred tax liabilities (RSD 12,292 thousand), since these liabilities are managed on the Bank level.

Segment assets and liabilities as of December 31, 2013 are presented as follows:

	<b>Corporate Activities</b>	<b>Retail Activities</b>	<b>Other Segments</b>	<b>Total 2013</b>
<b>Assets</b>	<b>9,238,426</b>	<b>1,002,243</b>	<b>6,918,565</b>	<b>17,159,234</b>
<b>Liabilities</b>	<b>7,052,028</b>	<b>9,350,735</b>	<b>5,554,267</b>	<b>21,957,030</b>

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***36. SEGMENT REPORTING (Continued)****(a) Information on Profit and Loss, Assets and Liabilities per Segments (Continued)**

Segment assets and liabilities as of December 31, 2012 are presented as follows:

	<u>Corporate Activities</u>	<u>Retail Activities</u>	<u>Other Segments</u>	<u>Total 2012</u>
<b>Assets</b>	9,890,620	843,987	2,031,885	12,766,492
<b>Liabilities</b>	6,792,145	3,852,064	3,699,964	14,344,173

Assets of operating segments at December 31, 2012 did not encompass cash and cash equivalents (RSD 642,279 thousand), required reserves in RSD and in foreign currency (RSD 5,032,895 thousand), intangible assets, property and equipment (RSD 1,729,122 and assets (building) held for sale ( RSD 581,658 thousand), since these assets are managed on the Bank level.

Liabilities of business segments at December 31, 2012 did not encompass borrowings (RSD 1,722,421 thousand), taxes payable (RSD 10,794 thousand), and deferred tax liabilities (RSD 11,092 thousand), since these liabilities are managed on the Bank level.

**(b) Geographic Segment Reporting**

The Bank's country of origin and the country where its operations are headquartered is the Republic of Serbia. The allocation of income was performed according to the country where the customer, i.e. the user of the Bank's products and services, is domiciled. The Bank earns its entire income on the territory of the Republic of Serbia. All loans and advances, as well as other financial assets of the Bank are placed on the territory of the Republic of Serbia. The total assets are allocated as per their location. The Bank's total non-current assets are located in the territory of the Republic of Serbia.

**(c) Information on Major Customers**

The Bank has numerous unrelated customers with individually small amounts of loans issued and income earned, none of which accounts for more than 10% of interest, fee and commission income.

**37. RECONCILIATION OF MUTUAL RECEIVABLES AND PAYABLES**

As in accordance with Article 18 of the Law on Accounting, the Bank reconciled the balances of receivables and payables with its customers and creditors and has valid documentation thereof.

As of November 30, 2013, the Bank delivered to its customers outstanding item statements (OIS). Based on the OIS forms exchanged with the customers, 8% of the balances of receivables and payables outstanding remained unreconciled.

The main reason for contesting certain OIS forms was the manner of posting and recording receivables from customers where the same postings and recordings were made at different dates.

The OIS forms that were undelivered and returned to the Bank due to inaccurate address details comprise 2% of all OIS forms sent.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2013***All amounts expressed in thousands of RSD, unless otherwise stated.***38. EVENTS AFTER THE REPORTING PERIOD**

As of January 31, 2014, according to the preliminary capital adequacy ratio calculation, the capital adequacy ratio equaled 6.63%. In addition, due to the change in the value of, i.e. decrease in the regular capital, as of January 31, 2014 the following indicators were exceeded: ratio of capital expenditures (126.15% versus the prescribed maximum of 60%), exposures of the Bank to four groups of related entities (from 27.38% to 36.63% versus the prescribed maximum of 25%), foreign exchange risk ratio (50.14% versus the prescribed maximum of 20%) and large and the largest possible exposures per loans and advances (425.07% versus the prescribed maximum of 400%). The Bank's management has undertaken activities aimed at reconciliation of the excessive ratios with the legally prescribed limits.

There were no other significant events after the reporting date that would require adjustments or disclosures in the notes to the accompanying financial statements of the Bank for the year 2013.

**39. EXCHANGE RATES**

The official middle exchange rates of the National Bank of Serbia as determined at the interbank foreign exchange market assembly and used to translate foreign currency denominated balance sheet line items as of December 31, 2013 and 2012 into the functional currency for particular major currencies were as follows:

	<b>2013</b>	<b>In RSD 2012</b>
EUR	114.6421	113.7183
USD	83.1282	86.1763
CHF	83.5472	94.1922

**STATISTICAL ANNEX**  
**As of December 31, 2013**  
**(Thousands of RSD)**

Popunjiva banka	
07092288 Maticni broj	Sifra delatnosti
100000387 PIB	
Popunjiva Agencija za privredne registre	
570 1 2 3	19 20 21 22 23 24 25 26
Vrsta posla	

Naziv: SRPSKA BANKA A.D.

Sediste: BEOGRAD, SAVSKA 25

## STATISTICKI ANEKS



7005022803816

za 2013. godinu

- iznosi u hiljadama dinara

Grupa racuna, racun	POZICIJA	Oznaka za AOP	Tekuca godina	Prethodna godina
1	2	3	4	5
630	Troskovi zarada	601	310505	283659
631	Troskovi naknada zarada	602	122799	68957
632	Troskovi poreza na zarade i naknade zarada	603	57382	54853
633	Troskovi doprinosa na zarade i naknade zarada	604	103714	86816
634	Troskovi naknada za privremene i povremene poslove	605	3539	2664
635	Ostali licni rashodi	606	10582	6932
642	Troskovi amortizacije	607	107261	90839
deo 643	Troskovi premija osiguranja	608	27185	22279
deo 643	Naknade troskova zaposlenima	609	30448	40803
deo 641	Troskovi zakupnina	610	48763	41216
644	Troskovi poreza	611	43870	40881
645	Troskovi doprinosa	612	102184	90932
deo 746	Prihodi od zakupnina	613		
68	Negativne kursne razlike	614	2650952	4808845
78	Pozitivne kursne razlike	615	2635658	4652272
30	Zalihe	616	4596499	8582
	Prosecan broj zaposlenih utvrdjen na osnovu stanja na kraju svakog meseca poslovne godine ( ceo broj )	617	436	406

**STATISTICAL ANNEX (Continued)**  
**As of December 31, 2013**  
**(Thousands of RSD)**

- iznosi u hiljadama dinara

Grupa racuna, racun	POZICIJA	Oznaka za AOP	Tekuca godina	Prethodna godina
1	2	3	4	5
	Broj obicnih akcija	618	302129	302129
	Broj prioritetnih akcija	619		
	Nominalna vrednost obicnih akcija	620	3021290	3021290
	Nominalna vrednost prioritetnih akcija	621		

U BEOGRADU dana 26.2. 2014. godine

Lice odgovorno za sastavljanje  
 finansijskog izvestaja

Milica Petrovic



Zakonski zastupnik  
 banke

[Handwritten Signature]

OBRAZAC PROPISAN : Pravilnikom o obrascima i sadrzini pozicija u obrascima finansijskih izvestaja za banke ("Sluzbeni glasnik RS" br. 74/2008, 3/2009 i 12/2009 )