BANCA INTESA A.D. BEOGRAD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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ERNST & YOUNG

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BANCA INTESA A.D. BEOGRAD

We have audited the accompanying financial statements of Banca Intesa a.d. Beograd (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing and regulations of the National Bank of Serbia governing financial reports of banks.

Belgrade, 19 March 2012

Mirjana Kovačević
Authorized Auditor
Ernst & Young Beograd d.o.o.

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

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

(RSD thousand)	Note	2011	2010
Interest income	3	31,090,463	26,631,103
Interest expense	3	(11,652,708)	(9,285,709)
Net interest income		**19,437,755**	**17,345,394**
Fee and commission income	4	7,378,106	6,950,505
Fee and commission expense	4	(1,943,040)	(1,786,022)
Net fee and commission income		**5,435,066**	**5,164,483**
Net gain on sell of securities at fair value through profit and loss		169	1,219
Net gain on sell of securities available for sale		44	-
Net foreign exchange gains / (losses)	5	1,937,273	(13,798,805)
Gains from dividends and shares		-	-
Other operating income	6	414,248	397,426
Impairment losses of financial assets and provisions, net	7	(4,259,378)	(4,364,160)
Salaries, wages and other personal expenses	8	(4,434,178)	(3,996,296)
Depreciation and amortization	9	(864,976)	(890,691)
Other operating expenses	10	(6,397,975)	(6,176,280)
Gains on changes in value of assets and liabilities	11	23,452,765	24,281,001
Losses on changes in value of assets and liabilities	12	(24,031,080)	(9,507,171)
Profit before tax		**10,689,733**	**8,456,120**
Income tax	13	(1,113,156)	(871,597)
Profit from created deferred tax assets and reduction of deferred tax liabilities	13	23,673	35,407
Loss from reduction deferred tax assets and creation of deferred tax liabilities	13	9,410	-
PROFIT		**9,590,840**	**7,619,930**

Notes on the following pages form part of these Financial statements.

Belgrade, 19 March 2012

Approved by the management of Banca Intesa a.d. Beograd

Rada Radović Head of Finance and Accounting Department	Marco Capellini Deputy President of the Executive Board	Draginja Đurić President of the Executive Board

BALANCE SHEET AS AT 31 DECEMBER 2011

(RSD thousand)	Note	2011	2010
ASSETS			
Cash and cash equivalents	15	16,222,561	20,053,248
Revocable deposits and loans	16	83,162,819	51,409,640
Interest and fee receivables, receivables from sales, changes in fair value of derivatives and other receivables	17	2,985,589	2,390,298
Loans and advances (excluding treasury shares)	18	249,337,725	245,087,290
Securities	19	17,784,587	19,380,689
Equity investments	20	962,568	948,033
Other placements	21	11,521,581	10,270,578
Intangible assets	22	595,399	561,462
Property, equipment and investment property	23	6,583,749	6,388,002
Non-current assets held for sale and discontinued operations		60,192	50,685
Deferred tax assets	13	47,317	33,054
Other assets	24	3,058,602	2,550,016
Total assets		**392,322,689**	**359,122,995**
LIABILITIES			
Transaction deposits	25	84,678,429	65,078,801
Other deposits	26	150,686,366	171,432,085
Borrowings	27	57,106,462	45,255,242
Liabilities arising from securities	28	2,385,649	132,790
Interest, fee and changes in fair value of derivatives	28	165,937	94,607
Provisions	29	2,229,010	2,419,833
Tax liabilities		43,334	56,962
Liabilities from profit		269,029	220,031
Deferred tax liabilities		-	-
Other liabilities	30	14,344,148	17,143,522
Total liabilities		**311,908,364**	**301,833,873**
Equity			
Equity	31	41,759,627	28,446,332
Reserves from profit	31	28,400,323	20,780,393
Revaluation reserves	31	665,615	560,107
Unrealized losses arising on securities available for sale	31	2,080	117,640
Profit	31	9,590,840	7,619,930
Total equity		**80,414,325**	**57,289,122**
Total liabilities and equity		**392,322,689**	**359,122,995**
Off - balance sheet items	32	**245,058,656**	**157,073,304**

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Belgrade, 19 March 2012

Approved by the management of Banca Intesa a.d. Beograd

Rada Radović Head of Finance and Accounting Department	Marco Capellini Deputy President of the Executive Board	Draginja Đurić President of the Executive Board

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY 2011 - 31 DECEMBER 2011

(RSD thousand)

	Share capital	Other capital	Share premium	Reserves from profit	Revaluation reserves and Unrealized losses arising on securities available for sale	Profit	Total
Balance as of 1 January 2010	**18,477,400**	**11,158**	**9,957,774**	**14,768,086**	**559,313**	**6,012,307**	**49,786,038**
Profit for the year	-	-	-	-	-	7,619,930	7,619,930
Effects of changes in fair values of securities available-for-sale	-	-	-	-	(116,846)	-	(116,846)
Profit distribution	-	-	-	6,012,307	-	(6,012,307)	-
Balance as of 31 December 2010	**18,477,400**	**11,158**	**9,957,774**	**20,780,393**	**442,467**	**7,619,930**	**57,289,122**
Profit distribution	-	-	-	7,619,930	-	(7,619,930)	-
Share issue	2,838,500	-	10,474,795	-	-	-	13,313,295
Profit for the year	-	-	-	-	-	9,590,840	9,590,840
Effects of changes in fair values of securities available-for-sale	-	-	-	-	221,068	-	221,068
Balance as of 31 December 2011	**21,315,900**	**11,158**	**20,432,569**	**28,400,323**	**663,535**	**9,590,840**	**80,414,325**

Notes on the following pages form part of these Financial statements.

Belgrade, 19 March 2012

Approved by the management of Banca Intesa a.d. Beograd

Rada Radović
Head of Finance and Accounting Department

Marco Capellini
Deputy President of the Executive Board

Draginja Đurić
President of Executive Board

STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY 2011 - 31 DECEMBER 2011

(RSD thousand)	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflows from operating activities	**39,360,945**	**33,445,034**
Interest	28,811,049	24,244,341
Fees	7,470,150	7,152,214
Other operating income	3,079,746	2,048,479
Dividend and other share income	-	-
Cash outflows of cash from operating activities	**(25,076,241)**	**(20,259,105)**
Interest	(6,878,133)	(4,731,441)
Fees	(2,041,222)	(1,922,121)
Salaries and other personal expenses	(5,260,446)	(4,574,219)
Taxes and contributions paid	(626,113)	(550,749)
Other operating expenses	(10,270,327)	(8,480,575)
Net cash inflow from operating activities before increase or decrease in placements and deposits	**14,284,704**	**13,185,929**
Decrease in placements and increase in taken deposits	**22,645,049**	**11,267,655**
Decrease in securities at fair value through profit and loss, Investments held for trading and short-term securities held to maturity	(16,490,984)	-
Increase in deposits with banks and other clients	(6,154,065)	(11,267,655)
Increase in placements and decrease in taken deposits	**(43,181,291)**	**(33,867,457)**
Increase in loans and placements to banks and other clients	(43,181,291)	(29,969,357)
Increase in securities at fair value through profit and loss, Investments held for tradng and short-term securities held to maturity	-	(3,898,100)
Net cash outflow from operating activities before tax	**(6,251,538)**	**(9,413,873)**
Income tax paid	(1,064,158)	(755,169)
Net cash outflow from operating activities	**(7,315,696)**	**(10,169,042)**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**1,398,836**	**439,697**
Inflow from long-term investment in securities	1,309,360	-
Inflow from sales of equity investments	-	3,209
Inflow from sales of intangible and tangible fixed assets	89,476	436,488
Cash outflow from investing activities	**(13,480,293)**	**(1,861,231)**
Outflow from long-term investment in securities	(12,230,528)	(815,546)
Outflow from purchase of equity investments	(14,555)	-
Outflow from purchase of intangible and tangible fixed assets	(1,235,210)	(1,045,685)
Net cash outflow from investing activities	**(12,081,457)**	**(1,421,534)**

STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY 2011 - 31 DECEMBER 2011

(RSD thousand)	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	18,588,338	8,191,615
Inflow from capital increase	13,313,295	-
Inflow from borrowings received, net	5,275,043	8,191,615
Inflow from securities	-	-
Cash outflows from financing activities	(3,043,037)	(155)
Outflows from subordinated borrowings	(3,025,761)	-
Outflows from securities	(17,276)	(155)
Net cash inflow from financing activities	15,545,301	8,191,460
Total net inflow of cash	81,993,168	53,344,001
Total net outflow of cash	(85,845,020)	(56,743,117)
Net decrease in cash	(3,851,852)	(3,399,116)
Cash at the beginning of year	20,053,248	23,163,886
Exchange rate gains	355,324	415,470
Exchange rate losses	(334,159)	(126,992)
Cash at the end of year (Note 15)	16,222,561	20,053,248

Notes on the following pages form part of these Financial statements.

Belgrade, 19 March 2012

Approved by the management of Banca Intesa a.d. Beograd

Rada Radović Head of Finance and Accounting Department	Marco Capellini Deputy President of the Executive Board	Draginja Đurić President of Executive Board

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. CORPORATE INFORMATION

Banca Intesa Beograd a.d. Beograd (hereinafter referred to as the "Bank") was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD, Beograd dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permition for the foundation of Delta banka DD, Beograd.

On 16 October 1991, the Bank was duly registered with the Commercial Court in Belgrade and subsequently commenced its operations. On 7 June 1995, a new Memorandum on Association was concluded, with a new Article of Association adopted at the General Assembly meeting held on 10 July 1995, whereby reconciliation of the Bank's acts with the provisions of the Law on Banks and other financial organizations was made.

In 2005, based on Decision of General Assembly of Shareholders, a change of shareholders of the Bank occurred. Existing shareholders sold their shares, two shareholders in a whole and the majority part was sold to Intesa Holding International SA. After this ownership change, the Bank has two shareholders, out of which Intesa Holding International S.A., Luxemburg owns more than 90% of the Bank's share capital.

Pursuant to the General Manager's Decision no. 18600 dated 7 November 2005, the Approval of National Bank of Serbia and the Decision of the Agency for Commercial Registries no. BD 98737/2005 dated 29 November 2005, the Bank changed its previous name into Banca Intesa a.d. Beograd.

In accordance with the Decision of the Agency for Commercial Registries no. BD. 159633/2006 dated 5 October 2006, the abovementioned alteration and the change of legal form of the Bank into a closed joint-stock company were registered.

The Bank is authorized and registered with the National Bank of Serbia for performing payment transactions, loan and deposit activities in the country and clearing and settlement transaction services abroad. In accordance with the provisions of the Law on Banks, the Bank operates on the principles of liquidity, safety and profitability.

During the year ended 31 December 2007, the legal status change was carried out through merger by absorption, whereby the acquirer was Banca Intesa a.d. Beograd, and the acquired bank was Panonska banka a.d. Novi Sad. On 26 July 2007, the Decisions on signing of the letter of intent to perform the legal status change of merger by absorption and launch relating activities were passed at the meetings of the Board of Directors of both Banca Intesa a.d. Beograd and Panonska banka a.d. Novi Sad. Draft of the Agreement on merger was prepared and adopted by the Boards of Directors of both banks at the meetings held on 29 October 2007.

Upon registration of the procedure of merger by absorption with the Agency for Commercial Registers, the Bank as the acquirer and the legal successor has continued to operate under its existing business name, while the acquired bank – Panonska banka a.d. Novi Sad ceased its operations without liquidation process, and its shares were withdrawn and cancelled.

1. CORPORATE INFORMATION (continued)

In accordance with article 384 of the Law on business companies of the Republic of Serbia, 30 September 2007 was determined as the date of merger that is the date when all operations of Panonska banka a.d. Novi Sad were considered as taken over by the Bank. The legal status change of merger by absorption was carried out in such a way that the acquired bank – Panonska banka a.d. Novi Sad transferred all assets and liabilities as of 30 September 2007 to the Bank as the acquirer in exchange for share issue to the shareholders of the acquired bank by the Bank acquirer.

In accordance with the valuation performed, the shares were exchanged in such way that shareholders of the acquired bank received 1 ordinary share of the Bank acquirer in exchange for 38 ordinary shares of the acquired bank. In order to exchange the total number of shares of Panonska banka a.d. Novi Sad, the Bank issued additional 26.166 ordinary shares, with nominal value of RSD 100,000.00 and consequently after the merger, the Bank's share capital amounted to RSD 15,752,700,000.00, divided into 157,527 ordinary shares with nominal value of RSD 100,000.00 per share.

Shareholders of the acquired bank in the merger have become the shareholders of Banca Intesa a.d. Beograd, with the appropriate number of ordinary shares, and they have the same status, rights and obligations as the shareholders of the Bank, with the right to participate in profit distribution of the Bank acquirer starting from 1 January 2008.

Since there were no significant differences in the accounting policies applied in the preparation of the financial statements of both banks, neither adjustments to net assets nor adjustments to net results for 2007 of the Bank were made as a consequence of the accounting for the merger by absorption.

The Agreement on merger by absorption was adopted at the Bank's Assembly meeting held on 17 December 2007.

As at 31 December 2011, the Bank operated through its Head Office located in Belgrade, Milentija Popovica 7b, with its associated organizational divisions in Belgrade, 7 regional centers and 208 branches.

The Bank had 3,200 employees as at 31 December 2011 (31 December 2010: 3,090 employees).

The Bank's registration number is 07759231. The Bank's tax identification number is 100001159.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation and presentation of financial statements

The accompanying financial statements have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Law on Accounting and Auditing (Official Gazette of the Republic of Serbia, no. 46/2006, 111/2009), the Law on Banks (Official Gazette of the Republic of Serbia, no. 107/2005, 91/2010) and the respective regulations issued by the National Bank of Serbia based on the aforementioned legislation. Pursuant to the Law on Accounting and Auditing, banks are obliged to maintain, prepare and present their financial statements in accordance with the International Accounting Standards (IAS), i.e. International Financial Reporting Standards (IFRS"), and Interpretations of Standards.

IAS, IFRS and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee up to 1 January 2009 have been officially translated by the Decision of Ministry of Finance of Republic of Serbia number 401-00-1380/2010-16 and are published in Official Gazette of the Republic of Serbia no. 77 dated October 25, 2010.

Any new or amended IFRS and IFRIC interpretations issued subsequent to 1 January 2009 have not been applied in the preparation of the accompanying financial statements.

The accompanying financial statements have been prepared in the form prescribed by the Rulebook on format and contents of financial statements for banks (Official Gazette of the Republic of Serbia No: 74/2008, 3/2009, /correction 12/2009/ and 5/2010). These Rulebooks determine the legal definition of a complete set of financial statements, and minimal content of Notes to the financial statements, which contain departures from IAS 1 Presentation of Financial Statements regarding the presentation of certain financial statement items.

As a result of the abovementioned, the Bank's management has not included an explicit and unreserved statement of compliance of the accompanying financial statements with the requirements of all standards and interpretations issued by International Accounting Standards Board, which comprise International Financial Reporting Standards.

The accompanying financial statements have been prepared under the historical cost convention, except for the measurement at fair value of securities held for trading as well as securities available for sale.

The accompanying financial statements include receivables, liabilities, operating results, changes in equity and the Bank's cash flow, excluding its subsidiary – Intesa Leasing d.o.o., Beograd. The Bank also prepares consolidated financial statements separately, in accordance with the respective accounting regulations of the Republic of Serbia.

The Bank's financial statements are stated in thousand of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Bank. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

The accompanying financial statements have been prepared under the going concern principle, which implies that the Bank will continue its operations in the foreseeable future.

In the preparation of these financial statements, the Bank has adhered to the principal accounting policies further described in Note 2.

The accounting policies and accounting estimates applied in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Comparative Figures

The comparative figures represent financial statements of the Bank as of and for the year ended 31 December 2010, which were audited.

2.3. Significant Accounting Estimates and Judgments

Use of Estimates

The preparation and presentation of the financial statements requires the Bank's management to make estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period.

These estimations and related assumptions are based on information available as of the date of the preparation of the financial statements. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the income statement in the periods in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of Financial Assets

The Bank assesses, at the end of each reporting period, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. 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 has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Bank reviews its loan portfolio at least on a quarterly basis, in order to assess impairment.

In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any reliable evidence indicating that there is a measurable decrease in the estimated future cash flows from a loan portfolio before the decrease can be identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers toward the Bank, or national or local economic conditions that correlate with defaults on assets of the Bank.

The Bank's management performs estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly, in order to reduce any differences between estimated and actual losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant Accounting Estimates and Judgments (continued)

Useful Lives of Intangible Assets, Property and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

Due to the significant share of tangible and intangible assets in total assets of the Bank, the impact of each change in these assumptions could materially affect the Bank's financial position as well as the results of its operations.

Impairment of Non-Financial Assets

At the end of each reporting period, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property and equipment presented in the financial statements. 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.

An impairment review requires from management to make subjective judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Provisions for legal proceedings

The Bank is subject to a number of legal proceedings arising from daily operations that relate to commercial, contractual and employment matters, which are resolved and considered during regular business activity. The Bank regularly estimates probability of negative outcomes to these matters as well as the amounts of probable or reasonable estimated losses.

Reasonable estimates include judgment made by management after considering information including notifications, settlements, estimates performed by legal department, available facts, identification of other potentially responsible parties and their ability to contribute as well as prior experience.

Provision for legal proceedings is recognized when it is probable that an obligation exists for which a reliable estimation can be made of the obligation after careful analysis of the individual matter (Note 29). The required provision may change in the future due to occurrence of new events or obtaining additional information. Matters that are either contingent liabilities or do not meet the recognition criteria for provision are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant Accounting Estimates and Judgments (continued)

Retirement and Other Post-Employment Benefits

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the fulfilled legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term, significant uncertainties influence the outcome of the estimation. Additional information is disclosed in Note 29 to financial statements.

2.4. Interest Income and Expenses

Interest income and expense, including penalty interest and other income and other expenses from interest bearing assets as well interest bearing liabilities are recognized on an accrual basis based on obligatory terms defined by a contract between the Bank and customers.

For all interest-bearing financial instruments measured at amortised cost and interest bearing financial instruments available for sale, interest income and expense are recognized within "Interest income" and "Interest expense" in the income statement using the effective interest method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Loan origination fee, which is a part of effective interest rate, is recorded within "Interest income". Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and amortized to interest earned on loans and advances over the life of the loan using the straight-line method, which approximates the effective yield.

From the moment of charges being filed, and for receivables from retail clients past due over 180 days, the Bank calculates suspended interest on total receivables (including principal, interest and costs) instead of regular interest. Transfer of total interest overdue to the suspended interest in off-balance before the moment of charges being filed could be prescribed by special decisions of the Bank's authorities.

Suspended interest is calculated and recorded as off-balance sheet item until final settlement of dispute.

2.5. Fee and Commission Income and Expenses

Fees and commissions originating from banking services are generally recognized on an accrual basis when the service has been provided.

Fees and commissions mostly comprise of fees for payment operations services, issued guarantees and other banking services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Foreign Currency Translation

Items stated in the financial statements are valued by using currency of the Bank's primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousand of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date (Note 37).

Gains or losses on foreign exchange arising upon the translation of balance sheet items are credited or debited as appropriate, to the income statement, as Gains or losses on foreign exchange transactions and translations (Note 5).

Gains or losses arising upon the translation of financial assets and liabilities with contracted foreign currency clause are credited or debited as appropriate, to the income statement, as gains/losses from changes in value of assets and liabilities (Notes 11 and 12).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official median exchange rate prevailing at the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments

All financial instruments are initially recognized at fair value including any directly attributable incremental costs of acquisition or issue that are directly attributable to the acquisition or issuing of financial asset or liability, except for financial assets and financial liabilities at fair value through profit and loss.
Financial assets and financial liabilities are recorded in the balance sheet of the Bank on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, which is the date the asset is delivered to the counterparty.

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.1. Financial Assets at Fair Value through Profit or Loss

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

Financial assets are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term and generating profit from short-term price fluctuations. These assets are stated at fair value in the balance sheet.

Financial instruments held for trading comprise financial derivatives and Government's savings bonds.

All realized or unrealized gains and losses from changes in fair value of trading securities are recognised in the income statement.

During 2007, the Bank introduced several types of financial instruments which met definition of financial derivatives according to IAS 39 "Financial Instruments: Recognition and Measurement" and for which basic underlying variable is foreign exchange rate. Derivatives used by the Bank are FX swap and FX forward contracts. For the accounting purposes, and in accordance with the requirements of IAS 39, the derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value, while all fair value changes are recorded in the income statement under unrealized foreign exchange gains and losses.

Derivatives are initially recognised when the Bank becomes a party to agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as asset or liability. The initial recognition of fair value applies to the cases when there is available market price for the same or a similar derivative on an organised market, and when the price differentiates from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognised fair value, since there is no active market for similar derivatives in the country. When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognise in the balance sheet (as assets or liabilities) and the income statement (initially positive or negative fair value) the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques. In accordance with the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognised at the end of each month, and the effect of changes in fair value are recognised in the income statement as unrealised foreign exchange gains or losses. Derivatives are recognised as assets or liabilities depending whether their fair value is positive or negative. Derivatives are derecognised at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at termination date. At that moment, ultimate effect of foreign exchange differences is recorded against realised foreign exchange differences, and all previously recognised changes in fair value (through unrealised foreign exchange differences) are reversed.

Since there is neither an active market for derivatives in Serbia nor a possibility to determine fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries having developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value which would be achieved on an active market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.1. Financial Assets at Fair Value through Profit or Loss (continued)

The methodology incorporates market factors (median exchange rate, interest rates and similar) and it is consistent with generally accepted methodologies for valuation of derivatives.

2.7.2. Loans and receivables

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

All loans and receivables to banks and customers are recognized in balance sheet when cash is advanced to debtors. Loans and receivables are initially recognized at fair value. After the initial recognition, loans are measured at amortized cost using interest rate method, less allowance for loan impairment and any amounts written off.

Interest income and receivables in respect of these instruments are recorded and presented under interest income and interest, fees and commissions receivable, respectively. Fees which are part of effective yield on these instruments are recognised as deferred income and credited to the income statement as interest income over the life of a financial instrument using the straight-line method, which approximates the effective yield.

The Bank negotiates foreign currency clause with the beneficiaries of the loans. Loans and receivables in dinars, with contracted foreign currency clause, i.e. dinar-eur, dinar-usd and dinar-chf foreign exchange rate, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated from foreign currency clause applied is disclosed within loans and receivables. Gains and losses resulting from the application of foreign currency clause are recorded in the income statement, as gains/losses from changes in value of assets and liabilities.

Impairment of financial assets and provisions for risks

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and placements with banks and customers, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.2. Loans and Receivables (continued)

Impairment of financial assets and provisions for risks (continued)

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account, while impairment losses on loans and advances and other financial assets carried at amortized cost are charged to the income statement (Note 7). Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement (Note 7).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling that collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank’s internal credit grading system that considers credit risk characteristics. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist at the balance sheet date. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Direct write-offs for past due loans and receivables, partial or in full, may be performed during the year if inability of their collection is certain, i.e. impairment is recognized and documented. Write off is made based on the court decisions, or based on decisions made by the Bank’s authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.2. Loans and receivables (continued)

Uncollectable receivables write-off

On 24 November 2010, the Bank has adopted the Procedure on uncollectable receivables write-off. The procedure relates to the write-off of receivables that meet the following requirements: delay in payment of receivable is more than 360 days; the Bank has failed to collect receivables despite the implementation of all activities of collection specified by its policies and procedures; judicial or extrajudicial procedures of settlement of receivables have been initiated; receivables are fully impaired.

Exceptionally, receivables that do not fulfil above mentioned requirements may be written-off if such decision is made by the appropriate authority, Asset Quality Committee, in accordance with the authorities delegated by the Board of Directors.

Written-off receivables are transferred to off balance sheet items and are held for 2 years, after which the Asset Quality Committee issues the decision on their permanent write-off or continuing keeping such receivables in off-balance.

2.7.3. Renegotiated Loans

If the Bank estimates that the clients delay in payment are temporary and that, under adjusted agreed conditions, the client could fulfil obligations toward Bank regularly, the Bank seeks to restructure loans rather than to activate collaterals. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate, before renegotiation.

2.7.4. Securities Held-to-Maturity

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

Securities held-to-maturity are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. The amount of impairment loss for investments held to maturity is calculated as the difference between the investments' carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate.

2.7.5. Securities available for sale

Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available for sale".

They comprise shares and investments in shares of other banks and companies, as well as treasury bills of the Republic of Serbia with maturity over 3 months.

Upon initial recognition, these instruments are measured at fair value. Investments in shares that are not quoted, and whose value cannot be determined with certainty, are measured at cost. The fair values of quoted investments in active markets are based on current bid prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.5. Securities available for sale (continued)

Unrealised gains and losses are recognised directly in revaluation reserves, in equity, until the security is not sold, collected or otherwise realized, or until the security is not impaired. In the case of disposal or impairment of security, accumulated gains or losses, previously recognised in equity, are recognised in gains or losses from sales of securities in the income statement. For all estimated risks that investments in shares and other securities available for sale will not be collected, the Bank recognizes allowances for impairment.

Interest income on treasury bills of the Republic of Serbia is calculated and recognized monthly.

Dividend income in respect of investments in shares of other legal entities, and income from investments in equity instruments of other legal entities are recognised as income at the moment of their collection.

In case of securities available for sale, the Bank assesses on an individual basis whether there is an objective evidence of impairment, based on the same criteria applied to financial assets carried at amortized cost. Also, impairment already recognized represents cumulative loss valued as difference between amortized cost and current fair value, less any impairment loss previously recognized in the income statement. The Bank records impairment changes on available-for-sale equity investments when there has been a significant of prolonged decline in the fair value below their cost. When there is an evidence of impairment, the cumulative loss, measured as the difference between cost and fair value, decreased for any impairment of investment previously recognized in the income statement, is transferred from equity and recognized in the income statement, while the increase in fair value, after recognition of impairment, is recognized in equity.

2.7.6. Deposits from Banks and customers

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

2.7.7. Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Borrowings are classified as current liabilities, unless the Bank has unconditional right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.7.8. Operating liabilities

Trade payables and other short-term operating liabilities are stated at nominal value.

2.8. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9. Special reserves for estimated losses on bank balance sheet assets and off-balance sheet items

Special reserves for estimated losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia's "Decision on the Classification of the Bank Balance Sheet Assets and Off-balance Sheet Items" ("Official Gazette of the Republic of Serbia", no. 94/2011). The new Decision on the Classification of the Bank Balance Sheet Assets and Off-balance Sheet Items is applied from 31. December 2011 and, as the most significant changes comparing to the previous Decision, relates to the following: change of threshold for calculating days of delay for corporate clients (decreased from 2,5% to 1%), introduce the historical default when determining the class of corporate clients, change in the way of treatment of historical delay for individuals, changes in calculation of creditworthiness for corporate clients and individuals, abolition of percentege range for the calculation of reserves for estimated losses and introducing fixed percentages.

All receivables from a single borrower (balance sheet and off-balance sheet exposure) are classified in categories from A to D, in accordance with the assessment of their recoverability. Collectibility of receivables from the single borrower is assessed based on the borrower's payment record and his financial position, number of days past due, overdue principal and interest as well as based on the quality of collaterals pledged.

In accordance with the classification of receivables and pursuant to the aforementioned Decision, the amount of the special reserves against potential losses is calculated by applying the following percentages: A (0%), B (2%), V (15%), G (30%) i D (100%) (applied percentages for 2010: A (0%), B (5%-10%), V (20%-35%), G (40%-75%) i D (100%)).

Through its internal act, the Bank has defined the criteria and methodology for determining classification of receivables and calculation of special reserves in accordance with the criteria defined in the "Decision on the Classification of the Bank Balance Sheet Assets and Off-balance Sheet Items". Basic criteria for classification of receivable include the borrower's timeliness in settlement of obligations, financial position and business performance, adequacy of cash flows as well as adequate collateral.

Calculated special reserves for estimated losses are reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the Bank's accounting policy disclosed in Note 2.7.2. and charged to the income statement.

The amount of special reserves for estimated losses, after reducing by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, is deducted from capital when calculating banks regulatory capital.

2.10. Cash and cash equivalents

Cash and cash equivalents comprise of cash at current account and cash on hand (in Dinars and in foreign currency), gold and other precious metals, cheques and current accounts in foreign currency held with other domestic banks and foreign banks as well as treasury bills of the Republic of Serbia with maturity up to 3 months.

2.11. Reverse repurchase agreements

Securities acquired under agreements to resell at a specified future date are recognized in the balance sheet.

The corresponding cash paid, including due interest, is recognized in the balance sheet. The difference between the purchase price and the price at resale date is treated as interest income and is accrued over the life of the agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. Equity Investments

2.12.1. Investments in subsidiaries

Subsidiaries are legal entities in which the Bank has ownership of more than 50 percent, or otherwise holds more than half of voting rights, or the right to manage the financial (business) policy of the subsidiary.

As of 31 December 2011, the Bank owns 100% of capital of Intesa Leasing d.o.o., Beograd. Equity investment in the aforementioned subsidiary is stated at cost, less allowance for impairment (Note 20).

In accordance with IAS 27 "Consolidated and Separate Financial Statements", the Bank prepares consolidated financial statements. In preparing consolidated financial statements, the Bank combines its financial statements and the financial statements of its subsidiary line by line by adding together same items of assets, liabilities, equity, income and expenses. All intra-group balances and transactions, including income, expenses and unrealized gains, are eliminated in full.

2.12.2.Investments in associates

In accordance with IAS 28 "Investments in Associates", investments in associates are investments in entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Investments in associates are classified as financial asset available for sale and are recognized at cost less allowance for impairment. As at 31 December 2011, the Bank has investment in Investment funds Management Company "Intesa Eurizon Asset Management" a.d. Beograd, and is entitled to 40% of total shares of the company.

2.13. Intangible Assets

Intangible assets consist of software, licenses and intangible assets under construction. Intangible assets are carried at cost less any accumulated amortization.

Licenses are initially recognized at cost. They have limited useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method in order to fully write off the cost of these assets over their estimated useful lives (from 5 to 10 years).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (from 2 to 5 years).

Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

Amortization of intangible assets is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

- Licenses and similar rights	10%-20%
- Software	20%-50%

Intangible assets include unamortized software in progress, since it is still not in use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Property and equipment and investment property

As of 31 December 2011, property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are recognized in the income statement of the financial period in which they are incurred.

The Bank owns property as investments to generate profits from rents and/or increases in property value on the market. Investment property is stated at cost less accumulated depreciation.

Depreciation is calculated using straight-line method applied to cost of fixed assets, using the following prescribed annual rates in order to write them off over their useful lives:

Buildings	2.5%
Computer equipment	20%
Furniture and other equipment	7% - 25%
Investment property	2.5%

In determining the basis for depreciation, the depreciable values of assets equal their cost or revalued amount, since the Bank assesses the residual values of assets as nil.

Calculation of depreciation of property and equipment commences at the beginning of month following the month when an asset is put into use. Assets under construction are not depreciated. Depreciation charge is recognised as expense for the period when incurred.

The useful lives of the assets are reviewed periodically, and adjusted if necessary at each balance sheet date. Change in the expected useful life of an asset is considered as a change in an accounting estimate.

Gains or losses from the disposal of property and equipment are credited or debited in the income statement, included in Other operating income or Other operating expenses, respectively.

The calculation of the depreciation for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes. Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 13(c)).

2.15. Impairment of non-financial assets

In accordance with adopted accounting policy, 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 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 an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Finance Leases

Bank as a Lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in property and equipment with the corresponding liability to the lessor included in other liabilities.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in interest expense.

It is regulated by the Agreement on leasing that the Bank can, but it does not have to, obtain ownership of the leased facility after the expiration of the Agreement on leasing.

2.17. Operating Leases

A lease is classified as an operating lease if it does not transfer to the Bank substantially all the risks and rewards incidental to ownership.

The total payments made under operating leases are included in Other operating expenses, when incurred, in the income statement using a straight-line basis over the period of the lease.

2.18. Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation, legal or constructive, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognised in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognised initially for. Provisions are not recognised for future operating losses.

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

2.19. Equity

Equity consists of share capital (ordinary shares), other capital, share premium, reserves from profit and retained earnings.

Dividends on ordinary shares are recognized as a liability and deducted from equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are disclosed as an event after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Employee benefits

(a) Employee taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank is obliged to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

(b) Termination Benefits arising from Restructuring

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

(c) Other Employee Benefits - Retirement Benefits

In accordance with the Labour Law and article 33 of the General collective agreement, the Bank is obligated to pay retirement benefits in the amount equal to 3 average salaries in the moment of payment, while this amount cannot be lower than 3 salaries of employee, 3 average salaries in the Bank in the moment of payment or 3 average salaries realized in the Republic of Serbia, according to the latest data published by statistical office of the Republic, if that is favourable for the employee. The entitlement to these benefits usually depends on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Provision for retirement benefits and unused days of vacation are calculated by independent actuary and are recognized in the balance sheet at present value of discounted estimated future outflows (Note 29 (c)).

2.21. Taxes and contributions

(a) Income Taxes

Current Income Tax

Current income tax represents an amount that is calculated and paid in accordance with the effective Law on Corporate Income Tax of the Republic of Serbia. During the year, the Bank pays income tax in monthly instalments, based on the prior year Tax return. Final tax base used for calculating income tax at the prescribed rate of 10% is disclosed in the Tax return.

In order to determine the amount of the taxable profit, the accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year, as disclosed in the current year Tax return. Tax return is submitted to Tax authorities 10 days after the submission of the financial statements, i.e. until the 10 March of the following year.

In accordance with the Law on Corporate Income Tax of the Republic of Serbia, when investing in fixed assets tax credit is recognized in the amount equal to 20% of the investment, and this tax credit may not exceed 50% of computed tax for the year in which this investment was made. Unused portion of tax credit may be transferred to the future income tax account, but not more than 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Taxes and contributions

(a) Income Taxes (continued)

Deferred income tax

Deferred tax is provided for using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the balance sheet date is used to determine the deferred income tax amount.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries and associates when deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Taxes and contributions (continues)

(a) Income Taxes (continued)

Deferred income tax (continued)

Deferred tax assets and liabilities are calculated at tax rates that are expected to be effective in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current and deferred taxes are recognized as income or expense and are included in the profit for the period.

Deferred income taxes related to items that are recorded directly in equity are also recorded in equity.

(b) Taxes and contributions not related to operating result

Taxes and contributions that are not related to the Bank's operating result include property taxes, VAT, employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and local tax regulations. These taxes and contributions are included within other operating expenses (Note 10).

2.22. Funds Managed on Behalf of Third Parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 32(a)). The Bank is not exposed to any risk in respect of repayment of these placements.

3. INTEREST INCOME AND INTEREST EXPENSE

a) Interest income and expense by sector structure are presented as follows:

	2011	RSD thousand 2010
Interest income		
- National Bank of Serbia and other banks	3,032,179	2,460,158
- Corporate customers	15,564,957	13,663,832
- Public sector	2,911,577	2,456,332
- Other customers	436,790	176,055
- Foreign entities	72,194	92,697
- Retail customers	9,072,766	7,782,029
Total	**31,090,463**	**26,631,103**
Interest expense		
- National Bank of Serbia and other banks	744,530	500,874
- Corporate customers	3,175,903	2,179,000
- Public sector	520,975	503,128
- Other customers	1,021,329	1,860,601
- Foreign entities	2,082,776	1,666,560
- Retail customers	4,107,195	2,575,546
Total	**11,652,708**	**9,285,709**
Net interest income	**19,437,755**	**17,345,394**

b) Interest income and expense by type of financial instruments are presented as follows:

	2011	RSD thousand 2010
Interest income		
Loans	25,656,928	21,843,034
Reverse REPO transactions	2,045,821	1,842,245
Obligatory reserve	253,197	284,532
Deposits	19,152	4,410
Securities	2,094,090	2,042,429
Other placements	1,021,275	614,453
Total	**31,090,463**	**26,631,103**
Interest expenses		
Loans	1,955,356	1,544,708
Deposits	9,682,711	7,734,632
Other interest expenses	14,641	6,369
Total	**11,652,708**	**9,285,709**
Net interest income	**19,437,755**	**17,345,394**

4. FEE AND COMMISSION INCOME AND EXPENSE

	2011	RSD thousand 2010
Fee and commission income		
Fee for banking services:		
- Domestic payment transaction services	2,185,359	2,053,584
- International payment transaction services	417,888	298,340
- Loan operations	71,591	76,609
- Cards operations	2,250,461	2,246,638
	4,925,299	**4,675,171**
Commissions in respect of issued guaranties and letter of credits	833,885	864,636
Other fee and commission	1,618,922	1,410,698
Total	**7,378,106**	**6,950,505**
Fee and commission expense		
Fee for payment transaction services:		
– Domestic	186,411	166,094
– International	108,914	48,331
National Bank of Serbia's fee and commission	51,559	43,571
Credit Bureau's fees	29,846	37,890
Fee for cards operations	1,538,652	1,427,901
Other fees and commissions	27,658	62,235
Total	**1,943,040**	**1,786,022**
Net fee and commission income	**5,435,066**	**5,164,483**

Other fees and commission income during 2011 mostly relate to fees for the maintenance of current accounts in the amount of RSD 1,031,474 thousand (2010: RSD 967,203 thousand) as well as fees for payment slips, EDB and Telekom Srbija in the amount of RSD 189,826 thousand (2010: RSD 156,547 thousand).

5. NET FOREIGN EXCHANGE GAINS/(LOSSES)

	2011	RSD thousand 2010
Foreign exchange gains	121,225,609	84,576,542
Foreign exchange losses	(119,288,336)	(98,375,347)
Net foreign exchange gains/(losses)	**1,937,273**	**(13,798,805)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

6. OTHER OPERATING INCOME

	2011	RSD thousand 2010
Recovery of receivables previously written-off	54,666	157,132
Rental income	18,442	18,928
Gains on sales of property and equipment and surpluses	43,551	131,549
Reimbursed expenses	5,781	5,270
Other income	291,808	84,547
Total	**414,248**	**397,426**

7. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS, NET

(a) Impairment losses and provisions, net

	2011	RSD thousand 2010
Additions to allowances for impairment of financial assets and provisions:		
Impairment losses for balance-sheet assets	**11,482,696**	**9,267,879**
Provisions for off-balance sheet items	**591,938**	**1,978,460**
Provisions for:		
- long-term employee benefits	83,018	145,882
- litigations	138,490	82,106
- other liabilities – arising from VAT	45,288	41,844
	266,796	**269,832**
Total	**12,341,430**	**11,516,171**
Reversal of impairment losses		
Reversal of impairment losses on balance sheet assets	6,835,834	4,697,193
Suspended interest	213,400	102,085
	7,049,234	**4,799,278**
Release of provision for losses on off-balance sheet Assets	**969,934**	**2,119,114**
Release of provisions for:		
- Long-term employee benefits	32,698	140,992
- Litigations	30,186	92,627
	62,884	**233,619**
Total	**8,082,052**	**7,152,011**
Impairment losses and provisions, net	**4,259,378**	**4,364,160**

7. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS, NET (continued)

b) Movements in the Allowance for Impairment of Financial Assets and Provisions

Movements in the allowance for impairment of loans and other financial assets and provisions during the 2011 are presented as follows:

RSD thousand

	Cash and cash equivalents (Note 15)	Interest and fee receivable (Note 17)	Loans, advances and deposits (Note 18)	Securities available for sale (Note 19)	Equity investments (Note 20)	Other placements (Note 21)	Other assets (Note 24)	Provisions (Note 29)	Total
Balance as at 31 December 2010	**1,690**	**1,559,748**	**15,264,727**	**16,148**	**894**	**943,760**	**10,876**	**2,419,833**	**20,217,676**
Additions	3,811	1,427,912	8,888,345	20,755	20	1,129,076	12,777	858,734	12,341,430
Reversals	(1,049)	(470,695)	(6,107,542)	-	-	(457,475)	(12,473)	(1,032,818)	(8,082,052)
FX losses on impairment for financial assets	355	17,408	966,827	-	-	49,614	333	105,014	1,139,551
FX gains on impairment of financial assets	(303)	(20,309)	(1,046,398)	-	-	(48,911)	(363)	(121,741)	(1,238,025)
Transfer to off-balance (Note 32 (d))	-	(699,416)	(2,632,533)	-	-	(377,779)	-	(12)	(3,709,740)
Other	-	-	-	(1,199)	(194)	-	(3,101)	-	(4,494)
Balance as at 31 December 2011	**4,504**	**1,814,648**	**15,333,426**	**35,704**	**720**	**1,238,285**	**8,049**	**2,229,010**	**20,664,346**

8. SALARIES, WAGES AND OTHER PERSONAL EXPENSES

RSD thousand

	2011	2010
Net salaries	3,167,371	2,859,218
Tax on employee benefits	486,848	442,722
Contributions on employee benefits	680,657	619,000
Other personal expenses	99,302	75,356
Total	**4,434,178**	**3,996,296**

9. DEPRECIATION AND AMORTIZATION

RSD thousand

	2011	2010
Amortization of intangible assets (Note 22)	223,716	201,861
Depreciation of property, equipment and investment property (Note 23)	641,260	688,830
Total	**864,976**	**890,691**

10. OTHER OPERATING EXPENSES

RSD thousand

	2011	2010
Material, energy and spare parts	383,867	416,713
Professional services	807,932	825,078
Advertising, marketing and representation	735,776	704,232
Mail and telecommunication expenses	366,643	323,374
Insurance premiums	812,756	681,952
Maintenance of property and equipment	402,756	390,045
Rental cost	889,516	828,144
Fees and commission	197,873	181,921
Taxes and contributions	888,975	774,451
Physical-technical security	196,093	161,662
General and administrative expenses	208,722	170,510
Direct write-off of receivables	267,401	508,680
Losses on write-offs, disposals and shortages of property, equipment and intangible assets	10,803	20,941
Other expenses	228,862	188,577
Total	**6,397,975**	**6,176,280**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

11. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2011	RSD thousand 2010
Gains from changes in value of loans and receivables	21,876,125	23,974,236
Gains from changes in value of securities	298,009	2,879
Gains from changes in value of derivatives	142,477	3,363
Gains from changes in value of other financial assets	-	265
Gains from changes in value of liabilities	1,136,154	300,258
Total	**23,452,765**	**24,281,001**

12. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2011	RSD thousand 2010
Losses from changes in value of loans and receivables	22,203,016	8,708,599
Losses from changes in value of securities	534,763	-
Losses from changes in value of derivatives	164,916	94,101
Losses from changes in value of liabilities	1,128,385	704,471
Total	**24,031,080**	**9,507,171**

13 INCOME TAX

(a) Components of Income Tax

The components of income tax expense are:

	2011	RSD thousand 2010
Current income tax	1,113,156	871,597
Profit from created deferred tax assets and reduction of deferred tax liabilities	(23,673)	(35,407)
Loss from reduction deferred tax assets and creation of deferred tax liabilities	9,410	-
Total income tax	**1,098,893**	**836,190**

13. INCOME TAX (continued)

(b) Reconciliation of total amount of income tax stated in the income statement with the amount of profit before tax multiplied by prescribed tax rate is as follows:

RSD thousand

	2011	2010
Profit before tax	**10,689,733**	**8,456,120**
Income tax at the rate of 10%	**1,068,973**	**845,612**
Tax effect of non-deductable expenses	60,278	33,323
Tax credits on investment in property and equipment	(66,114)	(49,208)
Effects of interest on arm's length basis	6,049	-
Other	29,707	6,463
Income taxes stated in the income statement	**1,098,983**	**836,190**
Effective tax rate	**10.28%**	**9.89%**

For the purpose of determining income taxes for the year ended 31 December 2011, the Bank increased the tax base by the amounts of provisions charged to the income in the total amount of RSD 266,796 thousand, which includes the following:

- Provision for litigations in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in the amount of RSD 138,490 thousand;
- Provision for restructuring in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in the amount of RSD 70,237 thousand;
- Provisions for retirement benefits in accordance with IAS 19 "Employee Benefits" in the amount of RSD 12,781 thousand; and
- Provisions for tax liabilities RSD 45,288 thousand.

(c) Deferred Tax Assets

Deferred tax assets relate to taxable temporary differences between carrying amount of tangible and intangible assets and their taxable base, as well as to differences arised from fair value of derivatives and their carrying amount.

Movements in deferred tax assets during the year were as follows:

RSD thousand

	2011	2010
Balance as at 1 January	**33,054**	**-**
Effects of temporary differences credited to the income statement	14,263	33,054
Balance as at 31 December	**47,317**	**33,054**

14. EARNINGS PER SHARE

Pursuant to the Serbian Business Registers Agency Decision no. BD 159633/2006 dated 5 October 2006, the Bank became a closed joint-stock company, and therefore it is not obliged to calculate and disclose the earning per share as required by IAS 33 "Earning per Share".

15. CASH AND CASH EQUIVALENTS

		RSD thousand
	2011	**2010**
In Dinars		
Gyro account	10,146,499	7,847,530
Cash on hand	2,743,000	2,261,201
Bonds of Ministry of Finance of Republic of Serbia, with maturity up to 90 days	315,667	7,890,224
	13,205,166	**17,998,955**
In foreign currency		
Current accounts held with foreign banks	541,445	487,608
Foreign currency cash on hand	2,383,905	1,484,068
Other monetary assets	40,365	34,096
	2,965,715	**2,005,772**
Gold and precious metals	56,184	50,211
Gross balance as at 31 December	**16,227,065**	**20,054,938**
***Minus:* Allowance for impairment (Note 7 (b))**		
- In foreign currency	(4,504)	(1,690)
	(4,504)	**(1,690)**
Balance as at 31 December	**16,222,561**	**20,053,248**

Obligatory reserve in dinars is minimal reserve in dinars allocated in accordance with the National Bank of Serbia's Decision on banks' obligatory reserve held with the National Bank of Serbia (Official Gazette of Republic of Serbia no. 3/2011).

Bank is required to calculate and allocate the obligatory reserve in dinars by applying 5% on the average daily balance of liabilities in dinars with contractual maturity up to 730 days, while 0% is applied on the average daily balance of liabilities in dinars with contractual maturity over 730 days. These percentages are calculated on the average daily balance of liabilities in local currency during the preceding calendar month and a bank allocates calculated amount to its gyro account with National bank of Serbia. The Bank calculates obligatory reserve in dinars on the deposits in dinars, loans and securities, and other obligations in dinars, excluding dinar deposits received under transactions performed on behalf and for the account of third parties that are not in excess of the amount of the investment made from such deposits as defined by the Decision.

During the maintenance period, the Bank is obliged to maintain average daily balance of obligatory reserve in dinars at the level of calculated obligatory reserve in dinars.

As at 31 December 2011, obligatory reserve in dinars amounted to RSD 11,447,878 thousand and it was in accordance with the aforementioned Decision of the National Bank of Serbia.

The average interest rate on the balance of the obligatory reserve in dinars set aside equalled 2.50% annually during 2011.

16. REVOCABLE DEPOSITS AND LOANS

		RSD thousand
	2011	**2010**
In Dinars		
Reverse repurchase agreements	33,000,000	7,000,000
	33,000,000	**7,000,000**
In foreign currency		
Obligatory reserve with the National Bank of Serbia	50,162,819	44,409,640
	50,162,819	**44,409,640**
Balance as at 31 December	**83,162,819**	**51,409,640**

Obligatory reserve with the National Bank of Serbia in foreign currency

In accordance with the National Bank of Serbia's Decision on banks' obligatory reserve held with the National Bank of Serbia (Official Gazette of Republic of Serbia no. 3/2011), the Bank calculates and allocates the obligatory reserves by applying 30% on the average daily balance of foreign currency deposits as well as on the average daily balance of foreign currency clause-indexed dinar liabilities in the preceding calendar month, except for liabilities defined by the Decision, with contractual maturity up to 730 days. The Bank applies 25% on the aforementioned liabilities with contractual maturity over 730 days.

The Bank is obliged to maintain average daily balance of obligatory foreign currency reserve at the level of calculated foreign currency reserve, in the calculation period.

The National Bank of Serbia does not pay interest on obligatory reserve in foreign currency.

As at 31 December 2011, the Bank's obligatory reserve in foreign currency was in compliance with the aforementioned Decision of the National Bank of Serbia.

In accordance with the Decision on obligatory reserves held at the National Bank of Serbia that leasing companies are obliged to keep on separate account with the bank (Official Gazette of Republic of Serbia no. 12/2010), the Bank is obliged to calculate and allocate obligatory reserve on foreign currency financial assets that leasing companies keep on separate account with the Bank (obligatory leasing reserve) at a rate of 100% on average daily balance of those liabilities during the previous calendar month.

Calculated obligatory leasing reserve the Bank allocates in EUR, on foreign currency accounts with National Bank of Serbia, and exceptionally, when due to allocation of obligatory leasing reserve in EUR the Bank's foreign exchange risk ratio would not comply with the Decision on Risk Management of National Bank of Serbia, the Bank may allocate obligatory leasing reserve in USD.

Reverse repurchase agreements

Reverse repurchase agreements are recognized as placements or borrowings. They represent purchase and sale of securities where the contractual parties agreed that securities are sold by a seller to a buyer at purchase cost as of the date of transaction, while at the same time the buyer is obligated to resell the same securities to the seller, who is obligated to pay the agreed repurchase price.

Reverse repurchase agreements in the amount of RSD 33,000,000 thousand as at 31 December 2011 relate to purchase of treasury bills from the National Bank of Serbia with maturity period to 14 days, and bearing an interest rate 9.75% per annum (31 December 2010: RSD 7,000,000 thousand).

17. INTEREST AND FEE RECEIVABLES, RECEIVABLES FROM SALES, CHANGES IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES

RSD thousand

	2011	2010
In Dinars		
Interest and fee receivables:		
- Other banks	152,284	70,321
- National Bank of Serbia	11,158	8,408
- Corporate customers	3,003,268	3,014,935
- Public sector	44,484	34,705
- Retail customers	736,634	537,141
- Foreign entities	605	234
- Other customers	608,063	148,603
Receivables from sales	1,063	998
Receivables from changes in fair value of derivatives (Note 35 (e))	142,477	3,363
	4,700,036	**3,818,708**
In foreign currency		
Interest and fee receivables:		
- Other banks	63	73
- Corporate customers	59,095	103,664
- Public sector	-	27
- Retail customers	14,110	12,640
- Foreign entities	8,679	11,530
- Other customers	18,254	3,404
	100,201	**131,338**
Gross receivables	**4,800,237**	**3,950,046**
Minus: Allowance for impairment (Note 7(b))		
- in dinars	(1,775,715)	(1,495,317)
- in foreign currency	(38,933)	(64,431)
	(1,814,648)	**(1,559,748)**
Balance as at 31 December	**2,985,589**	**2,390,298**

18. LOANS AND ADVANCES

Loans and advances by type of customer

RSD thousand

	2011			2010		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In dinars						
Loans and placements to:						
- Other banks	1,043,050	6,665,241	7,708,291	1,304,119	2,803,533	4,107,652
-Corporate customers	54,571,364	94,735,729	149,307,093	64,661,551	80,743,681	145,405,232
- Retail customers	6,188,390	71,762,452	77,950,842	5,613,118	66,693,854	72,306,972
- Public sector	83,675	11,877,220	11,960,895	58,005	8,619,119	8,677,124
- Foreign entities	660	347,633	348,293	519	223,058	223,577
- Other customers	4,418,055	1,572,045	5,990,100	1,686,420	1,540,603	3,227,023
Total in RSD	**66,305,194**	**186,960,320**	**253,265,514**	**73,323,732**	**160,623,848**	**233,947,580**
In foreign currency						
Loans and placements to:						
- Other banks	673	1,260	1,933	1,965	-	1,965
- Corporate customers	1,403,435	4,969,120	6,372,555	1,163,433	6,076,972	7,240,405
- Retail customers	59,287	486,359	545,646	9,184	511,756	520,940
- Public sector	82	4,070,918	4,071,000	1,467	4,103,036	4,104,503
- Foreign entities	209,579	556	210,135	13,451,960	1,073,392	14,525,352
- Other customers	197,789	6,579	204,368	8,433	2,839	11,272
Total in foreign currency	**1,870,845**	**9,534,792**	**11,405,637**	**14,636,442**	**11,767,995**	**26,404,437**
Gross loans and advances	**68,176,039**	**196,495,112**	**264,671,151**	**87,960,174**	**172,391,843**	**260,352,017**
Minus: Allowance for impairment (Note 7(b))	(10,501,265)	(4,832,161)	(15,333,426)	(10,460,709)	(4,804,018)	(15,264,727)
Balance as at 31 December	**57,674,774**	**191,662,951**	**249,337,725**	**77,499,465**	**167,587,825**	**245,087,290**

Short-term loans have been granted to corporate customers for financing business activities in trading, manufacturing, construction, agriculture and food processing industry as well as for other purposes, at the rates ranging from 8.25% to 24% per annum for loans in Dinars, and from 4.4% to 14.18% per annum for loans indexed by a foreign currency clause or indexed in foreign currency.

Long-term loans to corporate customers in dinars bear interest rate ranging from 11.12% to 21.18% per annum, and from 2.78% to 14.98% per annum for long-term loans in dinars indexed by a foreign currency as well as loans in foreign currency.

Short-term retail loans and loans to small Corporate customers bear interest rates ranging from 5% to 20% annually in case of loans indexed by a foreign currency, and from 3.50% to 27.00% for loans that are not indexed by a foreign currency.

Interest rate on retail overdrafts is 2.8% monthly, and on overdrafts for small Corporate customers 2.9% monthly.

Long-term retail loans and loans to small Corporate customers have been granted for purchase of consumer goods, renovating, adaptation and purchase of business and residential space for a period from 18 months u to 30 years, bearing interest at the rates ranging from 4.50% to 20% annually in case of loans indexed by a foreign currency and from 2.71% to 25% annually for loans that are not indexed by a foreign currency.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

19. SECURITIES

RSD thousand

	2011			2010		
	Securities at fair value through profit or loss	**Securities available for sale**	**Total**	**Securities at fair value through profit or loss**	**Securities available for sale**	**Total**
Securities and other placements:						
– Equity investments	-	49,223	49,223	-	52,308	52,308
– Debt securities issued by the Government of the Republic of Serbia	38,869	17,639,819	17,678,688	49,580	19,422,931	19,472,511
	38,869	**17,689,042**	**17,727,911**	**49,580**	**19,475,240**	**19,524,820**
Fair value adjustments	(11,631)	104,011	92,380	(15,677)	(112,306)	(127,982)
Gross securities	**27,238**	**17,793,053**	**17,820,291**	**33,903**	**19,362,934**	**19,396,837**
Less: Allowance for impairment (Note 7(b))	-	(35,704)	(35,704)	-	(16,148)	(16,148)
Balance as at 31 December	**27,238**	**17,757,349**	**17,784,587**	**33,903**	**19,346,786**	**19,380,689**

20. EQUITY INVESTMENTS

RSD thousand

	2011	**2010**
Investments in subsidiaries:		
– Intesa Leasing d.o.o., Beograd – 100.00% of capital	962,496	947,941
Minus: Allowance for impairment (Note 7(b))	-	-
	962,496	**947,941**
Equity investments in other legal entities:		
Alma Mons d.o.o.,Novi Sad	30	30
Bancor Consulting Group d.o.o., Novi Sad	267	267
Pan trgovina d.o.o., Novi Sad	466	466
Nikola Tesla d.o.o., Subotica	-	161
Veeda d.o.o., Vranje	29	29
Poslovni Inkubator d.o.o., Beočin	-	33
Minus: Allowance for impairment (Note 7(b))	(720)	(894)
	72	**92**
Balance as at 31 December	**962,568**	**948,033**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

21. OTHER PLACEMENTS

		RSD thousand
	2011	**2010**
In Dinars		
Purchased placements - Factoring	4,184,914	2,511,193
Receivables for guarantees paid	1,422,151	937,724
Placements in respect of assigned receivables	6,862,647	4,028,103
Other placements	242,017	2,409,687
	12,711,729	**9,886,707**
In foreign currency		
Other placements	48,137	1,327,631
	48,137	**1,327,631**
Gross placements	**12,759,866**	**11,214,338**
Less: Allowance for impairment (Note 7(b))		
– in dinars	(1,238,285)	(943,751)
– in foreign currency	-	(9)
	(1,238,285)	**(943,760)**
Balance as at 31 December	**11,521,581**	**10,270,578**

22. INTANGIBLE ASSETS

RSD thousand

	Licences	Software	Intangible assets in progress	Total
COST				
Balance as at 1 January 2010	220,961	605,582	51,154	877,697
Additions during the year	-	-	191,938	191,938
Transfers from assets in progress	55,539	163,806	(219,345)	-
Disposals and write offs	-	(24,978)	-	(24,978)
Balance as at 31 December 2010	**276,500**	**744,410**	**23,747**	**1,044,657**
Additions during the year	-	-	257,653	257,653
Transfers from assets in progress	64	220,337	(220,401)	-
Balance as at 31 December 2011	**276,564**	**964,747**	**60,999**	**1,302,310**
ACCUMULATED AMORTIZATION				
Balance as at 1 January 2010	99,016	207,296	-	306,312
Amortization (Note 9)	28,551	173,310	-	201,861
Disposals and write offs	-	(24,978)	-	(24,978)
Balance as at 31 December 2010	**127,567**	**355,628**	**-**	**483,195**
Amortization (Note 9)	33,797	189,919	-	223,716
Balance as at 31 December 2011	**161,364**	**545,547**	**-**	**706,911**
Net book value as at:				
- 31 December 2011	**115,200**	**419,200**	**60,999**	**595,399**
- 31 December 2010	**148,933**	**388,782**	**23,747**	**561,462**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

23. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

RSD thousand

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvements	Construction in progress	Total property and equipment	Investment property
COST						
Balance as at 1 January 2010	5,606,964	3,573,799	492,572	48,305	9,721,640	20,713
Additions during the year	-	-	-	675,591	675,591	-
Transfers from construction in progress	157,087	444,838	54,146	(656,071)	-	-
Disposals and write offs	(338,674)	(179,748)	(21,206)	-	(539,628)	-
Balance as at 31 December 2010	**5,425,377**	**3,838,889**	**525,512**	**67,825**	**9,857,603**	**20,713**
Additions during the year	3,076	-	-	853,620	856,696	1,116
Transfers from construction in progress	150,999	481,843	130,803	(763,645)	-	-
Disposals and write offs	(14,636)	(381,055)	(27,440)	-	(423,131)	-
Balance as at 31 December 2011	**5,564,816**	**3,939,677**	**628,875**	**157,800**	**10,291,168**	**21,829**
ACCUMULATED DEPRECIATION						
Balance as at 1 January 2010	661,538	2,197,728	228,624	-	3,087,890	2,902
Depreciation (Note 9)	106,763	482,852	98,698	-	688,313	517
Disposals and write offs	(109,524)	(166,219)	(13,565)	-	(289,308)	-
Balance as at 31 December 2010	**658,777**	**2,514,361**	**313,757**	-	**3,486,895**	**3,419**
Depreciation (Note 9)	103,822	446,571	90,198	-	640,591	669
Disposals and write offs	(5,199)	(374,486)	(22,641)	-	(402,326)	-
Balance as at 31 December 2011	**757,400**	**2,586,446**	**381,314**	**-**	**3,725,160**	**4,088**
Net book value as at:						
- 31 December 2011	**4,807,416**	**1,353,231**	**247,561**	**157,800**	**6,566,008**	**17,741**
- 31 December 2010	**4,766,600**	**1,324,528**	**211,755**	**67,825**	**6,370,708**	**17,294**

As at 31 December 2011, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

As at 31 December 2011, the carrying value of equipment under finance lease amounts to RSD 142,837 thousand (31 December 2011: RSD 158,772 thousand).

Using the external and internal sources of information in accordance with IAS 36 "Impairment of Assets", The Bank's management concluded that there were no indications of impairment of the property and equipment in use at the balance sheet date.

24. OTHER ASSETS

	2011	RSD thousand 2010
Receivables from employees	8,416	8,367
Receivables for taxes paid in advance, except income taxes	2,415	866
Advances paid	55,488	123,558
Other receivables from operations	876,423	954,211
Assets received on foreclosed loans	1,986	18,838
Other assets	808,377	386,657
Accrued interest income:		
- in dinars	741,493	271,647
- in foreign currency	52,509	58,938
Other accrued income		
- in foreign currency	10,001	12,753
Deferred interest expenses:		
- in dinars	20,719	27,555
- in foreign currency	38,899	407,838
Other deferred expenses:		
- in dinars	260,537	159,096
- in foreign currency	168,213	130,568
Other accruals:		
- in dinars	21,175	-
Total other assets	**3,066,651**	**2,560,892**
Less: Allowance for impairment (Note 7(b))	(8,049)	(10,876)
Balance at 31 December	**3,058,602**	**2,550,016**

Other receivables from operations as at 31 December 2011 amounting to RSD 876,423 thousand mostly relate to receivables in dinars with respect to payment cards of other card issuers Master Card in the amount of RSD 108,885 thousand and VISA in the amount of RSD 492,820 thousand.

25. TRANSACTION DEPOSITS

RSD thousand

	2011			2010		
	RSD	Foreign currency	Total	RSD	Foreign currency	Total
Other banks	146,345	65,888	**212,233**	92,647	62,706	**155,353**
Financial institutions	53,861	9,275	**63,136**	32,872	36,918	**69,790**
Investment and voluntary pension funds	395,094	17,129	**412,223**	399,413	21,082	**420,495**
Insurance companies	314,200	102,981	**417,181**	318,356	237,987	**556,343**
Holding companies	256,131	27,955	**284,086**	145,838	332,587	**478,425**
Corporate	19,687,227	23,020,195	**42,707,422**	17,468,120	10,749,674	**28,217,794**
Public sector	12,862	29,361	**42,223**	16,058	56,020	**72,078**
Retail	9,866,368	27,137,986	**37,004,354**	7,395,614	24,084,114	**31,479,728**
Foreign banks	18,638	25,824	**44,462**	2,637	12,800	**15,437**
Other foreign entities	116,718	924,802	**1,041,520**	99,762	1,262,676	**1,362,438**
Other customers	2,081,121	368,468	**2,449,589**	1,900,672	350,248	**2,250,920**
Balance as of 31 December	**32,948,565**	**51,729,864**	**84,678,429**	**27,871,989**	**37,206,812**	**65,078,801**

Transaction deposits of corporate clients are placed with the interest ranging from 0.5% to 9.75% per annum, depending on the currency and the amount of deposit.

Transaction deposits of retail clients in dinars are not interest bearing, while a vista deposits bear interest at rate from 4% per annum, and from 0.3% per annum for transaction deposits in EUR and other currencies.

26. OTHER DEPOSITS

RSD thousand

	2011			2010		
	Short term	Long term	Total	Short term	Long term	Total
In RSD						
Saving deposits:						
– Retail	1,457,539	3,076	**1,460,615**	626,463	1,604	**628,067**
– Foreign entities	10,561	-	**10,561**	6,339	-	**6,339**
Special purpose deposits	2,845,485	640,631	**3,486,116**	2,490,331	926,324	**3,416,655**
Other deposits	31,799,614	112,545	**31,912,159**	28,583,491	120,198	**28,703,689**
Total in RSD	**36,113,199**	**756,252**	**36,869,451**	**31,706,624**	**1,048,126**	**32,754,750**
In foreign currency						
Savings deposits:						
– Retail	72,290,151	7,729,468	**80,019,619**	66,310,611	6,800,459	**73,111,070**
– Foreign entities	1,441,333	188,688	**1,630,021**	1,401,460	58,742	**1,460,202**
Special purpose deposits	3,831,802	3,113,224	**6,945,026**	4,282,550	3,372,642	**7,655,192**
Other deposits	21,963,603	3,258,646	**25,222,249**	56,171,368	279,503	**56,450,871**
Total in foreign currency	**99,526,889**	**14,290,026**	**113,816,915**	**128,165,989**	**10,511,346**	**138,677,335**
Balance as of 31 December	**135,640,088**	**15,046,278**	**150,686,366**	**159,872,613**	**11,559,472**	**171,432,085**

Term deposits in dinars and foreign currency bear interest rates ranging from 1.8% to 11.75% per annum, depending on the currency and the period that funds have been deposited for.

Retail short-term deposits in dinars bear interest at rates ranging from 8% to 12% per annum, depending on the period that the funds have been deposited for. The interest rates on the retail short-term deposits in foreign currency range from 1.0% do 6.5% per annum, depending on the period the funds have been deposited for as well as the currency.

26. OTHER DEPOSITS (continued)

Retail long-term deposits in foreign currency bear interest at rates ranging from 4.0% to 7.0% per annum for deposits in EUR, i.e. at rates rangning from 2.3% to 4.0% per annum for other currencies, depending on the period that the funds have been deposited for.

The structure of other deposits by type of customers is as follows:

	2011	RSD thousand 2010
Banks	9,253,640	6,433,366
Corporate customers	31,123,536	30,483,986
Retail customers	363,410	333,774
Foreign entities	4,182,103	36,414,691
Public sector	3,230,641	2,169,712
Other customers	8,981,078	9,319,030
Balance as of 31 December	**57,134,408**	**85,154,559**

The structure of special purpose deposits by type of customers is as follows:

	2011	RSD thousand 2010
Banks	692,726	1,301,741
Corporate customers	4,472,984	4,819,885
Retail customers	4,844,789	4,355,356
Foreign entities	178,558	175,561
Public sector	179,312	401,738
Other customers	62,773	17,567
Balance as of 31 December	**10,431,142**	**11,071,848**

27. BORROWINGS

RSD thousand

	2011			2010		
	Short term	**Long term**	**Total**	**Short term**	**Long term**	**Total**
In RSD						
Borrowings:						
- Other banks	800,000	1,483	801,483	-	2,966	2,966
- Corporate customers	110,671	-	110,671	189,620	-	189,620
Other financial liabilities	-	-	-	1,160,720	-	1,160,720
Total in RSD	**910,671**	**1,483**	**912,154**	**1,350,340**	**2,966**	**1,353,306**
In foreign currency						
Borrowings:						
- Other banks	1,205,796	-	1,205,796	-	-	-
- Public sector	-	2,258,207	2,258,207	-	2,357,698	2,357,698
- Foreign entities	6,278,454	43,704,563	49,983,017	-	39,362,017	39,362,017
Other financial liabilities	2,747,288	-	2,747,288	2,182,221	-	2,182,221
Total in foreign currency	**10,231,538**	**45,962,770**	**56,194,308**	**2,182,221**	**41,719,715**	**43,901,936**
Balance as of 31 December	**11,142,209**	**45,964,253**	**57,106,462**	**3,532,561**	**41,722,681**	**45,255,242**

Interest rates on long-term borrowings in dinars range from 0.5% to 5.5% per annum.

Interest rates on long-term borrowings in foreign currency range from EURIBOR 3M – 0.01% to EURIBOR 6M + 6.45%, depending on the date of the loan approval and the currency.

27. BORROWINGS (continued)

As of 31 December 2011, borrowings from foreign banks, which are presented within borrowings from foreign entities, include loans granted to the Bank by the members of Intesa Sanpaolo Group, as follows:

Creditor	Currency	Amount	Maturity Date	Interest rate	2011	RSD thousand 2010
Intesa Sanpaolo S.p.A., Italy	EUR	2,500,000	13.01.2016.	3M Euribor – 1 b.p.	145,335	175,830
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	13.01.2014.	3M Euribor – 1 b.p.	392,403	527,491
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	22.12.2014.	3M Euribor –1 b.p.	392,403	527,491
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	21.12.2016.	3M Euribor –1 b.p.	523,205	632,989
Intesa Sanpaolo S.p.A., Italy	EUR	10.000.000	03.12.2015.	3M Euribor	523,205	659,364
Intesa Sanpaolo S.p.A., Italy	EUR	5.000.000	25.07.2018.	3M Euribor + 1 b.p.	366,243	421,993
Intesa Sanpaolo S.p.A., Italy	EUR	10,000,000	07.11.2016.	3M Euribor	654,006	791,236
Intesa Sanpaolo S.p.A., Italy	EUR	500,000	19.12.2014.	3M Euribor	26,160	35,166
Intesa Sanpaolo S.p.A., Italy	EUR	2,000,000	13.01.2016.	3M Euribor – 1 b.p.	116,268	140,664
Intesa London	EUR	19,500,000	31.12.2015.	6M Euribor +1.00% p.a.	2,040,498	2,057,215
Vseobecna Uverova banka A.S., Slovačka	EUR	40,000,000	03.05.2016.	3M Euribor +1.3% p.a.	4,185,636	4,219,928
Intesa Sanpaolo S.p.A., Italy	EUR	15,000,000	20.08.2029.	3M Euribor +0.9% p.a.	1,412,652	1,503,349
Intesa Sanpaolo S.p.A., Italy	EUR	60,000,000	09.06.2014.	3M Euribor +358 b.p.	6,278,454	6,329,893
Intesa Sanpaolo S.p.A., Italy	EUR	40,000,000	28.05.2014.	3M Euribor +3.64%	4,185,636	4,219,928
Intesa Sanpaolo S.p.A., Italy	EUR	500,000	31.05.2017.	3M Euribor +0.18% p.a.	52,320	-
Intesa Sanpaolo S.p.A., Italy	EUR	15,000,000	10.04.2031.	3M Euribor +0.55% p.a.	1,569,614	-
Balance as of 31 December					**22,864,038**	**22,242,537**

27. BORROWINGS (continued)

Other borrowings from international financial organizations and foreign corporate entities are shown in the following table:

RSD thousand

Creditor	Currency	Amount	Maturity Date	Interest rate	2011	2010
EIB	EUR	1,508,397	20.06.2015	3M Euribor +7.6 b.p.	157,840	159,133
EIB	EUR	2,633,096	20.06.2017	3M Euribor + 10.6 b.p.	275,530	277,787
EIB	EUR	1,631,253	20.05.2016	3M Euribor + 9.6 b.p.	170,696	172,094
EIB	EUR	13,818,410	15.06.2018	3M Euribor + 13.9 b.p.	1,445,971	1,457,817
EIB	EUR	6,411,464	10.07.2019	3M Euribor + 73.4 b.p.	670,901	676,398
EIB	EUR	6,215,949	20.11.2017	3M Euribor + 60.4 b.p.	650,442	655,771
EIB	EUR	7,781,430	24.08.2018	3M Euribor + 46.6 b.p.	814,256	820,927
KfW	EUR	14,000,000	30.12.2015	6M Euribor + 6.45% p.a.	1,065,435	1,342,704
KfW	EUR	16,000,000	30.12.2015	1.2%p.a.	1,217,640	1,534,519
KfW	EUR	13,000,000	31.12.2016	6M Euribor + 4.3% p.a.	1,236,665	1,371,477
KfW	EUR	17,000,000	30.12.2016	1.5% p.a.	1,617,178	1,793,469
KfW	EUR	15,000,000	30.06.2018	6M Euribor + 2.3% p.a.	784,807	-
KfW	EUR	15,000,000	30.06.2018	2.94% p.a.	784,807	-
EBRD	EUR	10,000,000	14.07.2014	6M Euribor + 2.7 % p.a.	896,922	1,054,982
EBRD	EUR	30,000,000	08.09.2015	6M Euribor + 2.7 % p.a.	3,139,227	3,164,946
EBRD	EUR	4,000,000	18.06.2016	6M Euribor + 2.7 % p.a.	418,564	-
EBRD	EUR	10,000,000	18.09.2016	6M Euribor + 2.5 % p.a.	523,205	-
EFSE	EUR	25,000,000	22.09.2016	6M Euribor + 3.2 % p.a.	2,616,023	2,637,455
EFSE	EUR	20,000,000	15.12.2018	6M Euribor + 3.05 % p.a.	1,046,409	-
EFSE	EUR	5,000,000	15.12.2021	6M Euribor + 3.35 % p.a.	261,602	-
APEX	EUR	9,487,000	16.07.2022	3M Euribor + 0.74% p.a.	992,728	1,000,861
CEB	EUR	20,000,000	16.12.2019	3M Euribor + 0.25% p.a.	1,046,409	-
NBS	EUR	19,731,805	8 years from the date of withdrawal of tranche	1% p.a.	1,265,475	1,356,838
Balance as of 31 December					**23,098,732**	**19,477,178**

Short-term loans from banks and foreign entities relates to:

RSD thousand

Creditor	Currency	Amount	Maturity Date	Interest rate	2011	2010
VOLKSBANK AD BEOGRAD	USD	6,500,000	04.01.2012	0.20%	525,630	-
CREDY BANKA AD KRAGUJEVAC	EUR	2,500,000	04.01.2012	0.80%	261,602	-
PIRAEUS BANK AD BEOGRAD	EUR	4,000,000	04.01.2012	0.80%	418,564	-
Intesa Sanpaolo S.P.A	EUR	60,000,000	04.01.2012	1.08%	6,278,454	-
Balance as of 31 December					**7,484,250**	**-**

28. LIABILITIES ARISING FROM SECURITIES, INTEREST, FEE AND CHANGES IN FAIR VALUE OF DERIVATIVES

a) Liabilities arising from securities

		RSD thousand
	2011	2010
Short term deposits of other entities in dinars – forward covered within 3 months	2,364,460	108,162
Short term deposits of other entities in dinars – forward covered within 6 months	15,450	-
Liabilities for short term securities in foreign currency (draft cheques)	5,739	24,628
Balance as of 31 December	**2,385,649**	**132,790**

b) Interest and fee payables and derivatives fair value

		RSD thousand
	2011	2010
In RSD		
Interest and fee payables:		
– Banks	275	225
– Corporate	700	245
– Public sector	-	19
– Other	3	17
Negative fair value of derivatives (Note 32 (e))	164,917	94,101
	165,895	**94,607**
In foreign currency		
Interest and fee payables:		
- Foreign entities	42	-
	42	**-**
Balance as of 31 December	**165,937**	**94,607**

29. PROVISIONS

		RSD thousand
	2011	**2010**
Provision for off-balance sheet exposures (a)	1,287,823	1,682,556
Provision for employee benefits:		
- restructuring (b)	70,237	32,698
- long-term retirement benefits and unused days of vacation (c)	223,437	210,656
Provision for litigations (Note 35 (a))	383,190	274,887
Provision for VAT liabilities	264,323	219,036
Balance as of 31 December	**2,229,010**	**2,419,833**

(a) According to the Bank's internal policy, provisioning for commitments and other off-balance sheet items exposed to risk is performed in the same manner as for balance sheet assets, i.e. off-balance sheet items are classified into recoverability categories based on the estimation of the recoverable amount of receivables, when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank's commitment, and when the objective evidence of such probability exists.

(b) Project of considering and analyzing efficiency of business processes, which may lead to restructuring and decrease in number of employees (redundancies), which started near 2009 year end is still not finalized completely. Therefore, the Bank made provisions in the same manner as in previous years, based on estimated number of employees that fulfil conditions for retirement or number of employees that potentially could be redundant. For the purpose of estimation, available laws and regulations as well as internal acts have been used (Labour Law and Collective agreement).

(c) Long-term provision for retirement benefits has been recognized at year ended on the basis of an independent actuary's calculation, in the amount of present value of estimated future cash outflows. Present value of defined benefit obligations is calculated at discounted rate of 10% p.a. In the absence of a developed financial market in Serbia, in order to determine discount rate at the balance sheet date, annual yield on Government saving bonds (foreign currency saving bonds) guaranteed by the Republic of Serbia is applied. Considering nominal annual yield from saving bonds, projected inflation in Euro zone countries and assumption that exchange rate is formed based on purchasing power parity, real annual yield of benchmark securities is around 4.5%, i.e. with projected nominal inflation rate in Serbia of 5.5%, nominal annual yield is around 10%.

The provision was determined in accordance with the Bank's Collective agreement as well as in accordance with the assumption on average salary increase rate of 3.2% per annum over the period the provision has been established for.

Provision for unused days of vacation is calculated on the basis of an independent actuary's report at the balance sheet date. In accordance with article 114 of the Labour Law in Republic of Serbia, during the vacation employee is entitled to compensation in the amount of last three months average salary. In calculating provision for unused vacation days, following is important:

- Average gross salary in Bank paid in October, November and December 2011
- Number of unused days of vacation.

30. OTHER LIABILITIES

RSD thousand

	2011	2010
Net salaries and compensations	160,075	217,735
Taxes, contributions and other duties payable, excluding income tax liability	110,750	150,596
Trade payables	882,339	688,294
Advances received	364,609	58,708
Other liabilities	838,167	923,460
	2,355,940	**2,038,793**
Accruals and deferred income		
Accrued interest expenses:		
– in RSD	439,274	355,768
– in foreign currency	1,496,341	1,123,834
Accrued interest – other expenses:		
– in RSD	3,647	4,353
– in foreign currency	3,189	2,827
Deferred interest income in RSD	337,989	739,643
Other deferred income in RSD	1,073,358	1,039,380
Other deferrals in RSD	112,168	70,009
	3,465,966	**3,335,814**
Subordinated liabilities (a)	8,371,272	11,604,802
Finance lease liabilities (b)	150,970	164,113
Balance as of 31 December	**14,344,148**	**17,143,522**

30. OTHER LIABILITIES (continued)

(a) Outstanding balance and structure of subordinated liabilities as of 31 December 2011 and 31 December 2010 are as follows:

RSD thousand

Creditor	Currency	Amount	Maturity Date	Interest Rate	31 December 2011	31 December 2010
International Finance Corporation (IFC),Washington, USA	EUR	60,000,000	15.12.2012	6M Euribor + 2.25% p.a.	3,139,227	6,329,892
Intesa Sanpaolo S.p.A., Torino, Italy	EUR	50,000,000	12.03.2012	3M Euribor + 1.8% p.a.	5,232,045	5,274,910
Balance as of 31 December		**110,000,000**			**8,371,272**	**11,604,802**

(b) Finance liabilities for leased equipment as of 31 December 2011 and 2010 are as follows:

RSD thousand

	2011		2010	
Minimal lease payments	**Present value**	**Future value**	**Present value**	**Future value**
Within 1 year	49,315	60,897	43,539	56,142
Between 1 and 5 years	101,655	110,793	120,574	135,526
Balance as of 31 December	**150,970**	**171,690**	**164,113**	**191,668**

31. EQUITY

(a) Equity structure

Structure of capital is presented in table below:

	2011	RSD thousand 2010
Share capital – ordinary shares	21,315,900	18,477,400
Other capital	11,158	11,158
Share premium	20,432,569	9,957,774
Reserves from profit	28,400,323	20,780,393
Revaluation reserves and unrealized losses on financial assets available for sale	663,535	442,467
Profit for the year	9,590,840	7,619,930
Balance as of 31 December	**80,414,325**	**57,289,122**

/i/ Share capital

As of 31 December 2010 the total number of the Bank's registered shares is 184,774 ordinary shares with nominal value of RSD 100 thousand per share.

Shareholder's Assembly meeting held on 8 December 2011 passed the Decision on issuing 6th emission of ordinary shares without public offer for the purpose of increase in share capital. Total amount of issued shares is RSD 13,313,295 thousand and comprise 28,385 shares with nominal value RSD 100 thousand per share.

Shares were sold at the issue price of RSD 469,025.71, consisting of nominal value of the RSD 100,000 and share premium of RSD 369,025.71.

Following existing shareholders purchased 6th issue of ordinary shares:

Shareholder	Number of shares
Intesa Sanpaolo Holding international S.A., Luxemburg	22,080
International Finance Corporation (IFC) Washington, USA	1,987
Intesa Sanpaolo S.p.A., Italy	4,318
Total	**28,385**

The shares were purchased by existing shareholders while shareholder structure remained the same.

31. EQUITY (continued)

(a) Equity structure (continued)

/i/ *Share capital (continued)*

As of 31 December 2011 the total number of the Bank's registered shares is 213,159 ordinary shares with nominal value of RSD 100,000 per share.

The shareholders structure of the Bank as of 31 December 2011 is presented as follows:

Shareholder	Number of shares	In %
Intesa Sanpaolo Holding International S.A., Luxemburg	165,810	77.787
International Finance Corporation (IFC) Washington, USA	14,921	7.00
Intesa Sanpaolo S.p.A., Italy	32,428	15.213
Total	**213,159**	**100.00**

/ii/ *Share premium*

Share premium in the amount of RSD 20,432,569 thousand as of 31 December 2011 is the result of the Bank's status change, i.e. the merger of Panonska banka a.d. Novi Sad in the amount of RSD 2,989,941 thousand, as well as the result of the 4th, the 5th and the 6th issues of ordinary shares without public offer for the purpose of increase in share capital.

/iii/ *Reserves from profit*

Reserves from profit are presented as follows:

		RSD thousand
	2011	**2010**
Special reserves for estimated losses	38,097,054	32,209,707
Shortfall amount of special reserves for estimated losses	(9,696,731)	(11,429,314)
Balance as of 31 December	**28,400,323**	**20,780,393**

Special reserve for estimated loan losses is calculated as required by the Decision on Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items ("Official Gazette of the Republic of Serbia", no. 94/2011). As of 31 December 2011 special reserves for estimated losses for balance sheet assets and off-balance sheet items after deductions of allowance for impairment of balance sheet assets and off-balance sheet items calculated in accordance with above mentioned Decision (Note 2.9.) amounts to RSD 38,097,054 thousand.

Pursuant to the proposal of the Board of Directors, the retained earnings for 2011 in the amount of RSD 9,590,840 thousand is entirely used for coverage of the shortfall amount of the special reserves for estimated losses.

The final Decision on profit distribution, upon the proposal by the Board of Directors, is to be passed by the Shareholders' Assembly on its ordinary annual session, subsequent to the adoption of the financial statements for the year ended 31 December 2011.

The shortfall amount of the special reserves for estimated losses, subsequent to the transfer of profit for the year 2011, amounts to RSD 105,891 thousand (31 December 2010: RSD 3,809,384 thousand).

31. EQUITY (continued)

(a) Equity structure (continued)

/iv/ Revaluation Reserves

Revaluation reserves in the amount of RSD 663,535 thousand as of 31 December 2011 (31 December 2010: RSD 442,467 thousand), comprises positive effects of the performed independent appraisal of buildings at 1 January 2004 as well as fair value adjustments of available-for-sale securities.

		RSD thousand
	2011	**2010**
Effects of buildings' appraisal	559,125	559,125
Revaluation reserve from equity shares	106,490	982
Unrealized gains from available-for-sale securities	(2,080)	(117,640)
Balance as of 31 December	**663,535**	**442,467**

(b) Performance Indicators – Compliance with Legal Requirements

The Bank is obliged to reconcile the scope and the structure of its operations and risky placements with the performance indicators prescribed by the Law on Banks and relevant decisions of National Bank of Serbia passed on the basis of the aforementioned Law.

As of 31 December 2011, the Bank was in compliance with all prescribed performance indicators.

	Performance indicators	**Prescribed**	**Realized**	
			31 December 2011	**31 December 2010**
1	Capital	Minimum EUR 10 million	40,673,797	55,943,806
2	Capital adequacy ratio	Minimum 12%	16.86%	18.62%
3	Permanent investments indicator	Maximum 60%	16.33%	11.52%
4	Related parties exposure	Maximum 20%	5.31%	10.40%
5	Indicator of large and the largest permissible loans	Maximum 400%	32.86%	17.50%
6	Liquidity ratio:	Minimum 1	1.68	1.23
7	Foreign currency risk indicator	Maximum 30%	0.60%	1.67%
8	Exposure to a group of related parties	Maximum 25%	12.47%	17.50%
9	Exposure to an entity related to the Bank	Maximum 5%	2.97%	1.87%
10	Bank's investment in legal entity which is not in the financial sector	Maximum 10%	0.0001%	0.0104%

32. OFF-BALANCE SHEET ITEMS

	2011	RSD thousand 2010
Funds managed on behalf of third parties (a)	3,102,844	2,592,166
Guarantees and other irrevocable commitments (b)	116,239,684	97,246,421
Other off-balance sheet items-derivatives (c)	47,719,376	13,577,254
Other off-balance sheet items (d)	77,996,752	43,657,463
Balance as of 31 December	**245,058,656**	**157,073,304**

(a) Funds managed on behalf of third parties

	2011	RSD thousand 2010
Funds managed on behalf of third parties:		
- short-term	52,507	84,957
- long-term	3,050,337	2,507,209
Balance as of 31 December	**3,102,844**	**2,592,166**

(b) Guarantees and other irrevocable commitments

	2011	RSD thousand 2010
Payment guarantees:		
- in dinars	14,773,531	17,912,073
- in foreign currency	10,579,575	10,679,338
Total	**25,353,106**	**28,591,411**
Performance guarantees:		
- in RSD	11,721,200	12,444,212
- in foreign currency	1,917,325	2,518,971
Total	**13,638,525**	**14,963,183**
Uncovered letters of credit in foreign currency	927,633	5,455,265
Avals and Acceptances	125,994	132,012
Sureties	100,985	90,887
Irrevocable commitments for undisbursed loans	60,597,817	47,836,388
Other irrevocable commitments	15,495,624	177,275
	77,248,053	**53,691,827**
Balance as of 31 December	**116,239,684**	**97,246,421**

32. OFF-BALANCE SHEET ITEMS (continued)

Irrevocable commitments for undisbursed credit facilities represent unused portions of approved loans that cannot be cancelled unilaterally, such as: overdrafts and unused credit card limits for retail clients.

(c) Other off-balance sheet items - Derivatives

		RSD thousand
	2011	**2010**
SWAP contract payables (nominal amount) – purchase of EUR	627,872	1,054,982
SWAP contract payables (nominal amount) – sale of EUR	20,346,543	5,652,994
SWAP contract receivables (nominal amount) – purchase of USD	11,604,300	4,756,812
SWAP contract receivables (nominal amount) – purchase of AUD	254,521	209,466
SWAP contract receivables (nominal amount) – purchase of CAD	166,260	110,909
SWAP contract receivables (nominal amount) – purchase of GBP	498,409	306,040
SWAP contract receivables (nominal amount) – purchase of SEK	93,612	35,320
SWAP contract receivables (nominal amount) – purchase of NOK	123,786	-
SWAP contract receivables (nominal amount) – purchase of JPY	-	111,870
SWAP contract receivables (nominal amount) – purchase of RSD	7,758,850	42,600
SWAP contract receivables (nominal amount) – purchase of CHF	627,159	-
SWAP contract receivables (nominal amount) – sale of RSD	-	1,080,232
Covered currency forward contract payables (nominal amount) – sale of EUR	20,929	97,857
Covered currency forward contract receivables nominal amount) – purchase of RSD	2,379,910	108,162
Covered currency forward contract payables (nominal amount) – sale of USD	2,459,974	10,010
Covered currency forward contract payables (nominal amount) – sale of EUR	370,177	-
Covered currency forward contract receivables (nominal amount) – purchase of RSD	387,074	-
Balance as of 31 December	**47,719,376**	**13,577,254**

32. OFF-BALANCE SHEET ITEMS (continued)

d) Other off-balance sheet items

	2011	RSD thousand 2010
Loro guarantees	24,352,253	20,637,822
Treasury bills	33,000,000	7,000,000
Foreign currency savings' bonds	674,252	775,865
Suspended interest	3,519,989	2,007,136
Transfer from balance sheet	8,237,688	3,897,581
Other	8,212,570	9,339,059
Balance as of 31 December	**77,996,752**	**43,657,463**

Movements in transfer from balance sheet:

	2011	RSD thousand 2010
Beginning balance	3,897,581	1,805,354
Transfer from balance sheet (Note 7 (b))	3,709,740	3,311,700
Other changes	630,367	(1,219,473)
Balance as of 31 December	**8,237,688**	**3,897,581**

(e) Fair Value of Financial Derivates

	2011	RSD thousand 2010
Financial assets		
Net positive fair value of covered currency forward contract	2,834	647
Net positive fair value of currency forward contract	7,282	-
Net positive fair value of currency SWAP contract (far leg)	132,361	2,716
Total (Note 17)	**142,477**	**3,363**
Financial liabilities		
Net negative fair value of currency SWAP contract (far leg)	66,464	94,079
Net negative fair value of covered currency forward contract	98,453	22
Total (Note 28)	**164,917**	**94,101**

33. RELATED PARTY DISCLOSURES

A number of banking transactions with shareholders and other related parties take place in the ordinary course of business.

a) The Bank enters into business relationship with its Parent company – major shareholder Intesa Holding International S.A., Luxembourg and other members of Intesa Sanpaolo Group.

Outstanding balance of receivables and liabilities as of 31 December 2011 and 2010, as well as income and expenses for the years then ended, resulting from transactions with the shareholders and other Bank's related parties within Intesa Sanpaolo Group are presented as follows:

2011	Intesa Sanpaolo S.p.A., Italy, England, USA	Privredna bank d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgrade	Vseobecna Uverova banka A.S., Slovakia	Banka Koper d.d., Slovenia	Pravex Bank Comm. bank	Intesa Sanpaolo Banka D.D. Bosnia and Hercegovina	Intesa Sanpaolo Card d.o.o., LJubljana	Intesa Sanpaolo Card d.o.o., Zagreb	Cib leasing LTD, Hungary	Banca Infrastrutture Innovazione e Sviluppo S.p.A., Italy
Fair value - derivatives	130,767	-	-	-	-	-	-	-	-	-	-
Total placements	130,141	11,445	1,226,248	-	-	-	-	-	65	-	-
Interest and fees receivable	2,771	11	5,408	-	-	-	-	-	-	-	-
Other receivables	3,394	-	27,228	362	-	118	-	-	3,130	-	634
Total receivables	**267,073**	**11,456**	**1,258,884**	**362**	**-**	**118**	**-**	**-**	**3,195**	**-**	**634**
Fair value - derivatives	6,715	-	-	-	-	-	-	-	-	-	-
Loans payables	23,910,446	-	-	4,185,636	-	-	-	-	-	-	-
Deposits payables	6,295,940	1,152	1,531,419	-	-	-	2,415	-	377	14,672	-
Other payables	258,440	15,753	232,422	34,030	-	-	-	42,108	2,005	-	-
Total payables	**30,471,541**	**16,905**	**1,763,841**	**4,219,666**	**-**	**-**	**2,415**	**42,108**	**2,382**	**14,672**	**-**
Interest income	7,562	27	44,922	-	-	-	-	-	-	-	-
Fees and commission income	20,544	12,732	531	-	766	-	-	-	11	-	-
Other income	230,283	426	12,926	-	-	-	-	-	99	101	-
Total income	**258,389**	**13,185**	**58,379**	**-**	**766**	**-**	**-**	**-**	**110**	**101**	**-**
Interest expenses	829,279	332	102,080	126,377	-	-	10,288	-	-	-	-
Fees and commission expense	26,805	1,181	-	-	-	-	-	404,599	5,747	-	-
Other expenses	453,883	9,665	2,589	-	-	-	-	3,077	21,467	-	-
Total expenses	**1,309,967**	**11,178**	**104,669**	**126,377**	**-**	**-**	**10,288**	**407,676**	**27,214**	**-**	**-**

33. RELATED PARTY DISCLOSURES (continued)

The aforementioned receivables and payables at the balance sheet date as well as income and expenses are arising from business transactions during the year with related parties of the Intesa Sanpaolo Group as a result of normal business activities.

Bank on its receivables and payables is charged and paid interest calculated by applying the usual rates. Receivables from related parties are not covered by the collateral.

2010	Intesa Holding International, Luxemburg	Intesa Sanpaolo S.p.A., Italy	Privredna bank d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgrade	Vseobecna Uverova banka A.S., Slovakia	Intesa Sanpaolo Banka D.D. Bosnia and Hercegovina	Intesa Sanpaolo Card d.o.o., LJubljana	Intesa Sanpaolo Card d.o.o., Zagreb	Banca Infrastruttur e Innovazione e Sviluppo S.p.A., Italy
Fair value - derivatives	-	2,263	453	-	-	-	-	-	-
Total placements	-	13,572,260	4,271	1,044,346	-	-	-	-	-
Other receivables	-	12,700	-	29,987	806	-	-	-	2,442
Total receivables	**-**	**13,587,223**	**4,724**	**1,074,333**	**806**	**-**	**-**	**-**	**2,442**
Loans and deposits payables	-	59,111,430	2	1,749,477	4,239,522	-	-	-	-
Fair value - derivatives	-	94,079	-	-	-	-	-	-	-
Other payables	-	110,850	6,594	746	-	-	36,426	1,421	-
Total payables	**-**	**59,316,359**	**6,596**	**1,750,223**	**4,239,522**	**-**	**36,426**	**1,421**	**-**
Interest income	-	89	-	53,657	-	-	-	-	-
Fees and commission income	-	17,082	418	439	-	-	-	-	-
Other income		2,263	453	6,844	-	-	-	-	-
Total income	**-**	**19,434**	**871**	**60,940**	**-**	**-**	**-**	**-**	**-**
Interest expenses	96,709	769,327	-	81,834	78,486	10,227	-	-	-
Fees and commission expense	-	32,559	582	-	-	-	307,856	4,544	-
Other expenses	-	596,104	-	-	-	-	2,638	3,253	-
Total expenses	**96,709**	**1,397,990**	**582**	**81,834**	**78,486**	**10,227**	**310,494**	**7,797**	**-**

33. RELATED PARTY DISCLOSURES (continued)

(b) Gross salaries and other benefits of the Executive Board's members and other key personnel of the Bank, including the Board of Directors' members, during 2011 and 2010, are presented as follows:

		RSD thousand
	2011	**2010**
Remunerations to the members of the Executive Board, Board of Directors and other key management of the Bank	157,315	149,618
Total	**157,315**	**149,618**

34. RISK MANAGEMENT

Risk is an inherent in the Bank's activities and cannot be eliminated completely. It is important to manage the risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, legislators. Risk management is the process of permanent identifying, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating the risk. The adequate system of risk management is critical element in ensuring the Bank's stability and profitability of its operations.

The Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, risk of exposure toward single entity or a group of related entities (concentration risk), risk of investments and risk related to the county of origin of the entity to which the Bank is exposed.

The Board of Directors and the Executive Board are responsible for implementation of the adequate risk management system and its consistent application.

The Bank's Board of Directors determines the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring the risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors. The Executive Board approves internal acts which define risk management and proposes strategies and policies for risk management to Audit Committee and Board of Directors.

The Committee for monitoring business activities (Audit Committee) analyses and adopts the proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of the adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

Risk Management Department has been established in the Bank in order to implement a special and unique system for risk management as well as to enable a functional and organizational segregation of risk management activities from regular business activities.

The Bank has developed the comprehensive risk management system by introducing the policies and procedures, as well as the limits for the risk levels acceptable for the Bank.

34. RISK MANAGEMENT (continued)

The Bank's organization parts authorized for risk management constantly monitor changes in the legislative provisions, while analyzing its influence on the risks at the entity level of the Bank. They take necessary measures to bring the Bank's business activities and procedures in accordance with new procedures within the scope of controlled risk. In addition, introduction of new services is followed by necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

34.1. Credit risk

Credit risk is the risk that credit beneficiaries will not be able to fulfil contractual obligations to the Bank, whether fully or partially. By its internal acts, policies and procedures, the Bank has implemented the adequate system of credit risk management, as well as reducing the credit risk to an acceptable level. The Bank manages the credit risk through setting the credit risk limits, establishing acceptable credit limits for individual customers or for the group of customers.

The credit risk is managed by the Bank at a counter-party specific level, group of related parties, and on the total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates the credit worthiness of each client both at the moment of application of the loan as well as through a subsequent regular and continuous performance analysis. The analysis of the client's credit worthiness, timely settlement of liabilities in the past, the value of collateral on the individual level and for each transaction, is performed in the Credit Management Department.

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for covering the risk, concentration risk (large exposures), portfolio credit risk, the level of capital necessary for coverage all credit risks is performed by the Risk Management Department. Credit Management Department and the Risk Management Department are independent in the Bank.

Principles prescribed by the National Bank of Serbia legislation as well as the Bank's internal procedures are applied in these analysis in order to anticipate potential risks that can arise in terms of a client's inability to settle its liabilities when they fall due and according to contracted terms.

In that sense, an assessment of the required reserve level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, monthly portfolio analysis, are carried out. The analysis entails measuring the adequacy of provision/reserves according to clients' types, risk types, sub-portfolios and total portfolio of the Bank.

Decision making on exposure to credit risk is performed based on the proposals provided by the Credit Management Department. The terms for approval of each corporate loan are determined individually depending on the client type, loan's purpose, estimated creditworthiness and current market position. Type of collateral that accompany each loan are also determined according to a client credit worthiness analysis, type of credit risk exposure, term of the placement as well as the amount of a particular loan. Conditions of loan approvals to retail clients and entrepreneurs are determined through defining standard conditions for different type of products. Risk price for standard types of products is calculated according to the analysis of credit costs of the Bank per each type of product.

Considering the importance of credit risk, dispersion in authorities in respect of decision making process on granting activities has been made. This dispersion is provided with the prescribed limits up to which authorized person or management bodies may decide. Organizational parts passing the decisions with respect to loan approvals, with different levels of authorizations, are: branch managers, regional managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, the approval of the parent bank is necessary.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

The Bank manages the credit risk by setting up limits with respect to period, amount and results of the individual customer's credit worthiness, by diversification of loans to a larger number of customers and contracting foreign exchange clause and index-linking to a consumer price index in order to maintain the real value of loans.

Furthermore, the Bank manages the credit risk through assesment and analysis of received collaterals, by providing allowance for impairment of financial assets, provision for off-balance sheet items, as well as by determining the adequate price of a loan which covers the risk of a particular placement.

In addition to clients' credit worthiness, the risk limits are also determined based on different types of collateral. Risk exposure toward a single debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. Total risk exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analyzed before the transaction.

Loan Concentration Risk

The concentration risk is the risk of incurring losses due to an excessive volume of placements into a certain group of debtors. Groups of debtors can be defined by different categories: geographical sectors, industries, countries, related parties or economic groups, etc. The Bank manages and controls the concentration risk by limiting and monitoring the exposure toward certain groups, predominantly by countries and economic groups.

Derivative Financial Instruments

Derivative financial instruments lead to the Bank's exposure to credit risk in case their fair value is positive for the Bank. Credit exposure arising from derivatives is calculated using current exposure method, i.e. the sum of positive fair value of the contract and nominal value of derivative multiplied by coefficient which depends on the type and maturity of financial derivative, as prescribed by National Bank of Serbia. Credit risk of derivatives is limited by determining the maximum credit exposure arising from derivative for each individual customer.

Risks similar to credit risk

The Banks issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of the third parties. In this way the Bank is exposed to risks similar to credit risks, which can be mitigated by the same control processes and policies used for credit risk.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

Collaterals and other instruments of credit risk protection

The amount and type of the collateral required depends on an assessment of the credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of customer's credit worthiness, type of exposure to the credit risk, placement's maturity as well as the amount itself.

Contractual authorization as well as bills of exchange are provided by customers as standard collaterals while, depending on the assessment, additional collaterals may be required, such as real estate mortgages, movable property pledges, partial or entire coverage of placements with deposits, guarantees issued by other bank or legal entity, adequate securities, or joint contracting and several debtorship of another legal entity which then becomes the joint and several debtor.

In cases of real estate mortgages or movable property pledges, the Bank always obtains valuations of the assets carried out by the approved appraiser, in order to reduce the potential risk to the lowest rate. Decisions on placements to retail clients and small business (entrepreneurs) are mostly based on appraisal of standardised, previously defined conditions, using the scoring model with the additional analysis of the credit analysts.

Assessment of impairment of financial assets

The main factors considered for financial assets impairment assessment include: overdue of payments of principal or interest, identified weakness in the cash flows of customers, internal credit rating downgrades, or breach of original terms of the contract. The Bank performs assessment of impairment at two levels, individual and collective.

Individual assessment of impairment

The Bank performs individual assessment of impairment for each individually significant loan or advance (exceeding EUR 150,000 for corporate clients and EUR 50,000 for retail clients) if it is in the status of default (overdue more than 90 days), i.e. if there is objective evidence that the loan has been impaired.

The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to the contract with clients, taking into consideration the assessment of financial position and credit worthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realisation of collaterals, etc. Projected cash flows are discounted using the effective interest rate to their present value. Impairment loss is measured as the difference between the carrying amount of loan and its estimated recoverable amount, being the present value of the expected future cash flows. Individual assessment of the impairment of placements is performed at least semi-annually.

If new information becomes available that, as estimated by credit analysts, have an effect on the client's credit worthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

Collective assessment of impairment

Collective Assessment of impairment is performed for loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated monthly with separate review of each sub-portfolio, which represents a specific group of loans and advances with similar characteristics.

The collective assessment of impairment takes into account impairment that is likely to be present in the Bank's portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated based on migration matrices and the probability of collection of receivables overdue more than 90 days. Migration matrices and probabilities are determined based on monitoring the multiannual migrations of internal rating of the clients in the Bank's portfolio.

Special reserves for estimated losses

Both for corporate and retail loans, as per the regulatory requirements of the National Bank of Serbia, the Bank also calculates special reserves for estimated losses as defined by the Decision on the Classification of Banks Balance Sheet Assets and Off Balance Sheet Items. Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans and advances.

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(a) Maximum Exposure to Credit Risk (continued)

Analysis of the Bank's exposure to credit risk (other than credit risk exposure to the National Bank of Serbia, as well as securities of the Republic of Serbia), by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2011 and 2010 is presented in the table below:

RSD thousand

	Accounts with other banks and placements with banks	Loans and advances to customers	Equity investments and securities	Interests, fees and other assets	Guarantees and other commit-ments	Total 2011
Serbia	-	**276,883,512**	**963,289**	**4,795,765**	**102,428,270**	**385,070,836**
Belgrade	-	126,410,664	963,230	2,672,863	41,090,463	171,137,220
Vojvodina	-	89,031,171	30	1,075,272	31,340,326	121,446,799
Rest of Serbia	-	61,441,677	29	1,047,630	29,997,481	92,486,817
Other countries	**541,445**	**547,505**	**-**	**4,471**	**264,419**	**1,357,840**
European Union	527,015	396,346	-	3,044	21,541	947,946
Other European Countries	11,929	115,968	-	1,143	235,253	364,293
Rest of the world	2,501	35,191	-	284	7,625	45,601
Total	**541,445**	**277,431,017**	**963,289**	**4,800,236**	**102,692,689**	**386,428,676**

RSD thousand

	Accounts with other banks and placements with banks	Loans and advances to customers	Equity investments and securities	Interests, fees and other assets	Guarantees and other commit-ments	Total 2010
Serbia	**447,774**	**270,130,136**	**948,927**	**3,937,007**	**97,045,674**	**372,509,518**
Belgrade	297,095	158,331,890	948,835	2,204,044	54,004,307	215,786,171
Vojvodina	147,011	57,709,986	63	790,163	22,051,891	80,699,114
Rest of Serbia	3,668	54,088,260	29	942,800	20,989,476	76,024,233
Other countries	**44,601**	**1,436,220**	**-**	**13,039**	**200,747**	**1,694,607**
European Union	39,589	1,297,089	-	12,376	17,163	1,366,217
Other European Countries	15	104,024	-	514	179,543	284,096
Rest of the world	4,997	35,107	-	149	4,041	44,294
Total	**492,375**	**271,566,356**	**948,927**	**3,950,046**	**97,246,421**	**374,204,125**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(a) Maximum exposure to credit risk (continued)

Analysis of Bank's exposure to credit risk, by industry sectors, before taking into account collaterals and other hedging funds, as of 31 December 2011 and 2010 is presented in the table below:

RSD thousand

	Gross maximum exposure 2011	Net maximum exposure 2011	Gross maximum exposure 2010	Net maximum exposure 2010
Central Bank, foreign and domestic banks and other monetary intermediation	1,234,675	1,203,691	15,500,936	15,454,458
Holding companies and other credit and financing services, excluding insurance and pension funds	7,554,548	5,486,952	-	-
Other legal entities (excluding banks) in bankruptcy	5,968,010	2,138,398	-	-
Financial leasing	209	36	211	-
Retail customers	91,556,624	48,770,810	85,034,784	53,467,063
Construction	41,810,378	23,100,089	38,302,438	22,627,237
Local government	13,558,910	11,161,554	9,538,607	8,076,417
Non-profit legal entities and social services clients that are not financed from the budget	429,547	265,529	-	-
Insurance	229,838	216,126	165,451	151,907
Other	230,977	227,156	5,649,378	5,649,378
Agriculture, forestry and fishing	9,893,609	4,738,424	9,949,561	5,990,414
Activities supporting financial services, insurance and pension funds	212,918	56,790	5,029,588	4,287,168
Real estate, professional, scientific, innovation and technical activities, administrative and supporting service activities, art, entertainment and recreation and other service activities	17,716,005	9,228,197	20,369,042	13,256,830
Trust, investment and similar funds	3,781	141	-	-
Related financial institutions that are not included in consolidation	-	-	-	-
Related financial institutions that are included in consolidation	2,241,508	2,194,152	2,043,387	1,992,287
Corporate clients of social activities that are not financed from budget	2,153,111	925,195	-	-
Corporate clients of social activities that are financed from budget	154,194	109,025	69,999	40,555
Republic bodies and organizations	4,076,182	1,206	46,630	1,445
Mining, manufacturing, water supply, wastewater management, waste management control and similar activities	73,493,134	35,593,078	72,005,395	52,565,664
Transportation and warehousing, accommodation and food services, information and communication	40,461,212	12,574,066	38,136,978	14,304,123
Entrepreneurs	6,678,854	4,296,657	5,879,629	3,920,050
Energy, gas and steam supply, air conditioning	2,361,181	1,853,071	3,054,030	2,792,431
Foreign legal entities	448,727	445,483	1,320,449	1,316,124
Wholesale and retail sale, repair of motor vehicles and motorcycles	63,960,544	38,402,225	62,107,632	45,383,476
Total	**386,428,676**	**202,988,051**	**374,204,125**	**251,277,027**

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Portfolio Quality

The Bank manages the quality of its financial assets using the internal classification of placements.

The following table presents the quality of gross portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2011, by types of placements and based on the Bank's rating system:

RSD thousand

	Neither past due nor impaired				
	High quality level	Standard quality level	Due but not impaired	Individually impaired	Total 2011
Banks	1,225,072	-	7,932	1,671	1,234,675
Customers:					
Corporate customers	79,563,321	19,618,636	4,410,800	7,297,636	110,890,393
Small size and medium size companies	127,935,157	24,062,462	8,341,426	22,370,963	182,710,008
Mortgage loans to retail customers	31,063,078	-	4,213,881	962,889	36,239,848
Other placements to retail customers	49,678,251	-	3,355,571	2,319,930	55,353,752
Total	**289,464,879**	**43,681,098**	**20,329,610**	**32,953,089**	**386,428,676**

According to the Bank's Internal classification all receivables, in terms of risk, are divided into performing and nonperforming. Performing includes classes A1, A2 and B1 while the nonperforming receivables includes classes B2 (past due), C1 (substandard) and C2 (doubtful).

The following table presents the quality of gross portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2010, by types of placements and based on the Bank's grading system:

RSD thousand

	Neither past due nor impaired				
	High quality level	Standard quality level	Due but not impaired	Individually impaired	Total 2010
Banks	15,484,919	-	14,332	1,685	15,500,936
Customers:					
Corporate customers	71,069,422	11,860,923	3,706,117	4,130,186	90,766,648
Small size and medium size companies	118,482,725	33,234,489	15,000,338	16,184,203	182,901,755
Mortgage loans to retail customers	28,909,181	771,415	790,248	746,902	31,217,746
Other placements to retail customers	46,347,728	1,301,861	3,064,797	3,102,654	53,817,040
Total	**280,293,975**	**47,168,688**	**22,575,832**	**24,165,630**	**374,204,125**

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Portfolio Quality (continued)

Ageing analysis of loans and advances to customers past due but not impaired

The ageing analysis of loans and advances to customers past due but not impaired as of 31 December 2011 and 2010 is presented as follows:

RSD thousand

2011	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 91 days	Total
Loans to customers:					
Corporate customers	1,664,353	605,229	2,149,150	-	4,418,732
Small business and SME	5,613,497	2,250,546	477,383	-	8,341,426
Mortgage loans to retail customers	1,518,764	2,449,394	245,723	-	4,213,881
Other placements to retail customers	2,206,540	869,392	279,639	-	3,355,571
Balance as of 31 December 2011	**11,003,154**	**6,174,561**	**3,151,895**	**-**	**20,329,610**

RSD thousand

2010	Up to 30 days	From 31 to 60 days	From 61 to 90 days	Over 91 days	Total
Loans to customers:					
Corporate customers	1,692,117	-	-	2,028,332	3,720,449
Small business and SME	9,428,570	2,284,448	539,758	2,747,562	15,000,338
Mortgage loans to retail customers	562,557	126,535	46,156	55,000	790,248
Other placements to retail customers	2,318,611	530,692	187,875	27,619	3,064,797
Balance as of 31 December 2010	**14,001,855**	**2,941,675**	**773,789**	**4,858,513**	**22,575,832**

During 2011, the Bank applied a new methodology for classification, which is harmonized with the members of the group.

In the above tables, the category neither past due nor impaired receivable are performing receivables that are not past due[1] and classified in high level of quality (A1 and A2) and a standard level of quality (B1). Due but not impaired receivables are performing receivables with delay in payments between 1 and 90 days (classes A1, A2, and B1). Impaired loans are nonperforming receivables (class B2, C1, and C2).

[1] Delay in payment is longer than 1 day

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Portfolio Quality (continued)

Assessment of impairment of financial assets

The structure of balance sheet assets and off-balance sheet items as of 31 December 2011 and the related allowance for impairment, i.e. provision, which are determined in accordance with the Bank's internal methodology disclosed in Note 2.7.2., is presented as follows:

RSD thousand

	Individual assessment		Collective assessment		Total	
	Classified balance sheet assets	Allowance for impairment	Classified balance sheet assets	Allowance for impairment	Classified balance sheet assets	Allowance for impairment
Banks	-	-	571,866	4,570	571,866	4,570
Retail	1,159,634	270,476	73,585,968	2,179,228	74,745,602	2,449,704
Corporate	25,443,586	10,541,930	175,732,588	4,864,708	201,176,174	15,406,638
Entrepreneurs	102,323	42,691	4,949,481	491,933	5,051,804	534,624
Total (A)	**26,705,543**	**10,855,097**	**254,839,903**	**7,540,439**	**281,545,446**	**18,395,536**

	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision
Banks	-	-	662,809	4	662,809	4
Retail	-	-	16,847,997	104,803	16,847,997	104,803
Corporate	2,483,177	375,992	81,071,016	794,627	83,554,193	1,170,619
Entrepreneurs	380	-	1,627,310	12,396	1,627,690	12,396
Total (B)	**2,483,557**	**375,992**	**100,209,132**	**911,830**	**102,692,689**	**1,287,822**
Total (A+B)	**29,189,100**	**11,231,089**	**355,049,035**	**8,452,269**	**384,238,135**	**19,683,358**

As at 31 December 2011 the aforementioned amounts do not include assets that are not classified in accordance with the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items in the amount of RSD 276,014,704 thousand (31 December 2010: RSD 180,502,206 thousand).

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(c) Default receivables

The Bank gives special attention to default receivables (receivables past due more than 90 days) by monitoring their total outstanding balance and the trend of these receivables.

Breakdown of default receivables as of 31 December 2011 is presented as follows:

RSD thousand

Segment	Total receivables	Default receivables
Banks	571,866	-
Corporate	74,745,602	22,362,517
Entrepreneurs	201,176,173	484,070
Retail	5,051,805	2,853,831
Total	**281,545,446**	**25,700,418**

(d) Restructured loans

Outstanding gross exposure of restructured loans, as defined in accordance with the Decision on classification of balance sheet assets and off balance sheet items of the National Bank of Serbia, as of 31 December 2011 amounted to RSD 6,324,630 thousand (31 December 2010: RSD 5,103,164 thousand).

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management

Liquidity risk relates to the risk that the Bank does not have enough liquidity reserves for settling liabilities when they fall due and for covering the unexpected deposit outflows and non-deposit liabilities. The liquidity issue is presented as the deficit in reserves as well as difficult or impossible acquisition of highly liquid assets at a reasonable market price.

Liquidity risk is measured by permanent monitoring and analysis of the maturity structure of assets and liabilities through appropriate reports and indicators: report on structural maturity mismatch that is analyzed through three scenarios: base scenario, scenario of specific liquidity crises and scenario of systematic crises (maturity mismatch), indicator of structural maturity mismatch and the so called Rules - Rule 1 and Rule 2, short-term liquidity gaps and liquidity indicators prescribed by the National Bank of Serbia.

The Risk Management Department is responsible for measuring and monitoring of the liquidity and for the regular preparation of reports which present the effects of the migration of various Bank's categories of assets and liabilities to the Bank's liquid asset position. The Risk Management Department reports on liquidity to the parent bank and ALCO Committee. Furthermore, the Risk Management Department provides support to the Treasury Department within the field of statistical analysis and testing the assumptions on the behaviour of certain assets and liabilities items affecting cash inflows and outflows. Applied assumptions on the behavior are approved and periodically revised by the ALCO Committee.

Objectives of liquidity management comprise:

- Planning of cash inflows and outflows;
- Implementation and monitoring of liquidity indicators;
- Measurement and monitoring of the Bank's liquidity;
- Measurement of liquidity gaps and the estimation of deposit stability; and
- Preparation of the Reports for the management.

Short-term liquidity management is done through monitoring following limits/indicators:

- Limits on cumulative net position in the interbank market in the period up to 7 days;
- Limits on short-term liquidity gaps up to a month;
- The minimal amount of liquid assets and liquid reserves;
- Monitoring of indicators of the concentration of interbank lending and customer deposits.

Structural liquidity management is done through monitoring:

- Reports on structural maturity;
- Indicators of structural compliance, so called Rules - Rule 1 and Rule 2
- Monitoring of early warning indicators that point to the existence of specific or systematic liquidity crisis.
- Preparation of the reports for the management

Liquidity ratio prescribed by the National Bank of Serbia represents the relation between the liquid assets and current liabilities. Liquid assets include all receivables and assets items due within one month. Current liabilities represent all the Bank's liabilities due within one month.

This liquidity indicator cannot be less than 1 (the average liquidity indicator for all work days in a month), or less than 0.9 for more than three consecutive work days or 0.8 – when calculated for a single work day.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

	2011	2010
As at 31 December	1.93	1.15
Average for the period	1.51	1.34
Highest	1.93	1.53
Lowest	1.13	1.09

All balance sheet and off-balance sheet items are classified in certain maturity intervals according to the remaining maturity in report on structural maturity mismatch, or if maturity is not defined, according to statistically or expert-defined maturity determined based on analysis of historical inflows and outflows of these balance sheet items, taking into account current market condition.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents remaining maturity mismatch report as of 31 December 2011:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS								
Cash and cash equivalents	16,222,561	-	-	-	-	-	-	16,222,561
Revocable deposits and loans	83,162,819	-	-	-	-	-	-	83,162,819
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	2,985,589	2,985,589
Loans and advances to customers	40,425,766	15,998,214	23,191,127	38,558,159	98,817,489	47,680,396	(15,333,426)	249,337,725
Securities (excluding treasury shares)	4,066,079	1,720,758	3,258,695	7,851,242	887,813	-	-	17,784,587
Equity investments	-	-	-	-	-	-	962,568	962,568
Other placements	554,635	1,777,807	1,255,668	1,705,204	3,353,181	371,522	2,503,564	11,521,581
Intangible assets	-	-	-	-	-	-	595,399	595,399
Property, equipment and investment property	-	-	-	-	-	-	6,583,749	6,583,749
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	-	60,192	60,192
Deferred tax assets	-	-	-	-	-	-	47,317	47,317
Other assets	-	-	-	-	-	-	3,058,602	3,058,602
TOTAL ASSETS	**144,431,860**	**19,496,779**	**27,705,490**	**48,114,605**	**103,058,483**	**48,051,918**	**1,463,554**	**392,322,689**
LIABILITIES								
Transaction deposits	84,678,429	-	-	-	-	-	-	84,678,429
Other deposits	31,203,023	33,206,551	25,850,684	52,208,819	7,969,448	247,841	-	150,686,366
Borrowings	11,474,817	261,603	658,711	3,350,544	32,545,540	8,815,247	-	57,106,462
Liabilities arising from securities	5,739	2,364,460	15,450	-	-	-	-	2,385,649
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	165,937	165,937
Provisions							2,229,010	2,229,010
Tax liabilities	-	-	-	-	-	-	43,334	43,334
Liabilities from profit	-	-	-	-	-	-	269,029	269,029
Other liabilities	5,939,365	5,233,972	1,579,445	1,585,871	5,495	-	-	14,344,148
TOTAL LIABILITIES	**133,301,373**	**41,066,586**	**28,104,290**	**57,145,234**	**40,520,483**	**9,063,088**	**2,707,310**	**311,908,364**
TOTAL EQUITY	-	-	-	-	-	-	80,414,325	**80,414,325**
TOTAL LIABILITIES AND EQUITY	**133,301,373**	**41,066,586**	**28,104,290**	**57,145,234**	**40,520,483**	**9,063,088**	**83,121,635**	**392,322,689**
MATURITY MISMATCH	**11,130,487**	**(21,569,807)**	**(398,800)**	**(9,030,629)**	**62,538,000**	**38,988,830**	**(81,658,081)**	**-**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents remaining maturity mismatch report as of 31 December 2010:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS								
Cash and cash equivalents	15,150,177	4,903,071	-	-	-	-	-	20,053,248
Revocable deposits and loans	51,409,640	-	-	-	-	-	-	51,409,640
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	2,390,298	2,390,298
Loans and advances to customers	35,956,280	17,575,487	28,184,860	34,784,297	84,618,346	42,361,910	1,606,110	245,087,290
Securities (excluding treasury shares)	1,256,318	4,606,566	7,400,743	6,117,062	-	-	-	19,380,689
Equity investments	-	-	-	-	-	-	948,033	948,033
Other placements	3,366,271	488,062	4,812,717	357,220	1,044,502	-	201,806	10,270,578
Intangible assets	-	-	-	-	-	-	561,462	561,462
Property, equipment and investment property	-	-	-	-	-	-	6,388,002	6,388,002
Deferred tax assets	-	-	-	-	-	-	50,685	50,685
Other assets	-	-	-	-	-	-	33,054	33,054
	-	-	-	-	-	-	2,550,016	2,550,016
TOTAL ASSETS	**107,138,686**	**27,573,186**	**40,398,320**	**41,258,579**	**85,662,848**	**42,361,910**	**14,729,466**	**359,122,995**
LIABILITIES								
Transaction deposits	65,078,801	-	-	-	-	-	-	65,078,801
Other deposits	66,173,075	28,917,328	18,599,043	51,439,068	6,006,769	296,802	-	171,432,085
Borrowings	374,241	-	4,772,137	5,608,902	24,485,145	6,671,875	3,342,942	45,255,242
Liabilities arising from securities	-	108,162	-	-	-	-	24,628	132,790
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	94,607	94,607
Provisions	-	-	-	-	-	-	2,419,833	2,419,833
Tax liabilities	-	-	-	-	-	-	56,962	56,962
Liabilities from profit	-	-	-	-	-	-	220,031	220,031
Other liabilities	2,933	5,580	1,590,387	1,603,789	8,442,538	-	5,498,295	17,143,522
TOTAL LIABILITIES	**131,629,050**	**29,031,070**	**24,961,567**	**58,651,759**	**38,934,452**	**6,968,677**	**11,657,298**	**301,833,873**
TOTAL EQUITY	-	-	-	-	-	-	57,289,122	**57,289,122**
TOTAL LIABILITIES AND EQUITY	**131,629,050**	**29,031,070**	**24,961,567**	**58,651,759**	**38,934,452**	**6,968,677**	**68,946,420**	**359,122,995**
MATURITY MISMATCH	**(24,490,364)**	**(1,457,884)**	**15,436,753**	**(17,393,180)**	**46,728,396**	**35,393,233**	**(54,216,954)**	**-**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

Ratios of maturity mismatch are calculated based on the data from Maturity mismatch report, so called Rule 1 and Rule 2 indicators. Rule 1 indicates coverage of fixed investments with Bank's capital; Rule 2 indicates coverage of long-term investments with long-term funds.

For the purpose of the calculation of structural maturity mismatch indicators, the short-term is defined as a period up to 18 months, middle-term as a period between 18 months to 5 years while long-term is defined as a period over 5 years.

Rule 1:
Investments in property and equipment + equity investments ≤ Bank's regulatory equity + Deductable items

Rule 2:
Long-term receivables + 0.5*(middle-term receivables) <= Suficit/Deficit from Rule 1 + Non current monetary assets + Long-term liabilities + 0.5*(Middle-term liabilities) + Avista behavior coefficient (current accounts and savings deposits) + 0.25*(liabilities to clients with maturity up to 18 months) + 0.25*(interbank liabilities with maturity from 3 to 18 months)

RSD thousand

	31 December 2011	31 December 2010
Rule 1	**34,097,836**	**49,527,705**
Tangible assets	6,583,749	6,438,687
Investments in equity securities	962,568	948,033
Equity	40,673,797	55,943,806
Deductable items	970,356	970,619
Rule 2	**32,546,610**	**47,000,820**
Long-term assets	48,051,918	42,361,910
0.5 * Middle-term assets	40,958,541	35,351,294
Surplus of equity from Rule 1	34,097,836	49,527,705
Long-term liabilities	9,063,087	6,968,677
0.5 * Middle-term liabilities	18,635,498	14,653,851
0.25* transaction and a vista deposits	21,169,607	16,269,700
0.25* liabilities to clients with maturity up to 18 months	34,087,296	33,376,515
0.25* interbank liabilities with maturity from 3 to 18 months	4,503,744	3,917,576

The ratio of aggregate maturity mismatch amounts to minus 25.68%. This ratio indicates the mismatch between receivables and payables due within 3 months in relation to the regulatory capital of the Bank. Furthermore, this ration also implies a cautious assumption that all demand and short-term deposits will flow out within the period of 3 months, which never happens in practice.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The Bank has good maturity match of assets and liabilities which is presented in above mentioned ratios.

All the Bank's long-term investments are financed through the equity (Rule 1), while all long-term placements are financed through long-term funds (Rule 2).

34.3. Market risk

In its ordinary course of business, the Bank is exposed to the fluctuations in market variables which might affect the Bank's income in a positive or a negative way. There are following types of market risks:

- Interest rate risk,
- Foreign currency risk

34.3.1. Interest rate risk

Interest risk is the risk of the decreasing of profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to the interest rate risk depends on the ratio of the interest-sensible assets and interest-sensible liabilities.

Interest rate risk is calculated separately in the banking book and in the trading book. In the trading book only Value at risk (VaR), duration and convexity are calculated, as the measures of interest rate risk exposure.

In the banking book, interest rate risk is measured and monitored by calculating the gap between interest-sensible assets and interest-sensible liabilities (Repricing Gap). Based on the determined gaps, the profit and equity sensitivity analysis is performed for certain changes in market interest rates.

Acceptable level of interest rate risk is defined through limits for highest possible sensitivity of net assets to changes in yield market rates of 100bps and highest possible value at interest rate risk (IRR VaR) for positions in trading book and securities available for sale.

Value at interest rate risk represents highest possible one day loss on positions of trading book and securities available for sale that the Bank could undertake under usual market movements in interest rates. Considering that the value at interest rate risk is calculated with confidence interval from 99%, realized one day loss may be higher than value at interest rate risk once in 100 days. Value at risk is calculated using the method of hybrid historical simulation.

The sensitivity of net asset value to changes in market interest rates of 100 bps is calculated and monitored monthly, and value at interest rate risk daily. Information on level of interest rate risk is regularly submitted to Alco Committee and to the Parent Bank.

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to the interest rate risk as of 31 December 2011:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS								
Cash and cash equivalents	16,222,561	-	-	-	-	-	-	16,222,561
Revocable deposits and loans	33,000,000	-	-	-	-	-	50,162,819	83,162,819
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	2,985,589	2,985,589
Loans and advances	126,169,474	71,702,812	11,665,373	26,765,528	24,969,596	3,398,368	(15,333,426)	249,337,725
Securities (excluding treasury shares)	4,066,079	1,720,758	3,258,695	7,851,242	887,813	-	-	17,784,587
Equity investments	-	-	-	-	-	-	962,568	962,568
Other placements	4,296,484	1,777,807	1,255,668	1,705,203	3,353,182	371,522	(1,238,285)	11,521,581
Intangible assets	-	-	-	-	-	-	595,399	595,399
Property, equipment and investment property	-	-	-	-	-	-	6,583,749	6,583,749
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	-	60,192	60,192
Deferred tax assets	-	-	-	-	-	-	47,317	47,317
Other assets	-	-	-	-	-	-	3,058,602	3,058,602
TOTAL ASSETS	**183,754,598**	**75,201,377**	**16,179,736**	**36,321,973**	**29,210,591**	**3,769,890**	**47,884,524**	**392,322,689**

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
LIABILITIES								
Transaction deposits	84,678,429	-	-	-	-	-	-	84,678,429
Other deposits	39,672,109	27,819,587	22,899,104	52,078,277	7,969,448	247,841	-	150,686,366
Borrowings	11,474,817	27,825,984	13,233,738	1,580,143	2,756,337	235,443	-	57,106,462
Liabilities on securities	5,739	2,364,460	15,450	-		-	-	2,385,649
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	165,937	165,937
Provisions	-	-	-	-	-	-	2,229,010	2,229,010
Tax liabilities	-	-	-	-	-	-	43,334	43,334
Liabilities from profit	-	-	-	-	-	-	269,029	269,029
Other liabilities	5,939,365	5,233,971	3,149,059	16,258	5,495	-	-	14,344,148
TOTAL LIABILITIES	**141,770,459**	**63,244,002**	**39,297,351**	**53,674,678**	**10,731,280**	**483,284**	**2,707,310**	**311,908,364**
TOTAL EQUITY	-	-	-	-	-	-	80,414,325	**80,414,325**
TOTAL LIABILITIES AND EQUITY	**141,770,459**	**63,244,002**	**39,297,351**	**53,674,678**	**10,731,280**	**483,284**	**83,121,635**	**392,322,689**
PERIODICAL GAP	**41,984,139**	**11,957,375**	**(23,117,615)**	**(17,352,705)**	**18,479,311**	**3,286,606**	**(35,237,111)**	**-**
CUMULATIVE GAP	**41,984,139**	**53,941,514**	**30,823,899**	**13,471,194**	**31,950,505**	**35,237,111**		

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to the interest rate risk as of 31 December 2010:

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS								
Cash and cash equivalents	15,150,177	4,903,071	-	-	-	-	-	20,053,248
Revocable deposits and loans	-	-	-	-	-	-	51,409,640	51,409,640
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-		-	-	-	2,390,298	2,390,298
Loans and advances	159,856,066	42,536,676	10,432,347	9,723,418	14,384,244	6,548,430	1,606,109	245,087,290
Securities (excluding treasury shares)	1,256,317	4,606,566	7,400,744	6,117,062	-	-	-	19,380,689
Equity investments	-	-		-	-	-	948,033	948,033
Other placements	3,432,018	488,062	4,812,717	357,220	978,755	-	201,806	10,270,578
Intangible assets	-	-		-	-	-	561,462	561,462
Property, equipment and investment property	-	-		-	-	-	6,388,002	6,388,002
Fixed assets held for sale and assets from discontinued operations	-	-		-	-	-	50,685	50,685
Deferred tax assets	-	-		-	-	-	33,054	33,054
Other assets	-	-		-	-	-	2,550,016	2,550,016
TOTAL ASSETS	**179,694,578**	**52,534,375**	**22,645,808**	**16,197,700**	**15,362,999**	**6,548,430**	**66,139,105**	**359,122,995**

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest sensitive	Total
LIABILITIES								
Transaction deposits	65,078,801	-	-	- -	-	-	-	65,078,801
Other deposits	35,853,616	59,762,780	18,421,550	51,140,568	5,956,769	296,802	-	171,432,085
Borrowings	189,620	25,589,707	10,747,971	2,661,346	2,424,744	298,912	3,342,942	45,255,242
Liabilities on securities	-	108,163	-	-		-	24,627	132,790
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	94,607	94,607
Provisions	-	-	-	-	-	-	2,419,833	2,419,833
Tax liabilities	-	-	-	-	-	-	56,962	56,962
Liabilities from profit	-	-	-	-	-	-	220,031	220,031
Other liabilities	2,933	5,280,490	6,337,806	21,316	2,682	-	5,498,295	17,143,522
TOTAL LIABILITIES	**101,124,970**	**90,741,140**	**35,507,327**	**53,823,230**	**8,384,195**	**595,714**	**11,657,297**	**301,833,873**
TOTAL EQUITY	-	-	-	-	-	-	57,289,122	**57,289,122**
TOTAL LIABILITIES AND EQUITY	**101,124,970**	**90,741,140**	**35,507,327**	**53,823,230**	**8,384,195**	**595,714**	**68,946,419**	**359,122,995**
PERIODIČAL GAP	**78,569,608**	**(38,206,765)**	**(12,861,519)**	**(37,625,530)**	**6,978,804**	**5,952,716**	**(2,807,314)**	**-**
CUMULATIVE GAP	**78,569,608**	**40,362,843**	**27,501,324**	**(10,124,206)**	**(3,145,402)**	**2,807,314**		

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

The table below shows the effect of change in interest rates on the Bank's net income and net assets value:

Scenario	Interest rate fluctuation	Net income effect RSD thousand	Net assets effect RSD thousand
1	1%	134,712	(478,329)
2	2%	269,424	(921,817)
3	-1%	(134,712)	515,872
4	-2%	(269,424)	1,072,225

The following table represents value at risk for trading book and securities available for sale:

Value at risk:	In EUR IRR VaR
Average	231,386
Maximum	377,695
Minimum	129,946

34.3.2. *Foreign Currency Risk*

Foreign currency risk is the risk of the occurrence of negative effect to the financial result and equity of the Bank due to changes in foreign exchange rates. The banking operations in different foreign currencies cause the exposure to fluctuation in foreign currencies exchange rates.

In accordance with the internal policy of the Bank, considering potential fluctuations in foreign currency exchange rate, the Board of Directors decides on the limit on the open foreign currency position of the Bank based on the proposal of the Risk Management Department.

The Bank's Board of Directors has established the limit on the open foreign currency position which is more conservative than the regulatory limit of the foreign currency position and which is monitored on a daily basis, in order to ensure that the Bank's currency risk exposure is maintained within established limits.

The Bank measures the foreign currency risk daily, in accordance with the methodology of the National Bank of Serbia, through the Report on the foreign currency risk indicator.

The foreign currency risk indicator is the ratio between the total open net foreign currency position and the Bank's regulatory capital (calculated in accordance with the Decision on Capital Adequacy of Banks), whereby the Bank is obliged to ensure that its total net open position does not exceed the amount of 20% of its capital.

During 2011, the Bank strictly paid attention to reconcile the foreign currency risk indicator with the prescribed limit, where this indicator was always at the level far below the limit.

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.2. Foreign Currency Risk (continued)

The following table shows the Bank's foreign currency risk exposure, i.e. open net foreign currency position as of 31 December 2011:

RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currency	Total in RSD	Total
ASSETS							
Cash and cash equivalents	2,344,952	198,951	212,158	265,838	3,021,899	13,200,662	16,222,561
Revocable deposits and loans	50,162,819	-	-	-	50,162,819	33,000,000	83,162,819
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	490,003	3,727	2,237	33	496,000	2,489,589	2,985,589
Loans and advances	179,616,225	660,893	3,872,145	-	184,149,264	65,188,461	249,337,725
Securities (excluding treasury shares)	27,238	-	-	-	27,238	17,757,349	17,784,587
Equity investments	-	-	-	-	-	962,568	962,568
Other placements	6,949,513	-	-	996	6,950,509	4,571,072	11,521,581
Intangible assets	-	-	-	-	-	595,399	595,399
Property, equipment and investment property	-	-	-	-	-	6,583,749	6,583,749
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	60,192	60,192
Deferred tax assets	-	-	-	-	-	47,317	47,317
Other assets	492,637	8,187	548	122	501,495	2,557,108	3,058,602
TOTAL ASSETS (I)	**240,083,387**	**871,758**	**4,087,088**	**266,989**	**245,309,223**	**147,013,466**	**392,322,689**
LIABILITIES							
Transaction deposits	46,324,742	3,142,759	1,495,730	766,633	51,729,864	32,948,565	84,678,429
Other deposits	110,271,642	6,227,651	1,976,317	574,005	119,049,615	31,636,751	150,686,366
Borrowings	55,616,132	569,683	2,298	6,194	56,194,307	912,155	57,106,462
Liabilities arising from securities	-	-	42	5,739	5,781	2,379,868	2,385,649
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	165,937	165,937
Provisions	-	-	-	-	-	2,229,010	2,229,010
Tax liabilities	-	-	-	-	-	43,334	43,334
Liabilities from profit	-	-	-	-	-	269,029	269,029
Other liabilities	10,531,206	90,697	12,804	3,513	10,638,220	3,705,928	14,344,148
TOTAL LIABILITIES	**222,743,722**	**10,030,790**	**3,487,191**	**1,356,084**	**237,617,787**	**74,290,577**	**311,908,364**
TOTAL EQUITY	-	-	-	-	-	80,414,325	80,414,325
TOTAL LIABILITIES AND EQUITY (II)	**222,743,722**	**10,030,790**	**3,487,191**	**1,356,084**	**237,617,787**	**154,704,902**	**392,322,689**
Financial derivatives affecting the foreign currency position, recorded in the off balance sheet (III)	**(17,200,397)**	**9,144,326**	**(627,158)**	**1,136,588**	**(7,546,641)**	**-**	**-**
Open net foreign currency position (I - II+ III)	**139,268**	**(14,706)**	**(27,260)**	**47,493**	**144,795**	**(7,691,436)**	**-**

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.2. Foreign Currency Risk (continued)

The following table shows the Bank's foreign currency risk exposure, i.e. open net foreign currency position as of 31 December 2010:

RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currency	Total in RSD	Total
ASSETS							
Cash and cash equivalents	1,467,061	136,695	158,662	243,354	2,005,772	18,047,476	20,053,248
Revocable deposits and loans	44,409,640	-	-	-	44,409,640	7,000,000	51,409,640
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	123,692	49	7,572	25	131,338	2,258,960	2,390,298
Loans and advances	175,676,308	4,219,895	1,487,751	-	181,383,954	63,703,336	245,087,290
Securities (excluding treasury shares)	5,270,692	-	-	-	5,270,692	14,109,997	19,380,689
Equity investments	-	-	-	-	-	948,033	948,033
Other placements	4,857,000	13,342	-	73,396	4,943,738	5,326,840	10,270,578
Intangible assets	-	-	-	-	-	561,462	561,462
Property, equipment and investment property	-	-	-	-	-	6,388,002	6,388,002
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	50,685	50,685
Deferred tax assets	-	-	-	-	-	33,054	33,054
Other assets	660,092	142	8,229	121	668,584	1,881,432	2,550,016
TOTAL ASSETS (I)	**232,464,485**	**4,370,123**	**1,662,214**	**316,896**	**238,813,718**	**120,309,277**	**359,122,995**
LIABILITIES							
Transaction deposits	33,078,541	1,080,866	2,481,171	566,234	37,206,812	27,871,989	65,078,801
Other deposits	137,642,615	3,269,492	3,640,672	388,489	144,941,267	26,490,818	171,432,085
Borrowings	43,863,387	4,609	30,560	3,380	43,901,936	1,353,306	45,255,242
Liabilities arising from securities	-	-	-	24,628	24,628	108,162	132,790
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	94,607	94,607
Provisions	-	-	-	-	-	2,419,833	2,419,833
Tax liabilities	-	-	-	-	-	56,962	56,962
Liabilities from profit	-	-	-	-	-	220,031	220,031
Other liabilities	13,011,819	3,778	19,338	3,978	13,038,913	4,104,609	17,143,522
TOTAL LIABILITIES	**227,596,361**	**4,358,745**	**6,171,741**	**986,709**	**239,113,556**	**62,720,316**	**301,833,873**
TOTAL EQUITY	-	-	-	-	-	57,289,122	57,289,122
TOTAL LIABILITIES AND EQUITY (II)	**227,596,361**	**4,358,745**	**6,171,741**	**986,709**	**239,113,556**	**120,009,438**	**359,122,995**
Financial derivatives affecting the foreign currency position, recorded in the off balance sheet (III)	**(4,695,869)**	**-**	**4,746,801**	**773,605**	**824,537**	**-**	**-**
Open net foreign currency position (I - II+ III)	**172,255**	**11,378**	**237,274**	**103,792**	**524,699**	**299,839**	**-**

Balances with F/X clause have been reported under corresponding currencies.

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.2. Foreign Currency Risk (continued)

Furthermore, the Bank has developed internal methodology for measuring the foreign currency risk, which implies that VaR is calculated and monitored on a daily basis with 99% confidence interval. VaR is the highest possible loss the Bank could suffer in normal market conditions with the probability of 99%. Foreign currency VaR is calculated and monitored daily and is reported to Director of Treasury, Executive Board member responsible for risks and the Parent bank.

The table below presents the benchmark amounts of the foreign currency VaR in 2011 and 2010:

		VaR (in EUR)
Foreign currency VaR	**2011**	**2010**
Average	59,394	34,182
Maximum	643,650	293,717
Minimum	1,542	371

The following table presents the impact of changes in foreign exchange rate on Bank's profit:

	RSD thousand
Scenario	**Impact on the profit**
10% depreciation of RSD	14,480
20% depreciation of RSD	28,959

34.4. Operational Risk

Operational risk is the risk of negative effects on the Bank's financial result and equity due to failures in performance of operating activities, human mistakes, system errors and external factors influence. This definition includes legal risk, but excludes strategic and reputational risk.

The function of operational risk management process is to identify, assess, control and minimize the possibility of occurrence and effect of net losses. The Bank cannot eliminate all operational risks, but it can, trough the processes of recording and analyzing the operational risks identify the failures in its processes, products and procedures. Hence, the Bank's improvement of its processes, products and procedures can decrease frequency and negative influence of operational losses on its operations and profitability. An important aspect of the operative risk management is updating the management on significant operative risks in timely manner, as well as permanent education of all employees included in the process of collecting data on operational risks and comprehensive development of the awareness on the importance of identification, measurement, control and mitigation of operational risks.

Data on operational risks are gathered from all organizational parts of the Bank. Data is classified and analyzed, while the methods of risk mitigation and its impact reduction are recommended.

Once per year the Bank performs its own risks assessment. First part of this process is based on a certain number of scenarios, where the members of the Executive Board assess the frequency and possibility of the operative occurrences, and their influence on profits, from the field they are responsible for. In second part members of the Executive Board evaluate risk factors in the business environment, where the importance and impact of some risk factors are estimated, as well as the level of control and management of risk, and suggestions of measures to mitigate the possible impact of certain risk factors are made. By combining the results of the Bank's risk assessment and statistics of historical cases of operational risks, a clear picture of the Bank's exposure to operational risks is obtained.

34. RISK MANAGEMENT (continued)

34.4. Operational Risk (continued)

The Bank has established and maintains complete and transparent reporting system. The purpose is to analyse and monitor development of the Bank's exposure to operational risk and to prevent the occurrence of events with high intensity (worst case). Reports developed by the Bank include: monthly and semi-annual report (for Members of the Executive Board, Internal Audit and Director of Risk Management Department), quarterly report on capital requirement for operational risk (for National Bank of Serbia).

For the calculation of capital requirement for operational risk, the Bank applies Basic Indicator Approach. Capital requirement for operational risk calculated using basic indicator approach is equal to three year average exposure indicator multiplied by capital requirement rate of 15%. As of 31 December 2011 capital requirement for operational risk, calculated on basic indicator approach amounts to RSD 3,621,530,552.

34.5. Exposure Risk

The Risk Management Department monitors, measures and reports to the Bank's boards on the Bank's exposure to a single client or a group of clients, risk of investment in other legal entities as well as in fixed assets, country risk to which the Bank is exposed as well as operational risk. In 2011, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by the relevant procedures and decisions on credit approval and investments in financial and non-financial assets, that ensured compliance of the Bank's placements and investments with indicators prescribed by the National bank of Serbia.

The exposure risks include the risk of the Bank's exposure to a single client or a group of related clients, as well as exposure risk toward related parties of the Bank.

In accordance with the Risk management policy, the Bank's management defines exposure limits, i.e. the concentration of placements to single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant Bank's authorities strive to ensure the compliance of the Bank's exposure to the prescribed limits, i.e., exposure to a single client or a group of related clients does not exceed 25% of the Bank's equity, total amount of all large exposures do not exceed 400% of the Bank's equity, total exposure to a related party does not exceed 5% of the Bank's equity and total exposure to all related parties of the Bank does not exceed 20% of the Bank's equity.

34.6. Investment Risks

Investment risks include the risk of investment in other legal entities and investment in fixed assets. In accordance with the National bank of Serbia legislation, the Risk Management Department monitors the Bank's investments and reports to the Board of Directors. The Department also ensures that the Bank's investment in a single non-financial sector entity does not exceed 10% of the Bank's equity and that total Bank's investments in non-financial entities and fixed assets do not exceed 60% of the Bank's equity.

34. RISK MANAGEMENT (continued)

34.7. Country Risk

Country risk relating to the country of origin of the Bank's client includes negative effects which may influence financial result and equity of the Bank, as the Bank might not be able to collect receivables from such a client, as a result of political, economical or social conditions in the client's origin country.

The Bank's exposure to the country risk is low, due to insignificant share of non-residents in the total loan portfolio of the Bank.

34.8. Capital Management

The objective of the Bank's capital management is to maintain the ability of conducting the business in the indefinite period in the foreseeable future, in order to maintain the optimal structure of the capital in order to decrease the costs of capital as well as to ensure dividends for the shareholders.

The Bank permanently manages its capital in order to:

- Ensure compliance with the capital requirements set by the National bank of Serbia;
- Ensure adequate level of capital in order to enable conducting the business as a going concern; and
- Maintain capital at the level that will ensure future development of the business.

The capital adequacy, as well as the exercise of the Bank's capital, is monitored on a monthly basis by the Bank's management. The National bank of Serbia has defined the following capital limits:

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

The Bank's total capital comprises Tier 1 and Tier 2, and deductible items:

- Tier 1 capital include: share capital from ordinary shares, share premium, reserves from profit, retained earnings/accumulated losses, capital gains/losses on repurchase of treasury shares as well as intangible assets and repurchased treasury shares (excluding cumulative preference shares) as Tier 1 capital deductible items..
- Tier 2 capital include: share capital from preference shares, share premium on preference shares, revaluation reserves related to fixed assets and equity investments, subordinated liabilities up to 50% of capital and repurchased treasury preference shares as Tier 2 capital deductible item.
- Deductible items are: amount of the required special reserves for potential losses, equity investments in banks or other financial organization exceeding 10% of its capital, and 10% of the investing bank capital, and the amount of the Tier 2 capital of the Bank which exceeds its Tier 1 capital.

Based on the Bank's strategic plan and assessments of the new regulatory framework effects on the capital adequacy (Basel II), which is in force from 31 December 2011, the Bank issued new shares in the amount of RSD 13,313,295 thousand in 2011.

34. RISK MANAGEMENT (continued)

34.8. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as of 31 December 2011 and 2010:

		RSD thousand
	2011	**2010**
Regulatory capital		
Tier 1 capital	79,142,153	56,272,409
Tier 2 capital	599,054	4,451,399
	79,741,207	**60,723,808**
Shortfall amount of the special reserves for potential losses	-	(3,809,384)
Required reserves for estimated losses on balance sheet assets and off-balance sheet items of banks (Decision on the capital adequacy of the bank 46/2011)	38,097,054	-
Equity investment in Intesa Leasing d.o.o. Beograd and Intesa Eurizon Assets Management Beograd	(970,356)	(970,619)
Total (1)	**40,673,797**	**55,943,805**
Risk – weighted assets	**2011**	**2010**
Credit risk exposure	211,007,746	299,424,866
Market risk exposure	-	944,825
Operational risk exposure	30,179,425	-
Total (2)	**241,187,171**	**300,369,691**
Capital adequacy ratio (1/2 x 100)	**16.86%**	**18.62%**

As of 31 December 2011 the total capital for covering risks amounted to RSD 28,942,460 thousand, of which the credit risk, counterparty risk and risk of settlement / delivery on the basis of free delivery amounted to RSD 25,320,929 thousand, while the remaining amount of capital covers operational risks.

34. RISK MANAGEMENT (continued)

34.9. Fair Value of Financial Assets and Liabilities

The Bank's policy is to disclose information on the fair value of assets and liabilities for which official market records are available and when the fair value significantly differs from the carrying amount.

Sufficient market experience, or stability and liquidity for the purchase and sale of receivables and other financial assets and liabilities do not exist in the Republic of Serbia, due to the fact that official market information is not always available. Consequently, fair value cannot be reliably determined in the absence of an active market. The Bank's management estimates its overall risk exposure and provides allowances for losses in case it assess that the carrying amount of asset is not collectable.

The Bank's financial instruments carried at amortized cost mostly have short maturity terms and/or bear variable interest rates that reflect current market conditions. Consequently, the Bank considers that carrying amount of financial instruments approximates their fair value. The fair value of loans and placements to customers is equal to their carrying value, decreased by related allowance for impairment. Available for sale investments include treasury bills of the Republic of Serbia and equity instruments. Available for sale investments are carried at fair value, except equity instruments that do not have a quoted market price in an active market and whose value cannot be reliable determined that are carried at cost less estimated allowances for impairment. Fair value of quoted securities is based on current offer prices. Fair value of treasury bills is based on discount value that gradually, until maturity, increases by the amount of accrued interest.

The Bank's management believes that the carrying amounts in the accompanying financial statements reflect the value that is the most valid and the most useful for the reporting purpose.

34. RISK MANAGEMENT (continued)

34.9. Fair Value of Financial Assets and Liabilities (continued)

Financial instruments at fair value

Financial instruments, such as financial instruments available for sale, are valued at fair value based on available market information, i.e. using quoted market price at the reporting date. In the absence of this information, other valuation techniques are being used.

The Bank uses the following hierarchy in order to determine and disclose fair values of financial instruments:

Level 1: Quoted prices in active market for identical financial instruments;

Level 2: Comparative approach, which uses information on similar financial instruments or other market information, based on which value of financial instruments may be determined;

Level 3: Mark to model approach, which uses information which is not based on the market data, but is derived from theoretical model which is appropriate for identification of the value of financial instrument.

The following table presents values of financial instruments obtained by using of abovementioned techniques:

RSD thousand

	Level 1	Level 2	Level 3	Total
Financial assets/(liabilities) held for trading	37,240	(22,440)	-	14,800
Financial assets available for sale	-	18,060,369	-	18,060,369

35. CONTINGENT LIABILITIES

(a) Legal proceedings

As of 31 December 2011, the Bank represents the defendant in a certain number of legal proceedings. Total estimated amount of claims is RSD 422,141 thousand (31 December 2010: RSD 320,326 thousand), including penalty interests and fees.

The final outcome of the ongoing legal proceedings is uncertain. As disclosed in Note 29 to the financial statements as of 31 December 2011, the Bank recognized provisions for potential losses that could arise from the aforementioned litigations in total amount of RSD 383,190 thousand (31 December 2010: RSD 274,887 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The Bank is subject to a number of lawsuits as a plaintiff for collection of receivables.

(b) Tax Risks

Tax system of the Republic of Serbia is in process of continuous review and amendments. Tax period in the Republic of Serbia is considered to be open in five years. In different circumstances, tax authorities could have different approach to some matters, and could determine additional tax liabilities together with related penalty interest and fees. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are fairly presented.

36. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 20 of the Law on Accounting and Auditing, the Bank performed reconciliation of liabilities and receivables with its debtors and creditors as at 31 December 2011, and maintained reliable documentation.

From a total of 2,748 submitted open item statements, 46 were disputed.

Most of the unreconciled outstanding balances of receivables are as follows:

- RSD 612,632 thousand refer to receivables from companies in bankruptcy.
- RSD 289,000 thousand relates to receivables based on guarantees paid for two clients Termoelektro doo Beograd and Petšped doo Beograd. These clients dispute amounts on open item statements without grounds. According to the Article no. 8 of Agreement of issue of guarantee , signed by the companies, it is specified that if the Bank pays for guarantee, the paid amount becomes a short-term loan on the date of issuing a payment order, without obligation of contracted parties to conclude a separate Annex to this Agreement. This short-term loan has maturity within 7 days from the date of payment under the guarantee.
- RSD 103,920 thousand refer to receivables from corporate client Irva doo, Beograd. Open item statement is disputed on the grounds that Reorganization plan prepared in advanced has been adopted.
- RSD 81,737 thousand, refers to purchase of short-term receivables - factoring. Legal entities generally do not change in the accounting records the client toward which they have an obligation, regardless of the fact that the client has ceded the receivables to the Banks pursuant to the Sale of Receivables Agreement.
- RSD 70,578 thousand mostly relates to accrued interest.
- RSD 2,655 thousand refers to non-compliance arising from receivables under transactions with credit cards.
- RSD 926 thousand relates to other receivables.

37. EXCHANGE RATES

The official foreign exchange rates of the National Bank of Serbia determined on the Interbank Foreign Currency Market, used for translation of balance sheet items denominated in foreign currencies as at 31 December 2011 and 2010 into Serbian Dinars (RSD) were as follows:

		In RSD
	2011	**2010**
EUR	104.6409	105.4982
USD	80.8662	79.2802
CHF	85.9121	84.4458

38. SUBSEQUENT EVENTS

There have been no significant events subsequent to the balance sheet date, which would require disclosures in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2011.

Rada Radović Head of Finance and Accounting Department	Marco Capellini Deputy President of the Executive Board	Draginja Đurić President of the Executive Board