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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS

BANCA INTESA A.D. BEOGRAD

We have audited the accompanying financial statements of Banca Intesa a.d. Beograd ("the Bank"), which comprises the balance sheet as at 31 December 2012, the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and true and objective presentation of these financial statements in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Banks Law and other relevant by-laws issued by National Bank of Serbia 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 the applicable Law on Accounting and Auditing of the Republic of Serbia, the applicable Decision on External Audit of Banks and 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 our 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, we consider internal control relevant to the preparation and true and objective presentation of 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 present truly and objectively, in all material respects, the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Banks Law and other relevant by-laws issued by National Bank of Serbia.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those statements on 19 March 2012.

Belgrade, 18 March 2013 KPMG d.o.o. Beograd

(L.S.)

Dušan Tomić
Certified Auditor

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Belgrade, 19 March 2013 KPMG d.o.o. Beograd

DRUŠTVO ZA KONSALTING I REVIZIJU KPMG D.O.O. 1 BEOGRAD

(L.S.)

Dušan Tomić
Certified Auditor

INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2012

(RSD thousand)	**Note**	**2012**	**2011**
Operating income and expenses			
Interest income	3	31,340,971	31,090,463
Interest expenses	3	(11,790,051)	(11,652,708)
Net interest income		**19,550,920**	**19,437,755**
Fee and commission income	4	7,890,743	7,378,106
Fee and commission expenses	4	(2,292,104)	(1,943,040)
Net fee and commission income		**5,598,639**	**5,435,066**
Net profit on sale of securities at fair value through profit and loss	5	1,008	169
Net profit on sale of available for sale securities	5	49,855	44
Net profit on sale of equity investments	5	434	-
Foreign exchange gains	6	-	1,937,273
Foreign exchange losses	6	(13,263,673)	-
Dividends and share income	5	2,925	-
Other operating income	5	554,540	414,248
Net expenses for indirectly written-off placements and provisions	7	(5,368,124)	(4,259,378)
Salaries, wages and other personal expenses	8	(4,722,806)	(4,434,178)
Depreciation and amortization	9	(977,691)	(864,976)
Other operating expenses	10	(6,323,778)	(6,397,975)
Gains from changes in value of assets and liabilities	11	31,390,752	23,452,765
Losses from changes in value of assets and liabilities	12	(16,188,419)	(24,031,080)
Operating profit		**10,304,582**	**10,689,733**
Profit before tax		**10,304,582**	**10,689,733**
Income tax	13	(830,548)	(1,113,156)
Profit from deferred tax assets and reduction of deferred tax liabilities	13	27,827	23,673
Loss from reduction of deferred tax assets and creation of deferred tax liabilities	13	(8,903)	(9,410)
Profit after tax		**9,492,958**	**9,590,840**
Earnings per share (in RSD)			
Basic earnings per share	14	44,535	44,994

Belgrade, 21 February 2013

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

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BALANCE SHEET AS OF 31 DECEMBER 2012

(RSD thousand)	**Note**	**2012**	**2011**
ASSETS			
Cash and cash equivalents	15	35,013,575	16,222,561
Revocable deposits and loans	16	56,757,728	83,162,819
Interest and fee receivables, receivables from sales, changes in fair value of derivatives and other receivables	17	3,278,233	2,985,589
Loans and advances	18	259,550,499	249,337,725
Securities (excluding own shares)	19	35,081,730	17,784,587
Equity investments	20	962,568	962,568
Other placements	21	9,196,891	11,521,581
Intangible assets	22	1,040,637	595,399
Property, equipment and investment property	23	7,376,493	6,583,749
Fixed assets held for sale and assets from discontinued operations	23	228,010	60,192
Deferred tax assets	13	66,240	47,317
Other assets	24	4,776,985	3,058,602
TOTAL ASSETS		**413,329,589**	**392,322,689**
LIABILITIES			
Transaction deposits	25	99,338,201	84,678,429
Other deposits	26	162,199,812	150,686,366
Borrowings	27	53,565,421	57,106,462
Liabilities arising from securities	28	141,980	2,385,649
Interest and fee and changes in fair value of derivatives	28	74,412	165,937
Provisions	29	1,922,334	2,229,010
Tax liabilities	30	98,614	43,334
Liabilities from profit		0	269,029
Other liabilities	30	5,936,984	14,344,148
TOTAL LIABILITIES		**323,277,758**	**311,908,364**
EQUITY			
Equity	31	41,759,627	41,759,627
Reserves from profit	31	37,991,163	28,400,323
Revaluation reserves	31	836,270	665,615
Unrealized losses on securities available for sale	31	(28,187)	(2,080)
Profit	31	9,492,958	9,590,840
TOTAL EQUITY		**90,051,831**	**80,414,325**
TOTAL LIABILITIES AND EQUITY		**413,329,589**	**392,322,689**
OFF-BALANCE SHEET ITEMS			
Funds managed on behalf of third parties	32	3,796,342	3,102,844
Guaranties and other irrevocable commitments	32	87,395,886	116,138,699
Sureties	32	119,067	100,985
Other off-balance sheet items - derivatives	32	74,362,945	47,719,376
Other off-balance sheet items	32	81,468,803	77,996,752
TOTAL OFF-BALANCE SHEET ITEMS		**247,143,043**	**245,058,656**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(RSD thousand)	Share Capital	Other capital	Share premium	Reserves from profit	Revaluation reserves	Profit	Unrealized losses on securities available for sale	Total Equity
Balance as of 1 January 2011	18,477,400	11,158	9,957,774	20,780,393	560,107	7,619,930	(117,640)	57,289,122
Increase during 2011	2,838,500	-	10,474,795	7,619,930	105,508	9,590,840	-	30,629,573
Decrease during 2011	-	-	-	-	-	(7,619,930)	115,560	(7,504,370)
Balance as of 31 December 2011	21,315,900	11,158	20,432,569	28,400,323	665,615	9,590,840	(2,080)	80,414,325
Balance as of 1 January 2012	21,315,900	11,158	20,432,569	28,400,323	665,615	9,590,840	(2,080)	80,414,325
Increase during 2012	-	-	-	9,590,840	170,665	9,492,958	(26,107)	19,228,346
Decrease during 2012	-	-	-	-	-	(9,590,840)	-	(9,590,840)
Balance as of 31 December 2012	21,315,900	11,158	20,432,569	37,991,163	836,270	9,492,958	(28,187)	90,051,831

CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2012

(RSD thousand)	**2012**	**2011**
Cash receipts from operating activities	**40,466,279**	**39,360,945**
Interest receipts	29,511,243	28,811,049
Fee and commission receipts	7,961,596	7,470,150
Receipts from other operating income	2,990,515	3,079,746
Receipts from dividends and equity investments	2,925	-
Cash payments from operating activities	**(22,618,839)**	**(25,076,241)**
Interest payments	(7,161,681)	(6,878,133)
Fee and commission payments	(2,345,528)	(2,041,222)
Payments to and on behalf of employees	(5,596,739)	(5,260,446)
Taxes, contributions and other duties paid	(755,919)	(626,113)
Payments for other operating expenses	(6,758,972)	(10,270,327)
Net operating cash flows before changes in placements and deposits	**17,847,440**	**14,284,704**
Decreases in placements and increases in deposits	**32,255,391**	**22,645,049**
Decrease in loans and placements to banks and customers	32,027,136	-
Decrease in securities at fair value through profit and loss, trading placements and short-term securities held to maturity	228,255	16,490,984
Increase in deposits from banks and customers	-	6,154,065
Increases in placements and decreases in deposits	**(2,209,471)**	**(43,181,291)**
Increase in loans and placements to banks and customers	-	(43,181,291)
Decrease in deposits from banks and customers	(2,209,471)	-
Net cash (used in)/generated from operating activities before taxes	**47,893,360**	**(6,251,538)**
Paid taxes	(1,350,027)	(1,064,158)
Net cash (used in)/generated from operating activities	**46,543,333**	**(7,315,696)**
Cash inflows from investing activities	**14,225,115**	**1,398,836**
Inflow from long-term investments in securities	14,163,218	1,309,360
Inflow from sale of equity investments	8,693	-
Inflow from sale of intangible and fixed assets	53,204	89,476
Cash outflows from investing activities	**(34,268,516)**	**(13,480,293)**
Outflows from long-term investments in securities	(31,786,530)	(12,230,528)
Purchases of equity investments	37	14,555
Purchases of property and equipments and intangible assets	(2,481,949)	(1,235,210)
Net cash (used in)/generated from investing activities	**(20,043,401)**	**(12,081,457)**

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Cash inflows from financing activities	**377,484**	**18,588,338**
Proceeds from the issuance of shares	-	13,313,295
Proceeds from subordinated liabilities	-	-
Proceeds from received loans	374,753	5,275,043
Proceeds from securities	2,731	-
Cash outflows from financing activities	**(9,024,398)**	**(3,043,037)**
Payments for subordinated liabilities	(9,024,398)	(3,025,761)
Outflow from securities	-	(17,276)
Net cash outflow from financing activities	**(8,646,914)**	**(15,545,301)**
Total cash inflows	**87,324,269**	**81,993,168**
Total cash outflows	**(69,471,251)**	**(85,845,020)**
Net increase/(decrease) in cash and cash equivalents	17,853,018	(3,851,852)
Cash and cash equivalents at beginning of the year	**16,222,561**	**20,053,248**
Foreign exchange gains	1,243,771	355,324
Foreign exchange losses	(305,775)	(334,159)
Cash and cash equivalents at end of the year	**35,013,575**	**16,222,561**

TRANSLATION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 permission 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 total, 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 Companies Register 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 Companies Register no. BD. 159633/2006 dated 5 October 2006, the Bank harmonized its internal regulations and organization with the new Law on Banks and performed the change of legal form from opened into a closed joint-stock company.

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 a 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 launching related 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. The Draft of the Merger Agreement 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 Serbian Business Registers Agency, 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.

In accordance with article 384 of the Law on Companies of the Republic of Serbia, 30 September 2007 was specified as the date of the 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.

1. CORPORATE INFORMATION (continued)

In accordance with the valuation performed, the shares were exchanged in such a way that shareholders of the acquired bank received 1 ordinary share of the acquirer Bank 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 acquirer Bank 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 the merger by absorption was adopted at the Bank's Assembly meeting held on 17 December 2007.

During 2012, the Bank's Assembly adopted amendments to the Memorandum on Association and the Article of Association, with the approval of the National Bank of Serbia, which is registered with the Decision of the Serbian Business Registers Agency no. BD 85268/2012 dated 27 June 2012. In this way the Bank duly complied with the Law on Companies of the Republic of Serbia ("Off. Gazette of RS", no. 36/2011 and 99/2011).

As of 31 December 2012, the Bank operated through its Head Office located in Belgrade, Milentija Popovića 7b, with its associated organizational divisions in Belgrade, 7 regional centers and 199 branches.

The Bank had 3,134 employees as of 31 December 2012 (31 December 2011: 3,200 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.

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 the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of preparation and presentation of financial statements (continued)

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 above mentioned, 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 thousands 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 2011.

2.2. Comparative Figures

The comparative figures represent financial statements of the Bank as of and for the year ended 31 December 2011, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant Accounting Estimates and Judgments (continued)

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 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant Accounting Estimates and Judgments (continued)

Provisions for legal proceedings

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

Reasonable estimates include judgments made by management, after considering information including notifications, settlements, estimates performed by the 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 that do not meet recognition criteria for provisioning is disclosed, unless the possibility of outflow of resources embodying economic benefits is remote.

Deferred tax assets

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that expected future taxable profit will be available against which the unused tax losses can be utilized. The Bank's management necessarily performs significant estimate in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence, the amount of future taxable profit and strategy of tax planning policy (Note 13(c)).

Retirement and Other Post-Employment Benefits

The costs of defined employee benefits payable upon 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 expenses, 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 its customers.

For all interest-bearing financial instruments, except those classified as available for sale, and financial instruments at fair value through profit and loss, interest income and expenses 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.

The loan origination fee, which is a part of the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4. Interest Income and Expenses (continued)

From the moment of a court claim being filed the Bank calculates suspended interest on total receivables (including principal, interest and costs) instead of regular interest. Transfer of total interest overdue to suspended interest in the off-balance before the moment of a court claim being filed could be prescribed by special decisions of the Bank's authorities.

Suspended interest is calculated and recorded as an off-balance sheet item until the conclusion of the court proceedings.

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.

2.6. Foreign Currency Translation

Items reported in the financial statements are measured using the 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 or arising upon transactions in foreign currency are credited or debited as appropriate, to the income statement, as Gains or losses on foreign exchange transactions and translations (Note 6).

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

2.7. 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 purchases and sales of financial assets are recognized on the settlement date, which is the date the asset is delivered to the counterparty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized 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 recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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.

2.7.1. 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 acquired or incurred principally for the purpose of selling or repurchasing 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 savings bonds.

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

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)

During 2007, the Bank introduced several types of financial instruments which met the definition of financial derivatives according to IAS 39 “Financial Instruments: Recognition and Measurement” and for which basic underlying variable is the foreign exchange rate. Derivatives used by the Bank are FX swap and FX forward contracts. For accounting purposes and in accordance with the requirements of IAS 39, 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 recognized when the Bank becomes a party to an agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in the off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as an asset or a liability. The initial recognition of fair value applies to cases when the market price for the same or a similar derivative on an organized market is available, and when the price differs 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 recognized 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 recognize 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 recognized at the end of each month, and the effect of changes in fair value are recognized in the income statement as unrealized foreign exchange gains or losses.

Derivatives are recognized as assets or liabilities depending on whether their fair value is positive or negative. Derivatives are derecognized 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, the ultimate effect of foreign exchange differences is recorded against realized foreign exchange differences, and all previously recognized changes in fair value (through unrealized foreign exchange differences) are reversed.

Since there is neither an active market for derivatives in Serbia, nor a possibility for determining 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 that have 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.

The methodology incorporates market factors (median exchange rate, interest rates and similar) and is consistent with generally accepted methodologies for valuation of derivatives. At least once per month, the Bank performs back-testing and calibration of the implemented methodology for calculation of fair value by using market variables and alternative calculation methods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

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 the balance sheet when cash is advanced to debtors. Loans and receivables are initially recognized at fair value. After initial recognition, loans are measured at amortized cost using the 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 recognized 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 a 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.

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 that are collectively assessed 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.2. Loans and receivables (continued)

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 takes into account 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.

Uncollectable receivables write-off

On 24 November 2010, the Bank has adopted the Procedure on Write-off of Uncollectable Receivables. 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 fulfill the above mentioned requirements may be written-off if such decision is made by the appropriate authority, Asset Quality Committee, in accordance with the authorizations 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 continuation of recording of such receivables in the off-balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.3. Renegotiated Loans

If the Bank estimates that the clients delay in payment is temporary and that, under adjusted agreed conditions, the client could fulfill obligations toward Bank regularly, the Bank seeks to restructure loans rather than to activate collaterals. This may involve extending repayment 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 is 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 is 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.

Unrealized gains and losses are recognized 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 recognized in equity, are recognized 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 is recognized as income at the moment of collection.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial Instruments (continued)

2.7.5. Securities available for sale (continued)

In case of securities available for sale, the Bank assesses on an individual basis whether there is 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 fair value below cost. When there is 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 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.

2.9. 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 Bank Balance Sheet Assets and Off-balance Sheet Items" ("Official Gazette of the Republic of Serbia", no. 94/2011, 57/2012 and 123/2012).

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. Collectability of receivables from a 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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%) and 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 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 (Note 7).

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 the Bank's 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, checks 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.

2.12. 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 2012, 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. Equity Investments (continued)

2.12.2. Investments in associates

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 the 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.

In accordance with IAS 28 "Investments in Associates", investments in associates are neither investments in an 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 stated using the equity method and valued as financial assets available for sale.

Investments in associates are classified as financial assets available for sale and are recognized at cost less allowance for impairment.

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 software maintenance are recognized as an expense as incurred.

Costs that are directly associated with identifiable and unique software controlled by the Bank, and which will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the salaries of the team that developed the software, as well as appropriate portion of related overheads.

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)

2.14.1. Property and equipment and investment property

As of 31 December 2012, 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 for generating rental income and/or appreciation in the market value of the property. Investment property is stated at cost less accumulated depreciation.

Depreciation is calculated using the 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 the month following the month when an asset is put into use. Assets under construction are not depreciated. Depreciation charge is recognized as expense for the period when incurred.

The useful lives of 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 depreciation for tax purposes is determined in accordance with 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 financial reporting purposes and tax purposes give rise to deferred taxes (Note 13(c)).

2.14.2 Fixed assets held for sale

In accordance with IFRS 5, the Bank classifies an asset as a non-current asset held for sale if its carrying amount will be recovered primarily through a sales transaction, rather than through further use. An asset classified as held for sale must be available for immediate sale in its present condition and its sale must be probable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14.2 Fixed assets held for sale (continued)

In order to make sale probable management of the Bank must be committed to a plan to sell the asset and an active programme to locate a buyer and completion of the plan must have been initiated, and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A non-current asset classified as held for sale is measured at the lower amount of the following:

- carrying amount
- fair value less costs to sell.

Once an asset is recognized as a held-for sale asset it is no longer depreciated. (Note 23)

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 the 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 impairment at each reporting date.

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 present value and included in property and equipment with the corresponding liability to the lessor included in other liabilities.

Lease payments are apportioned between 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 to the income statement as interest expense.

The Lease Agreement specifies that the Bank can, but does not have to, obtain ownership of the leased asset after the expiration of the Lease Agreement.

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 derecognized in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognized initially for. Provisions are not recognized 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 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.

2.20. 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 specific rates prescribed by law. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Employee benefits (continued)

(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 an 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 installments, based on the prior year’s 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 taxable profit, accounting profit is adjusted for certain permanent differences and reduced for certain investments made during the year, as disclosed in the current year’s tax return. The tax return is submitted to the Tax Authorities 10 days after submission of the financial statements, i.e. until 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, a tax credit is recognized in the amount equal to 20% of the investment, and this tax credit may not exceed 50% of computed tax liability for the year in which this investment was made. The unused portion of the tax credit may be transferred to the future income tax account, but not for more than 10 years.

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 recognized 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 be reversed in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Taxes and contributions (continues)

(a) Income Taxes (continued)

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits 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 recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax (continued)

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 utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are calculated at tax rates that are expected to be effective in the year when the asset is realized 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. INTEREST INCOME AND INTEREST EXPENSES

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

		RSD thousand
	2012	**2011**
Interest income		
– National Bank of Serbia and other banks	2,548,696	3,032,179
– Corporate customers	14,708,893	15,564,957
– Public sector	4,192,749	2,911,577
– Other customers	303,432	436,790
– Foreign entities	60,728	72,194
– Retail customers	9,526,473	9,072,766
Total	**31,340,971**	**31,090,463**
Interest expenses		
– National Bank of Serbia and other banks	738,516	744,530
– Corporate customers	3,064,962	3,175,903
– Public sector	631,464	520,975
– Other customers	653,258	1,021,329
– Foreign entities	1,950,173	2,082,776
– Retail customers	4,751,678	4,107,195
Total	**11,790,051**	**11,652,708**
Net interest income	**19,550,920**	**19,437,755**

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

		RSD thousand
	2012	**2011**
Interest income		
Loans	25,188,868	25,656,928
Reverse REPO transactions	1,155,339	2,045,821
Treasury bonds of the Republic of Serbia		
Obligatory reserve	434,983	253,197
Deposits	168,577	19,152
Securities	3,125,180	2,094,090
Other placements	1,268,024	1,021,275
Total	**31,340,971**	**31,090,463**
Interest expenses		
Loans	1,902,398	1,955,356
Deposits	9,874,600	9,682,711
Other interest expenses	13,053	14,641
Total	**11,790,051**	**11,652,708**
Net interest income	**19,550,920**	**19,437,755**

4. FEE AND COMMISSION INCOME AND EXPENSES

RSD thousand

	2012	2011
Fee and commission income		
Fee for banking services:		
– Domestic payment transaction services	2,267,507	2,185,359
– International payment transaction services	502,536	417,888
– Loan operations	77,171	71,591
– Cards operations	2,478,174	2,250,461
	5,325,388	**4,925,299**
Commissions in respect of issued guarantees and letter of credits	774,868	833,885
Other fee and commission	1,790,487	1,618,922
Total	**7,890,743**	**7,378,106**
Fee and commission expenses		
Fee for payment transaction services:		
– Domestic	201,415	186,411
– International	146,018	108,914
National Bank of Serbia’s fee and commission	50,899	51,559
Credit Bureau’s fees	30,667	29,846
Fee for cards operations	1,773,042	1,538,652
Other fees and commissions	90,063	27,658
Total	**2,292,104**	**1,943,040**
Net fee and commission income	**5,598,639**	**5,435,066**

Other fees and commission income during 2012 mostly relate to fees for the maintenance of current accounts in the amount of RSD 1,224,714 thousand as well as fees for payment slips, EDB and Telekom Serbia in the amount of RSD 225,149 thousand.

5. INCOME ON SALE OF SECURITIES, EQUITY INVESTMENTS AND OTHER PLACEMENTS

a) Income on sales of securities and equity investments

RSD thousand

	2012	2011
Net profit on sale of securities at fair value through profit and loss	1,008	169
Net profit on sale of available for sale securities	49,855	44
Net profit on sale of equity investments	434	-
Dividends and share income	2,925	-
Total	**54,222**	**213**

5. INCOME ON SALE OF SECURITIES, EQUITY INVESTMENTS AND OTHER PLACEMENTS (continued)

b) Other operating income

	2012	RSD thousand 2011
Collected written-off receivables	163,089	54,666
Rental income	20,889	18,442
Gains on sales of fixed assets and surpluses	28,749	43,551
Reimbursed expenses	6,573	5,781
Other income	335,240	291,808
Total	**554,540**	**414,248**

6. NET FOREIGN EXCHANGE GAINS/(LOSSES)

	2012	RSD thousand 2011
Foreign exchange gains	196,686,276	121,225,609
Foreign exchange losses	209,949,949	119,288,336
Net foreign exchange gains/(losses)	**(13,263,673)**	**1,937,273**

7. NET EXPENSES FOR INDIRECTLY WRITTEN-OFF PLACEMENTS AND PROVISIONS

a) Net expenses for indirectly written-off placements and provisions

	2012	RSD thousand 2011
Expenses for indirectly written-off placements and provisions		
Impairment losses for balance-sheet assets:	**10,566,354**	**11,482,696**
Provisions for off-balance sheet items:	**591,570**	**591,938**
Provisions for:		
– long-term employee benefits	123,197	83,018
– litigations	70,518	138,490
– other liabilities - arising from VAT	-	45,288
	193,715	**266,796**
Total	**11,351,639**	**12,341,430**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

		RSD thousand
	2012	**2011**
Reversal of impairment losses		
- Reversal of impairment losses on balance sheet assets	4,789,873	6,835,834
- Suspended interest	293,616	213,400
	5,083,489	**7,049,234**
Release of provision for losses on off-balance sheet Assets	**658,917**	**969,934**
Release of provisions for::		
– Long-term employee benefits	144,413	32,698
– Litigations	96,697	30,186
	241,109	**62,884**
Total	**5,983,515**	**8,082,052**
Net expenses for indirectly written-off placements and provisions	**5,368,124**	**4,259,378**

7. NET EXPENSES FOR INDIRECTLY WRITTEN-OFF PLACEMENTS AND PROVISIONS (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 2012 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 of 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**
Additions	36,352	959,901	7,560,723	84	-	2,005,081	4,213	785,284	11,351,638
Reversals through Income statement	(29,631)	(162,382)	(3,057,521)	-	-	(1,535,615)	(4,723)	(900,027)	(5,689,899)
FX losses on impairment for financial assets	954	24,959	1,469,401	-	-	108,281	588	122,338	1,726,521
FX gains on impairment of financial assets	(908)	(11,911)	(603,405)	-	-	(50,992)	(350)	(49,949)	(717,515)
Transfer to off-balance	-	(648,246)	(3,009,433)	-	-	(204,878)	(87)	-	(3,862,644)
Other	-	-	-	(14,818)	-	-	1,817	(264,322)	(277,323)
Balance as of 31 December 2012	**11,271**	**1,976,969**	**17,693,191**	**20,970**	**720**	**1,560,162**	**9,507**	**1,922,334**	**23,195,124**

8. SALARIES, WAGES AND OTHER PERSONAL EXPENSES

RSD thousand

	2012	2011
Net salaries	3,312,415	3,167,371
Tax on employee benefits	511,654	486,848
Contributions on employee benefits	720,016	680,657
Other personal expenses	178,721	99,302
Total	**4,722,806**	**4,434,178**

9. DEPRECIATION AND AMORTIZATION

RSD thousand

	2012	2011
Depreciation and amortization:		
– Amortization of intangible assets (Note 22)	363,702	223,716
– Depreciation of property, equipment and investment property (Note 23)	613,989	641,260
Total	**977,691**	**864,976**

10. OTHER OPERATING EXPENSES

RSD thousand

	2012	2011
Material, energy and spare parts	464,281	383,867
Professional services	729,864	807,932
Advertising, marketing and entertainment expense	473,862	735,776
Mail and telecommunication expenses	403,600	366,643
Insurance premiums	969,105	812,756
Maintenance of property and equipment	401,503	402,756
Rental cost	968,149	889,516
Fees and commission	181,612	197,873
Taxes and contributions	927,622	888,975
Physical-technical security	210,771	196,093
General and administrative expenses	242,281	208,722
Direct write-off of receivables	140,999	267,401
Losses on write-offs, disposals and shortages of property, equipment and intangible assets	3,953	10,803
Other expenses	206,176	228,862
Total	**6,323,778**	**6,397,975**

11. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

RSD thousand

	2012	2011
Gains from changes in value of loans and receivables	30,487,058	21,876,125
Gains from changes in value of securities	13,880	298,009
Gains from changes in value of derivatives	275,234	142,477
Gains from changes in value of other financial assets	-	-
Gains from changes in value of liabilities	614,580	1,136,154
Total	**31,390,752**	**23,452,765**

12. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

RSD thousand

	2012	2011
Losses from changes in value of loans and receivables	15,038,142	22,203,016
Losses from changes in value of securities	3,567	534,763
Losses from changes in value of derivatives	68,938	164,916
Losses from changes in value of liabilities	1,077,772	1,128,385
Total	**16,188,419**	**24,031,080**

13. INCOME TAX

(a) Components of Income Tax

The components of income tax expense are:

RSD thousand

	2012	2011
Current income tax	830,548	1,113,156
Gains from deferred tax assets and reduction of deferred tax liabilities	27,827	23,673
Loss from reduction of deferred tax assets and creation of deferred tax liabilities	(8,903)	(9,410)
Total income tax	**811,624**	**1,098,893**

(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

	2012	2011
Profit before tax	**10,304,582**	**10,689,733**
Income tax at the rate of 10%	**1,030,458**	**1,068,973**
Tax effect of non-deductable expenses	**29,786**	**60,278**
Tax credits on investment in property and equipment	**(247,821)**	**(66,114)**
Effects of interest on arm’s length basis	**17,801**	**6,049**
Other	**(18,600)**	**29,707**
Income taxes stated in the income statement	**811,624**	**1,098,983**
Effective tax rate	**7.88%**	**10.28%**

13. INCOME TAX (continued)

For the purpose of determining income taxes for the year ended 31 December 2012, the Bank increased the tax base by the amounts of provisions charged to the income in the total amount of RSD 193,715 thousand, which includes the following:

- Provision for litigations in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” in the amount of RSD 70,518 thousand;
- Provision for restructuring in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” in the amount of RSD 123,197 thousand;

(c) Deferred Tax Assets

Deferred tax assets relate to taxable temporary differences between carrying amounts of tangible and intangible assets and their tax bases, as well as to differences resulting from fair value of derivatives and their carrying amounts.

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

		RSD thousand
	2012	**2011**
Balance as of 1 January	**47,317**	**33,054**
Effects of temporary differences credited to income statement	**18,923**	**14,263**
Balance as of 31 December	**66,240**	**47,317**

14. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit by the weighted average number of shares during the year. As of December 31st 2012 the Bank has no preferred shares.

		RSD
	2012	**2011**
Net Profit	9,492,957,705	**9,590,840,338**
Weighted average number of shares	213,159	213,159
Earnings per share (in dinars)	**44,535**	44,994

15. CASH AND CASH EQUIVALENTS

		RSD thousand
	2012	**2011**
In Dinars		
Gyro account	25,213,115	10,146,499
Cash on hand	4,426,442	2,743,000
Bonds of Ministry of Finance of Republic of Serbia, with maturity up to 90 days	1,359,014	315,667
	30,998,571	**13,205,166**
In foreign currency		
Current accounts held with foreign banks	1,520,652	541,445
Foreign currency cash on hand	2,395,797	2,383,905
Other monetary assets	45,661	40,365
	3,962,110	**2,965,715**
Gold and precious metals	64,165	56,184
Gross balance as of 31 December	**35,024,846**	**16,227,065**

15. CASH AND CASH EQUIVALENTS (continued)

		RSD thousand
	2012	**2011**
Less: Allowance for impairment (Note 7 (b))		
- In dinars	-	-
- In foreign currency	(11,271)	(4,504)
	(11,271)	**(4,504)**
Balance as of 31 December	**35,013,575**	**16,222,561**

The obligatory reserve in dinars is the 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, 31/2012, 57/2012, 78/2012, 87/2012 and 107/2012).

The 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 the calculated amount to its gyro account with the National Bank of Serbia. The Bank calculates the obligatory reserve in dinars on 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. The obligatory reserve in dinars is also calculated as part of the foreign currency obligatory reserve applying 32% to the foreign currency obligatory reserve calculated on liabilities denominated in foreign currency, with contractual maturity of up to 730 days and average daily balance of liabilities in dinars denominated in foreign currency, while 24% is applied on the foreign currency obligatory reserve calculated on liabilities in foreign currency with contractual maturity over 730 days.

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

As of 31 December 2012, the obligatory reserve in dinars amounted to RSD 22,219,079 thousand and 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 amounted to 2.50%
per annum during 2012.

16. REVOCABLE DEPOSITS AND LOANS

		RSD thousand
	2012	**2011**
In Dinars		
Reverse repurchase agreements	10,000,000	33,000,000
	10,000,000	**33,000,000**
In foreign currency		
Obligatory reserve with the National Bank of Serbia	46,757,728	50,162,819
	46,757,728	**50,162,819**
Balance as of 31 December	**56,757,728**	**83,162,819**

Obligatory foreign currency reserve with the National Bank of Serbia

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, 31/2012, 57/2012, 78/2012, 87/2012 and 107/2012), the Bank calculates and allocates the obligatory reserves by applying 29% on the average daily balance of foreign currency deposits, as well as 50% 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 22% on the aforementioned liabilities with contractual maturity over 730 days. The Bank allocates 68% of calculated foreign currency obligatory reserve for foreign currency liabilities with contractual maturity up to 730 days, as well as foreign currency clause-indexed dinar liabilities, and 76% of calculated foreign currency obligatory reserve for foreign currency liabilities with contractual maturity over 730 days. The bank allocates calculated amount to its foreign currency gyro account with the National Bank of Serbia

The Bank is obliged to maintain an 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 of 31 December 2012, the Bank's obligatory reserve in foreign currency was in compliance with the aforementioned Decision of the National Bank of Serbia.

Reverse repurchase agreements

Reverse repurchase agreements are recognized as placements or borrowings. They represent purchase and sale of securities, where the contractual parties agree 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 10,000,000 thousand as of 31 December 2012 relate to purchase of treasury bills from the National Bank of Serbia with maturity period of 8 days (31 December 2011: RSD 33,000,000 thousand).

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

		RSD thousand
	2012	**2011**
In Dinars		
Interest and fee receivables:		
– Other banks	190,622	152,284
– National Bank of Serbia	21,623	11,158
– Corporate customers	3,016,057	3,003,268
– Public sector	249,363	44,484
– Retail customers	752,515	736,634
– Foreign entities	1,952	605
– Other customers	658,390	608,063
Receivables from sales	2,568	1,063
Receivables from changes in fair value of derivatives	275,234	142,477
	5,168,324	**4,700,036**
In foreign currency		
Interest and fee receivables:		
– Other banks	4	63
– National Bank of Serbia	-	-
– Corporate customers	39,844	59,095
– Public sector	1	-
– Retail customers	13,923	14,110
– Foreign entities	10,297	8,679
– Other customers	22,809	18,254
	86,878	**100,201**
Gross receivables	**5,255,202**	**4,800,237**
Less: Allowance for impairment (Note 7(b))		
– in dinars	(1,943,063)	(1,775,715)
– in foreign currency	(33,906)	(38,933)
	(1,976,969)	**(1,814,648)**
Balance as of 31 December	**3,278,233**	**2,985,589**

18. LOANS AND ADVANCES

Loans and advances by type of customer

RSD thousand

	2012			2011		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In dinars						
Loans and placements to:						
– Other banks	1,763,912	7,053,187	8,817,099	1,043,050	6,665,241	7,708,291
- Corporate customers	35,435,134	118,700,330	154,135,464	54,571,364	94,735,729	149,307,093
– Retail costumers	7,658,657	77,132,821	84,791,478	6,188,390	71,762,452	77,950,842
– Public sector	63,896	12,084,792	12,148,688	83,675	11,877,220	11,960,895
– Foreign entities	33,540	335,841	369,381	660	347,633	348,293
– Other customers	5,537,060	1,401,921	6,938,981	4,418,055	1,572,045	5,990,100
Total in RSD	**50,492,199**	**216,708,892**	**267,201,091**	**66,305,194**	**186,960,320**	**253,265,514**
In foreign currency						
Loans and placements to:						
– Other banks	187	1,822	2,009	673	1,260	1,933
- Corporate customers	833,496	4,881,588	5,715,084	1,403,435	4,969,120	6,372,555
– Retail costumers	77,400	564,535	641,935	59,287	486,359	545,646
– Public sector	7	3,317,260	3,317,267	82	4,070,918	4,071,000
– Foreign entities	228,084	641	228,725	209,579	556	210,135
– Other customers	136,219	1,360	137,579	197,789	6,579	204,368
Total in foreign currency	**1,275,393**	**8,767,206**	**10,042,599**	**1,870,845**	**9,534,792**	**11,405,637**
Gross loans and advances	**51,767,592**	**225,476,098**	**277,243,690**	**68,176,039**	**196,495,112**	**264,671,151**
Less: Allowance for impairment (Note 7(b))	(11,398,226)	(6,294,965)	(17,693,191)	(10,501,265)	(4,832,161)	(15,333,426)
Balance as of 31 December	**40,369,366**	**219,181,133**	**259,550,499**	**57,674,774**	**191,662,951**	**249,337,725**

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 10.92% to 24% per annum for loans in Dinars, and from 5.19% to 14% per annum for loans indexed by a foreign currency clause or indexed in foreign currency.

18. LOANS AND ADVANCES (continued)

Long-term loans to corporate customers in dinars bear interest rate ranging from 6% to 21.05% per annum, and from 3.5% to 12% per annum for long-term loans in dinars indexed by a foreign currency as well as loans in foreign currency.

Loans and advances by type of customer (continued)

Short-term retail loans and loans to small Corporate customers bear interest rates ranging from 3.2% to 19% annually in case of loans indexed by a foreign currency, and from 9.5% to 28% for loans that are not indexed with a foreign currency clause.

Interest rate on retail overdrafts is 2.25%-2.8% monthly, and on overdrafts for small Corporate customers 1.6%-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 up to 30 years, bearing interest at rates ranging from 1.89% to 21.39% annually in case of loans indexed with a foreign currency and from 9.5% to 28% annually for loans that are not indexed with a foreign currency.

19. SECURITIES (EXCLUDING OWN SHARES)

RSD thousand

	2012			**2011**		
	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	33,040	23,232	56,272	-	49,223	49,223
– Debt securities issued by the Government of the Republic of Serbia	11,331	34,778,957	34,790,288	38,869	17,639,819	17,678,688
	44,371	**34,802,189**	**34,846,560**	**38,869**	**17,689,042**	**17,727,911**
Fair value adjustments	7,104	249,036	256,140	(11,631)	104,011	92,380
Gross securities	**51,475**	**35,051,225**	**35,102,700**	**27,238**	**17,793,053**	**17,820,291**
Less: Allowance for impairment (Note 7(b))	-	(20,970)	(20,970)	-	(35,704)	(35,704)
Balance as of 31 December	**51,475**	**35,030,255**	**35,081,730**	**27,238**	**17,757,349**	**17,784,587**

20. EQUITY INVESTMENTS

		RSD thousand
	2012	**2011**
Investments in subsidiaries:		
– Intesa Leasing d.o.o., Beograd – 100.00% of capital	962,496	962,496
Less: Allowance for impairment (Note 7(b))	-	-
	962,496	**962,496**
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	-	-
Veeda d.o.o., Vranje	29	29
Poslovni Inkubator d.o.o., Beočin	-	-
Less: Allowance for impairment (Note 7(b))	(720)	(720)
	72	**72**
Balance as of 31 December	**962,568**	**962,568**

21. OTHER PLACEMENTS

		RSD thousand
	2012	**2011**
In Dinars		
Purchased placements - Factoring	3,171,461	4,184,914
Receivables for guarantees paid	1,547,336	1,422,151
Placements in respect of assigned receivables	5,756,801	6,862,647
Other placements	103,199	242,017
	10,578,798	**12,711,729**
In foreign currency		
Other placements	178,255	48,137
	178,255	**48,137**
Gross placements	**10,757,053**	**12,759,866**
Less: Allowance for impairment (Note 7(b))		
– in dinars	(1,560,162)	(1,238,285)
– in foreign currency	-	-
	(1,560,162)	**(1,238,285)**
Balance as of 31 December	**9,196,891**	**11,521,581**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

22. INTANGIBLE ASSETS

RSD thousand

	Licenses	Software	Intangible assets in progress	Total
COST OR VALUATION				
Balance as of 1 January 2011	276,500	744,410	23,747	1,044,657
Additions during the year	64	220,337	257,652	478,053
Transfers from assets in progress			(220,400)	(220,400)
Disposals and write offs				-
Balance as of 31 December 2011	**276,564**	**964,747**	**60,999**	**1,302,310**
Additions during the year	210,891	552,616	808,940	1,572,447
Transfers from assets in progress			(763,507)	(763,507)
Disposals and write offs	-	-	-	-
Balance as of 31 December 2012	**487,455**	**1,517,363**	**106,432**	**2,111,250**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2011	127,567	355,628	-	483,195
Amortization (Note 9)	33,797	189,919	-	223,716
Disposals and write offs	-	-	-	-
Transfers from assets in progress	-	-	-	-
Balance as of 31 December 2011	**161,364**	**545,547**	**-**	**706,911**
Amortization (Note 9)	119,580	244,122	-	363,702
Transfers from assets in progress	-	-	-	
Disposals and write offs	-	-	-	-
Balance as of 31 December 2012	**280,944**	**789,669**	**-**	**1,070,613**
Net book value as of:				
– 31 December 2012	**206,511**	**727,694**	**106,432**	**1,040,637**
– 31 December 2011	**115,200**	**419,200**	**60,999**	**595,399**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

23. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY, FIXED ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

a) 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 of 1 January 2011	5,425,377	3,838,889	525,512	67,825	9,857,603	20,713
Additions during the year				853,620	853,620	-
Transfers from construction in progress	150,998	481,843	130,803	(763,645)	(1)	-
Transfers directly to P,E &IP	3,076	-	-	-	3,076	-
Transfers from/(to)	(1,116)				(1,116)	1,116
Disposals and write offs	(13,519)	(381,055)	(27,440)	-	(422,014)	-
Balance as of 31 December 2011	**5,564,816**	**3,939,677**	**628,875**	**157,800**	**10,291,168**	**21,829**
Additions during the year				1,417,543	1,417,543	-
Transfers from construction in progress	67,833	317,440	62,090	(502,418)	(55,055)	49,278
Correction-decrease in value	(5,760)	5,760			-	-
Transfers (from)/to						
Disposals and write offs		(35,371)	(30,733)	-	(66,104)	-
Balance as of 31 December 2012	**5,626,889**	**4,227,506**	**660,232**	**1,072,925**	**11,587,552**	**71,107**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2011	658,777	2,514,361	313,757	-	3,486,895	3,419
Depreciation (Note 9)	103,945	446,571	90,198	-	640,714	546
Transfers from/(to	(123)	-	-	-	(123)	123
Transfers from construction in progress						
Disposals and write offs	(5,199)	(374,486)	(22,641)	-	(402,326)	-
Balance as of 31 December 2011	**757,400**	**2,586,446**	**381,314**		**3,725,160**	**4,088**
Depreciation (Note 9)	107,448	419,016	86,568	-	613,032	957
Disposals and write offs		(34,265)	(26,806)	-	(61,071)	-
Balance as of 31 December 2012	**864,848**	**2,971,197**	**441,076**	**-**	**4,277,121**	**5,045**
Net book value as of:						
– 31 December 2012	**4,762,041**	**1,256,309**	**219,156**	**1,072,925**	**7,310,431**	**66,062**
– 31 December 2011	**4,807,416**	**1,353,231**	**247,561**	**157,800**	**6,566,008**	**17,741**

As of 31 December 2012, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

23. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY, FIXED ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS (continued)

a) Property, equipment and investment property (continued)

As of 31 December 2012, the carrying value of equipment under finance lease amounts to RSD 94,804 thousand (31 December 2011: RSD 142,837 thousand).

Construction in progress mainly relates to the ongoing construction of the new office building of the Bank. As of 31 December 2012 investments made in the development of projects, obtaining approval, supervision, and compensation paid for land for construction of office building in Block 11a on land lot GP2 in New Belgrade amounting to RSD 1,049,978 thousand.

Using external and internal sources of information in accordance with IAS 36 “Impairment of Assets”, in order to analyze the existence of impairment of assets, the Bank’s management concluded that there were no indications of impairment of property and equipment in use at the balance sheet date.

b) Fixed assets held for sale and assets from discontinued operations

		RSD thousand
	2012	**2011**
Fixed assets held for sale	228,010	60,192
Fixed assets held for sale and assets from discontinued operations	**228,010**	**60,192**

24. OTHER ASSETS

		RSD thousand
	2012	**2011**
Receivables from employees	8,837	8,416
Receivables for taxes paid in advance, except income taxes	265	2,415
Advances paid	53,530	55,488
Other receivables from operations	2,091,010	876,423
Assets received on foreclosed loans	1,986	1,986
Other assets	803,087	808,377
Accrued interest income:		
– in dinars	1,007,109	741,493
– in foreign currency	58,294	52,509
Other accrued income:		
– in foreign currency	3,145	10,001
Deferred interest expenses:		
– in dinars	10,373	20,719
– in foreign currency	272,209	38,899
Other deferred expenses:		
– in dinars	286,995	260,537
– in foreign currency	179,547	168,213
Other accruals:		
– in dinars	10,105	21,175
Total other assets	**4,786,492**	**3,066,651**
Less: Allowance for impairment (Note 7(b))	**(9,507)**	**(8,049)**
Balance at 31 December	**4,776,985**	**3,058,602**

24. OTHER ASSETS (continued)

Other receivables from operations as of 31 December 2012 amounting to RSD 2,091,010 thousand mostly relate to receivables in dinars with respect to payment cards - Other receivables in dinars from other cards issuers - Master Card, VISA and DINA in the amount of RSD 1,766,689 thousand.

Deferred interest expenses in foreign currency amounting to RSD 272,209 thousand relate to deposits of individuals where interest payment is agreed in advance.

25. TRANSACTION DEPOSITS

RSD thousand

	2012			2011		
	RSD	**Foreign currency**	**Total**	**RSD**	**Foreign currency**	**Total**
Other banks	239,571	65,703	**305,274**	146,345	65,888	**212,233**
National bank of Serbia	0	0	**0**	0	0	**0**
Financial institutions	63,385	6,268	**69,653**	53,861	9,275	**63,136**
Voluntary pension funds	0	0	**0**	0	0	**0**
Insurance companies	554,455	212,926	**767,381**	314,200	102,981	**417,181**
Mutual funds	139,750	4,861	**144,611**	395,094	17,129	**412,223**
Holding companies	564,372	61,822	**626,194**	256,131	27,955	**284,086**
Corporate customers	22,914,841	23,773,384	**46,688,225**	19,687,227	23,020,195	**42,707,422**
Public sector	10,386	41,798	**52,184**	12,862	29,361	**42,223**
Retail customers	10,198,963	34,699,268	**44,898,231**	9,866,368	27,137,986	**37,004,354**
Foreign banks	366,663	39,990	**406,653**	18,638	25,824	**44,462**
Other foreign entities	147,770	1,831,391	**1,979,161**	116,718	924,802	**1,041,520**
Other customers	2,760,962	639,672	**3,400,634**	2,081,121	368,468	**2,449,589**
Balance as of 31 December	**37,961,118**	**61,377,083**	**99,338,201**	**32,948,565**	**51,729,864**	**84,678,429**

Transaction deposits of corporate customers are placed with interest ranging from 0.5% to 11.25% per annum, depending on the currency and the amount of the deposit.

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

26. OTHER DEPOSITS

RSD thousand

	2012			**2011**		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In Dinars						
Saving deposits:						
– Retail	1,329,113	1,700	**1,330,813**	1,457,539	3,076	**1,460,615**
– Foreign entities	9,184	-	**9,184**	10,561	-	**10,561**
Special purpose deposits	1,871,417	1,611,713	**3,483,130**	2,845,485	640,631	**3,486,116**
Other deposits	23,940,064	15,636	**23,955,700**	31,799,614	112,545	**31,912,159**
Total in RSD	**27,149,778**	**1,629,049**	**28,778,827**	**36,113,199**	**756,252**	**36,869,451**
In foreign currency						
Saving deposits:						
– Retail	82,577,569	14,263,154	**96,840,723**	72,290,151	7,729,468	**80,019,619**
– Foreign entities	2,085,296	412,490	**2,497,786**	1,441,333	188,688	**1,630,021**
Special purpose deposits	5,739,456	3,248,167	**8,987,623**	3,831,802	3,113,224	**6,945,026**
Other deposits	24,396,140	698,713	**25,094,853**	21,963,603	3,258,646	**25,222,249**
Total in foreign currency	**114,798,461**	**18,622,524**	**133,420,985**	**99,526,889**	**14,290,026**	**113,816,915**
Balance as of 31 December	**141,948,239**	**20,251,573**	**162,199,812**	**135,640,088**	**15,046,278**	**150,686,366**

Term deposits in dinars and foreign currency bear interest rates ranging from 1.8% to 12.75% per annum, depending on the currency and the period for which funds have been deposited. Special purpose deposits bear no interest.

Retail short-term deposits in dinars bear interest at rates ranging from 7% to 10% per annum, depending on the period for which funds have been deposited. The interest rates on retail short-term deposits in foreign currency range from 1.0% do 5.5% per annum, depending on the period the funds have been deposited for, as well as the currency.

Retail long-term deposits in foreign currency bear interest rates ranging from 4.0% to 6.0% per annum for EUR, and from 2.3% to 4.0% per annum for other currencies, depending on the period of the deposit.

26. OTHER DEPOSITS (continued)

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

		RSD thousand
	2012	**2011**
Banks	7,085,523	9,253,640
Corporate customers	33,224,123	31,123,536
Retail customers	375,627	363,410
Foreign entities	729,638	4,182,103
Public sector	3,899,524	3,230,641
Other customers	3,736,118	8,981,078
Balance as of 31 December	**49,050,553**	**57,134,408**

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

		RSD thousand
	2012	**2011**
Banks	452,213	692,726
Corporate customers	5,824,616	4,472,984
Retail customers	5,686,048	4,844,789
Foreign entities	242,605	178,558
Public sector	213,260	179,312
Other customers	52,011	62,773
Balance as of 31 December	**12,470,753**	**10,431,142**

27. BORROWINGS

						RSD thousand
	2012			**2011**		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD						
Borrowings:						
- Other banks	280,000	-	280,000	800,000	1,483	801,483
- Corporate customers	977,058	-	977,058	110,671	0	110,671
- Public sector	35,000	-	35,000			-
- Foreign entities	-	-	-			-
- Other customers	-	-	-			-
Other financial liabilities	-	-	-			-
Total in RSD	**1,292,058**	**-**	**1,292,058**	**910,671**	**1,483**	**912,154**

RSD thousand

	2012			2011		
In foreign currency						
Borrowings:						
- Other banks	-	-	-	1,205,796	0	1,205,796
- Corporate customers	-	-	-	-	-	-
- Public sector	-	5,322,448	5,322,448	-	2,258,207	2,258,207
- Foreign entities	-	45,529,656	45,529,656	6,278,454	43,704,563	49,983,017
- Other customers	-	-	-			-
Other financial liabilities	1,421,259	-	1,421,259	2,747,288		2,747,288
Total in foreign Currency	**1,421,259**	**50,852,104**	**52,273,363**	**10,231,538**	**45,962,770**	**56,194,308**
Balance as of 31 December	**2,713,317**	**50,852,104**	**53,565,421**	**11,142,209**	**45,964,253**	**57,106,462**

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.

As of 31 December 2012, borrowings from foreign entities and public sector, which are presented within long-term borrowings, include loans granted to the Bank by members of Intesa Sanpaolo Group, international financial organizations and the Ministry of Finance of the Republic of Serbia as follows:

RSD thousand

Creditor	2012	2011
Ministry of Finance of Republic of Serbia – Italian line	1,525,365	1,265,475
Ministry of Finance of Republic of Serbia - APEX SME borrowings	3,797,083	992,728
Intesa Sanpaolo S.p.A., Italy	17,095,651	16,637,904
Intesa Sanpaolo London	-	2,040,498
Vseobecna Uverova banka A.S., Slovakia	4,548,732	4,185,636
EIB	4,548,732	4,185,636
KFW	7,753,520	6,706,532
EFSE	5,117,324	3,924,034
GGF	796,028	-
CEB	1,137,183	1,046,409
EBRD	4,532,487	4,977,918
Balance as of 31 December	**50,852,105**	**45,962,770**

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

a) Liabilities arising from securities

	2012	RSD thousand 2011
Short term deposits of other entities in dinars – forward covered	132,700	2,379,910
Liabilities for short term securities in foreign currency (draft checks)	9,280	5,739
Balance as of 31 December	**141,980**	**2,385,649**

b) Interest and fee payables and derivatives fair value

	2012	RSD thousand 2011
In RSD		
Interest and fee payables:		
– Banks	351	275
– Corporate customers	743	700
– Public sector	4,237	-
– Other	143	3
Liabilities arising from change in fair value of derivatives	68,938	164,917
	74,412	**165,895**
In foreign currency		
Interest and fee payables:		
- Foreign entities	-	42
	-	**42**
Balance as of 31 December	**74,412**	**165,937**

29. PROVISIONS

	2012	RSD thousand 2011
Provision for off-balance sheet exposures (a)	1,292,864	1,287,823
Provision for employee benefits:		
– restructuring (b)	124,131	70,237
– long-term retirement benefits and unused days of vacation (c)	148,327	223,437
Provision for litigations (Note 35 (a))	357,011	383,190
Provision for VAT liabilities	-	264,323
Balance as of 31 December	**1,922,334**	**2,229,010**

(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) The project of considering and analyzing efficiency of business processes, which may lead to restructuring and decrease in number of employees (redundancies), which started at the end of 2009 is still not fully completed. Therefore, the Bank made provisions in the same manner as in previous years, based on estimated number of employees that fulfill 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 the 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 the nominal annual yield from saving bonds, projected inflation in Euro zone countries and the assumption that the exchange rate is formed based on purchasing power parity, real annual yield of benchmark securities amounts to around 4.5%, i.e. with projected nominal inflation rate in Serbia of 5.5%, nominal annual yield amounts to 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 7% per annum over the period for which the provision has been formed.

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 vacation an employee is entitled to compensation in the amount of average salary for the last three months. In calculating provision for unused vacation days, the following is significant:

- Average gross salary in the Bank paid in October, November and December 2012
- Number of unused days of vacation.

30. OTHER LIABILITIES AND TAX LIABILITIES

	2012	RSD thousand 2011
Net salaries and compensations	84,338	160,075
Taxes, contributions and other duties payable, excluding income tax liability	58,392	110,750
Vendor liabilities	882,722	882,339
Advances received	55,317	364,609
Other liabilities	1,331,571	838,167
	2,412,340	**2,355,940**
Accruals and deferred income		
Accrued interest expenses:		
– in RSD	316,959	439,274
– in foreign currency	1,816,959	1,496,341
Accrued interest – other expenses:		
– in RSD	4,720	3,647
– in foreign currency	3,318	3,189
Deferred interest income:		
– in RSD	202,886	337,989
– in foreign currency	-	-
Other deferred income:		
– in RSD	982,558	1,073,358
– in foreign currency	12,757	-
Other deferrals		
– in RSD	70,577	112,168
– in foreign currency	-	-
	3,410,734	**3,465,966**
Subordinated liabilities (a)	-	8,371,272
Long-term finance lease liabilities (b)	113,910	150,970
Total	**5,936,984**	**14,344,148**
Other tax liabilitie	98,614	43,334
Balance as of 31 December	**6,035,598**	**14,387,482**

(a) Outstanding balance and structure of subordinated liabilities as of 31 December 2012 and 31 December 2011 are as follows:

RSD thousand

Creditor	Currency	Amount	Maturity Date	Interest Rate	31 December 2012	31 December 2011
International Finance Corporation (IFC)Washington, USA	EUR	60,000,000	15.12.2012.	6M Euribor + 2.25% p.a.	-	3,139,227
Intesa Sanpaolo S.p.A., Torino, Italy	EUR	50,000,000	12.03.2012.	3M Euribor + 1.8% p.a.	-	5,232,045
Balance as of 31 December		**110,000,000**			**-**	**8,371,272**

30. OTHER LIABILITIES (continued)

(b) Finance liabilities for leased equipment as of 31 December 2012 and 2011 are as follows:

RSD thousand

Minimal lease payments	2012 Present value	2012 Future value	2011 Present value	2011 Future value
Within 1 year	58,956	66,687	49,315	60,897
Between 1 and 5 years	54,955	57,596	101,655	110,793
Balance as of 31 December	**113,910**	**124,283**	**150,970**	**171,690**

31. EQUITY

(a) Equity structure

The Bank's equity as of 31 December 2012 consists of share capital, other capital, share premium, reserves, revaluation reserves and current year profit.

Structure of the Bank's equity is presented in table below:

RSD thousand

	2012	2011
Share capital – common shares	21,315,900	21,315,900
Other capital	11,158	11,158
Share premium	20,432,569	20,432,569
Reserves from profit	37,991,163	28,400,323
Revaluation reserves and unrealized losses on securities available for sale	808,083	663,535
Current year profit	9,492,958	9,590,840
Balance as of 31 December	**90,051,831**	**80,414,325**

/i/ Share capital

As of 31 December 2011 the total number of the Bank's registered shares amounts to 213,159 common shares with nominal value of RSD 100 thousand per share.

The major shareholder is Intesa Holding International S.A., Luxembourg, with share of 77.787% in total share capital as of 31 December 2012. Shareholders' structure as of 31 December 2012 is presented as follows:

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

31. EQUITY (continued)

(a) Equity structure (continued)

/ii/ Share premium

Share premium in the amount of RSD 20,432,569 thousand as of 31 December 2012 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, 5th and 6th issues of ordinary shares without public offer for the purpose of share capital increase.

/iii/ Reserves from profit

Reserves from profit relate to:

		RSD thousand
	2012	**2011**
Special reserves for estimated losses	37,991,163	28,400,323
Balance as of 31 December	**37,991,163**	**28,400,323**

Pursuant to the proposal of the Board of Directors, retained earnings for 2012 in the amount of RSD 9,492,958 thousand were 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 at its regular annual meeting, subsequent to the adoption of the financial statements for the year ended 31 December 2012.

/iv/ Revaluation reserves

Revaluation reserves in the amount of RSD 808,083 thousand as of 31 December 2012 (31 December 2011: RSD 663,535 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
	2012	**2011**
Effects of buildings' appraisal	559,125	559,125
Revaluation reserve from available-for-sale securities	277,145	106,490
Unrealized losses from available-for-sale securities	(28,187)	(2,080)
Balance as of 31 December	**808,083**	**663,535**

(b) Performance Indicators – Compliance with Legal Requirements

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

As of 31 December 2012, the Bank was in compliance with all prescribed performance indicators.

31. EQUITY (continued)

(b) Performance Indicators – Compliance with Legal Requirements (continued)

	Performance indicators	Prescribed	Realized 31 December 2012	Realized 31 December 2011
1	Capital	Minimum EUR 10 million	48,900,305	40,673,797
2	Capital adequacy ratio	Minimum 12%	19.79%	16.86%
3	Permanent investments indicator	Maximum 60%	15.09%	16.33%
4	Related parties exposure	Maximum 20%	1.85%	5.31%
5	Indicator of large and the largest permissible loans	Maximum 400%	26.05%	32.86%
6	Liquidity ratio	Minimum 1	1.97	1.68
7	Foreign currency risk indicator	Maximum 30%	0.73%	0.60%
8	Exposure to a group of related parties	Maximum 25%	12.10%	12.47%
9	Exposure to an entity related to the Bank	Maximum 5%	1.44%	2.97%
10	Bank's investment in legal entity which is not in the financial sector	Maximum 10%	0.0013%	0.0001%

32. OFF-BALANCE SHEET ITEMS

RSD thousand

	2012	2011
Funds managed on behalf of third parties (a)	3,796,342	3,102,844
Guarantees and other irrevocable commitments (b)	87,514,953	116,239,684
Other off-balance sheet items-derivatives (c)	74,362,945	47,719,376
Other off-balance sheet items (d)	81,468,803	77,996,752
Balance as of 31 December	**247,143,043**	**245,058,656**

(a) Funds managed on behalf of third parties

RSD thousand

	2012	2011
Funds managed on behalf of third parties:		
– Short-term	99,490	82,692
– Long-term	3,696,852	3,020,152
Balance as of 31 December	**3,796,342**	**3,102,844**

32. OFF-BALANCE SHEET ITEMS (continued)

(b) Guarantees and other irrevocable commitments

	2012	RSD thousand 2011
Payment guarantees:		
– in dinars	13,217,135	14,773,531
– in foreign currency	10,012,363	10,579,575
Total	**23,229,498**	**25,353,106**
Performance guarantees:		
– in dinars	11,469,481	11,721,200
– in foreign currency	1,405,864	1,917,325
Total	**12,875,345**	**13,638,525**
Uncovered letters of credit in foreign currency	653,173	927,633
Sureties and Acceptances	5,729	125,994
Sureties	119,067	100,985
Irrevocable commitments for undisbursed loans	44,999,345	60,597,817
Other irrevocable commitments	5,632,796	15,495,624
	51,410,110	**77,248,053**
Balance as of 31 December	**87,514,953**	**116,239,684**

(c) Other off-balance sheet items – Derivatives

	2012	RSD thousand 2011
Foreign currency SWAP contracts	73,631,467	42,101,311
Foreign currency Forward contracts	731,478	5,618,065
Balance as of 31 December	**74,362,945**	**47,719,376**

(d) Other off-balance sheet items

	2012	RSD thousand 2011
Loro guarantees	42,638,692	24,352,253
Treasury bills	10,000,000	33,000,000
Foreign currency savings' bonds	626,183	674,252
Suspended interest	6,381,110	3,519,989
Transfer from balance sheet	12,782,006	8,237,688
Other	9,040,812	8,212,570
Balance as of 31 December	**81,468,803**	**77,996,752**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 balances of receivables and liabilities as of 31 December 2012 and 2011, 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:

2012	Intesa Sanpaolo S.p.A., Italy, England, USA, Germany	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 asing LTD, Hungary	Banca Infrastrutture Innovazione e Sviluppo S.p.A., Italy
Fair value - derivatives	235,714										
Total placements	469,016	8,526	773,848	7,882	5,424		2,333		29		
Interest and fees receivable	5,020	16	2,862				1				
Other receivables	13,263		19,648		2	153			456		
Total receivables	**723,013**	**8,542**	**796,358**	**7,882**	**5,426**	**153**	**2,334**	**0**	**485**	**0**	**0**
Fair value - derivatives	59,710										
Loans payables	17,095,651			4,548,732							
Deposits payables	8,186	357,863	1,625,588				1,480		2,295		
Other payables	157,592	7,199	153,534	24,357				45,869	2,185		
Total payables	**17,321,139**	**365,062**	**1,779,122**	**4,573,089**	**0**	**0**	**1,480**	**45,869**	**4,480**	**0**	**0**
Interest income	2,709		48,628								
Fees and commission income	23,761	1,317	643	24,221	10,760		91		34		
Other income	349,428	168	12,469						327		
Total income	**375,898**	**1,485**	**61,740**	**24,221**	**10,760**	**0**	**91**	**0**	**361**	**0**	**0**
Interest expenses	598,612	3,868	92,023	129,746			2,332				
Fees and commission expense	57,587	1,232			347			464,512	6,275		
Other expenses	725,666	8,412			762		1,178	14,266	33,938		
Total expenses	**1,381,865**	**13,512**	**92,023**	**129,746**	**1,109**	**0**	**3,510**	**478,778**	**40,213**	**0**	**0**

33. RELATED PARTY DISCLOSURES (continued)

The aforementioned receivables and payables at the balance sheet date, as well as income and expenses relate to business transactions transacted during the year with related parties of the Intesa Sanpaolo Group in the ordinary course of doing business.

Interest is calculated on the Bank's receivables and payables at the usual rates. Receivables from related parties are not covered by collateral.

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 asing 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**	**-**	**-**

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

33. RELATED PARTY DISCLOSURES (continued)

(b) Gross salaries and other benefits of members of the Executive Board and other key personnel of the Bank, including members of the Board of Directors, during 2012 and 2011, are presented as follows:

		RSD thousand
	2012	**2011**
Remunerations to members of the Executive Board, Board of Directors and other key management of the Bank	169,802	157,315
Total	**169,802**	**157,315**

34. RISK MANAGEMENT

Risk is an inherent part of the Bank's activities and cannot be eliminated completely. It is important to manage risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, regulators. Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating risk. An adequate system of risk management is a 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 a 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 an adequate risk management system and for 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 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 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 adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

The 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 functional and organizational segregation of risk management activities from regular business activities.

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

34. RISK MANAGEMENT (continued)

The Bank's organizational parts authorized for risk management constantly monitor changes in regulations, while analyzing their influence on the risks at entity level of the Bank. They take necessary measures to make the Bank's business activities and procedures fully compliant 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 fulfill contractual obligations to the Bank, whether fully or partially. Through its internal acts, policies and procedures, the Bank has implemented an adequate system of credit risk management, thus reducing credit risk to an acceptable level. The Bank manages credit risk through setting credit risk limits, establishing acceptable credit limits for individual customers or for groups of customers.

Credit risk is managed by the Bank at a counterparty specific level, group of related parties, and at total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates creditworthiness of each client, both at the moment of loan application, as well as through subsequent regular and continuous performance analysis. Analysis of the client's creditworthiness, timely settlement of liabilities in the past, value of collateral at customer level and at transaction level, 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, risk concentration (large exposures), portfolio credit risk, the level of capital necessary for covering all credit risks is performed by the Risk Management Department.

The Bank established a special organizational unit, the Default Management Department, in order to manage receivables with a problem of collectability in a timely manner.

The Credit Management Department, the Risk Management Department and the Default Management Department are independent units in the Bank.

Principles prescribed by the National Bank of Serbia, as well as the Bank's internal procedures are applied in these analyses in order to anticipate potential risks that can arise in terms of a client's inability to settle 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 client type, risk type, according to sub-portfolios and total portfolio of the Bank.

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

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

Considering the importance of credit risk, dispersion of authorizations was carried out in respect of the decision making process related to loan approval activities. This dispersion is provided with prescribed limits up to which an authorized person or management body can make loan approval decisions. Organizational parts making decisions with respect to loan approvals, with different levels of authorizations, are as follows: branch managers, regional managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, approval of the parent bank is necessary.

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

Furthermore, the Bank manages credit risk through assessment and analysis of received collaterals, by providing allowances for impairment of financial assets, provisions 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 a clients' creditworthiness, risk limits are also set 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 executing a transaction.

Loan Concentration Risk

The concentration risk is the risk of incurring losses due to an excessive volume of placements with 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 concentration risk by limiting and monitoring exposure toward certain groups, predominantly by countries and economic groups.

Derivative Financial Instruments

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

In accordance with the above mentioned, as of 31 December 2012 the Bank has the following exposures to counterparties:

In thousands of Dinars

Financial derivatives	**Total Exposure**
Currency Forward	9,012
Cross Currency Swap	63,706

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

Risks similar to credit risk

The Bank issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of 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.

Collaterals and other instruments of credit risk protection

The amount and type of the collateral required depends on an assessment of credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of a customer's creditworthiness, 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 another bank or a legal entity, pledging of securities, or joint loan contracting with another legal entity which then becomes the joint debtor.

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

Assessment of impairment of financial assets

The main factors considered for financial assets impairment assessment include: overdue payments of principal or interest, identified weakness in cash flows of customers, internal credit rating downgrades, or breach of original terms of 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) 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 contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc. Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is measured as the difference between the carrying amount of a loan and its estimated recoverable amount, being the present value of 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 creditworthiness 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 and for individually significant loans and advances, where there is no objective evidence of individual impairment. Allowances are evaluated monthly with separate reviews 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 as yet objective evidence of individual assessment. Impairment losses are estimated based on migration matrices and the probability of collection of receivables overdue by more than 90 days. Migration matrices and probabilities are determined based on monitoring of the multiannual migrations of internal ratings of 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 Bank 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.

(a) Maximum Exposure to Credit Risk

Analysis of the Bank's maximum exposure to credit risk, by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2012 and 2011 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 commitments	Total 2012.
Serbia	-	287,429,339	**963,289**	**10,063,989**	**82,281,566**	**380,738,183**
Belgrade	-	128,292,596	963,230	7,160,737	37,886,552	174,303,114
Vojvodina	-	93,409,514	30	1,535,856	23,350,449	118,295,850
Rest of Serbia	-	65,727,229	29	1,367,396	21,044,564	88,139,219
Other countries	**1,520,652**	**571,405**	**-**	**7,905**	**358,589**	**2,458,550**
European Union	1,438,333	392,904	-	5,744	93,121	1,930,101
Other European countries	10,589	164,612	-	1,862	261,420	438,752
Rest of the world	71,460	13,389	-	299	4,049	89,697
Total	**1,520,652**	**288,000,744**	**963,289**	**10,071,894**	**102,692,689**	383,196,733

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(a) Maximum exposure to credit risk (continued)

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 commitments	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**

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Maximum exposure to credit risk

Analysis of the Bank's exposure to credit risk, by industry sectors, before taking into account collaterals and other hedging funds, as of 31 December 2012 and 2011, is presented in the table below:

RSD thousand

	Gross maximum exposure 2012	Net maximum exposure 2012	Gross maximum exposure 2011	Net maximum exposure 2011
Central Bank, foreign and domestic banks and other monetary intermediation	2,012,209	1,993,224	1,230,899	1,203,691
Holding companies and other credit and financing services, excluding insurance and pension funds	8,567,812	5,812,476	7,554,548	5,486,952
Other legal entities (excluding banks) in bankruptcy	7,074,775	1,847,113	5,968,010	2,138,398
Financial leasing	227	138	209	36
Retail customers	100,094,165	46,629,662	91,556,624	48,770,810
Construction	31,537,255	16,231,799	41,810,378	23,100,089
Local government	12,772,152	11,329,136	13,558,910	11,161,554
Non-profit legal entities and social services clients that are not financed from the budget	494,942	357,174	429,547	265,529
Insurance	549,289	378,282	229,838	216,126
Other	1,918,043	326,273	234,753	227,156
Agriculture, forestry and fishing	11,097,056	4,624,060	9,893,609	4,738,424
Activities supporting financial services, insurance and pension funds	67,865	54,237	212,918	56,790
Real estate, professional, scientific, innovation and technical activities, administrative and supporting service activities, art, entertainment and recreation and other service activities	16,455,358	8,037,406	17,716,005	9,228,197
Trust, investment and similar funds and management companies of this funds	4,679	2,416	3,781	141
Related financial institutions that are not included in consolidation	0	0	0	0
Related financial institutions that are included in consolidation	1,755,634	1,739,920	2,241,508	2,194,152
Corporate clients of social activities that are not financed from budget	1,681,035	721,403	2,153,111	925,195
Corporate clients of social activities that are financed from budget	184,431	110,140	154,194	109,025
Republic bodies and organizations	3,324,668	3,897	4,076,182	1,206
Mining, manufacturing, water supply, wastewater management, waste management control and similar activities	68,960,202	34,617,970	73,493,134	35,593,078
Transportation and warehousing, accommodation and food services, information and communication	46,009,565	13,061,407	40,461,212	12,574,066
Entrepreneurs	7,147,994	5,134,895	6,678,854	4,296,657
Energy, gas and steam supply, air conditioning	1,286,560	1,032,310	2,361,181	1,853,071
Foreign legal entities	475,685	475,626	448,727	445,483
Wholesale and retail sale, repair of motor vehicles and motorcycles	59,724,677	33,397,071	63,960,544	38,402,225
Pension funds and Pension Funds Management Companies	455	227		
Total	**383,196,733**	**187,918,264**	**386,428,676**	**202,988,051**

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 the gross portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2012, by types of placements and based on the Bank's rating system:

	Neither past due nor impaired				
	High quality Level	Standard quality level	Due but not impaired	Impaired	Total 2012.
Banks	2,002,895	-	9,314	1,816	2,014,025
Customers:					
Corporate customers	78,294,013	11,243,569	7,099,682	11,905,623	108,542,887
Small size and medium size companies	120,873,199	20,135,811	8,604,546	22,616,579	172,230,135
Mortgage loans to retail customers	36,898,069	-	5,956,949	1,055,992	43,911,010
Other placements to retail customers	50,225,876	6,102	3,500,607	2,766,090	56,498,675
Total	**288,294,052**	**31,385,482**	**25,171,098**	**38,346,100**	**383,196,733**

The category of neither past due nor impaired placements represents high quality positions. In accordance with the Bank's Internal classification all undue receivables are classified into classes A1 and A2, while standard quality level positions include all undue receivables classified as B1. Due but not impaired receivables represent all due placements and pas due but not impaired placements[1]. Impaired placements include all placements classified as B2, C1, C2 and R accordingly to the Bank's Internal Classification.

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 grading system:

	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**

[1] Past due by 1 day or longer

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 2012 and 2011 is presented as follows:

RSD thousand

2012	**Up to 30 days**	**From 31 to 60 days**	**From 61 to 90 days**	**Over 91 days**	**Total**
Loans to customers:					
Corporate customers	5,869,727	45,761	1,193,509	-	7,108,997
Small business and SME	6,278,264	1,902,839	423,443	-	8,604,546
Mortgage loans to retail customers	4,575,429	807,978	573,542	-	5,956,949
Other placements to retail customers	2,609,424	554,280	336,903	-	3,500,607
Balance as of 31 December 2012	**19,332,845**	**3,310,857**	**2,527,397**	**-**	**25,171,099**

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**

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 2012 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	-	-	2,093,277	14,032	2,093,277	14,032
Retail	1,474,525	327,051	80,033,667	2,476,583	81,508,192	2,803,635
Corporate	41,606,388	13,210,508	164,656,839	4,475,702	206,263,227	17,686,210
Entrepreneurs	166,090	64,107	5,633,417	677,924	5,799,507	742,031
A (1+2+3+4)	**43,247,003**	**13,601,667**	**252,417,199**	**7,644,242**	**295,664,202**	**21,245,908**

34. RISK MANAGEMENT (continued)

34.1. Credit risk (continued)

(b) Portfolio Quality (continued)

	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision	Classified off-balance sheet assets	Provision
Banks	-	-	86,120	21	86,120	21
Retail	-	-	18,901,494	122,064	18,901,494	122,064
Corporate	8,883,623	428,603	53,421,129	726,860	62,304,752	1,155,463
Entrepreneurs	14,468	3,332	1,333,321	11,983	1,347,789	15,316
B (1+2+3+4)	**8,898,091**	**431,935**	**73,742,064**	**860,929**	**82,640,155**	**1,292,846**
Total (A+B)	**52,145,094**	**14,033,620**	**326,159,094**	**8,505,170**	**378,304,357**	**22,538,772**

34.2. Liquidity Risk and Financial Assets Management

Liquidity risk relates to the risk that the Bank does not have sufficient liquidity reserves for settling liabilities as they fall due and for covering unexpected deposit outflows and non-deposit liabilities. The liquidity issue is presented as a 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 liquidity and for the regular preparation of reports which present the effects of the migration of various categories of assets and liabilities of the Bank to its liquid asset position. The Risk Management Department reports on liquidity to the parent bank and the ALCO Committee. Furthermore, the Risk Management Department provides support to the Treasury Department within the field of statistical analysis and testing of assumptions on the behavior of certain assets and liabilities items affecting cash inflows and outflows. Applied assumptions on 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.

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

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 reports for management.

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

	2012	**2011**
As of 31 December	2.00	1.93
Average for the period	1.96	1.51
Highest	2.42	1.93
Lowest	1.40	1.13

All balance sheet and off-balance sheet items are classified in certain maturity intervals according to the remaining maturity in the report on structural maturity mismatch.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (continued)

The following table presents the remaining maturity mismatch report as of 31 December 2012:

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	33,665,831	1,359,014	-	-	-	-	(11,270)	35,013,575
Revocable deposits and loans	56,757,728	-	-	-	-	-	-	56,757,728
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	3,278,233	3,278,233
Loans and advances to customers	33,041,508	14,833,706	27,006,480	46,992,331	109,402,979	45,966,685	(17,693,190)	259,550,499
Securities (excluding treasury shares)	5,025,606	4,987,252	6,071,367	12,621,718	6,375,787	-	-	35,081,730
Equity investments	-	-	-	-	-	-	962,568	962,568
Other placements	5,275,809	885,940	1,829,214	1,085,390	1,475,386	205,314	(1,560,162)	9,196,891
Intangible assets	-	-	-	-	-	-	1,040,637	1,040,637
Property, equipment and investment property	-	-	-	-	-	-	7,376,493	7,376,493
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	-	228,010	228,010
Deferred tax assets	-	-	-	-	-	-	66,240	66,240
Other assets	-	-	-	-	-	-	4,776,985	4,776,985
TOTAL ASSETS	**133,766,482**	**22,065,912**	**34,907,061**	**60,699,439**	**117,254,152**	**46,171,999**	**(1,535,456)**	**413,329,589**

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (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	With non-defined maturity	Total
LIABILITIES								
Transaction deposits	99,338,201	-	-	-	-	-	-	99,338,201
Other deposits	27,543,329	28,397,908	30,170,428	62,147,466	13,485,694	454,987	-	162,199,812
Borrowings	1,661,020	771,660	737,791	2,973,556	36,227,856	9,772,279	1,421,259	53,565,421
Liabilities arising from securities	87,680	11,087	33,933	-	-	-	9,280	141,980
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	74,412	74,412
Provisions	-	-	-	-	-	-	1,922,334	1,922,334
Tax liabilities	-	-	-	-	-	-	98,614	98,614
Liabilities from profit	-	-	-	-	-	-	-	-
Other liabilities	2,344	8,243	13,690	17,223	2,526	-	5,892,958	5,936,984
TOTAL LIABILITIES	**128,632,574**	**29,188,898**	**30,955,842**	**65,138,245**	**49,716,076**	**10,227,266**	**9,593,508**	**323,277,758**
TOTAL EQUITY	-	-	-	-	-	-	**90,051,831**	**90,051,831**
TOTAL LIABILITIES AND EQUITY	**128,632,574**	**29,188,898**	**30,955,842**	**65,138,245**	**49,716,076**	**10,227,266**	**99,470,688**	**413,329,589**
MATURITY MISMATCH	**5,133,908**	**-7,122,986**	**3,951,219**	**-4,438,806**	**67,538,076**	**35,944,733**	**(97,935,232)**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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**	**1,463,553**	**392,322,689**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

34. RISK MANAGEMENT (continued)

34.2. Liquidity Risk and Financial Assets Management (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	With nondefined maturity	Total
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**	
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)

Ratios of maturity mismatch are calculated based on data from the Maturity Mismatch Report, so-called Rule 1 and Rule 2 indicators. Rule 1 indicates coverage of fixed investments with the Bank's capital; Rule 2 indicates coverage of stable 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 the 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) <= Surplus/Deficit from Rule 1 + Non current monetary assets + Long-term liabilities + 0.5*(Middle-term liabilities) + A vista 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)

The Bank has no maturity mismatch which means that all fixed investments are covered with capital and all long-terms investments are covered with long-term funds.

34.3. Market risk

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

- Interest rate risk,
- Foreign currency risk

34.3.1. Interest rate risk

Interest rate risk is the risk of decrease in profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to interest rate risk depends on the ratio of the interest-sensitive assets and interest- sensitive 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. Scenario analysis techniques and stress analysis is used as well.

In the banking book, interest rate risk is measured and monitored by calculating the gap between interest-sensitive assets and interest-sensitive 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 the trading book and securities available for sale.

34. RISK MANAGEMENT (continued)

34.3. Market risk (continued)

34.3.1. Interest rate risk (continued)

Value at interest rate risk (IRR VaR) represents highest possible one day loss on positions in the 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 a confidence interval of 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 interest rate risk as of 31 December 2012:

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	33,654,561	1,359,014	-	-	-	-	-	35,013,575
Revocable deposits and loans	10,000,000	-	-	-	-	-	46,757,728	56,757,728
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	-	-	-	-	-	-	3,278,233	3,278,233
Loans and advances	118,616,130	82,987,432	25,938,059	21,547,983	24,727,678	3,426,407	(17,693,190)	259,550,499
Securities (excluding treasury shares)	8,083,711	4,987,252	6,071,366	12,621,718	3,317,683	-	-	35,081,730
Equity investments	-	-	-	-	-	-	962,568	962,568
Other placements	5,275,808	885,941	1,829,214	1,085,390	1,475,386	205,314	(1,560,162)	9,196,891
Intangible assets	-	-	-	-	-	-	1,040,637	1,040,637
Property, equipment and investment property	-	-	-	-	-	-	7,376,493	7,376,493
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	-	228,010	228,010
Deferred tax assets	-	-	-	-	-	-	66,240	66,240
Other assets	-	-	-	-	-	-	4,776,985	4,776,985
TOTAL ASSETS	**175,630,210**	**90,219,639**	**33,838,639**	**35,255,091**	**29,520,747**	**3,631,721**	**45,233,542**	**413,329,589**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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	99,338,201	-	-	-	-	-	-	99,338,201
Other deposits	34,580,330	24,002,249	28,998,941	60,776,311	13,386,994	454,987	-	162,199,812
Borrowings	1,299,558	31,390,225	14,196,216	506,347	3,665,832	1,085,984	1,421,259	53,565,421
Liabilities on securities	87,681	11,087	33,933	-	-	-	9,279	141,980
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	-	74,412	74,412
Provisions	-	-	-	-	-	-	1,922,334	1,922,334
Tax liabilities	-	-	-	-	-	-	98,614	98,614
Liabilities from profit	-	-	-	-	-	-	-	-
Other liabilities	2,344	8,243	13,690	17,223	2,526	-	5,892,958	5,936,984
TOTAL LIABILITIES	**135,308,114**	**55,411,804**	**43,242,780**	**61,299,881**	**17,055,352**	**1,540,971**	**9,418,856**	**323,277,758**
TOTAL EQUITY	-	-	-	-	-	-	**90,051,831**	**90,051,831**
TOTAL LIABILITIES AND EQUITY	**135,308,114**	**55,411,804**	**43,242,780**	**61,299,881**	**17,055,352**	**1,540,971**	**99,470,687**	**413,329,589**
PERIODICAL GAP	**40,322,096**	**34,807,835**	**(9,404,142)**	**(26,044,790)**	**12,465,395**	**2,090,750**	**(54,237,145)**	-
CUMULATIVE GAP	**40,322,096**	**75,129,931**	**65,725,790**	**39,681,001**	**52,146,395**	**54,237,145**		

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 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**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.1. Interest Rate Risk (continued)

	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	235,442	-	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**	**30,823,89**	**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 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%	552,598	(58,830)
2	2%	1,105,195	(112,751)
3	-1%	(552,598)	64,238
4	-2%	(1,105,195)	134,434

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

Value at risk:	In EUR IRR VaR
Average	517,879
Maximum	756,003
Minimum	275,319

34.3.2. Foreign Currency Risk

Foreign currency risk is the risk of occurrence of negative effects on the financial result and equity of the Bank due to changes in foreign currency exchange rates. Banking operations in different foreign currencies result in exposure to fluctuations in exchange rates of foreign currencies.

In accordance with the internal policy of the Bank, considering potential fluctuations in foreign currency exchange rates, 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 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 2012, the Bank strictly paid attention to keeping its foreign currency risk indicator within 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 2012:

RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currency	Total in RSD	Total
ASSETS							
Cash and cash equivalents	3,082,565	221,020	259,846	461,892	4,025,324	30,988,251	35,013,575
Revocable deposits and loans	46,757,728	-	-	-	46,757,728	10,000,000	56,757,728
Interest and fees receivable, receivables from sales, changes in fair value of derivatives and other receivables	744,585	2,592	3,420	42	750,639	2,527,594	3,278,233
Loans and advances	188,814,594	528,855	3,757,478	-	193,100,928	66,449,571	259,550,499
Securities (excluding treasury shares)	5,450,867	-	-	-	5,450,867	29,630,863	35,081,730
Equity investments	-	-	-	-	-	962,568	962,568
Other placements	6,270,184	-	-	102,293	6,372,477	2,824,414	9,196,891
Intangible assets	-	-	-	-	-	1,040,637	1,040,637
Property, equipment and investment property	-	-	-	-	-	7,376,493	7,376,493
Fixed assets held for sale and assets from discontinued operations	-	-	-	-	-	228,010	228,010
Deferred tax assets	-	-	-	-	-	66,240	66,240
Other assets	816,489	8,345	2,365	453	827,652	3,949,333	4,776,985
TOTAL ASSETS (I)	**251,937,013**	**760,812**	**4,023,110**	**564,680**	**257,285,615**	**156,043,974**	**413,329,589**
LIABILITIES							
Transaction deposits	52,755,981	5,373,860	2,135,360	1,111,883	61,377,083	37,961,118	99,338,201
Other deposits	127,690,966	7,795,395	2,925,345	808,391	139,220,097	22,979,715	162,199,812
Borrowings	51,268,582	933,107	66,356	5,319	52,273,363	1,292,058	53,565,421
Liabilities arising from securities	-	-	-	9,280	9,280	132,700	141,980
Interest and fees payable and changes in fair value of derivatives	-	-	-	-	-	74,412	74,412
Provisions	-	-	-	-	-	1,922,334	1,922,334
Tax liabilities	-	-	-	-	-	98,614	98,614
Liabilities from profit	-	-	-	-	-	-	-
Other liabilities	2,337,951	216,969	29,329	6,099	2,590,348	3,346,636	5,936,984
TOTAL LIABILITIES	**234,053,480**	**14,319,330**	**5,156,389**	**1,940,972**	**255,470,171**	**67,807,587**	**323,277,758**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**		**90,051,831**
TOTAL LIABILITIES AND EQUITY (II)	**234,053,480**	**14,319,330**	**5,156,389**	**1,940,971**	**255,470,171**	**67,807,587**	**413,329,589**
Financial derivatives affecting the foreign currency position, recorded in the off balance sheet (III)	**(17,565,025)**	**13,590,003**	**1,130,306**	**1,701,199**	**(1,143,518)**	**-**	**-**
Open net foreign currency position (I-II+III)	**(318,508)**	**31,485**	**(2,973)**	**324,908**	**671,926**	**88,236,387**	**-**

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**	**1,356,0844**	**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)	**139,2,68**	**(14,706)**	**(27,260)**	**47,493**	**144,796**	**(7,691,437)**	**-**

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

34. RISK MANAGEMENT (continued)

34.3. Market Risk (continued)

34.3.2. Foreign Currency Risk (continued)

Furthermore, the Bank has developed the internal methodology for measuring foreign currency risk, which implies that VaR is calculated and monitored on a daily basis with a 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 the 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 2012 and 2011:

		VaR (In EUR)
Foreign currency VaR	**2012.**	**2011.**
Average	59,778	59,394
Maximum	181,538	643,650
Minimum	1,877	1,542

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

	RSD thousand
Scenario	**Impact on the profit**
10% depreciation of RSD	67,193
20% depreciation of RSD	134,385

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 (processes), human mistakes, system errors and the influence of external factors. This definition includes legal risk, but excludes strategic and reputational risk.

The function of the operational risk management process is to identify, assess, control and minimize the possibility of occurrence of net losses and their effects. The Bank cannot eliminate all operational risks, but through the processes of recording and analyzing operational risks it can identify failures in its processes, products and procedures. Hence, the Bank's improvement of its processes, products and procedures can decrease the frequency and negative influence of operational losses on its operations and profitability. An important aspect of operational risk management is updating the management on significant operational 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.

34. RISK MANAGEMENT (continued)

34.4. Operational Risk (continued)

Once per year the Bank performs its own risks assessment. The 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 operational occurrences, and their influence on profits, from the perspective of their area of responsibility. In the 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.

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

For the calculation of capital requirements for operational risk, the Bank applies the Basic Indicator Approach. Capital requirements for operational risk are calculated using the basic indicator approach which is equal to a three year average exposure indicator multiplied by the capital requirements rate of 15%. As of 31 December 2012 the capital requirement for operational risk, calculated using the basic indicator approach amounts to RSD 3,941,255 thousand.

34.5. Exposure Risks

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 2012, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by relevant procedures and decisions on credit approval and investments in financial and non-financial assets, ensuring compliance of the Bank's placements and investments with indicators prescribed by the National Bank of Serbia.

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 sets exposure limits, i.e. the concentration of placements to a single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant bodies and employees of the Bank seek to ensure the compliance of the Bank's exposures with 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 does 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. RISK MANAGEMENT (continued)

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’s regulations, the Risk Management Department monitors the Bank’s investments and reports to the Executive Board. 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 investments of the Bank in non-financial entities and in fixed assets do not exceed 60% of the Bank’s equity.

34.7. Country Risk

Country risk relates to the country of origin of the Bank’s client and 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, economic or social conditions in the client’s country of origin.

The Bank’s exposure to 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 Bank’s ability to continue operating into the foreseeable future, in order to maintain the optimal structure of capital with a view to decreasing the costs of capital, and securing dividends for shareholders.

The Bank permanently manages its capital in order to:

- Ensure compliance with capital requirements set by the National Bank of Serbia;
- Ensure adequate level of capital in order to ensure operations as a going concern; and
- Maintain capital at the level that will ensure future development of the business;
- Maintain capital at the level that is adequate to cover internally assessed capital requirements for all significant risks identified in the Internal Capital Adequacy Assessment Process (ICAAP)

Capital adequacy, as well as use of the Bank’s capital, is monitored on a monthly basis by the Bank’s management. The National Bank of Serbia has set the minimal capital adequacy ratio at 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 comprise: the amount of 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 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)

34.9. 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 information is available and when their fair value significantly differs from their carrying amounts.

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 an 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 amounts of financial instruments approximate their fair value. The fair value of loans and placements to customers is equal to their carrying value, decreased for 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 for equity instruments that do not have a quoted market price in an active market and whose value cannot be reliably determined, and that are carried at cost less estimated allowances for impairment. Fair value of quoted securities is based on currently offer prices. Fair value of treasury bills is based on discount value that gradually, until maturity, increases by the amount of accrued interest. Deposits from banks and customers are mostly short-term deposits with fixed or variable rates and therefore the Bank's management considers that their carrying amounts approximate their fair value.

The Bank's management believes that the carrying amounts in the accompanying financial statements reflect values that are most appropriate and most useful for reporting purposes.

35. CONTINGENT LIABILITIES

(a) Court cases

As of 31 December 2012, the Bank is a defendant in a certain number of legal proceedings. Total estimated amount of claims is RSD 378,642 thousand (31 December 2011: RSD 422,141 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 2012, the Bank recognized provisions for potential losses that could arise from the aforementioned litigations in the total amount of RSD 357,011 thousand (31 December 2011: RSD 383,190 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The Bank is involved in a number of lawsuits as plaintiff related to collection of receivables. All disputed receivables from corporate and retail customers have been fully impaired and charged to the results of the current and previous years

(b) Tax Risks

The tax system of the Republic of Serbia is in the process of continuous review and amendments. The tax period in the Republic of Serbia is considered to be open for five years. Under various circumstances, the tax authorities could have a different approach to certain issued, and could assess 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 presented fairly.

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 of 31 December 2012, and maintained reliable documentation.

From a total of 2,683 submitted confirmations of balances, 52 were disputed.

The larges unreconciled outstanding balances of receivables are as follows:

- RSD 660,658 thousand refer to receivables from companies in bankruptcy and companies in restructuring
- RSD 313,595 thousand refer to a different methodology of recording receivables and liabilities arising from derivatives, as well as from calculation of their fair value
- RSD 297,667 thousand refer to receivables from corporate clients Irva doo, Beograd, Duga doo and Petlovača. The confirmations of balances are disputed on the grounds that a Reorganization Plan prepared in advanced has been adopted.
- RSD 56,963 thousand mostly relates to accrued interest.
- RSD 17,083 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 bank pursuant to the Sale of Receivables Agreement.
- RSD 1,004 thousand refers to non-compliance arising from receivables related to credit card transactions.
- RSD 670 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 of 31 December 2012 and 2011 into Serbian Dinars (RSD) were as follows:

In RSD

	2012	**2011**
EUR	113.7183	105.4982
USD	86.1763	79.2802
CHF	94.1922	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 ended 31 December 2012.

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