

SRPSKA BANKA A.D., BEOGRAD

**Financial Statements
Year Ended December 31, 2012
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

We have audited the accompanying financial statements of Srpska banka a.d., Beograd (the "Bank"), which comprise the balance sheet as of December 31, 2012 and the related income statement, statement of changes in equity and cash flow statement for the year than ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks, as well as for internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis of Qualified Opinion

As disclosed in Notes 23 and 31 to the financial statements, as of December 31, 2012, non-current assets held for sale amounted to RSD 581,658 thousand, whereas the revaluation reserves formed in the previous period based on the positive revaluation effects of these assets totaled RSD 416,258 thousand. 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 as of the balance sheet date at the lower of fair value less expected costs to sell and the carrying value, whereby the effects of any reduction of the carrying value to the lower fair value less expected costs to sell are recognized in the current period profit and loss, i.e. charged to the revaluation reserves up to the amount of the previously formed revaluation reserves. Based on the documentation made available to us, we were unable to satisfy ourselves as to the adequacy of measurement of non-current assets held for sale as of December 31, 2012, i.e. we could not determine the potential effects of reducing the carrying value to the lower fair value less expected costs to sell on the accompanying financial statements for the year 2012.

(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)

Qualified Opinion

In our opinion, except for the effects of any adjustments that may have been determined as necessary had we been able to satisfy ourselves as to the effect of the matter described in the preceding paragraph, the financial statements of Srpska banka a.d., Beograd for the year ended December 31, 2012 have been prepared, in all material respects, in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

Emphasis of Matter

As disclosed in Note 31(b) to the financial statements, the Bank is obligated to maintain the scope and structure of its operations and risk-weighted assets with the performance indicators prescribed by the Law on Banks and Decisions of the National Bank of Serbia. As of December 31, 2012, certain ratios were not in compliance with the prescribed limits. Potential measures that the National Bank of Serbia might undertake in respect of these inconsistencies may not currently be anticipated. The Bank's management has taken up activities in order to reconcile the aforesaid ratios with their legally defined values.

Our opinion is not modified in respect of this matter.

Belgrade, April 3, 2013

Nada Sudić
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2012
(Thousands of RSD)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Income and expenses from operations			
Interest income	5	2,526,813	1,982,817
Interest expense	5	<u>(726,134)</u>	<u>(633,391)</u>
Net interest income		<u>1,800,679</u>	<u>1,349,426</u>
Fee and commission income	6	363,141	269,007
Fee and commission expense	6	<u>(31,962)</u>	<u>(23,443)</u>
Net fee and commission income		<u>331,179</u>	<u>245,564</u>
Net (losses)/gains on the sale of securities available for sale	7	(241)	8,290
Net foreign exchange (losses)/gains	8	(156,573)	4,762
Dividend and other income from equity investments		1,659	907
Other operating income	9	79,125	23,091
Net impairment losses and provisions	10	(763,322)	(508,692)
Staff costs	11	(503,881)	(455,893)
Depreciation and amortization	12	(90,839)	(61,282)
Operating and other expenses	13	(984,615)	(436,670)
Net gains on the valuation of assets and liabilities	14	<u>305,929</u>	<u>63,642</u>
Profit from operations		<u>19,100</u>	<u>233,145</u>
Income taxes	15		
- current income tax expense		-	(817)
- deferred tax (expense)/benefit		<u>(9,829)</u>	<u>29,832</u>
		<u>(9,829)</u>	<u>29,015</u>
Profit after taxation		<u>9,271</u>	<u>262,160</u>

The accompanying notes 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, 2013.

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

Ivan Maričić
Chairman of the Executive Board

Ivan Ristić
Member of the Executive Board

Snežana Savić
Head of Accounting

BALANCE SHEET
As of December 31, 2012
(Thousands of RSD)

	<u>Note</u>	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
ASSETS			
Cash and cash equivalents	16	1,682,356	3,336,358
Revocable loans and deposits	17	4,547,318	3,019,732
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	18	493,052	214,870
Loans and deposits to customers	19	9,773,006	8,302,437
Securities (excluding repurchased own shares)	20	744,385	766,252
Equity investments		500	500
Other investments	21	1,134,901	311,683
Intangible assets	22	4,013	10,544
Property, equipment and investment property	22	1,725,109	1,529,506
Non-current assets held for sale and assets from discontinued operations	23	581,658	581,658
Other assets	24	66,148	29,600
Total assets		<u>20,752,446</u>	<u>18,103,140</u>
LIABILITIES AND EQUITY			
Transaction deposits	25	1,687,685	2,257,863
Other deposits	26	11,916,784	10,738,934
Borrowings	27	1,722,421	31,575
Interest, fee and commission payables and fair value adjustments of derivatives	28	3,326	24,257
Provisions	29	163,538	60,497
Tax payables		10,794	7,656
Deferred tax liabilities	15	11,092	1,263
Other liabilities	30	572,840	328,277
Total liabilities		<u>16,088,480</u>	<u>13,450,322</u>
Share and other capital		3,021,750	3,021,750
Reserves		1,196,726	934,566
Revaluation reserves		435,937	434,342
Retained earnings		9,553	262,160
Total equity	31	<u>4,663,966</u>	<u>4,652,818</u>
Total liabilities and equity		<u>20,752,446</u>	<u>18,103,140</u>
OFF-BALANCE-SHEET ITEMS	31	<u>64,285,404</u>	<u>43,822,757</u>
Managed funds		6,304,552	5,507,708
Commitments		10,398,542	7,709,516
Other off-balance sheet items		47,582,310	30,605,533

The accompanying notes form an integral part
of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2012
(Thousands of RSD)

	Share Capital	Other Capital	Reserves	Revaluation Reserves	Retained Earnings	Total Capital
Balance at January 1, 2011	1,617,060	460	933,112	433,055	1,450	2,985,137
Increase in share capital	1,404,230	-	3	-	-	1,404,233
Available-for-sale securities valuation effects	-	-	-	1,287	-	1,287
Profit for the year	-	-	-	-	262,160	262,160
Transfer to reserves	-	-	1,450	-	(1,450)	-
Other	-	-	1	-	-	1
Balance at December 31, 2011	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	3,021,290	460	1,196,726	435,937	9,553	4,663,966

The accompanying notes form an integral part
of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2012
(Thousands of RSD)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from operating activities	<u>2,513,541</u>	<u>2,128,944</u>
Interest receipts	2,095,989	1,841,198
Fee and commission receipts	336,767	263,747
Receipts from other operating income	79,126	23,092
Receipts from dividends and profit distribution	1,659	907
Cash outflows from operating activities	<u>(2,282,497)</u>	<u>(1,463,661)</u>
Interest payments	(747,065)	(611,164)
Fee and commission payments	(31,962)	(23,453)
Payments to, and on behalf of, employees	(501,718)	(436,029)
Taxes, contributions and other duties paid	(128,674)	(102,239)
Payments of other operating expenses	(873,078)	(290,776)
Net cash provided by operating activities prior to increases or decreases in investments and deposits	231,044	665,283
Decrease in investments made and increase in deposits received	<u>587,085</u>	<u>1,618,412</u>
Increase in bank and customer deposits	587,085	1,618,412
Increase in investments made and decrease in deposits received	<u>(4,323,060)</u>	<u>(1,991,413)</u>
Increase in loans and advances to banks and customers	(2,263,120)	(1,327,726)
Increase in securities at fair value through profit and loss, trading investments and short-term securities held to maturity	(2,059,940)	(663,687)
Net cash (used in)/generated by operating activities	(3,504,931)	292,282
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	-	8,290
Inflows from the sale of equity investments (interests)	-	8,290
Cash outflows from investing activities	<u>(58,858)</u>	<u>(28,840)</u>
Outflows for the purchase of equity investments (interests)	-	(500)
Outflows for the purchase of intangible assets and fixed assets	(58,858)	(28,340)
Net cash used in investing activities	(58,858)	(20,550)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	<u>1,960,653</u>	-
Inflows from borrowings	1,959,299	-
Inflows from the sale of securities	1,354	-
Cash outflows from financing activities	<u>(247,865)</u>	-
Repayment of borrowings	(247,865)	-
Net cash generated by financing activities	<u>1,712,788</u>	-
Total net inflows	5,061,279	3,755,646
Total net outflows	<u>(6,912,280)</u>	<u>(3,483,914)</u>
Net cash (decrease)/increase	(1,851,001)	271,732
Cash and cash equivalents, beginning of year (Note 16)	3,336,358	2,983,747
Foreign exchange gains, net	196,999	80,879
Cash and cash equivalents, end of year (Note 16)	<u>1,682,356</u>	<u>3,336,358</u>

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***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, 2011 totaled 99.04%.

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, 18 branches and 15 sub-branches. At December 31, 2012, the Bank had 427 employees (December 31, 2011: 385 employees).

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

The Bank's Board of Directors adopted these financial statements on February 27, 2013.

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

Pursuant to the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia no. 46 of June 2, 2006, no. 111 as of December 29, 2009 and no. 99 from 2011), 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 with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards 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 International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("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 ("Ministry") and published in the Official Gazette of the Republic of Serbia number 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 Institutions" (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 amounts as required under the aforementioned standard. 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***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)**

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 Bank's management estimates the effect of the aforementioned standards, interpretations and revisions of the existing standards and does anticipate any materially significant effect to arise thereof on the Bank's financial statements in the period of first time adoption.

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, 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);
- "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);

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***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” – 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” 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).

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” (effective for annual periods beginning on or after January 1, 2015);
- 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);
- 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);
- 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);

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***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)**

- 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);
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after January 1, 2013);
- 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 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 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 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Annual improvements 2009-2011 cycle issued in May 2012 (effective 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).
- 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).

2.4. Comparative Information

The comparative data comprise the Bank's audited financial statements for the year 2011.

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 signed 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.1. Interest Income and Expenses (Continued)**

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 27). 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 31) until full collection of such receivables.

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 right 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 reporting currency.

Transactions denominated in foreign currencies are translated into dinars at official exchange rates as determined in the interbank currency 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 currency market effective at that date (Note 37).

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 8).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.4. Foreign Exchange Translation (Continued)**

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 (Note 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.

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 other party.

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:

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***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**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***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)**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***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)*

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 10).

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 10).

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. Financial Instruments (Continued)****3.5.4. Securities Available-for-Sale (Continued)**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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, 2012 and as of December 31, 2011, the Bank had no derivatives and made no use of hedging accounting.

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. 94/201194/2011, 57/2012 and 123/2012).

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.10. Intangible Assets (Continued)**

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

Software licenses	3 years
Other intangible assets	5 years

Amortization of intangible assets with finite useful lives is charged to the income statement (Note 12). There were no changes to amortization rates over the period under review.

Expenditures arising from the development 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.

Equipment is stated at the cost value less 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
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. In 2012, the Bank determined that there were no changes in the remaining useful life of the existing property and equipment.

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).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***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 at the lower of their carrying value and fair value less costs to sell. 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. 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 13).

3.14. 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, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.15. 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.

3.16. 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, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.17. Equity**

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

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.

3.18. 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.

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

Current income tax is payable at the legally prescribed rate of 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 income tax rate of 15% is to be applied after January 1, 2013.

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, 2012, deferred tax assets and liabilities were provided at the rate of 15% (December 31, 2011: 10%).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.19. Taxes and Contributions (Continued)****(b) Indirect Taxes and Contributions**

Indirect taxes and contributions include property taxes, value added tax, taxes and contributions to salaries charged to 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 13).

3.20. 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 issued in the reporting period.

3.21. 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 32a). The Bank is not exposed to any risk based on the said assets.

3.22. Segment Reporting

A business 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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***4. SUMMARY OF KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)****a) Impairment of Financial Assets (Continued)**

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.

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 1,583 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

*All amounts expressed in thousands of RSD, unless otherwise stated.***4. SUMMARY OF KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)****e) Provisions for Litigations (Continued)**

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.

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 924 thousand lower and if a discount rate had been 1% lower than the one assessed by management, provisions for retirement benefits would have been RSD 1,046 thousand higher as compared to the aforementioned provisions stated in the Bank's business books as of December 31, 2012.

5. INTEREST INCOME AND EXPENSES

	Year Ended December 31,	
	2012	2011
Interest income:		
- National Bank of Serbia	32,880	21,474
- banks	33,016	29,024
- enterprises	2,063,813	1,599,004
- entrepreneurs	2,633	2,685
- public sector	5,544	8,353
- retail customers	199,281	201,572
- foreign entities	7,944	5,402
- bills of exchange	181,702	115,303
	<u>2,526,813</u>	<u>1,982,817</u>
Interest expense:		
- banks	256,349	217,626
- public companies	61,758	128,142
- other enterprises	124,785	111,858
- entrepreneurs	147	101
- public sector	27,406	16,771
- retail customers	144,619	83,254
- foreign entities	1,723	360
- other customers	109,347	75,279
	<u>726,134</u>	<u>633,391</u>
Net interest income	<u>1,800,679</u>	<u>1,349,426</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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,	
	2012	2011
Interest income:		
Cash and short-term assets	12,517	20,040
Deposits held with the National Bank of Serbia	9,150	7,052
Advances to banks	24,874	23,406
Advances to customers	2,298,569	1,816,664
Securities held-to-maturity	181,703	115,655
	<u>2,526,813</u>	<u>1,982,817</u>
Interest expenses:		
Deposits owed to banks	240,679	202,052
Deposits owed to customers	485,455	431,339
	<u>726,134</u>	<u>633,391</u>
Net interest income	<u>1,800,679</u>	<u>1,349,426</u>

6. FEE AND COMMISSION INCOME AND EXPENSES

	Year Ended December 31,	
	2012	2011
Fee and commission income:		
Fee and commission income from domestic payment transfers	77,528	61,768
Fee and commission income from foreign payment transfers	7,087	7,300
Fee and commission income from current account banking services	14,125	16,396
Fee and commission income from operations with retail customers	66,495	54,648
Fee and commission income from payment card operations	34,462	31,221
Fee and commission income from issued guarantees and other sureties issued	145,087	95,299
Managed funds	1,058	904
Other fee and commission income	17,299	1,471
	<u>363,141</u>	<u>269,007</u>
Fee and commission expenses:		
Fee and commission expenses arising from domestic payment transfers	25,744	16,835
Fee and commission expenses arising from international payment transfers	2,697	2,432
Foreign exchange purchase and sale operations	2,839	3,341
Fees and commissions on payment cards	381	300
Fees and commissions on broker-dealer operations	35	22
Other fee and commission expenses	266	513
	<u>31,962</u>	<u>23,443</u>
Net fee and commission income	<u>331,179</u>	<u>245,564</u>

7. NET LOSS ON THE SALE OF SECURITIES AVAILABLE-FOR-SALE

During 2012, the Bank sold shares of the bank "Poštanska štedionica" a.d. Beograd. The total loss incurred on the securities sold amounted to RSD 241 thousand.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

8. NET FOREIGN EXCHANGE (LOSSES)/GAINS

	Year Ended December 31, 2012	2011
Foreign exchange gains	4,652,272	4,419,864
Foreign exchange losses	(4,808,845)	(4,415,102)
Net foreign exchange (losses)/gains	<u>(156,573)</u>	<u>4,762</u>

9. OTHER OPERATING INCOME

	Year Ended December 31, 2012	2011
Refund of expenses	3,856	-
Receipts from arbitration	10,618	7,104
Write-off of liabilities	51,883	-
Reversal of unused provisions for compensated absences		
- annual vacations	10,729	14,541
Other income	2,039	1,446
	<u>79,125</u>	<u>23,091</u>

Write-off of liabilities in the amount of RSD 51,883 thousand refers to the reversal of liabilities for accrued rent for the business premises in Belgrade, at no. 25, Savska Street. The reversal of liabilities was based on the obsolescence thereof, in accordance with the provisions of the Law on Contracts and Torts for liabilities over three years old.

10. IMPAIRMENT LOSSES AND PROVISIONS, NET

Impairment losses and provisions are presented in the following table:

	Year Ended December 31, 2012	2011
Impairment losses and provisions		
Impairment of assets included in the balance sheet:		
- interest, fee, commission and trade receivables (Note 18)	(255,556)	(72,997)
- loans and advances to customers (Note 19e)	(1,326,589)	(724,090)
- securities (Note 20)	(51,764)	(16,871)
- other investments (Note 21)	(329,122)	(90,501)
- other assets (Note 23)	(1,463)	(61,746)
	<u>(1,964,494)</u>	<u>(966,205)</u>
Provisions against off-balance sheet items (Note 28)	(228,179)	(72,070)
Provisions for retirement benefits (Note 28)	(4,104)	(3,183)
Cost of unused annual vacation leaves	(14,608)	(15,874)
	<u>(246,891)</u>	<u>(91,127)</u>
	<u>(2,211,385)</u>	<u>(1,057,332)</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

10. IMPAIRMENT LOSSES AND PROVISIONS, NET (Continued)

Reversal of impairment losses and provisions are presented in the following table:

	Year Ended December 31, 2012	2011
Reversal of impairment losses and provisions		
Reversal of impairment of assets included in the balance sheet:		
- interest, fee, commission and trade receivables (Note 18)	80,632	12,754
- loans and advances to customers (Note 19e)	1,071,206	388,659
- securities (Note 20)	41,690	8,348
- other investments (Note 21)	110,060	27,846
- other assets (Note 23)	14,472	61,203
	<u>1,318,060</u>	<u>498,810</u>
Reversal of provisions for off-balance sheet items (Note 28)	130,003	49,830
	<u>1,448,063</u>	<u>548,640</u>
Net impairment losses and provisions	<u>(763,322)</u>	<u>(508,692)</u>

11. STAFF COSTS

	Year Ended December 31, 2012	2011
Net salaries and benefits	352,617	319,469
Taxes and contributions to salaries charged to employee	141,669	127,929
Other staff costs	9,595	8,495
	<u>503,881</u>	<u>455,893</u>

12. DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2012	2011
Depreciation and amortization charge:		
- property and equipment (Note 22)	83,357	51,522
- intangible assets (Note 22)	7,482	9,760
	<u>90,839</u>	<u>61,282</u>

13. OPERATING AND OTHER EXPENSES

	Year Ended December 31, 2012	2011
Payroll contributions charged to employer	90,932	82,354
Non-material services	127,040	95,407
Rental of business premises	41,216	51,721
Maintenance of property and equipment	71,307	62,859
Telecommunications and postage	31,415	32,184
City development land fee	25,653	11,566
Marketing and advertising	17,647	5,512
Insurance premiums	22,279	13,735
Donations and sponsorships	30,909	13,155
Write-off of uncollectable receivables	381,903	946
Cost of materials	43,724	34,788
Taxes payable	16,226	12,041
Leasehold improvements	55,304	1,624
Other	29,060	18,778
	<u>984,615</u>	<u>436,670</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

13. OPERATING AND OTHER EXPENSES (Continued)

Based on the inventory count of assets and liabilities performed as of December 31, 2012, the bank's management made a decision on the write-off of uncollectable receivables previously fully provided for in the amount of RSD 381,903 thousand.

On the same grounds, allowances for impairment were reversed and income from reversal of impairment allowance was recognized in the total amount of RSD 381,903 thousand, as follows:

- interest, fee, commission and trade receivables: RSD 29,071 thousand (Note 18);
- loans and advances to customers: RSD 257,491 thousand (Note 19);
- securities: RSD 29,697 thousand (Note 20);
- other investments: RSD 55,152 thousand (Note 21);
- other assets: RSD 10,493 thousand (Note 24).

14. GAINS ON THE VALUATION OF ASSETS AND LIABILITIES, NET

	Year Ended December 31,	
	2012	2011
Gains on the valuation of advances and receivables – currency clause	1,478,535	1,000,882
Gains on the valuation of securities	6,294	6,657
Gains on the valuation of liabilities – currency clause	133,123	111,417
	<u>1,617,952</u>	<u>1,118,956</u>
Losses on the valuation of advances and receivables – currency clause	(1,134,966)	(924,187)
Losses on the valuation of securities	(7,883)	(16,437)
Losses on the valuation of liabilities – currency clause	(169,174)	(114,690)
	<u>(1,312,023)</u>	<u>(1,055,314)</u>
	<u>305,929</u>	<u>63,642</u>

15. INCOME TAXES

a) Income tax components

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

	Year Ended December 31,	
	2012	2011
Current income taxes	-	817
Expense/ (income) from the created deferred tax assets and decrease in deferred tax liabilities	9,829	(29,832)
	<u>9,829</u>	<u>(29,015)</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

15. INCOME TAXES (Continued)

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

	Year Ended December 31, 2012	2011
Profit before taxes	19,100	233,145
Income taxes at the statutory tax rate of 10%	1,910	23,314
Tax effects of permanent differences	(2,857)	2,066
Unrecognized current year tax losses	947	-
Tax credits utilized based on capital expenditures	-	(817)
Unrecognized tax losses utilized	-	(23,745)
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	9,197	(29,833)
Total tax expense/(benefit) stated in the income statement	<u>9,829</u>	<u>(29,015)</u>

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 tax rate expected to be applied in the period of the relevant liability settlement, i.e. as at December 31, 2012, deferred tax liabilities were provided at the rate of 15%, whereas as at December 31, 2011 the rate applied was 10%. The effect of the change in tax rate amounted to RSD 632 thousand.

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

	December 31, 2012	December 31, 2011
Balance at January 1	1,263	31,096
Effects of temporary differences charged/(credited) to the income statement	9,829	(29,833)
Balance at December 31	<u>11,092</u>	<u>1,263</u>

At December 31, 2012, the Bank did not recognize deferred tax assets in the amount of RSD 23,630 thousand (December 31, 2011: RSD 17,438 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

16. CASH AND CASH EQUIVALENTS

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
In dinars:		
Gyro account	1,037,410	544,949
Cash on hand	239,838	111,370
	<u>1,277,248</u>	<u>656,319</u>
In foreign currencies:		
Foreign currency accounts with foreign banks	192,820	2,595,734
Cash on hand	212,288	84,305
	<u>405,108</u>	<u>2,680,039</u>
Balance as at December 31	<u><u>1,682,356</u></u>	<u><u>3,336,358</u></u>

The Bank's required reserve represents the minimum dinar deposits set aside in accordance with the National Bank of Serbia Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS nos. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012 and 107/2012). Pursuant to the aforesaid Decision, the required reserve is to be calculated at the rate of 5% on the portion of the dinar base comprised of liabilities maturing within 2 years, i.e. 730 days. The dinar base for the calculation of required reserve is the amount of average daily balance of dinar liabilities during the preceding calendar month, except dinar liabilities indexed to a currency clause as follows:

- non-indexed liabilities arising from dinar deposits, loans, securities and other dinar liabilities to domestic legal entities and retail bank clients;
- non-indexed liabilities arising from dinar deposits, loans and other dinar liabilities to foreign creditors.

The required dinar reserve for December 2012 amounted to RSD 1,035,752 thousand, where the calculated dinar portion of reserve amounted to RSD 264,765 thousand and the dinar equivalent of the reserve portion calculated in euros and deposited in dinars amounted to RSD 770,987 thousand. The Bank is under obligation to calculate the average daily balance of allocated dinar required reserve on its gyro account. As at December 31, 2012, the Bank was in full compliance with the regulations of the National Bank of Serbia in regard to the calculation and maintenance of required dinar reserve.

As at December 31, 2012, the Bank's required dinar reserve was in full conformity with the aforesaid Decision of the National Bank of Serbia.

The average interest rate applied to the amount of required reserve in dinars set aside totaled 2.5% annually in 2012.

17. REVOCABLE DEPOSITS AND LOANS

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
In dinars:		
Liquidity surpluses deposited with the National Bank of Serbia	554,500	1,100,000
Receivables from the National Bank of Serbia arising from repurchase transactions	-	110,119
	<u>554,500</u>	<u>1,210,119</u>
In foreign currency:		
Required reserve with the National Bank of Serbia	3,992,818	1,809,613
Balance as at December 31	<u><u>4,547,318</u></u>	<u><u>3,019,732</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

17. REVOCABLE DEPOSITS AND LOANS (Continued)

Required reserves in foreign currencies represent the minimum deposits set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS nos.3/2011, 31/2012, 57/2012, 78/2012, 87/2012 and 107/2012), which prescribes that banks calculate the obligatory foreign currency reserve at the following rates:

- 29% on the portion of the foreign currency reserve comprised of liabilities maturing within 2 years, i.e. up to 730 days, and exceptionally at the rate of 50% on the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause maturing within 2 years, i.e. up to 730 days;
- 22% on the portion of the foreign currency reserve comprised of liabilities with maturities of over 2 years, i.e. over 730 days, and exceptionally at the rate of 50% on the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause with maturities of over 2 years, i.e. over 730 days.

The foreign currency base for the calculation of required reserve is the amount of average daily balance of foreign currency liabilities during the preceding calendar month and the amount of average daily balance of dinar liabilities from the preceding calendar month indexed to a currency clause as follows:

- liabilities arising from deposits, loans, securities and other foreign currency liabilities to foreign creditors;
- liabilities arising from deposits, loans, securities and other foreign currency liabilities to domestic legal entities and other liabilities;
- foreign currency savings deposits with other banks;
- indexed liabilities arising from deposits, loans, securities and other dinar liabilities as well as indexed dinar deposits received through transactions the Bank performs on behalf of and for the account of third parties if they exceed the amounts of placements the Bank invested from these deposits.

The Bank deposits the required reserve calculated to the foreign currency base onto the foreign currency account with the National Bank of Serbia. At December 31, 2012, the Bank's required foreign currency reserve was in compliance with the aforementioned Decision of the National Bank of Serbia. The average daily balance of allocated required foreign currency reserve does not accrue interest.

An interest rate applied to liquidity surpluses which the Bank deposited with the National Bank of Serbia totals 8.75% annually.

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

	December 31, 2012	December 31, 2011
In dinars:		
<i>Fee and commission receivables:</i>		
- Other banks	112	267
- National Bank of Serbia	1,146	972
- Enterprises	770,342	308,900
- Public sector	380	1,568
- Retail customers	7,670	12,239
- Other customers	27,802	29,186
	807,452	353,132
In foreign currency:		
<i>Fee and commission receivables:</i>		
- Enterprises	3,415	548
Gross receivables	810,867	353,680
<i>Less: Allowance for impairment</i>	(317,815)	(138,810)
Balance as at December 31	493,052	214,870

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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, 2012 include interest of RSD 218,990 thousand arising from loans index linked to currency clause (December 31, 2011: RSD 93,545 thousand).

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Balance at January 1	138,810	78,181
Charge for the year (Note 10)	255,556	72,997
Reversal of impairment allowance (Note 10)	(80,632)	(12,754)
Foreign exchange gains	<u>4,081</u>	<u>386</u>
Balance at December 31	<u><u>317,815</u></u>	<u><u>138,810</u></u>

19. LOANS AND DEPOSITS TO CUSTOMERS**a) Breakdown of loans and deposits per customer type**

	<u>2012</u>			<u>2011</u>		
	<u>Short-Term</u>	<u>Long-Term</u>	<u>Total</u>	<u>Short-Term</u>	<u>Long-Term</u>	<u>Total</u>
In dinars						
<i>Loans and deposits to customers:</i>						
- Enterprises	7,694,711	1,351,685	9,046,396	7,312,715	210,000	7,522,715
- Public sector	25,021	-	25,021	40,500	-	40,500
- Retail customers	324,858	599,144	924,002	457,699	565,381	1,023,080
- Other customers	<u>676,905</u>	<u>307,039</u>	<u>983,944</u>	<u>652,580</u>	<u>18,304</u>	<u>670,884</u>
	<u>8,721,495</u>	<u>2,257,868</u>	<u>10,979,363</u>	<u>8,463,494</u>	<u>793,685</u>	<u>9,257,179</u>
In foreign currency						
<i>Loans and deposits to customers:</i>						
- National Bank of Serbia	434,387	-	434,387	407,620	-	407,620
- Enterprises	27,292	7,086	34,378	25,114	-	25,114
- Other customers	<u>6,823</u>	<u>-</u>	<u>6,823</u>	<u>6,278</u>	<u>-</u>	<u>6,278</u>
	<u>468,502</u>	<u>7,086</u>	<u>475,588</u>	<u>439,012</u>	<u>-</u>	<u>439,012</u>
Gross loans and deposits to customers	<u>9,189,997</u>	<u>2,264,954</u>	<u>11,454,951</u>	<u>8,902,506</u>	<u>793,685</u>	<u>9,696,191</u>
Less: Allowance for impairment (Note 19e)			<u>(1,681,945)</u>			<u>(1,393,754)</u>
Balance at December 31			<u><u>9,773,006</u></u>			<u><u>8,302,437</u></u>

Short-term and long-term dinar denominated loans as of December 31, 2012 include loans indexed to a currency clause totaling RSD 5,633,789 thousand (December 31, 2011: RSD 2,862,464 thousand), whereof the amount of RSD 179,618 thousand relates to loans extended to retail customers, while the amount of RSD 5,454,171 thousand relates to loans to enterprises.

Short-term loans disbursed in RSD were approved to enterprises for financing business activities in the field of trade, processing industry, construction industry, services and tourism, energy industry, agriculture and food products, as well as for other purposes at interest rates ranging from 0.87% to 2.2% monthly.

The Bank's most significant receivables arising from loans are due from the following customers: Koncern Farmakom MB d.o.o., Šabac; Fabrika akumulatora Sombor a.d.; Res trade d.o.o., Novi Sad; Simpo a.d., Vranje, Tigar a.d., Piroć and Inter-kop d.o.o., Šabac comprising 28.67% of gross advances to customers at December 31, 2012.

Loans and advances to retail customers including consumer and cash loans (both short-term and long-term) were approved at interest rates ranging from 1.58% to 1.94% monthly.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

*All amounts expressed in thousands of RSD, unless otherwise stated.***19. LOANS AND DEPOSITS TO CUSTOMERS (Continued)****a) Breakdown of loans and deposits per customer type (Continued)**

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 434,387 thousand (December 31, 2011: RSD 407,620 thousand) refer to the funds of USD 5,041 thousand which the National Bank of Serbia retained as collateral for the payment made in 1998 to JP Jugimport SDPR for the technical support provided to the Kuwait business associate.

b) Structure of Collaterals for Loans Approved

Total gross loans classified as of December 31, 2012 amounted to RSD 11,020,564 thousand (deposits held with NBS are not subject to classification), whereof loans in the amount of RSD 10,098,285 thousand were individually assessed for impairment, whereas loans of RSD 922,279 thousand were collectively impaired (December 31, 2011: total – RSD 9,288,571 thousand, individually impaired – RSD 8,277,629 thousand, collectively impaired – RSD 1,010,942 thousand). The fair value of collaterals securitizing collection of the Bank's receivables related to the loans subject to classification totaled RSD 4,070,118 thousand (December 31, 2011: RSD 3,164,406 thousand). The aforesaid collaterals comprise deposits placed, guarantees and mortgages assigned over property.

The structure of collaterals for loans subject to classification as of December 31, 2012 is presented in the table below:

	December 31, 2012		
	Short-Term Loans	Long-Term Loans	Total
Cash deposits	3	86	89
Mortgages	2,595,128	1,474,901	4,070,029
	<u>2,595,131</u>	<u>1,474,987</u>	<u>4,070,118</u>
Bills of exchange, sureties and similar instruments or unsecuritized loans	6,160,479	789,967	6,950,446
	<u>8,755,610</u>	<u>2,264,954</u>	<u>11,020,564</u>

The structure of collaterals for loans subject to classification as of December 31, 2011 is presented in the table below:

	December 31, 2011		
	Short-Term Loans	Long-Term Loans	Total
Cash deposits	31,401	647	32,048
Mortgages	3,132,358	-	3,132,358
	<u>3,163,759</u>	<u>647</u>	<u>3,164,406</u>
Bills of exchange, sureties and similar instruments or unsecuritized loans	5,331,127	793,038	6,124,165
	<u>8,494,886</u>	<u>793,685</u>	<u>9,288,571</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

19. LOANS AND DEPOSITS TO CUSTOMERS (Continued)

c) Maturities of Loans and Deposits

Maturities of the loans and advances to customers recorded in the gross amounts per maturities outstanding as of December 31, 2012 and 2011 are presented in the following table:

	December 31, 2012	December 31, 2011
Matured receivables	5,497,997	1,807,870
Within 30 days	966,182	503,133
From 1 to 3 months	753,656	1,576,205
From 3 to 12 months	2,036,841	4,948,639
Over 1 year	2,200,275	860,344
	<u>11,454,951</u>	<u>9,696,191</u>

As matured receivables here are classified the total amounts of receivables per loan accounts and sub-accounts where at least a portion of the principal or interest matured for repayment as of December 31, 2012.

The aging structure of the matured receivables is presented in the following table:

	December 31, 2012	December 31, 2011
Up to 1 month	624,175	254,629
From 1 to 6 months	2,465,378	176,208
From 6 to 12 months	1,162,872	423,249
Over 1 year	1,245,572	953,784
	<u>5,497,997</u>	<u>1,807,870</u>

d) Concentration of Loans and Deposits

The concentration of loans and deposits to customers presented in the gross amount at December 31, 2012 and 2011 is significant in the following industries:

	December 31, 2012	December 31, 2011
Trade	2,224,282	1,852,185
Processing industry	4,527,554	3,697,396
Civil engineering and construction industry	1,187,171	982,065
Services and tourism	248,184	250,621
Agriculture and food processing industry	769,352	521,365
Other	1,140,019	961,859
Retail customers	924,002	1,023,080
Domestic and foreign banks	434,387	407,620
	<u>11,454,951</u>	<u>9,696,191</u>

e) Movements on the allowance for impairment of loans and deposits

The movements on the allowance for impairment accounts of loans and deposits to customers are provided in the following table:

	December 31, 2012	December 31, 2011
Balance at January 1	1,393,754	1,055,615
Charge for the year (Note 10)	1,326,589	724,090
Reversal of impairment allowance (Note 10)	(1,071,206)	(388,659)
Foreign exchange gains	32,808	2,708
Balance at December 31	<u>1,681,945</u>	<u>1,393,754</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

20. SECURITIES (EXCLUDING TREASURY SHARES)

	December 31, 2012	December 31, 2011
In dinars		
Trading securities	16,470	17,763
Securities available for sale	4,180	5,534
Securities held to maturity:		
- discounted bills of exchange	772,702	783,638
- cheques from private individuals	7,363	7,363
	<u>800,715</u>	<u>814,298</u>
In foreign currency		
Securities available for sale	15,603	13,813
	<u>15,603</u>	<u>13,813</u>
Total securities	816,318	828,111
<i>Less: Allowance for impairment</i>		
- Securities available for sale	(4,180)	(4,180)
- Securities held to maturity, bills of exchange	(60,391)	(50,316)
- Securities held to maturity, cheques	(7,361)	(7,363)
	<u>(71,933)</u>	<u>(61,859)</u>
Balance at December 31	<u>744,385</u>	<u>766,252</u>

Securities available for sale in RSD encompass the shares of Kompanija Fidelinka, Subotica of RSD 4,180 thousand. Shares available for sale denominated in foreign currency include the shares issued by Euroaxis bank Moscow of RSD 15,603 thousand. During 2012, the Bank sold the shares of Poštanska štedionica in the amount of RSD 1,354 thousand (Note 7).

The effect of valuation of the aforementioned securities of RSD 1,595 thousand was recorded within revaluation reserves.

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.

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

	December 31, 2012	December 31, 2011
Balance at January 1	61,859	53,336
Charge for the year (Note 10)	51,764	16,871
Reversal of impairment allowance (Note 10)	(41,690)	(8,348)
Balance at December 31	<u>71,933</u>	<u>61,859</u>

21. OTHER INVESTMENTS

	December 31, 2012	December 31, 2011
Other investments:		
- in dinars	1,095,418	288,542
- in foreign currency	469,646	228,141
Other investments, gross	1,565,064	516,683
<i>Less: Allowance for impairment</i>	(430,163)	(205,000)
Balance at December 31	<u>1,134,901</u>	<u>311,683</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

21. OTHER INVESTMENTS (Continued)

Other RSD denominated placements at December 31, 2012 totaled RSD 1,095,418 thousand and mostly refer to guarantee payments effected in the amount of RSD 494,739 thousand and factoring transaction investments in the amount of RSD 579,117 thousand.

Other foreign currency investments totaling RSD 469,646 thousand mostly relate to nostro covered guarantees issued to the Bank by foreign banks against which the Bank in turn issued guarantees to domestic customers in the amount of RSD 372,281 thousand, foreign currency sureties of RSD 9,703 thousand, as well as placements with banks in bankruptcy of RSD 64,918 thousand, which were fully provided for.

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

	December 31, 2012	December 31, 2011
Balance at January 1	205,000	142,802
Charge for the year (Note 10)	329,122	90,501
Reversal of impairment allowance (Note 10)	(110,060)	(27,846)
Foreign exchange gains and losses	6,101	(457)
Balance at December 31	430,163	205,000

22. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Equipment	Equipment Acquired under Lease	Construction in Progress	Total Property and Equipment	Intangible Assets
Cost or revalued amount						
Balance, January 1, 2011	698,562	384,694	-	-	1,083,256	127,114
Additions	1,404,233	25,135	-	219	1,429,587	2,404
Transfers to assets held for sale	(671,691)	-	-	-	(671,691)	-
Sales and disposals	-	(54,126)	-	-	(54,126)	-
Balance, December 31, 2011	1,431,104	355,703	-	219	1,787,026	129,518
Additions	-	55,138	223,838	(219)	278,976	951
Transfers	-	219	-	-	-	-
Sales and disposals	-	(8,647)	-	-	(8,647)	-
Balance, December 31, 2012	1,431,104	402,413	223,838	-	2,057,355	130,469
Accumulated depreciation and amortization						
Balance, January 1, 2011	84,206	265,846	-	-	350,052	109,214
Charge for the year (Note 12)	13,483	38,039	-	-	51,522	9,760
Transfers to assets held for sale	(90,034)	-	-	-	(90,034)	-
Sales and disposals	-	(54,020)	-	-	(54,020)	-
Balance, December 31, 2011	7,655	249,865	-	-	257,520	118,974
Charge for the year (Note 12)	18,602	42,371	22,384	-	83,357	7,482
Sales and disposals	-	(8,631)	-	-	(8,631)	-
Balance, December 31, 2012	26,257	283,605	22,384	-	332,246	126,456
Net Book Value:						
- December 31, 2012	1,404,847	118,808	201,454	-	1,725,109	4,013
- December 31, 2011	1,423,449	105,838	-	219	1,529,506	10,544

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

22. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (Continued)

At December 31, 2012, 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, 2012 is comprised of the building at number 25 Savska Street and the building at number 63 Narodnih heroja Street. The Bank holds complete ownership documentation thereof.

The net book value of equipment at December 31, 2012 mostly relates to computer and telecommunication equipment, office supplies and motor vehicles.

The net book value of intangible assets as of December 31, 2012 principally comprises investments in software and software licenses used by the Bank.

Equipment acquired under lease in the amount of RSD 223,838 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, 2012, there were no indications of impairment of property, equipment and intangible assets.

23. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale totaling RSD 581,658 thousand as of December 31, 2012 entirely relate to the commercial building in Belgrade, which was classified as an asset held for sale in accordance with the management's intention and plans and pursuant to the relevant decision enacted by the Bank's Assembly, where the sale of the aforesaid building was approved.

Revaluation reserves formed based on the positive effects resulting from the revaluation of the said building, which revaluation was performed by an independent appraiser in 2008, amounted to RSD 416,258 thousand as of December 31, 2012 (Note 31).

24. OTHER ASSETS

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
In dinars		
<i>Other receivables:</i>		
- Advances paid	18,999	5,542
- Receivables from employees	812	787
- Inventories	8,581	1,402
- Receivables based on prepaid income taxes	9,103	9,103
- Other receivables	79,982	89,913
<i>Prepayments:</i>		
- Deferred interest receivables	12,194	4,366
- Other deferrals	7,514	3,238
	<u>137,185</u>	<u>114,351</u>
In foreign currency		
<i>Other receivables:</i>		
- Other receivables	1,918	1,244
<i>Prepayments:</i>		
- Deferred interest receivables	32	-
	<u>1,950</u>	<u>1,244</u>
Gross other assets	139,135	115,595
<i>Less: Allowance for impairment</i>		
- Advances paid	(220)	(8)
- Receivables from employees	(709)	(709)
- Other receivables	(72,058)	(85,278)
	<u>(72,987)</u>	<u>(85,995)</u>
Balance at December 31	<u>66,148</u>	<u>29,600</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

24. OTHER ASSETS (Continued)

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

	December 31, 2012	December 31, 2011
Balance at January 1	85,995	85,452
Charge for the year (Note 10)	1,463	61,746
Reversal of impairment allowance (Note 10)	(14,472)	(61,203)
Other movements	1	-
Balance at December 31	72,987	85,995

25. TRANSACTION DEPOSITS

	2012			2011		
	In Dinars	In Foreign Currency	Total	In Dinars	In Foreign Currency	Total
Enterprises	473,850	467,356	941,206	554,048	889,979	1,444,027
Public sector	3,180	2,075	5,255	4,770	1,936	6,706
Retail customers	365,078	284,793	649,871	376,895	257,790	634,685
Foreign entities	1,636	3,709	5,345	1,291	2,128	3,419
Other customers	82,065	3,943	86,008	164,998	4,028	169,026
Balance at December 31	925,809	761,876	1,687,685	1,102,002	1,155,861	2,257,863

RSD denominated transaction deposits of legal entities accrued interest at the rates ranging from 0% to 11.25% 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, 2012 include those placed by JP Jugointport SDPR from Belgrade, Kompanija Prva iskra - namenska proizvodnja a.d. Barič, RTB Bor - grupa RTB Bor d.o.o. in restructuring, Centroprodukt d.o.o. Beograd, KMG Trudbenik in bankruptcy, Beograd, accounting for 14.25% of total transaction deposits at the balance sheet date.

26. OTHER DEPOSITS

	2012			2011		
	Short-Term	Long-Term	Total	Short-Term	Long-Term	Total
In dinars:						
Savings deposits:						
- Retail customers	162,645	-	162,645	171,740	-	171,740
- Foreign entities	2,756	-	2,756	2,417	-	2,417
Special-purpose deposits	20,282	15,448	35,730	37,062	49,671	86,733
Other deposits	3,704,265	-	3,704,265	3,953,825	-	3,953,825
	<u>3,889,948</u>	<u>15,448</u>	<u>3,905,396</u>	<u>4,165,044</u>	<u>49,671</u>	<u>4,214,715</u>
In foreign currencies:						
Savings deposits:						
- Retail customers	2,176,543	636,152	2,812,695	1,469,302	630,556	2,099,858
- Foreign entities	31,023	27,294	58,317	1,296	4,187	5,483
Special-purpose deposits	2,785,414	423,551	3,208,965	2,431,976	215,211	2,647,187
Other deposits	1,817,693	113,718	1,931,411	1,770,767	924	1,771,691
	<u>6,810,673</u>	<u>1,200,715</u>	<u>8,011,388</u>	<u>5,673,341</u>	<u>850,878</u>	<u>6,524,219</u>
Balance at December 31	10,700,621	1,216,163	11,916,784	9,838,385	900,549	10,738,934

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

The Bank pays interest on time deposits in dinars and in foreign currency at the rates ranging from 0% to 13% annually for dinar 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 4% annually. Short-term dinar-denominated deposits placed by citizens accrued interest at the rates ranging between 7% and 13% annually, depending on the period and amount of funds deposited.

The interest rate applied to short-term deposits of retail customers in foreign currency ranged between 1% and 5.5% 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 from 4.1% to 5.75% annually for EUR, and from 2.5% to 3.5% annually for other currencies depending on the period and amount of funds deposited.

The most significant depositors of the Bank at December 31, 2012 include those placed by JP Jugoimport SDPR from Belgrade, Beogradska banka in bakruptcy from Belgrade, KMG Trudbenik in restructuring from Belgrade, RTB Bor - grupa RTB Bor d.o.o. in restructuring, Beobanka in bakruptcy from Belgrade, Astrabanka a.d., Beograd, which accounted for 59% of total amounts owed to customers based on other deposits at the balance sheet date.

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

	December 31, 2012	December 31, 2011
Enterprises	5,515,283	5,458,267
Public sector	136,295	83,804
Retail customers	2,996,591	2,284,321
Banks	1,011,619	2,305,394
Foreign entities	62,627	9,319
Other customers	2,194,369	597,829
Balance at December 31	11,916,784	10,738,934

27. BORROWINGS

	December 31, 2012	December 31, 2011
Other current liabilities:		
- in dinars	8,550	8,100
- in foreign currency	1,713,871	23,475
Balance at December 31	1,722,421	31,575

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. As at December 31, 2012, 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

December 31, 2012

*All amounts expressed in thousands of RSD, unless otherwise stated.***28. INTEREST, FEE AND COMMISSION PAYABLES AND CHANGE IN THE VALUE OF DERIVATIVES**

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
<i>Interest, fee and commission payable:</i>		
In dinars		
- Public sector	-	5,081
- Retail customers	9	42
- Banks	2,391	11,440
- Other customers	<u>581</u>	<u>6,940</u>
	<u>2,981</u>	<u>23,503</u>
In foreign currency		
- Enterprises	-	390
- Retail customers	<u>345</u>	<u>364</u>
	<u>345</u>	<u>754</u>
	<u>3,326</u>	<u>24,257</u>

29. PROVISIONS

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Provisions for losses on off-balance sheet items	148,390	47,085
Provisions for retirement benefits	<u>15,148</u>	<u>13,412</u>
Balance at December 31	<u>163,538</u>	<u>60,497</u>

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.

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, 2012

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

29. PROVISIONS (Continued)

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

	December 31, 2012	December 31, 2011
Provisions for losses on off-balance sheet items		
Balance at January 1	47,085	24,731
Charge for the year (Note 10)	228,179	72,070
Reversal of unused provisions (Note 10)	(130,003)	(49,830)
Other movements (foreign exchange gains)	3,129	114
	<u>148,390</u>	<u>47,085</u>
Provisions for retirement benefits		
Balance at January 1	13,412	14,044
Charge for the year (Note 10)	4,104	3,183
Payment of retirement benefits	(2,368)	(3,815)
	<u>15,148</u>	<u>13,412</u>
Balance at December 31	<u>163,538</u>	<u>60,497</u>

30. OTHER LIABILITIES

	December 31, 2012	December 31, 2011
In dinars		
Accounts payable	83,512	127,405
Net salaries and benefits	30,463	28,133
Taxes, contributions and other duties payable	30,751	11,803
Finance lease liabilities	188,682	-
Accruals:		
- deferred interest payable	31,147	52,230
- deferred loan origination fees	28,712	20,967
- other deferrals	22,582	25,110
Other liabilities	96,455	34,977
	<u>512,304</u>	<u>300,625</u>
In foreign currency		
Accruals:		
- Deferred interest payables	56,788	23,911
Other liabilities	3,748	3,741
	<u>60,536</u>	<u>27,652</u>
Balance at December 31	<u>572,840</u>	<u>328,277</u>

Within other liabilities, the most significant portion of RSD 188,682 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.

NOTES TO THE FINANCIAL STATEMENTS

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*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:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Share capital – common shares	3,021,290	3,021,290
Other capital	460	460
Reserves from profit	1,196,726	934,566
Revaluation reserves	435,937	434,342
Retained earnings	9,553	262,160
Balance at December 31	<u><u>4,663,966</u></u>	<u><u>4,652,818</u></u>

Share Capital

As of December 31, 2012, 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, 2011: 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 in the Belgrade Stock Exchange.

The Bank's majority shareholder is the Republic of Serbia with 99.04% interest in the Bank's share capital, holding 299,229 shares at December 31, 2012.

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.

Revaluation Reserves

At December 31, 2012, revaluation reserves totaling RSD 435,937 thousand (December 31, 2011: RSD 434,342 thousand), were created by recording positive effects of valuation of buildings and remeasurement of available-for-sale securities to their fair market value. For the most part of RSD 416,258 thousand, revaluation reserves refer to the recognized positive effects of the appraisal of the commercial building in Belgrade.

Reserves from Profit

Reserves from profit totaling RSD 1,196,726 thousand include special reserve for estimated losses of RSD 687,902 thousand and general banking risks reserves of RSD 508,355 thousand and other reserves from retained earnings of RSD 469 thousand, formed pursuant to relevant regulations and bylaws of NBS, 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.

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December 31, 2012

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

31. EQUITY (Continued)

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

At December 31, 2012, 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 and large exposures to two groups of related entities. 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, 2012 were as follows:

Performance indicators	Prescribed	Realized
	Minimum	
1. Capital	EUR 10 million	2,463,719
2. Capital adequacy ratio	Minimum 12%	15.12
3. The sum of Bank's investments	Maximum 60%	70.04
4. Total exposure to entities related to the Bank	Maximum 20%	0.17
5. The sum of all large and most significant exposures as compared to own assets	Maximum 400%	269.39
6. Average monthly liquidity ratios:		
– in the first month of reporting period	Minimum 1	2.02
– in the second month of reporting period	Minimum 1	1.91
– in the third month of reporting period	Minimum 1	1.84
7. Foreign exchange risk ratio	Maximum 20%	1.72
8. Exposure to a group of related entities	Maximum 25%	29.59
9. Exposure to a single entity related to the Bank	Maximum 5%	0.02
10. Investments in entities outside the financial sector	Maximum 10%	0.02

At December 31, 2012, the Bank had the following large loans in excess of 10% of capital, extended to a single entity or a group of related parties: Koncern Farmakom d.o.o., Šabac, Informatika from Belgrade, Interkomerc d.o.o. Beograd, Zekstra d.o.o., Beograd, JP Jugoimport-SDPR from Belgrade, IMK from Kruševac, Srboexport d.o.o. Zabrežje, Res Trade from Novi Sad, Simpo from Vranje, Magma Prom from Šabac, Centroproizvod d.o.o., Beograd, Koteks d.o.o., Beograd, Banini d.o.o., Kikinda, UTC Company d.o.o., Beograd, Titel- Agro d.o.o., Titel and Tigar from Pirot.

The ratio of exposure to a single entity, i.e. a group of related entities, was in two instances in excess of the prescribed maximum of 25% of the Bank's own assets, equal to 29.59% and 28.66% for the customers Koncern Farmakom d.o.o., Šabac and Tigar a.d., Pirot, respectively.

32. OFF-BALANCE SHEET ITEMS

	December 31, 2012	December 31, 2011
Managed funds (a)	6,304,552	5,507,708
Guarantees and other irrevocable commitments (b)	10,398,542	7,709,516
Other off-balance sheet items (c)	47,582,310	30,605,533
Balance at December 31	64,285,404	43,822,757

a) Managed Funds

	December 31, 2012	December 31, 2011
Dinar advances from managed funds:		
- housing loans to the members of the Serbian Armed Forces	609,322	616,578
- loans for installment purchase of apartments	5,681,617	4,876,098
- loans for installment purchase of garages	671	882
- other	12,942	14,150
Balance at December 31	6,304,552	5,507,708

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December 31, 2012

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

32. OFF-BALANCE SHEET ITEMS (Continued)

b) Guarantees and Other Irrevocable Commitments

	December 31, 2012	December 31, 2011
In dinars		
Acceptances	130,000	7,379
Payment guarantees	1,807,105	1,247,185
Performance bonds	875,956	981,203
Irrevocable commitments for undrawn loans and advances	645,718	668,034
	<u>3,458,779</u>	<u>2,903,801</u>
In foreign currencies		
Irrevocable commitments for undrawn loans and advances	6,032	-
Payment guarantees	176,077	171,433
Performance bonds	6,757,654	4,634,282
	<u>6,939,763</u>	<u>4,805,715</u>
Balance at December 31	<u>10,398,542</u>	<u>7,709,516</u>

Irrevocable commitments relate to unused loans approved that cannot be cancelled unilaterally as follows: overdrafts against current accounts, revolving loans to enterprises, multi-purpose framework loans and other irrevocable commitments. Irrevocable commitments are usually indexed to fixed dates when they expire 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, 2012, foreign currency denominated performance bonds mainly relate to guarantees on behalf of the Public Company Jugoimport SDPR of RSD 6,654,507 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 28. As of December 31, 2012, reserves for potential losses on guarantees and on other commitments were formed in the amount of RSD 148,390 thousand (December 31, 2011: RSD 47,085 thousand).

c) Other Off-balance Sheet Items

	December 31, 2012	December 31, 2011
Loro letters of credit records	29,365,525	15,317,432
Performance bonds until coming into force	89,085	78,654
Guarantees received from foreign banks and other financial organizations	354,718	335,293
Records of repurchase securities	-	110,000
Mortgages collateralizing loans and advances	15,788,901	12,861,557
Confirmations of the bank guarantees	1,488,200	1,545,361
Suspended interest	5,730	-
Other	490,151	357,236
	<u>47,582,310</u>	<u>30,605,533</u>
Balance at December 31	<u>47,582,310</u>	<u>30,605,533</u>

Within loro letters of credit stated as of December 31, 2012, the most significant amount of RSD 27,907,668 thousand is associated with the goods delivery agreements closed by the Public Company Jugoimport SDPR from Belgrade with foreign associates (December 31, 2011: RSD 15,008,359 thousand).

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

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, 2012	Income/ (Expenses) in 2012	Balance at December 31, 2011	Income/ (Expenses) in 2011
Overdrafts against current accounts, credit cards and cash and consumer loans	2,326	228	3,003	262
Total allowance for impairment of loans and advances	(30)	-	(45)	-
Deposits	18,706	(560)	9,919	(212)
Commitments	1,385	-	1,558	-

(b) 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:

	Receivables	Payables	Financial Guarantees	Interest Income	Interest Expenses
2012	998,521	4,498,181	6,919,952	231,153	40,346
2011	1,211,921	3,279,353	4,383,461	146,034	13,030

(c) Remunerations to the members of the Executive Board and the Board of Directors (in their gross amount) in 2012 and 2011 are presented in the following table:

	December 31, 2012	December 31, 2011
Salaries of the members of the Executive Board	15,461	16,283
Remunerations to the members of the Board of Directors	8,267	8,111
	<u>23,728</u>	<u>24,394</u>

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***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.

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.1. Introduction (Continued)****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.

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.

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December 31, 2012

*All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.1. Introduction (Continued)**

The Bank's gross financial instruments (assets and liabilities) as of December 31, 2012, including off-balance sheet items were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Financial assets		
Cash and cash equivalents	1,682,356	3,336,358
Revocable loans and deposits	4,547,318	3,019,732
Interest, fee, commission and other receivables	810,867	353,680
Loans and deposits to customers	11,454,951	9,696,191
Securities	816,318	828,111
Other investments	1,565,064	516,683
Other assets	101,303	99,803
	<u>20,978,177</u>	<u>17,850,558</u>
Financial liabilities		
Transaction deposits	1,687,685	2,257,863
Other deposits	11,916,784	10,738,934
Borrowings	1,722,421	31,575
Interest, fee and commission payables	3,326	24,257
Other liabilities	444,405	213,714
	<u>15,774,621</u>	<u>13,266,343</u>
Off-balance sheet items		
Payment guarantees	1,983,182	1,364,018
Performance bonds	7,628,834	3,604,775
Acceptances	130,000	7,379
Letters of credit without coverage	4,776	-
Letters of credit with coverage	5,531	31,815
Irrevocable commitments	651,750	668,034
	<u>10,404,073</u>	<u>5,676,021</u>

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.2. Credit Risk (Continued)**

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 geographical 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, 2012 and 2011.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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, 2012 and 2011 is provided in the following table:

	December 31, 2012	December 31, 2011
Credit risk exposure per balance sheet assets:		
Cash and cash equivalents (except for cash on hand)	192,820	2,595,734
Interest, fee and commission receivables	809,406	352,200
Loans and deposits to customers	10,991,741	9,252,292
Securities (excluding treasury shares)	816,818	828,611
Other investments	1,565,064	516,683
Other assets	101,303	94,567
	<u>14,477,152</u>	<u>13,640,087</u>
Credit risk exposure per off-balance sheet items:		
Payment guarantees	1,983,182	1,364,018
Performance bonds	7,628,834	3,604,775
Acceptances	130,000	7,379
Letters of credit without coverage	4,776	-
Letters of credit with coverage	5,532	31,815
Irrevocable commitments	651,749	668,034
	<u>10,404,073</u>	<u>5,676,021</u>
Total credit risk exposure	<u>24,881,225</u>	<u>19,316,108</u>

The above stated amounts do not include balance sheet and off-balance sheet assets that are not classified in accordance with the National Bank of Serbia Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items in the gross amount of RSD 6,501,025 thousand (December 31, 2011: RSD 4,210,471 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 who are legal entities.

At December 31, 2012, the Bank had exposures to eight groups of related entities and to eight single legal entities in excess of 10% of the bank's capital, in the aggregate amount of RSD 6,129,164 thousand, which represents 248.78% of the Bank's own assets (December 31, 2011: RSD 4,942,470 thousand or 151.95% of the Bank's capital).

At December 31, 2012, the maximum credit risk exposure of the Bank towards a single entity or a group of related entities totaled RSD 856,344 thousand (December 31, 2011: RSD 745,902 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 728,986 thousand, net (2011: RSD 635,268 thousand, net) which accounts for 29.59% of the Bank's own assets, not taking collaterals into account.

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December 31, 2012

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) according to geographical areas as of December 31, 2012 and 2011, 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	Cash, 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	15,605	78,407	53	94,099
Rest of the world	-	-	351,928	-	351,928
	<u>10,991,741</u>	<u>816,818</u>	<u>2,668,593</u>	<u>10,404,073</u>	<u>24,881,225</u>
	Loans and Advances to Customers	Securities	Cash, Interest, Fees and Commissions and Other Assets	Guarantees and Other Commitments	Total, 2011
Serbia:					
- Belgrade	3,243,267	622,300	411,444	4,428,584	8,705,595
- Vojvodina	2,364,532	177,802	123,487	393,230	3,059,051
- the rest of Serbia	3,644,301	14,696	259,742	854,159	4,772,898
	<u>9,252,100</u>	<u>814,798</u>	<u>794,673</u>	<u>5,675,973</u>	<u>16,537,544</u>
European Union	-	-	2,125,865	-	2,125,865
Rest of Europe	-	-	626,162	-	626,162
Rest of the world	192	13,813	12,484	48	26,537
	<u>9,252,292</u>	<u>828,611</u>	<u>3,559,184</u>	<u>5,676,021</u>	<u>19,316,108</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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) according to industrial sectors as of December 31, 2012 and 2011, before and after taking into account collaterals and other hedges against credit risk, is presented in the following table:

	Gross Maximum Exposure 2012	Net Maximum Exposure 2012	Gross Maximum Exposure 2011	Net Maximum Exposure 2011
Retail customers	1,232,636	1,142,174	1,343,115	1,119,953
Processing industry	6,722,182	5,907,295	5,475,415	4,846,218
Trade	10,576,102	10,044,714	4,950,191	4,706,505
Mining and energy sector	489,763	479,068	49,566	47,890
Agriculture, hunting, fishing and forestry	865,209	400,137	612,431	178,747
Construction industry	1,954,581	1,362,489	1,499,006	1,364,844
Traffic and communication	918,964	884,527	511,718	500,483
Services, tourism and catering industry	151,334	77,205	133,864	86,462
Other	208,622	199,463	654,326	640,515
Banks and financial sector	1,761,832	1,661,802	4,086,476	3,892,714
	<u>24,881,225</u>	<u>22,158,874</u>	<u>19,316,108</u>	<u>17,384,331</u>

(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) per types of loans and advances based on the Bank's system of classification as of December 31, 2012:

	Not Matured and Unimpaired			Matured or Individually Impaired	Total 2012
	High Quality	Standard Quality	Sub- standard		
<i>Loans and advances to banks</i>	565,749	3	64,918	-	630,670
<i>Loans to customers:</i>					
- Loans to large enterprises	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
	<u>1,450,034</u>	<u>3,022,351</u>	<u>1,014,999</u>	<u>5,504,357</u>	<u>10,991,741</u>
<i>Securities</i>	174,379	493,892	148,547	-	816,818
<i>Other</i>	44,087	728,061	1,265,775	-	2,037,923
<i>Guarantees and other commitments</i>	8,260,966	1,411,806	731,301	-	10,404,073
	<u>10,495,215</u>	<u>5,656,113</u>	<u>3,225,540</u>	<u>5,504,357</u>	<u>24,881,225</u>

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34. RISK MANAGEMENT (Continued)

34.2. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

The following table shows the portfolio quality (gross balance sheet assets and off-balance sheet items) per types of loans and advances based on the Bank's system of classification as of December 31, 2011:

	Not Matured and Unimpaired			Matured or Individually Impaired	Total 2011
	High Quality	Standard Quality	Sub-standard		
<i>Loans and advances to banks</i>	-	-	-	1,168	1,168
<i>Loans to customers:</i>					
- Loans to large enterprises	428,536	3,458,756	1,183,951	1,202,690	6,273,933
- SME loans	346,494	957,594	256,492	405,668	1,966,248
- Retail loans	707,286	85,162	14,547	203,948	1,010,943
	<u>1,482,316</u>	<u>4,501,512</u>	<u>1,454,990</u>	<u>1,812,306</u>	<u>9,251,124</u>
<i>Securities</i>	239,206	506,300	45,495	-	791,001
<i>Other</i>	2,826,296	164,144	606,354	-	3,596,794
<i>Guarantees and other commitments</i>	<u>3,982,579</u>	<u>1,410,852</u>	<u>282,590</u>	<u>-</u>	<u>5,676,021</u>
	<u>8,530,397</u>	<u>6,582,808</u>	<u>2,389,429</u>	<u>1,813,474</u>	<u>19,316,108</u>

Aging Analysis of Matured 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, 2012 and 2011 is presented in the following table:

<u>2012</u>	<u>Within 30 Days</u>	<u>From 31 to 90 Days</u>	<u>Over 91 Days</u>	<u>Total, 2012</u>
<i>Advances to customers:</i>				
- 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
	<u>2,104,976</u>	<u>682,325</u>	<u>1,187,519</u>	<u>3,974,820</u>
<u>2011</u>	<u>Within 30 Days</u>	<u>From 31 to 90 Days</u>	<u>Over 91 Days</u>	<u>Total, 2011</u>
<i>Advances to customers:</i>				
- Loans to large enterprises	173,473	56,252	29,457	259,182
- SME loans	125,309	163,476	98,125	386,910
- Retail loans	8,234	4,175	4,922	17,331
	<u>307,016</u>	<u>223,903</u>	<u>132,504</u>	<u>663,423</u>

As of December 31, 2012, the fair value of collaterals securing the repayment of the abovementioned matured unimpaired loans totaled RSD 1,120,308 thousand. The Bank had collaterals for a portion of matured but unimpaired placements as of December 31, 2012 in the form of mortgage assigned over property.

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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 (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 this way the amounts of outstanding receivables from a customer are settled. It is unusual for the Bank to use for business purposes the assets acquired in lieu of debt collection.

The structure of collaterals securitizing balance sheet assets and off-balance sheet items subject to classification as of December 31, 2012 according to the fair value of collaterals, is presented in the table below:

	December 31, 2012		
	Balance Sheet Receivables	Off-Balance Sheet Items	Total
Cash deposits	2,845	2,778,264	2,781,109
Other first-rate collaterals – Government guarantee	-	3,770,769	3,770,769
Mortgages	4,352,919	1,949,719	6,302,638
	<u>4,355,764</u>	<u>8,498,752</u>	<u>12,854,516</u>

The structure of collaterals securitizing balance sheet assets and off-balance sheet items subject to classification as of December 31, 2011 according to the fair value of collaterals, is presented in the table below:

	December 31, 2011		
	Balance Sheet Receivables	Balance Sheet Items	Total
Cash deposits	32,343	2,179,176	2,211,519
Mortgages	3,308,311	1,062,315	4,370,626
	<u>3,340,654</u>	<u>3,241,491</u>	<u>6,582,145</u>

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December 31, 2012

*All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****34.2. Credit Risk (Continued)****(b) Portfolio Quality (Continued)****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 Items (Note 3.7).

(c) Restructured Loans

At December 31, 2012, the Bank had one restructured loan approved to the customers Irva investicije d.o.o., Beograd in the amount of RSD 50,124 thousand.

	<u>December 31, 2012</u>	<u>December 31, 2012</u>
SME loans	50,124	-
	<u>50,124</u>	<u>-</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, 2012 and 2011 are presented in the following table:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Enterprises and entrepreneurs	3,678,883	1,898,916
Retail customers	88,810	230,038
	<u>3,767,693</u>	<u>2,128,954</u>

The balance sheet assets having the status of receivables in default totaled RSD 3,767,693 thousand and the allowance for impairment of the aforementioned balance sheet assets being in default totaled RSD 1,731,382 thousand as of December 31, 2012 (December 31, 2011: receivables in default totaled RSD 2,128,954 thousand).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***All amounts expressed in thousands of RSD, unless otherwise stated.***34. RISK MANAGEMENT (Continued)****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 collaterals 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 dinars 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.

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 2012 and 2011 were as follows:

	December 31, 2012	December 31, 2011
Period's average	2.09	2.21
Maximum	2.92	2.86
Minimum	1.66	1.69
As of December 31	1.70	2.86

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, 2012 and 2011 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.

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December 31, 2012

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)

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	2,806,265	3,493,168	4,378,699	1,235,134	3,518	11,916,784
Borrowings	10,984	-	-	1,096,678	614,759	1,722,421
Interest, fee and commission payables	3,326	-	-	-	-	3,326
Tax payables	10,794	-	-	-	-	10,794
Other liabilities	387,382	3,230	32,686	149,542	-	572,840
	<u>4,906,436</u>	<u>3,496,398</u>	<u>4,411,385</u>	<u>2,481,354</u>	<u>618,277</u>	<u>15,913,850</u>
2011	Within 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total, 2011
Transaction deposits	2,257,863	-	-	-	-	2,257,863
Other deposits	4,565,750	1,679,365	3,463,267	1,029,392	1,160	10,738,934
Borrowings	31,575	-	-	-	-	31,575
Interest, fee and commission payables	24,257	-	-	-	-	24,257
Tax payables	7,656	-	-	-	-	7,656
Other liabilities	206,058	-	122,219	-	-	328,277
	<u>7,093,159</u>	<u>1,679,365</u>	<u>3,585,486</u>	<u>1,029,392</u>	<u>1,160</u>	<u>13,388,562</u>

The outstanding maturities of undrawn loans and limits, i.e. irrevocable commitments, guarantees and letters of credit as of December 31, 2012 and 2011 are presented as follows:

2012	At Demand	Within 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total, 2012
Guarantees	143,122	637,305	3,643,034	5,188,555	-	9,612,016
Letters of credit	-	5,531	4,776	-	-	10,307
Irrevocable commitments	192,234	37,195	392,321	30,000	-	651,750
	<u>335,356</u>	<u>680,031</u>	<u>4,040,131</u>	<u>5,218,555</u>	<u>-</u>	<u>10,274,073</u>
2011	At Demand	Within 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total, 2011
Guarantees	49,515	730,093	3,257,925	938,640	-	4,976,173
Letters of credit	4,065	22,586	5,164	-	-	31,815
Irrevocable commitments	287,660	56,558	271,690	52,126	-	668,034
	<u>341,240</u>	<u>809,237</u>	<u>3,534,779</u>	<u>990,766</u>	<u>-</u>	<u>5,676,022</u>

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

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.

NOTES TO THE FINANCIAL STATEMENTS

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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 (Continued)

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, 2012 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 2012
ASSETS						
Cash and cash equivalents	1,682,356	-	-	-	-	1,682,356
Revocable loans and deposits	4,547,318	-	-	-	-	4,547,318
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	493,052	-	-	-	-	493,052
Loans and deposits to customers	4,361,383	945,886	2,273,137	1,866,077	326,523	9,773,006
Securities	259,965	405,851	78,569	-	-	744,385
Equity investments	-	-	-	-	500	500
Other investments	869,477	129,841	113,828	21,755	-	1,134,901
Intangible assets	-	-	-	-	4,013	4,013
Property, equipment and investment property	-	-	-	-	1,725,109	1,725,109
Non-current assets held for sale and assets from discontinued operations	-	-	581,658	-	-	581,658
Other assets	65,208	10	46	242	642	66,148
Total assets	<u>12,278,759</u>	<u>1,481,588</u>	<u>3,047,238</u>	<u>1,888,074</u>	<u>2,056,787</u>	<u>20,752,446</u>
LIABILITIES						
Transaction deposits	1,687,685	-	-	-	-	1,687,685
Other deposits	2,806,270	3,493,168	4,378,699	1,235,134	3,513	11,916,784
Borrowings	10,987	-	-	1,096,678	614,756	1,722,421
Interest, fee and commission payables and fair value adjustments of derivatives	3,326	-	-	-	-	3,326
Provisions	-	163,538	-	-	-	163,538
Tax liabilities	10,794	-	-	-	-	10,794
Deferred tax liabilities	-	11,092	-	-	-	11,092
Other liabilities	387,376	3,230	32,688	149,546	-	572,840
Total liabilities	<u>4,906,438</u>	<u>3,671,028</u>	<u>4,411,387</u>	<u>2,481,358</u>	<u>618,269</u>	<u>16,088,480</u>
Total Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,663,966</u>	<u>4,663,966</u>
Total liabilities and equity	<u>4,906,438</u>	<u>3,671,028</u>	<u>4,411,387</u>	<u>2,481,358</u>	<u>5,282,235</u>	<u>20,752,446</u>
Liquidity gap as of:						
- December 31, 2012	<u>7,372,321</u>	<u>(2,189,440)</u>	<u>(1,364,149)</u>	<u>(593,284)</u>	<u>(3,225,448)</u>	
- December 31, 2011	<u>2,904,341</u>	<u>636,203</u>	<u>(389,052)</u>	<u>(62,964)</u>	<u>(3,088,528)</u>	

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

*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 of 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, 2012 and 2011.

<u>Currency</u>	<u>Change in Percentage Point</u>	<u>Income Statement Sensitivity</u>
2012		
EUR	+1%	6,005
USD	+1%	(5,226)
RSD	+1.5%	26,865
2011		
EUR	+1%	(4,074)
USD	+1%	(6,134)
RSD	+1.5%	35,934

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

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 as of December 31, 2012. 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
ASSETS						
Cash and cash equivalents	1,040,398	-	-	-	641,958	1,682,356
Revocable loans and deposits	554,500	-	-	-	3,992,818	4,547,318
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	-	-	-	-	493,052	493,052
Loans and deposits to customers	4,361,383	945,886	2,273,137	2,192,600	-	9,773,006
Securities	212,915	484,420	-	-	47,050	744,385
Other placements	393,769	220,109	23,560	21,755	475,708	1,134,901
Intangible assets	-	-	-	-	4,013	4,013
Property, equipment and investment property	-	-	-	-	1,725,109	1,725,109
Non-current assets held for sale and assets from discontinued operations	-	-	-	-	581,658	581,658
Other assets	-	-	-	-	66,148	66,148
Total assets	6,562,965	1,650,415	2,296,697	2,214,355	8,028,014	20,752,446
LIABILITIES						
Transaction deposits	687,512	-	-	-	1,000,173	1,687,685
Other deposits	2,318,547	4,260,241	1,502,304	964,236	2,871,456	11,916,784
Borrowings	494	-	-	1,711,434	10,493	1,722,421
Interest, fee and commission payables and fair value adjustments of derivatives	-	-	-	-	3,326	3,326
Provisions	-	-	-	-	163,538	163,538
Tax liabilities	-	-	-	-	10,794	10,794
Deferred tax liabilities	-	-	-	-	11,092	11,092
Other liabilities	3,218	12,951	22,966	149,547	384,158	572,840
Total liabilities	3,009,771	4,273,192	1,525,270	2,825,217	4,455,030	16,088,480
Total equity	-	-	-	-	4,663,966	4,663,966
Total liabilities and equity	3,009,771	4,273,192	1,525,270	2,825,217	9,118,996	20,752,446
Net interest rate risk exposure as of:						
- December 31, 2012	3,553,194	(2,622,777)	771,427	(610,862)	(1,090,982)	
- December 31, 2011	2,056,449	(573,853)	722,869	(27,567)	(2,177,898)	

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.

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*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)**

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. During 2012, the Bank took good care that the foreign currency ratio be within the prescribed value.

The following table shows the currencies in which the Bank has significant exposures of its monetary assets at December 31, 2012 and 2011.

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.

Currency	Exchange rate Fluctuations (%) 2012	Effect on the Operating Result before Taxation 2012	Effect on Equity 2012
EUR	10%	(16,013)	0.09
USD	10%	4,527	
Currency	2011	2011	2011
EUR	10%	27,124	
USD	10%	(7,112)	(1.46)

NOTES TO THE FINANCIAL STATEMENTS

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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 currency risk at December 31, 2012. The table includes assets and liabilities at their carrying values.

	EUR	USD	CHF	Other Currencies	Total FX Balance	Total in RSD	Total
ASSETS							
Cash and cash equivalents	244,171	62,430	58,492	40,014	405,107	1,277,249	1,682,356
Revocable loans and deposits	1,478,430	2,514,388	-	-	3,992,818	554,500	4,547,318
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	111,884	29,427	-	-	141,311	351,741	493,052
Loans and deposits to customers	4,181,157	1,448,450	-	-	5,629,607	4,143,399	9,773,006
Securities	-	15,603	-	-	15,603	728,782	744,385
Equity investments	-	-	-	-	-	500	500
Other investments	322,510	176,574	-	-	499,084	635,817	1,134,901
Intangible assets	-	-	-	-	-	4,013	4,013
Property, equipment and investment property	-	-	-	-	-	1,725,109	1,725,109
Non-current assets held for sale and assets from discontinued operations	-	-	-	-	-	581,658	581,658
Other assets	2,949	3	-	1	2,953	63,195	66,148
Total assets	6,341,101	4,246,875	58,492	40,015	10,686,483	10,065,963	20,752,446
LIABILITIES							
Transaction deposits	611,676	130,590	16,459	3,152	761,877	925,808	1,687,685
Other deposits	3,929,551	4,068,560	39,733	19,580	8,057,424	3,859,360	11,916,784
Borrowings	1,713,193	208	471	-	1,713,872	8,549	1,722,421
Interest, fee and commission payables and fair value adjustments of derivatives	345	-	-	-	345	2,981	3,326
Provisions	60,426	1,518	-	-	61,944	101,594	163,538
Tax liabilities	-	-	-	-	-	10,794	10,794
Deferred tax liabilities	-	-	-	-	-	11,092	11,092
Other liabilities	246,472	2,243	150	353	249,218	323,622	572,840
Total liabilities	6,561,663	4,203,119	56,813	23,085	10,844,680	5,243,800	16,088,480
Total equity	-	-	-	-	-	4,663,966	4,663,966
Total liabilities and equity	6,561,663	4,203,119	56,813	23,085	10,844,680	9,907,766	20,752,446
Net foreign currency position							
- at December 31, 2012	(220,562)	43,756	1,679	16,930	(158,197)	158,197	
- at December 31, 2011	271,235	(71,116)	(18,429)	26,665	208,355	(208,355)	

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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, 2012***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.

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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 and 123/2012) and the Decision on Capital Adequacy (RS Official Gazette, no. 46/2011).

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, 2012 and 2011, as well as the capital adequacy ratios:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Regulatory capital		
Core capital	4,214,003	3,945,311
Supplementary capital	435,937	434,342
Total core and supplementary capital	<u>4,649,940</u>	<u>4,379,653</u>
<i>Capital deductibles:</i>		
Required special reserve*	<u>(2,186,221)</u>	<u>(1,126,967)</u>
	<u>2,463,719</u>	<u>3,252,686</u>
Risk-weighted balance sheet and off-balance sheet items		
Balance sheet assets	11,960,072	8,410,070
Off-balance sheet items	2,513,697	2,116,269
Open foreign currency position	160,206	327,630
Operational risk*	<u>1,665,767</u>	<u>1,436,449</u>
	<u>16,299,742</u>	<u>12,290,418</u>
Capital adequacy ratio	<u>15.12%</u>	<u>26.47%</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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34. RISK MANAGEMENT (Continued)

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

The following table presents the fair value of financial instruments:

	Carrying Value		Fair Value	
	2012	2011	2012	2011
Financial assets				
Cash and cash equivalents	1,682,356	3,336,358	1,682,356	3,336,358
Revocable loans and deposits	4,547,318	3,019,732	4,547,318	3,019,732
Interest, fee and commission receivables	493,052	214,870	493,052	214,870
Advances to banks and customers	9,773,006	8,302,437	9,773,006	8,302,437
Securities	744,385	766,252	744,385	766,252
Other investments	1,134,901	311,683	1,134,901	311,683
Other assets	92,138	14,546	92,138	14,546
	<u>18,467,156</u>	<u>15,965,878</u>	<u>18,467,156</u>	<u>15,965,878</u>
Financial liabilities				
Transaction deposits	1,687,685	2,257,863	1,687,685	2,257,863
Other deposits	11,916,784	10,738,934	11,916,784	10,738,934
Borrowings	1,722,421	31,575	1,722,421	31,575
Interest, fee and commission payables	3,326	24,257	3,326	24,257
Other liabilities	444,405	213,714	444,405	213,714
	<u>15,774,621</u>	<u>13,266,343</u>	<u>15,774,621</u>	<u>13,266,343</u>

The following table presents the fair value of collaterals:

	Carrying Value		Fair Value	
	2012	2011	2012	2011
Mortgages	6,302,638	4,338,811	6,302,638	4,338,811
Deposits	2,781,109	2,243,334	2,781,109	2,243,334
Government guarantees	3,770,769	-	3,770,769	-
	<u>12,854,516</u>	<u>6,582,145</u>	<u>12,854,516</u>	<u>6,582,145</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.

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2012***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 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 agreements entered.

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Within a year	44,460	32,701
From 1 to 5 years	<u>177,840</u>	<u>130,804</u>
	<u>222,300</u>	<u>163,505</u>

b) Litigation

The total value of lawsuits filed against the Bank as of December 31, 2012 amounted to RSD 328,022 thousand..

At December 4, 2012, the Bank received a suit filed against it by the Republic of Serbia Ministry of Defense for debt settlement of RSD 304,278 thousand increased by penalty stating from the lawsuit filing date up to the final settlement, in respect of the rental of the building in Belgrade, at no. 25, Savska Street, over the period from January 2008 up to July 31, 2011. The lawsuit was filed on the grounds of the consideration for business premises usage. The bank used the relevant premises pursuant to the Agreement on Out-of-Court Settlement dated September 3, 2004. Pursuant to the Agreement on Ownership Right Transfer dated August 17, 2011, the ownership of the aforesaid building property was transferred from the Republic of Serbia – Ministry of Defense to the Bank. At December 26, 2012, the Bank filed a response to the lawsuit to the Commercial Court of Belgrade, where it refuted the merit and amount of the lawsuit claim in entirety, stating, inter alia, that there was no lease agreement for the period stated in the lawsuit between the plaintiff and defendant.

The Bank's management does not anticipate materially significant losses to arise from the ongoing legal suits in the ensuing period and 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 net profit of the prior and current years.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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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 financial statements have been appropriately stated.

36. SEGMENT REPORTING

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

At December 31, 2012, for managing purposes, the Bank's business activities were organized in two main reporting segments:

- Corporate activities;
- Retail activities.

Given the Bank does not have a complex structure of various banking activities, the Bank's management concluded that the business 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, 2012 were as follows:

	Corporate Activities	Retail Activities	Other Segments	Total
Interest income	2,287,912	201,914	36,987	2,526,813
Fee and commission income	274,993	83,400	4,748	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
Profit from operations	5,152,277	924,520	1,852,142	7,928,939
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)
Loss from operations	(4,026,102)	(1,216,733)	(2,667,004)	(7,909,839)
Profit/(Loss) from operations before taxation	1,126,175	(292,213)	(814,862)	19,100
Deferred tax expenses	-	-	(9,829)	(9,829)
Net profit/(loss)	1,126,175	(292,213)	(824,691)	9,271

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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, 2011 were as follows:

	Corporate Activities	Retail Activities	Other Segments	Total
Interest income	1,762,329	204,257	16,231	1,982,817
Fee and commission income	190,779	74,515	3,713	269,007
Dividend and other income from equity investments	847	-	60	907
Net gains on the valuation of assets and liabilities	68,811	(5,457)	288	63,642
Foreign exchange gains	218,568	495,295	3,706,001	4,419,864
Other operating income	7,137	1,081	23,163	31,381
Profit from operations	2,248,471	769,691	3,749,456	6,767,618
Interest expenses	(332,888)	(83,355)	(217,148)	(633,391)
Fee and commission expenses	(20,869)	-	(2,574)	(23,443)
Net impairment losses and provisions	(492,847)	3,213	(19,058)	(508,692)
Staff costs	(39,352)	(202,940)	(213,601)	(455,893)
Depreciation and amortization	-	-	(61,282)	(61,282)
Other operating expenses	(191,855)	-	(244,815)	(436,670)
Foreign exchange losses	(218,531)	(506,786)	(3,689,785)	(4,415,102)
Loss from operations	(1,296,342)	(789,868)	(4,448,263)	(6,534,473)
Profit/(Loss) from operations before taxation	952,129	(20,177)	(698,807)	233,145
Current income tax expense	-	-	(817)	(817)
Deferred tax benefits	-	-	29,832	29,832
Net profit/(loss)	952,129	(20,177)	(669,792)	262,160

Assets of business segments at December 31, 2012 did not encompass cash and cash equivalents (RSD 1,682,356 thousand), required reserve in dinars and in foreign currency (RSD 3,992,818 thousand), intangible assets, property and equipment (RSD 1,729,122 thousand) and assets 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.

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

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

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December 31, 2012

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36. SEGMENT REPORTING (Continued)

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

Segment assets and liabilities as of December 31, 2011 are presented as follows:

	<u>Corporate Activities</u>	<u>Retail Activities</u>	<u>Other Segments</u>	<u>Total 2011</u>
Assets	7,698,621	827,469	2,309,371	10,835,461
Liabilities	<u>7,103,222</u>	<u>2,971,642</u>	<u>3,334,964</u>	<u>13,409,828</u>

Assets of business segments at December 31, 2011 did not encompass cash and cash equivalents (RSD 3,336,358 thousand), required reserve in dinars and in foreign currency (RSD 1,809,613 thousand), and intangible assets, property and equipment (RSD 1,540,050 thousand) and assets held for sale (RSD 581,658 thousand), since these assets are managed on the Bank level.

Liabilities of business segments at December 31, 2011 did not encompass borrowings (RSD 31,575 thousand), taxes payable (RSD 7,656 thousand), and deferred tax liabilities (RSD 1,263 thousand), since these liabilities are managed on the Bank level.

b) Geographical 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 Main 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 20 of the Law on Accounting and Auditing, the Bank reconciled its payables and receivables with its debtors and creditors, which is substantiated with valid documentation.

The Bank provided to its customers open item statements as of November 30, 2012. Based on the exchange of open item statements with customers, only 8% of receivables and liabilities remained unreconciled.

The main reason for disputing open item statements is the manner of recording and posting receivables from customers that posted receivables under a different date. Open item statements returned due to wrong addresses account for 2% of total open item statements.

38. EXCHANGE RATES

The official middle exchange rates of the National Bank of Serbia as determined at the interbank currency market assembly and used to recalculate foreign currency denominated balance sheet line items as of December 31, 2012 and 2011 into the functional currency for particular major currencies were as follows:

	<u>2012</u>	<u>In RSD 2011</u>
EUR	113.7183	104.6409
USD	86.1763	80.8662
CHF	94.1922	85.9121