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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS

DUNAV BANKA A.D. BEOGRAD

We have audited the accompanying financial statements of Dunav banka a.d. Beograd ("the Bank"), which comprise 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 the 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 qualified audit opinion.

Basis for Qualified Opinion

In its balance sheet as at 31 December 2012 the Bank reported under Equity investments an investment in Holding RMHK „Trepča" a.d., Zvečan, in the net carrying amount of RSD 112,133 thousand (gross carrying amount of RSD 127,666 thousand). The company Holding RMHK „Trepča" a.d., Zvečan, is located on the territory of Kosovo and maintains business activities solely with support of institutions of the Republic of Serbia. As at 22 April 2010, the Privatization Agency of the Republic of Serbia initiated restructuring procedure of this company which is scheduled for privatization. The Bank's management has undertaken actions to address this issue. In view of the specific environment in which this company operates, we are unable to estimate the potential amount of impairment of this equity investment.

Matični broj:17148656
PIB: 100058593
Račun: 265-1100310000190-61
KPMG d.o.o. Beograd je jednočlano društvo.

Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, 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 the National Bank of Serbia.

Emphasis of matter

Without further qualifying our opinion, we draw attention to the following:

a) As disclosed in Note 25 to the financial statements, as at 31 December 2012, special purpose deposits of parent company Kompanija Dunav osiguranje a.d.o. Beograd that represent collateral for the Bank's placements, are included in the special purpose deposits of the Bank. Out of the total amount of special purpose deposits, RSD 238,808 thousand relates to Galenika a.d., Beograd. These deposits are not placed in accordance with the legislation that defines operations of insurance companies, which points to the existence of uncertainty related to adequacy of the above mentioned collaterals and, consequently, influence on the financial statements of the Bank.

b) As disclosed in Note 31 to the financial statements, as at 31 December 2012, JP Srbijagas is a shareholder in the Bank, with 9.01% participation in shares that were acquired without prior approval of the National Bank of Serbia for the acquisition of ownership, as required by article 94 of the Law of Banks. Pursuant to the Decision of the National Bank of Serbia, the above mentioned company was ordered to dispose of its ownership up to 5% of the Bank's equity, by 30 September 2013. The process of disposal is in progress, in accordance with the National Bank of Serbia's order.

Belgrade, 27 February 2013 KPMG d.o.o. Beograd

(L.S.)

Stana Jovanović
Certified auditor

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Belgrade, 16 May 2013 KPMG d.o.o. Beograd

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

(L.S.)

Stana Jovanović
Certified auditor

INCOME STATEMENT
For the year ended 31 December 2012

(In thousands of RSD)

	Notes	2012	2011
Interest income	4	420,216	277,252
Interest expenses	4	(129,130)	(78,685)
Net interest income		**291,086**	**198,567**
Fees and commission income	5a	117,167	70,562
Fees and commission expenses	5b	(10,714)	(6,182)
Net fee and commission income		**106,453**	**64,380**
Net foreign exchange losses	6	(2,345)	(1,832)
Other operating income	7	77,533	31,512
Net expenses on impairment of placements and provisions	8	(68,605)	(9,118)
Salaries, benefits and other personal expenses	9	(171,091)	(136,324)
Depreciation costs	10	(74,374)	(49,444)
Operating and other expenses	11	(147,755)	(91,629)
Income from change in value of assets and liabilities	12	143,281	59,604
Expenses from change in value of assets and liabilities	12	(123,634)	(48,556)
PROFIT FROM OPERATING OPERATIONS		**30,549**	**17,160**
Income tax	13.1	(952)	-
Gains on increase in deferred tax assets and decrease in deferred tax liabilities	13.3	3,881	278
Losses on increase in deferred tax assets and decrease in deferred tax liabilities	13.3	(4,546)	-
NET PROFIT		**28,932**	**17,438**
Earnings per share (in dinars)	31.b	20	12

Belgrade, 27 February 2013

Person responsible for preparing the financial statements

Legal Representative of the Bank

Mirjana Bojat

Srđan Brajović

BALANCE SHEET
As at 31 December 2012

(In thousands of RSD)

	Note	2012	2011
ASSETS			
Cash and cash equivalents	14	1,200,140	406,533
Revocable deposits and loans	15	2,201,529	1,191,081
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	16	27,709	23,370
Loans and deposits	17	2,585,603	2,279,935
Securities (excluding treasury shares)	18	615,703	270,256
Equity investments	19	113,508	115,415
Other placements	20	23,285	18,440
Intangible assets	21	207,171	216,796
Fixed asset and investment property	21	119,882	96,448
Deferred tax assets	22	8,432	9,097
Other assets	23	46,748	19,006
Loss above equity		-	-
TOTAL ASSETS		**7,149,710**	**4,646,377**

	Note	2012	2011
EQUITY AND LIABILITIES			
Transaction deposits	24	3,076,107	1,839,269
Other deposits	25	2,158,133	1,208,754
Borrowings	26	713	1,109
Interest, fees and commissions payable and change in fair value of derivatives	27	-	2,231
Provisions	28	12,275	9,280
Tax liabilities	29	374	113
Liabilities from profit	13.2	952	-
Other liabilities	30	64,302	28,066
TOTAL LIABILITIES		**5,312,856**	**3,088,822**
EQUITY - Share capital	31	1,764,587	1,514,220
Reserves from profit	31	43,335	25,897
Profit	31	28,932	17,438
Losses up to the level of capital		-	-
TOTAL EQUITY		**1,836,854**	**1,557,555**
TOTAL EQUITY AND LIABILITIES		**7,149,710**	**4,646,377**
OFF BALANCE SHEET ITEMS		**1,557,039**	**1,493,863**
Funds managed on behalf of third parties	32	258	253
Assumed future liabilities	32	1,474,418	1,422,079
Other off-balance sheet items	32	82,363	71,531

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

(In thousands of RSD)

No	Description	Share capital (acc 800)	Other capital (acc 801)	Unpaid subscribed share capital (acc 803)	Premium on issue of shares (acc 802)	Reserves from profit and other reserves (group of acc 81)	Revaluation reserves (group of acc 82, except for acc. 823	Profit (group of acc 83)	Losses up to the level of capital (acc. 840, 841)	Own shares (acc. 128)	Unrealized losses on securities available for sale (acc. 823)	Total	Losses in excess of capital (acc. 842)
	1	2	3	4	5	6	7	8	9	10	11	12	13
1.	**Balance as at 1 January of the prior year 2011**	**1,393,176**	**-**	**-**	**59,223**	**11,227**	**-**	**16,565**	**-**	**-**	**-**	**1,480,191**	**-**
2.	Adjustment for material errors and changes in accounting policies in the prior year – increase	-	-	-	-	-	-	-	-	-	-	-	-
3.	Adjustment for material errors and changes in accounting policies in the prior year – decrease	-	-	-	-	-	-	-	-	-	-	-	-
4.	**Adjusted opening balance as at 1 January of the prior year (no. 1+2-3)-2011**	**1,393,176**	**-**	**-**	**59,223**	**11,227**	**-**	**16,565**	**-**	**-**	**-**	**1,480,191**	**-**
5.	Total increase in the prior year	58,887	-	-	2,944	22,448	-	17,438	-	-	-	101,707	-
6.	Total decrease in the prior year	-	-	-	-	7,788	-	16,565	-	-	-	24,343	-
7.	**Balance as at 31 December of the prior year 2011 (no. 4+5-6)**	**1,452,053**	**-**	**-**	**62,167**	**25,897**	**-**	**17,438**	**-**	**-**	**-**	**1,557,555**	**-**
8.	Adjustment for material errors and changes in accounting policies in the current year – increase	-	-	-	-	-	-	-	-	-	-	-	-
9.	Adjustment for material errors and changes in accounting policies in the current year – decrease	-	-	-	-	-	-	-	-	-	-	-	-
10.	**Adjusted opening balance as at 1 January of the current year 2012 (no. 7+8-9))**	**1,452,053**	**-**	**-**	**62,167**	**25,897**	**-**	**17,438**	**-**	**-**	**-**	**1,557,555**	**-**
11.	Total increase in the current year	238,445	-	-	11,922	17,438	-	28,932	-	-	-	296,737	-
12.	Total decrease in the current year	-	-	-		-	-	17,438	-	-	-	-	-
13.	**Balance as at 31 December of the current year 2012 (no. 10+11-12)**	**1,690,498**	**-**	**-**	**74,089**	**43,335**	**-**	**28,932**	**-**	**-**	**-**	**1,836,854**	**-**

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STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

(In thousands of RSD)

	2012	2011
A) CASH FLOWS FROM OPERATING ACTIVITIES		
I. Cash inflows from operating activities	**601,413**	**378,536**
1. Interest inflow	418,650	268,478
2. Fees and commission inflow	118,390	76,787
3. Other operating activities inflow	64,373	33,271
4. Dividends and profit sharing inflow	-	-
II. Cash outflows from operating activities	**(430,146)**	**(306,125)**
5. Interest outflow	(123,445)	(71,642)
6. Fee and commission outflow	(10,714)	(6,182)
7. Gross salaries and fringe benefits and other personal expenses outflow	(170,796)	(137,220)
8 Taxes, contributions and other duties outflow	(29,595)	(22,458)
9. Other operating activities outflows	(95,596)	(68,623)
III. Net cash inflow from operating activities before increase or decrease in placements and deposits	**171,267**	**72,411**
IV. Net cash outflow from operating activities before increase or decrease in placements and deposits	**-**	**-**
V. Decrease in placements and increase in deposits	**2,073,634**	**2,009,178**
10. Decrease in loans and advances with banks and other clients	-	-
11. Decrease in securities and other placements for trading and short-term securities held to maturity	-	308,025
12. Increase in loans and advances with customers and banks	2,073,634	1,701,153
VI. Increase in placements and decrease in deposits	**(1,661,004)**	**(1,891,526)**
13. Increase in loans and advances with banks and other clients	(1,315,904)	(1,891,526)
14. Increase in securities and other placements for trading and short-term securities held to maturity	(345,100)	-
15. Decrease in loans and advances with customers and banks	-	-
VII. Net cash inflow from operating activities before profit tax	**583,897**	**190,063**
VIII. Net cash outflow from operating activities before profit tax	**-**	**-**
16. Income tax paid	-	(761)
17. Dividends paid	-	-
IX. Net cash inflow from operating activities	**583,897**	**189,302**
X. Net cash outflow from operating activities	**-**	**-**
B) CASH FLOWS FROM INVESTING ACTIVITIES		
I. Cash inflows from investing activities	**613**	**-**
1. Cash inflow from the long-term securities investments	-	-
2. Cash inflow from sale of equity investments	-	-
3. Cash inflow from sale of intangible and fixed assets	613	-
4. Cash inflow from sale of investment properties	-	-
5.Other cash inflow from investing activities	-	-
II. Cash outflows from investing activities	**(107,404)**	**(141,750)**
6. Cash outflow from the long-term securities investments	-	-
7. Cash outflow from sale of equity investments	-	-
8. Cash outflow from sale of intangible and fixed assets	(107,404)	(141,750)
9. Cash outflow from disposal of investment properties	-	-
10. Other cash outflow from investing activities	-	-

III. Net cash inflow from investing activities	**-**	**-**
IV. Net cash outflow from investing activities	**(106,791)**	**(141,750)**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
I. Cash inflows from financing activities	**250,367**	**61,821**
1. Cash inflow from increase in equity	250,367	61,821
2. Net cash inflow from subordinated debt	-	-
3. Net cash inflow from loans received	-	-
4. Net cash inflow from securities	-	-
5. Cash inflow from sale of own shares	-	-
6. Other inflow from financing activities	-	-
II. Cash outflows from financing activities	**(672)**	**(672)**
7. Cash outflow from purchase of own shares	-	-
8. Net cash outflow from subordinated debt	-	-
9. Net cash outflow from loans received	(672)	(672)
10. Net outflow from securities	-	-
11. Other outflow from financing activities	-	-
III. Net cash inflow from financing activities	**249,695**	**61,149**
IV. Net cash outflow from financing activities	**-**	**-**
D) TOTAL CASH INFLOWS	**2,926,027**	**2,449,535**
E) TOTAL CASH OUTFLOWS	**(2,199,226)**	**(2,340,834)**
F) NET CASH INFLOWS	**726,801**	**108,701**
G) NET CASH OUTFLOWS	**-**	**-**
H) CASH AT THE BEGINNING OF THE YEAR	**406,533**	**293,345**
I) FOREIGN EXCHANGE GAINS	**66,806**	**4,487**
J) FOREIGN EXCHANGE LOSSES	**-**	**-**
K) CASH AT THE END OF THE YEAR	**1,200,140**	**406,533**

T R A N S L A T I O N

DUNAV BANKA A.D. BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

Belgrade, 31 December 2012

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.

1. BACKGROUND INFORMATION

DUNAV BANKA a.d., Beograd (hereinafter: the Bank), was established on 28 December 1990 in accordance with Decision of the establishment and licence for the establishment no. 329 from 26 December 1990, issued by National Bank of Serbia. The bank was registered on 3 January 1991 with the District commercial court of Priština in accordance with Decision no 1167, as a shareholding company.

On April 2010 the Bank issued common shares in the total amount of RSD 850,000,000 with the purpose of acquiring minimum necessary capital for conducting activities of the Bank. At first extraordinary Shareholders Assembly meeting held on 18 June 2010 the purchase of the entire issue of common shares by Dunav osiguranje was confirmed, which is now the new majority shareholder of the Bank. At the same meeting, new Managing Board was also appointed.

The Banka operated till 7 October 2010 under the name “KOSOVSKO METOHIJSKA BANKA” a.d., Zvečan, when the Serbian Registers Agency enacted decision no. BD 113392/10 approving the change of name of the Bank to DUNAV BANKA a.d. Zvečan.

Pursuant to the Decision of the Serbian Business Registers Agency no. BD 158022/2012 dated 19 December 2012, the name of the bank has been changed to DUNAV BANKA a.d. Beograd, and registered with the Agency. Also, the Bank’s head office has been moved to no 88, Bulevar Franse d’Eperea.

The Bank is registered in accordance with the Law on Banks, Decision of the establishment and Statute, for credit and deposit activities, payment transfers in country and abroad, foreign-currency and exchange activities, issuance of payment cards, issuance of guarantees, sureties and other activities in accordance with the legislation.

Management bodies of the Bank are the Shareholders Assembly, Board of directors and Executive board.

The Bank has established the following committees: Asset and Liability Committee, Audit Committee and Credit Committee.

As at 31 December the Bank had 5 branch offices, 23 sub-branches and 10 tellers (as at 31 December 2011 the Bank had 5 branch offices, 19 sub-branches and 5 tellers).

As at 31 December 2012 the Bank had 182 employees (31 December 2011: 158 employees).

Tax identification number is 100017720.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of preparation of financial statements

Statement of compliance

The Bank maintains records and prepares financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia ("Official Gazette of RS" 46/2006 and 111/2009, 99/2011), Law on Banks ("Official Gazette of RS", no. 107/05, 91/10) and other relevant rules and regulations issued by National Bank of Serbia, as well as other relevant legislation in the Republic of Serbia.

In accordance with the Law on Accounting and Auditing, legal entities and entrepreneurs in the Republic of Serbia prepare and present financial statements in accordance with the law, professional and internal regulations, where professional regulations relate to the applicable Framework for the Preparation and Presentation of Financial Statements („Framework"), International Accounting Standards („IAS"), International Financial Reporting Standards („IFRS") and interpretations that are part of the standard, in regard to text of IAS and IFRS which has been implemented, does not include grounds for concluding, illustrating examples, guidelines, comments, opposing views, elaborated examples and other supplementary material.

Changes to existing standards and translation of new IFRS, as well as interpretations which are an integral part of the standards issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") until 1 January 2009 year were formally adopted following the decision of the Minister of Finance no. 401-00-1380/2010-16 and published in the "Official Gazette of RS" no. 77/2010. Amended or issued IFRICs and interpretations of standards, after this date, have not been translated and published, and therefore have not been applied in preparing for these financial statements.

The accompanying financial statements are prepared in a form prescribed by the Rules on the Content and Form of Financial Statements of Banks "Official Gazette of RS" no. 74/08, 3/09, 12/09 and 5/10), which prescribes the application of a set of financial statements whose form and content are aligned with those specified in the revised IAS 1 – Presentation of Financial Statements, whose application is mandatory for accounting periods beginning on or after 1 January 2009.

Financial statements are prepared based on the historical cost principle, unless it is otherwise stated in the accounting policies which are presented below.

2.2. Going concern concept

Financial statements have been prepared in accordance with the going concern concept, which is based on the assumption that the Bank will continue to operate for an indefinite period into the foreseeable future.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Reconciliation of receivables and liabilities

In accordance with relevant legislation the Bank has performed reconciliation of its receivables and liabilities with its creditors and debtors. Total amount of returned and adjusted confirmations of receivables was 84.37% of sent confirmations of receivables. Total number of returned confirmations of payables amounted to 84.43%. Of the entire amount of returned confirmations of payables, none were disputed.

2.4. Comparative data

The Comparative data represent audited annual financial statements for the year ended 31 December 2011.

2.5. Basis for recognition and assessment (use of estimates)

The presentation of financial statements requires of the Bank's management to use best estimates and reasonable assumptions which affect reported amounts of assets and liabilities, as well as to disclose potential receivables and liabilities on balance sheet date, as well as income and expenses during the reporting period.

These estimates and assumptions are based on information available on the day of preparation of the financial statements. Actual values of assets and liabilities can differ from amounts determined in this way. Estimates, including assumptions based on which estimates are made, are continuously reviewed. Revisions of accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future periods.

Estimates and assumptions that have the highest levels of judgment are described in following parts of the Notes.

2.5.1. Fair value of financial instruments

The best indicators of fair value are quoted prices on an active market. The fair value of financial instruments traded in active markets at the balance sheet date is based on quoted market prices, without any deduction for transaction costs.

In the Republic of Serbia there is insufficient market experience, stability and liquidity in purchase and sale of loans and other financial assets and liabilities; official market information is not available at all times. Therefore, fair value cannot be reliably determined under conditions where no active market exists, as required by regulation.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5.1. Fair value of financial instruments (Continued)

Determining the fair value of financial instruments not quoted in an active market requires the use of different models and valuation techniques. The aim of using valuation techniques is to determinate what would be the transaction price on the day of measurement in an independent transaction, motivated by common business considerations. Valuation techniques include using recent estimates of independent market transactions between knowledgeable, willing parties, if available, a comparison of the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

2.5.2. Assessment of impairment of assets and probable loss on off-balance sheet items

The Bank performs monthly assessment whether there is any objective evidence that an asset or group of assets is impaired. A financial asset or group of assets are impaired if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset and that the loss event has impact on estimated future cash flows of the financial asset that can be reliably measured.

Evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, delay on payment of interest or principal, the probability that there will be bankruptcy or other financial reorganization and where observable data indicate that there was a measurable decrease in future cash flows such as changes in unsettled liabilities or economic conditions that correlate with agreed conditions.

The Bank assesses impairment based on Methodology for the assessment of impairment of assets and probable loss on off-balance sheet items and calculation of reserves for estimated losses.

The Bank assesses credit risk at individual and group levels:

- Individual assessment of impairment of loan portfolio of the Bank is performed for debtors that are classified into category V, G and D. If there is objective evidence that a loss occurred due to impairment, the amount of the loss is measured as the difference between the book value of assets and the present value of future cash flows.
- Group assessment is made for debtors classified in category A and B and for all receivables for which no objective evidence of impairment on individual basis has been estimated. For the calculation of impairment for individual groups of debtors it is

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5.3. Assessment of impairment of assets and probable loss on off-balance sheet items (Continued)

necessary to determine the proportion of receivables from debtors classified in category A, B and V which are high likely to become doubtful receivables, and the share of losses from doubtful receivables (G and D). These parameters are calculated using the transition matrix of receivables of debtor classification categories. Impairment on receivables categorized as A, B and V has formed in order to determine the proportion of these receivables that will pass into the G and D classification category at one-year period. The transition is then multiplied with the average level of default for the G and D classification categories.

The calculated amount of impairment is recognised as an expense.

The Bank calculates monthly reserve for estimated losses that may arise on the basis of balance sheet assets and off-balance sheet items. All receivables against debtors of the Bank are classified based on the criteria of timeliness, delay in settlement of obligations toward the bank for materially significant amounts, based on an assessment of financial condition and quality of collateral in categories A, B, V, G and D. Reserves for estimated losses have been calculated on the following bases: the sum of 2% of receivables classified into category B, 15% of receivables classified into category V, 30% of receivables classified into category G and 100% of receivables classified into category D.

Required reserves for estimated losses are the sum of the positive difference between the reserve for estimated losses and the amount of the estimated impairment of balance sheet assets and the probably loss of off-balance sheet items at the level of debtors.

2.5.4. Retirement benefits

Retirement benefits, after fulfilling the legal requirements, are determined based on assumptions and estimates. These include assessment of the discount rate, salary growth in the Republic of Serbia, the rate of labour fluctuation and mortality rate in the future. Because of the long-term nature of these expenses, significant uncertainties affect the result of the assessment.

2.5.5. Provisions for litigations

The Bank sets aside provisions for litigations when it is probable that the liability, whose amount can be reliably estimated by analysis, exists. Required provision could be changed in the future due to new events or receipt of additional information. Contingent liabilities, as well as items that do not meet provisioning criteria are disclosed, unless the possibility of an outflow of resources with economic benefits is very low.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5.6. Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences, and the effects of income tax losses and tax credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Significant management judgment is required in determining the amount of deferred tax assets that can be recognized, based on the anticipated time and estimates of future taxable profit and future tax planning strategies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into dinars at the average exchange rate issued by the National bank of Serbia.

Net foreign exchange gains or losses arising from foreign currency transactions and from translation of monetary assets and liabilities denominated in foreign currency on balance sheet date are recognized in the income statement as foreign exchange gains or losses.

Contingent liabilities and commitments in foreign currency are translated into dinars at the average exchange rate as at balance sheet date.

Receivables and liabilities with a foreign currency clause are translated into dinars at contracted exchange rate which was in force as at balance sheet date. The effects arising therefore are included in the income statement of the Bank, under the income or expenses from changes in value of assets and liabilities.

3.2. Functional and reporting currency

Financial statements are presented in thousand of dinars. The dinar (RSD) is the functional currency and currency of presentation.

Interest income and expenses, including default interest and other income and other expenses linked to interest-bearing assets, or interest-bearing liabilities, are calculated on the basis of income and expenses accrual concept and contractual terms and conditions, as specified by contract between the Bank and the client.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Interest Income and Expenses

Interest income and interest expense are accounted for on an accrual basis using the effective interest rate method. Effective interest rate represents the rate used for discounting future cash flows anticipated during the period of duration of financial assets or liabilities (or, as appropriate, for a brief period) to their present value.

The calculation of the effective interest rate includes all fees paid or received and expenses which are an integral part of the effective interest rate.

Fees for loan approval are accrued using the algorithm for calculating interest by applying the effective interest rate, so that the maturity of deferred fee income monitors the status of principal debt of the loan. The fee for approval of loans is recognized in the income statement as interest income.

Interest expense from deposits is deferred and recognized in the income statement in the period to which they relate.

The Bank does not calculate interest on loans and placements which are the subject of court proceedings. As of the moment that the Decision on court procedure, or collection through court or out of court, has been adopted, the Bank shall not calculate interest, fee and other expenses on the total receivables (principal, interest, costs) until the moment of their collection. A special decision issued by authorized body of the Bank may prescribe overall transfer of the outstanding interest from disputed placements on suspended interest recorded under off-balance sheet records, before enactment of the decision on court procedure.

The Bank ceases to calculate interest on loans and advances to customers who are under the procedure of bankruptcy or liquidation, starting with the date when the procedure opened.

3.4. Fees and commissions expenses

Incomes and expenses from fees and commissions that are part of the effective interest rates applied to financial assets and financial liabilities are included in determining the effective interest rate and are recognized in the income statement as interest income.

Incomes from fees and commissions for banking services are recognized on an accrual basis and are recorded in the period when they are earned or when the service is performed. Fee and commission income primarily consists of fees for payment services, foreign exchange transactions, account maintenance fee and other banking services.

Fees resulting from guarantees and other sureties which are accrued on a proportional basis over the period of the guarantee or surety are granted and are recorded in the income statement as income from fees.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Fees and commissions expenses (Continued)

Other fees and commissions are generally related to fees for performed transactions and services and they are recorded at the moment of receiving services.

3.5. Income from dividends

Income from dividends shall be recognized when the Bank established the right to receive dividends.

3.6. Operating leases

The Bank has operating leases for renting office space from others and for renting motor vehicles for the needs of the Bank which are owned by the lessor.

A lease is classified as an operating lease in case when the contract stipulates that ownership of the asset is not transferred to the Bank as a lessee by the end of the lease. All payments made during the year under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

3.7. Financial instruments

A financial instrument is any contract which gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity.

Financial assets and financial liabilities are recorded in the balance sheet, from the moment when the Bank commits to the instrument with contractual terms. Purchases or sales of financial assets are recorded on the settlement date or on the date when the asset is delivered to the counterparty.

The Bank derecognizes a financial asset when it loses control over contractual rights over the instrument (when the right to use the instrument is realized, expired or when these rights are transferred to another). A financial liability is derecognised when the obligation is settled, abolished or when it is transferred to another person.

The classification of financial instruments depends on the purpose for which the financial assets have been acquired. Management classifies financial assets at the moment of initial recognition.

The Bank classifies financial instruments into the following categories:

- financial assets held to maturity.
- financial assets at fair value through profit and loss.
- financial assets available for sale.
- financial assets created by the bank – loans and receivables.

The Bank initially measures financial assets or financial liabilities at their fair value increased for, in case of financial assets or financial liabilities that are not measured at fair value with changes through profit and loss, transactions costs that are directly attributable to acquisition or to emission of the financial assets or financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity and that are not presented as financial assets at fair value through profit and loss, financial assets available for sale or loans and receivables.

After initial recognition at acquisition costs, financial assets held to maturity are recorded at amortised cost using the effective interest rate method.

3.9. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss represent financial assets that the Bank holds in order to generate a profit from trading in a short period of time.

Financial assets at fair value through profit and loss are initially measured at acquisition cost that represents the market value at the moment of purchasing. Acquisition cost includes transaction costs. As at balance sheet date financial assets at fair value through profit and loss are stated at fair market value based on active market information.

Gains and losses on these securities are recorded as income or expenses for the period of income statement.

3.10. Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are designated as available for sale or are not classified into any other categories of financial assets. Available for sale financial assets are those financial assets that the Bank intends to hold for an indefinite period of time, but that can be sold for liquidity purposes or can be sold in case of change in interest rates, change in exchange rates or change in market prices. Available for sale financial assets are initially measured at acquisition costs and as at the balance sheet date are estimated at market value if it is known.

Financial assets available for sale consist of equity investments in financial institutions and other entities. Equity investments are measured at acquisition costs reduced for allowances for impairment.

3.11. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are not acquired with the intent to instantly sell any of them, nor are they intended for subsequent reclassification.

Loans and receivables are initially measured at fair value on payment date and are recognized when cash is disbursed to borrowers. After initial recognition loans and receivables are measured at amortized cost using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Loans and receivables (Continued)

Amortized cost is the amount that is recognized after initial acquisition of assets, reduced for repayment of principal and increased for accrued interest and reduced for collected interest, using the effective interest rate method on the difference between the initial amount and the amount on repayment date and reduced for any allowances for impairment.

Loans are measured on balance sheet date at the amount of approved investments, reduced for repayment of the principal and allowance for impairment based on assessment of identified risks for individual loans and for risks that are inherent in the Bank's portfolio based on previous experience. To assess the mentioned risks, management of the Bank has applied internally adopted methodology.

Loans disbursed in dinars and indexed to the foreign exchange rate of the EUR are revaluated in accordance with the provisions stated under the individual loan agreements.

A foreign currency clause represents an embedded derivative that is not recorded separately from the basic contract, given that the economic characteristics and risks of the embedded derivative are closely related to the basic contract. Gains and losses arising from changes in foreign currency clause are recorded in the income statement as income or expenses from changes in value of assets.

3.12. Restructured loans

Whenever possible, or when it is estimated that problems of the debtor and delay in carrying out obligations towards the Bank are temporary, and that the client under slightly modified contractual terms could again become regular in the payment of obligations, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extension of payment arrangements and new loan conditions. Management continuously reviews restructured loans to ensure fulfilment of all future payments.

3.13. Allowances for impairment and un-collectability of financial assets

At the end of each reporting period the Bank assesses whether there is any objective evidence that a financial asset or the group of financial assets is impaired. A financial asset or group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and where a loss event (or events) has impact on the estimated future cash flows of the financial asset or group of financial assets that can be measured reliably.

Evidence of impairment includes indications that the borrower or group of borrowers are facing significant financial difficulties, delay in payment of interest or principal, the probability of bankruptcy or some other financial reorganization and when observable data indicates that there is a measurable decrease in future cash flows, such as changes in outstanding liabilities or economic conditions that correlate with contractual terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Allowances for impairment and un-collectability of financial assets (Continued)

The amount that can be recovered is calculated as the present value of estimated cash flows. The effective interest rate on the loan is taken into account as the discount factor. The difference between the higher book value and lower calculated present value is the amount of impairment of loans, which are reported in the financial statements as a deduction of loans through allowance for impairment and as an expense in the income statement.

The Bank assesses individually significant receivables on an individual basis and the amount of allowance for impairment is determined as the difference between the book value of receivables and present value of expected future cash flows. The Bank performs assessment of impairment on balance sheet assets and losses on off-balance sheet items on a group basis for homogeneous groups of loans based on relevant historical experience, and / or on the basis of expert assessments in case that relevant historical experience does not exist. Allowances for impairment are formed against income statements as incurred, in accordance with internal procedures. Reversal of allowance for impairment due to collection of receivables is recorded in the income statement in the period of collection.

3.14. Allowances for impairment and un-collectability of financial assets (Continued)

Write-off of uncollectible receivables is based on a court decision, on a settlement of interested parties or on valid evidence of uncollectibility of receivables (completed bankruptcy, liquidation, etc.), but only if all measures for collection of receivables as defined by business policy have been exhausted, based on decisions of the Management Board. Write-off of uncollectible receivables is charged to expense in the income statement.

3.15. Cash and cash equivalents

Cash includes cash on hand and a vista deposits (current account and foreign currency accounts) with banks in the country and abroad, while cash equivalents include short-term highly liquid investments that can be exchanged immediately with insignificant risk of reduction in value, deposits with the National Bank of Serbia and short-term securities that can be refinanced with the National Bank of Serbia. They are measured at nominal value, if quoted in an active market at fair value.

3.16. Intangible assets

Intangible assets are non-monetary assets that can be identified even though they have no physical characteristic (patents, licenses, accounting software) and are used for the production or delivery of goods or services, for rent to others or for administrative purposes. Intangible assets are initially recognized at purchase price or cost. After initial recognition intangible assets are measured at cost decreased for amortization and impairment losses.
Intangible assets of the Bank include software licenses and intangible assets under construction.

Intangible assets are amortized from the following the months when available for use. All intangible assets in use are amortized.

Amortization is calculated on a straight-line basis to allocate the cost of intangibles throughout their useful lives. Costs associated with maintaining software programs are recognized as an expense as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Intangible assets (Continued)

Intangible assets are amortized regularly during the year, charged to amortization expenses based on estimated useful life as follows:

Licences 20% and Software 20%

An intangible asset is derecognised upon its disposal or when permanently withdrawn from use. Gains or losses arising from expenditure or disposal are determined as the difference between the net inflow from disposal and book value, and are recognized as income or loss in the income statement.

3.17. Fixed assets (Property and equipment)

After initial recognition fixed assets are stated at acquisition cost, decreased for depreciation and impairment losses. Additional costs are included under acquisition cost of the asset or are recognized as a separate asset, but only if there is probability that future economic benefits will be available to the Bank and if value can be measured reliably. All other maintenance costs are charged to the income statement as incurred.

Fixed assets are depreciated monthly, starting from the following month when they are available for use, with depreciation calculated on a straight-line basis.

Calculated costs are recognized as an expense when incurred. Fixed assets are depreciated using the following rates:

Buildings:	1.3 to 1.8%
Investments in rented fixed assets:	10%
Computers:	20%
Furniture and equipment:	10 to 20%
Vehicles:	15.5%

Fixed assets are depreciated even when they are not in use (if they are not entirely written off) until their sale or disposal. Calculation of depreciation for tax purposes is done in accordance with the Corporate Income Tax Law and Regulation on method of classification of fixed assets in groups and method of depreciation calculation for tax purposes.

Considering that these are two completely separate methods of calculation of depreciation, the accounting policy does not allow for the same accounting treatment. Temporary differences between depreciation for accounting purposes and tax rules for depreciation are reported on the deferred tax assets or liabilities account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Income Tax

Income tax comprises current tax and deferred tax.

а) Current Income Tax

Current income tax represents the amount calculated in accordance with the Income Tax Law effective in the Republic of Serbia by applying the prescribed rate on the tax base obtained after adjustments to reported profit.

During the year the Bank paid income tax in monthly advances, in amounts determined on the basis of tax returns for the previous year. The final tax base, to which the prescribed income tax rate is applied, is determined in the tax balance of the Bank. Reported profit is adjusted for certain permanent differences and reduced for certain investments during the year, as declared in the tax balance.

б) Deferred Income Taxes

Deferred income tax is determined using the balance sheet liability method, for temporary differences arising between the current values of assets and liabilities in the financial statements and their value for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for deductible temporary differences, and the tax effects of income tax losses and credits available for carry forward, to the extent that it is probable that future taxable profit will be available against which deferred tax assets may be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be effective in the year of realization of tax benefits and the settlement of deferred tax liabilities, on the basis of official regulations and tax rates enacted at the balance sheet date. Current and deferred taxes recognized as income and expense, are included in net profit for the period. Deferred income tax relating to items which effects of changes in value has recorded directly on behalf of or charged to equity is also charged to or on behalf of equity. Deferred tax assets are analyzed at the end of each reporting period and adjusted to the extent that it is more probable that there will be a necessary taxable income.

3.19. Contingent assets

Contingent assets are potential assets arising from past events and whose existence will be confirmed with occurrence or non-occurrence of events that are not under the control of the Bank.

The Bank has recorded in the off-balance sheet potentially recoverable receivables on the basis of a final and executable decision of the Commercial Court in Belgrade, according to which all receivables from Beogradska banka a.d. in bankruptcy have been recognized to the Bank. The Bank has recorded these receivables under off-balance sheet items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20. Tax and contributions not dependant on results

Taxes and contributions that are not dependant on results comprise property tax, taxes and contributions for salaries charged to the employer, as well as other taxes and contributions in accordance with Serbian tax legislation and general regulations. These taxes and contributions are reported under other operating expenses.

3.21. Employee benefits

Defined contribution plans

In accordance with regulatory requirements applicable in the Republic of Serbia, the Bank is obligated to pay tax on earnings and contributions to social security funds, which guarantee health and social security to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

The Bank has no pension funds or share based payments to employees in shares and accordingly no liability as at 31 December 2012.

Other employee benefits – retirement benefits

Pursuant to the Labour law, the Bank recognizes benefits to employees at retirement and employees are entitled to retirement benefits amounting to at least triple amount of average salary in Republic of Serbia in the month preceding the acquisition requirements for regular retirement, based on years of work experience or age of employee.

Long-term liabilities based on provisions for retirement benefits after fulfilling statutory requirement for retirement in accordance with the Labour Law are reported on 31 December 2012 and represent current value of future payments to employees determined according to the following assumptions:

Discount rate: 15.00%
Rate of salary increases in the Republic of Serbia: 5%
Employee fluctuation rate: 5%
Mortality tables (Serbian Statistics Bureau): 2001-2003.

3.22. Borrowings and deposits

Deposits from banks and customers and other interest-bearing financial liabilities are initially recognized at fair value, reduced for transaction costs, except for financial liabilities evaluated at fair value through Income Statement.

After initial recognition, interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest rate.

At the balance sheet date deposits are presented as transaction and other deposits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23. Operating liabilities

Operating liabilities are recognized at nominal value.

4. INTEREST INCOME AND EXPENSE

In thousands of RSD	31-Dec-2012	31-Dec-2011
Interest income		
Deposits at the National Bank of Serbia	24,855	27,765
Placements to banks	15,194	71,402
Placements to legal entities	244,532	123,458
Placements to individuals	15,231	6,454
Securities of the Republic of Serbia	1,966	24,593
Securities held to maturity – discounted bills of exchange	75,120	20,724
Entrepreneurs	2,937	2,249
Public sector and public enterprises	34,891	595
Related parties	235	12
Other legal entities	5,255	-
Total	**420,216**	**277,252**
Interest expenses	**31-Dec-2012**	**31-Dec-2011**
Relations with the National Bank of Serbia	3	6
Deposits from legal entities	18,021	30,849
Deposits from individuals	5,540	2,032
Deposits from related parties	89,065	29,906
Entrepreneurs	43	45
Public sector and public enterprises	8,290	9,493
Other financial entities	1,116	2,083
Other legal entities	7,052	4,271
Total	**129,130**	**78,685**
Net Interest Income	**291,086**	**198,567**

5. FEES AND COMMISSIONS INCOME AND EXPENSE

In thousands of RSD	31-Dec-2012	31-Dec-2011
a) Fees and commissions income		
Fees and commission income from payment transfers	48,840	32,127
Fees and commission income from letters of credit and guarantees	38,583	23,245
Fees and commission income from bill discounting	12,779	2,199
Fees for foreign currency transactions	2,824	1,486
Fees for retail services	9,328	9,302
Other fees and commissions	4,813	2,203
Total	**117,167**	**70,562**
b) Fees and commissions expenses		
Fees arising from payment transfers	1,061	133
Fees and commission to the National Bank of Serbia	6,522	5,042
Fees for CS services	1,131	372
Other fees and commission expenses	2,000	635
Total	**10,714**	**6,182**
Net fees and commission income	**106,453**	**64,380**

6. NET FOREIGN EXCHANGE GAINS/(LOSSES)

In thousands of RSD	31-Dec-2012	31-Dec-2011
Foreign exchange gains	392,152	208,112
Foreign exchange losses	(394,497)	(209,944)
Net foreign exchange losses	**(2,345)**	**(1,832)**

7. OTHER OPERATING INCOME

In thousands of RSD	31-Dec-2012	31-Dec-2011
Other income from business operations	76,767	31,078
Income from collected written-off receivables	160	22
Other income	606	412
Total other operating income	**77,533**	**31,512**

8. NET INCOME/(EXPENSES) FROM IMPAIRMENT OF PLACEMENTS AND PROVISIONS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Income from cancelled indirect write-off of placements - balance sheet items	49,072	31,998
Income from cancelled provision for placement - off-balance sheet items	13,404	7,483
Collected suspended interest	494	125
Income on indirect write-off of placements and provisions	**62,970**	**39,606**

In thousands of RSD	31-Dec-2012	31-Dec-2011
Indirect write-off of balance sheet items	114,181	34,976
Provisions for off-balance sheet items	14,097	11,245
Provisions for other long-term employee benefits	783	1,294
Provisions for litigations	1,964	58
Provision for interest suspension	550	1,151
Expenses of indirect write-off of placements and provisions	**131,575**	**48,724**
Net expenses of indirect write-off of placements and provisions	**(68,605)**	**(9,118)**

8. NET INCOME/(EXPENSES) FROM IMPAIRMENT OF PLACEMENTS AND PROVISIONS (Continued)

a) Movements in impairment and provisions for off-balance sheet receivables in the period from 1 January to 31 December 2012:

In thousands of RSD	Cash and cash equivalents	Interest, fees and commission receivables	Loans and advances	Securities	Equity investments	Other placements	Other assets	Provisions for off-balance items	Total
Note									
Balance as at 1 January 2012	**14**	**914**	**19,107**	**1,072**	**13,629**	**1**	**1,040**	**4,978**	**40,755**
Impairment	93	5,278	94,161	4,590	2,536	5,049	2,474	14,097	**128,278**
Reversal of impairments	(110)	(1,627)	(38,743)	(4,937)	(629)	(1,604)	(1,423)	(13,404)	**(62,477)**
Foreign exchange differences and changes in value of the currency clause	3	(15)	(194)	-	-	-	(2)	109	**(99)**
Write-offs	-	(16)	-	-	-	-	-	-	**(16)**
Balance as at 31 December 2012	**-**	**4,534**	**74,331**	**725**	**15,536**	**3,446**	**2,089**	**5,780**	**106,441**

9. SALARIES, BENEFITS AND OTHER PERSONAL EXPENSES

In thousands of RSD	31-Dec-2012	31-Dec-2011
Salaries	105,731	86,537
Fringe benefits	10,203	8,563
Taxes on salaries and fringe benefits	15,649	12,902
Contributions on salaries and fringe benefits	25,381	20,641
Temporary and occasional work contracts	2,990	3,590
Other personnel expenses	11,137	4,091
Total	**171,091**	**136,324**

10. DEPRECIATION AND AMORTIZATION COSTS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Depreciation of property and equipment	19,699	14,397
Amortization of intangible assets	54,675	35,047
Total	**74,374**	**49,444**

11. OPERATING AND OTHER EXPENSES

In thousands of RSD	31-Dec-2012	31-Dec-2011
COSTS OF MATERIALS	**12,884**	**6,188**
Costs of office materials	5,569	2,790
Costs of tools and fittings	855	449
Costs of energy	4,809	2,349
Costs of other materials	1,651	600
COSTS OF PRODUCTION SERVICES	**68,883**	**40,871**
Maintenance of non-current assets	19,666	12,894
Rental costs	25,371	13,913
Costs of Dina-Card cards	5,084	1,596
Costs of Swifts and internet	2,972	2,243
Advertising costs	505	672
Adaptation costs	1,392	1,241
Costs of postal services	11,011	6,486
Other costs of production services	2,882	1,826
NON-OPERATING COSTS WITHOUT TAXES AND EXPENSES	**32,981**	**15,218**
Security costs	420	364
Costs of auditing	2,508	1,569
Costs of deposit insurance	3,286	1,434
Costs of insurance	2,369	1,405
Costs of disaster recovery location services	8,633	-
Money transportation costs	3,922	327
Transportation costs	5,107	3,585
Entertainment expense	570	583
Costs of business trips	1,585	1,540
Expert testimony fees	1,376	140
Other non-material costs	3,205	4,271
TAX EXPENSES	**5,265**	**2,147**

EXPENSES FOR CONTRIBUTIONS	**26,055**	**21,193**
OTHER COSTS	**1,525**	**1,738**
OTHER EXPENSES	**162**	**4,274**
Total	**147,755**	**91,629**

During 2012 operating and other expenses increased by 61.2% compared to 2011. The greatest increase relates to the rental costs charged to the Bank due to the increase of new business units and maintenance of fixed assets (refer to the maintenance of information systems).

12. NET INCOME/(EXPENSES) FROM CHANGE IN VALUE OF ASSETS AND LIABILITIES

In thousands of RSD	**31-Dec-2012**	**31-Dec-2011**
Income from change in value of asset	133,529	50,817
Income from change in value of liabilities	9,752	8,787
Total income	**143,281**	**59,604**
Expenses from change in value of asset	103,290	36,938
Expenses from change in value of liabilities	20,344	11,618
Total expenses	**123,634**	**48,556**
Net income	**19,647**	**11,048**

Income and expenses from change in value of asset and liabilities includes gains or losses on the valuation of receivables / placement and liabilities in dinars, which are indexed with foreign currency clause.

13. INCOME TAXES

13.1. Income tax relate to:

In thousands of RSD:	**31-Dec-2012**	**31-Dec-2011**
Income tax	(952)	-
Gains from increase in deferred tax assets and decrease in deferred tax liabilities		278
Losses from decrease in deferred tax assets and decrease in deferred tax liabilities	(665)	-
Total	**(1,617)**	**278**

13. INCOME TAXES (Continued)

13.2. In accordance with the tax balance for the year ended 31 December 2012, current income tax liabilities of the Bank are as follows:

In thousands of RSD	31-Dec-2012	31-Dec-2011
Profit before tax	30,549	17,160
Adjustment of expenses		
Expenses which are not deductible items in Tax balance	17,118	12,819
Depreciation calculated in financial statements	74,374	49,444
Depreciation calculated for tax proposes	85,152	97,265
Tax loss from 2011	17,842	-
(Tax loss)/taxable profits	**19,047**	**(17,842)**
Tax base	19,047	-
Calculated tax at a tax rate 10%	1,904	-
Deduction (exemption) of the calculated tax based on tax credit	(952)	-
Income tax	**952**	-

13.3. The calculation of deferred tax assets as at 31 December 2012 is presented below:

	2012			2011		
In thousands of RSD	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property, equipment and software	-	(4,546)	(4,546)	-	(5,279)	(5,279)
Tax credit resulting from investment in fixed assets	3,594	-	3,594	5,471	-	5,471
Other	287	-	287	86	-	86
Deferred tax asset/(liability)	**3,881**	**(4,546)**	**(665)**	**5,557**	**(5,279)**	**278**

14. CASH AND CASH EQUIVALENTS

In thousands of RSD	**31-Dec-2012**	**31-Dec-2011**
Cash on hand in dinars	79,454	35,160
Cash on hand in foreign currency	35,554	30,033
Gyro accounts in dinars	517,102	114,874
Foreign exchange account (foreign banks)	568,030	226,480
Total	**1,200,140**	**406,547**
Impairments	**-**	**(14)**
Balance as at 31 December	**1,200,140**	**406,533**

14. CASH AND CASH EQUIVALENTS (Continued)

In accordance with the Decision on Obligatory Reserves of Banks with the NBS, the Bank is required to calculate and to deposit its obligatory reserve in dinars for liabilities from deposits in dinars, loans and securities, as well as from other dinars liabilities, except for dinars deposits related to transactions in the name and on behalf of third parties which do not exceed the amount of placement approved on the basis of these deposits.

The dinar base amounts for calculating obligatory reserve contains the daily average book value of liabilities in dinars from previous month, except for dinar liabilities indexed with foreign currency clause. The Bank calculates the obligatory reserve on the 17^{th} of the month and that reserve is valid from 18^{th} of the current month until 17^{th} of the following month.

The Bank deposits calculated obligatory reserve in dinars on its gyro account. The Bank is obligated to maintain for the accounting period the average daily balance of dinar obligatory reserves in the amount of calculated obligatory reserves.

The Bank calculates obligatory reserve as a rate of 5% on the dinar base consisting of liabilities with a contractual maturity up to two years, or 730 days and 0% on the portion of the dinar base consisting of liabilities with a contractual maturity in excess of two years or over 730 days.

As at 31 December 2012, the obligatory reserve amounted to 355,372 thousand dinars (31 December 2011: 114,359 thousands dinars).

15. REVOCABLE DEPOSITS AND LOANS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Deposited surplus funds of the bank with NBS in dinars	1,175,700	476,500
Obligatory reserves in foreign currency	1,025,829	714,581
Balance as at 31 December	**2,201,529**	**1,191,081**

In accordance with the Decision on Obligatory Reserves of Banks with the NBS the Bank is required to calculate and allocate obligatory foreign currency reserve on foreign currency base amount that consists of foreign deposit liability, loans and securities and other foreign currency assets received from foreign operations that the Bank does for third parties.

The foreign currency base amount for calculating obligatory reserve consists of daily average book value of foreign currency liabilities and dinar liabilities indexed with foreign currency clause in the previous month.

The Bank calculates the obligatory foreign currency reserve at a rate of 29% on the portion of foreign currency base amounts which comprises liabilities with a contractual maturity up to two years, or 730 days, and, exceptionally, at a rate of 50% on the portion of foreign currency base amounts which comprises liabilities in RSD indexed to foreign currency clause with a contractual maturity up to two years, or 730 days, 22% on the portion of foreign currency base amount which comprises liabilities with a contractual maturity in excess of two years or over 730 days, and, exceptionally, at a rate of 50% on the portion of foreign currency base amount which comprises liabilities in RSD indexed to foreign currency clause with a contractual maturity in excess of two years, or 730 days.

15. REVOCABLE DEPOSITS AND LOANS (Continued)

The Bank deposits its obligatory foreign currency reserve in EUR on foreign currency accounts with the National Bank of Serbia.

As at 31 December 2012 the amount of obligatory foreign currency reserves amounted to 1,025,829 thousand dinars and was in compliance with above mentioned decision of the National Bank of Serbia (31 December 2011: 714,581 thousands dinars).

The Bank has deposited available surplus of funds in dinars with the National Bank of Serbia on a daily basis. As at 31 December 2012 the Bank deposited its surplus funds in the amount of 1,175,700 thousand dinars (31 December 2011: 476,500 thousands dinars). Deposited surplus of free liquid funds are interest-bearing for the Bank.

The interest rate during the 2012 year ranged from 7.00% to 8.75% per annum.

16. INTEREST, FEES AND COMMISSION RECEIVABLES, CHANGE IN VALUE OF DERIVATIVES AND OTHER RECEIVABLES

In thousands of RSD	**31-Dec-2012**	**31-Dec-2011**
Interest receivables		
Financial organizations	416	2,367
Public sector and public enterprises	1,650	216
Enterprises	26,917	19,058
Entrepreneurs	1,445	1,533
Individuals	123	33
Other legal entities	206	-
Foreign currency interest income	59	-
Total	**30,816**	**23,207**
Allowances for Impairment	**(4,293)**	**(782)**
Balance as at 31 December	**26,523**	**22,425**

In thousands of RSD	**31-Dec-2012**	**31-Dec-2011**
Fees receivables		
Financial organizations	229	213
Public sector and public enterprises	46	22
Enterprises	1,021	741
Entrepreneurs	96	79
Individuals	16	9
Other clients	17	11
Total	**1,425**	**1075**
Allowances for Impairment	**(241)**	**(132)**
Balance as at 31 December	**1,184**	**943**
Total interests and fees	**27,707**	**23,368**
Receivables from sales in dinars	**2**	**2**
Balance as at 31 December	**27,709**	**23,370**

17. LOANS AND DEPOSITS

Overview of loans and deposits according to types of loans:

In thousands of RSD	31-Dec-2012			31-Dec-2011		
Type of loan	**Gross**	**Allowances for impairment**	**Net**	**Gross**	**Allowances for impairment**	**Net**
Placements in dinars						
Loans by transaction accounts	112,025	(8,709)	103,316	132,906	(752)	132,154
Loans for current assets	1,604,397	(43,691)	1,560,706	758,020	(17,049)	740,971
Export loans	4,029	(10)	4,019	-	-	-
Investment loans	446,214	(20,752)	425,462	389,267	(1,229)	388,038
Consumer loans	103,042	(6)	103,036	86,863	(22)	86,841
Mortgage loans	183,543	-	183,543	109,596	-	109,596
Granted deposits to banks in dinars	1,697	-	1,697	631,562	(55)	631,507
Other loans	193,467	(1,149)	192,318	2,475	-	2,475
Subtotal	**2,648,414**	**(74,317)**	**2,574,097**	**2,110,689**	**(19,107)**	**2,091,582**
Foreign currency placements						
Special purpose deposits in accordance with regulations	4,549	-	4,549	-	-	-
Loans for payments of goods and foreign payments services	**6,971**	**(14)**	**6,957**	**188,353**	**-**	**188,353**
Balance as at 31 December	**2,659,934**	**(74,331)**	**2,585,603**	**2,299,042**	**(19,107)**	**2,279,935**

17. LOANS AND DEPOSITS (Continued)

Summary of net loans and deposits by maturity

In thousands of RSD	31-Dec-2012			31-Dec-2011		
Type of loan	**Short-term**	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
Placements in dinars						
Loans by transaction accounts	103,316	-	**103,316**	132,154	-	**132,154**
Loans for current assets	1,282,165	278,541	**1,560,706**	595,999	144,972	**740,971**
Export loans	4,019	-	**4,019**	-	-	-
Investment loans	39,008	386,454	**425,462**	112,420	275,618	**388,038**
Consumer loans	97,204	5,832	**103,036**	80,886	5,955	**86,841**
Mortgage loans	71	183,472	**183,543**	22	109,574	**109,596**
Granted deposits to banks in dinars	-	1,697	**1,697**	629,946	1561	**631,507**
Other loans	1,824	190,494	**192,318**	328	2,147	**2,475**
Subtotal	**1,527,607**	**1,046,490**	**2,574,097**	**1,551,755**	**539,827**	**2,091,582**
Foreign currency placements						
Special purpose deposits in accordance with regulations	4,549	-	**4,549**	-	-	-
Loans in foreign currency	6,957	-	**6,957**	188,353	-	188,353
Balance as at 31 December	**1,539,113**	**1,046,490**	**2,585,603**	**1,740,108**	**539,827**	**2,279,935**

Loans up to one year have been granted to individuals at interest rates that ranged from 1.24% to 1.55% per month. Loans at interest rate of 0.41% per month have been granted with 100% of liquid deposits.

Loans over one year in dinars and indexed with foreign currency clause have been granted to individuals at interest rates that ranged from 0.37 to 0.87% per month, and for RSD loans from 1.60 to 1.83%.

Short-term loans have been granted to legal entities at interest rates that ranged from 0.29% to 1.62% and long term loans at interest rates that ranged from 0.29 to 1.62% per month.

During 2012 the Bank has deposited assets with other banks in the country at interest rates that ranged from 9.50 to 10.75% per annum.

18. SECURITIES (excluding treasury shares)

In thousands of RSD	31-Dec-2012	31-Dec-2011
Securities held to maturity		
Discount of bills of exchange	616,428	223,939
Securities available for sale		
T- bills of the Ministry of finance of Republic of Serbia	-	47,389
Total gross	**616,428**	**271,328**
Less: Allowances for impairment	(725)	(1,072)
Balance as at 31 December	**615,703**	**270,256**

19. EQUITY INVESTMENTS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Equity investments	129,044	129,044
Gross	**129,044**	**129,044**
Less: Allowances for impairment	(15,536)	(13,629)
Balance as at 31 December	**113,508**	**115,415**

As at 31 December 2012 equity investments of the bank relate to: RHMK Trepča a.d. Zvečan (gross: RSD 127,666 thousand), Fond SANU (gross: RSD 320 thousand), Beogradska berza a.d. Beograd (gross: RSD 906 thousand) and Tržište novca a.d. Beograd (gross: RSD 152 thousand).

The Bank concluded a contract with Kompanija Dunav osiguranje, the purchase of 50,000 shares of RMHK Trepca at a price of RSD 1,000 per share. Based on the signed contract, Kompanija Dunav osiguranje paid RSD 50,000 thousand to a special purpose deposit account for ensuring the enforcement of the abovementioned contract.

RMHK Trepca is a closed shareholding company. That is the reason why the Bank needed a confirmation for the transfer of shares from the Central Securities Depository and Clearing House, which is in accordance with internal acts of RMHK Trepca and allows enforcement of the transaction. The Bank received specified confirmation (February 2013), and the Bank's management expects that the transaction will be carried out as soon as possible.

20. OTHER PLACEMENTS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Other placements in dinars	15,359	16,667
Other placements in foreign currency	11,372	1,774
Gross	**26,731**	**18,441**
Less: Allowances for impairment	(3,446)	(1)
Balance as at 31 December	**23,285**	**18,440**

20. OTHER PLACEMENTS (Continued)

Other placements include redeemed short-term receivables in the amount of RSD 4,800 thousand, guarantees charged to the Bank in the amount of RSD 10,995 thousand and placements based on covered guarantees in foreign currency in the amount of RSD 11,372 thousand.

21. FIXED ASSETS AND INTANGIBLE ASSETS

In thousands of RSD	**31-Dec-2012**	**31-Dec-2011**
Fixed assets under construction	20,847	6,456
Buildings	19,603	19,603
Equipment	132,526	112,303
Other fixed assets	6	6
Gross fixed assets	**172,982**	**138,368**
Less: Allowances for impairment	(53,100)	(41,920)
Total fixed assets	**119,882**	**96,448**
Licences and software	300,648	263,258
Gross Intangible assets	**300,648**	**263,258**
Less: Allowances for impairment	(93,477)	(46,462)
Total Intangible assets	**207,171**	**216,796**
Balance as at 31 December	**327,053**	**313,244**

21. FIXED ASSETS AND INTANGIBLE ASSETS (Continued)

a) Changes in fixed assets during 2011 and 2012:

In thousands of RSD	Buildings	Equipment	Fixed assets under construction	Other fixed assets	Advances for fixed assets	Total
Cost						
Balance as at 1 January 2011	**19,603**	**48,670**	**38,877**	**6**	**-**	**107,156**
Purchases	-	63,633	273,098	-	-	**336,731**
Transfers from/to	-	-	(305,519)	-	-	**(305,519)**
Balance as at 31 December 2011	**19,603**	**112,303**	**6,456**	**6**	**-**	**138,368**
Balance as at 1 January 2012	**19,603**	**112,303**	**6,456**	**6**	**-**	**138,368**
Purchases	-	29,189	88,632	-	-	**117,821**
Transfers from/to	-	(1,287)	-	-	-	**(1,287)**
Transfer from fixed assets under construction	-	(7,680)	(74,240)	-	-	**(81,920)**
Balance as at 31 December 2012	**19,603**	**132,525**	**20,848**	**6**	**-**	**172,982**
Amortization and impairment losses						
Balance as at 1 January 2011	**1,858**	**25,658**	**-**	**6**	**-**	**27,522**
Amortization	281	14,117	-		-	14,398
Write-offs and disposals	-		-	-	-	-
Balance as at 31 December 2011	**2,139**	**39,775**	**-**	**6**	**-**	**41,920**
Balance as at 1 January 2012	**2,139**	**39,775**	**-**	**6**	**-**	**41,920**
Amortization	281	19,418	-	-	-	**19,699**
Transfers from/to	-	(1,287)	-	-	-	**(1,287)**
Write-offs and disposals	-	(7,232)	-	-	-	**(7,232)**
Balance as at 31 December 2012	**2,420**	**50,674**	**-**	**6**	**-**	**53,100**
Net book value						
Balance as at 31 December 2011	**17,464**	**72,528**	**6,456**	**-**	**-**	**96,448**
Balance as at 31 December 2012	**17,183**	**81,851**	**20,848**	**-**	**-**	**119,882**

21. FIXED ASSETS AND INTANGIBLE ASSETS (Continued)

As at 31 December 2012 the Bank has no buildings under mortgage or other mortgaged assets used as security on loans.

Net book value of unregistered buildings amounts to RSD 17,183 thousand. Unregistered buildings owned by the Bank are on the territory of Kosovo and Metohija, where since 1999 it was not possible to carry out registration of ownership, despite the efforts of management to do so.

b) Changes in intangible assets during 2011 and 2012:

In thousands of RSD	Licences	Intangible assets under construction	Total
Costs			
Balance as at 1 January 2011	**21,372**	**3,539**	**24,911**
Purchases	241,886	(3,539)	238,347
Balance as at 31 December 2011	**263,258**	**-**	**263,258**
Balance as at 1 January 2012	**263,258**	**-**	**263,258**
Purchases	45,050	-	45,050
Write-offs	(7,660)		(7,660)
Balance as at 31 December 2012	**300,648**	**-**	**300,648**
Amortization and impairment losses			
Balance as at 1 January 2011	**11,415**	**-**	**11,415**
Amortization	35,047	-	35,047
Balance as at 31 December 2011	**46,462**	**-**	**46,462**
Balance as at 1 January 2012	**46,462**	**-**	**46,462**
Amortization	54,675	-	54,675
Write-offs	(7,660)	-	(7,660)
Balance as at 31 December 2012	**93,477**	**-**	**93,477**
Net book value			
Balance as at 31 December 2011	**216,796**	**-**	**216,796**
Balance as at 31 December 2012	**207,171**	**-**	**207,171**

22. DEFERRED TAX ASSETS AND LIABILITIES

In thousands of RSD	31-Dec-2012	31-Dec-2011
Tax assets		
Balance as at 1 January	14,815	9,258
Tax credit	3,594	5,471
IFRS 19	287	86
Total	**18,696**	**14,815**
Tax liabilities		
Balance as at 1 January	5,718	439
Tax liabilities for the difference of tax and book depreciation/amortization	4,546	5,279
Total	**10,264**	**5,718**
Net	**8,432**	**9,097**

23. OTHER ASSETS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Advances in dinars	1,354	464
Advances for fixed and intangible assets	23,037	4,262
Receivables from employees	8,307	88
Receivables from operating activities	8,838	5,849
Income taxes	-	364
Other receivables	1,082	1
Deferred receivables for accrued interest	681	725
Other deferred expenses	1,254	3,754
Inventories	449	366
Assets acquired through collection of receivables	3,835	4,173
Other assets, gross amount	**48,837**	**20,046**
Less: Allowances for impairment	(2,089)	(1,040)
Balance as at 31 December	**46,748**	**19,006**

Other assets include advances for fixed assets and intangible assets, receivables from employees for loans for winter heating and winter stores, receivables from operating activities based on fees from Kompanija Dunav Osiguranje for registration of motor vehicles, related to the Business Cooperation Agreement.

24. TRANSACTION DEPOSITS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Financial organisations	**2,397,075**	**1,408,687**
In dinars	1,102,250	412,153
In foreign currency	1,294,825	996,534
Public companies	**45,813**	**106,057**
In dinars	45,813	106,057
Enterprises	**459,818**	**168,806**
In dinars	387,417	156,460
In foreign currency	72,401	12,346
Entrepreneurs	**14,025**	**9,816**
In dinars	14,008	9,805
In foreign currency	17	11
Individuals	**54,895**	**29,985**
In dinars	29,037	15,236
In foreign currency	25,858	14,749
Foreign entities	**49,545**	**52,724**
In dinars	2	67
In foreign currency	49,543	52,657
Other customers	**54,936**	**63,194**
In dinars	42,463	53,047
In foreign currency	12,473	10,147
Balance as at 31 December	**3,076,107**	**1,839,269**

In accordance with the Decision on the Bank's Interest Rates, on transaction deposits in dinars interest is calculated in the amount from 0.50% to REPO + 1% per annum and in foreign currency, from 0.5% to 5.10%, depending on the amount of daily account balance. On transaction deposits and a vista deposit of individuals in dinars and in foreign currency (EUR) the Bank charges interest at a rate of 0.50% per annum.

On transaction deposits of foreign entities the Bank calculates interest at a rate of 0.50% per annum.

25. OTHER DEPOSITS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Financial organisations	**1,262,795**	**608,118**
In dinars	59,507	83,007
In foreign currency	1,203,288	525,111
Public companies	**107,634**	**78,235**
In dinars	107,634	78,235
Enterprises	**421,671**	**319,159**
In dinars	316,120	272,753
In foreign currency	105,551	46,406
Entrepreneurs	**569**	**523**
In dinars	569	523
Individuals	**235,263**	**89,181**
In dinars	473	355
In foreign currency	234,790	88,826
Foreign entities	**6,027**	**5,232**
In foreign currency	6,027	5,232
Other customers	**124,174**	**108,306**
In dinars	124,174	108,306
Balance as at 31 December	**2,158,133**	**1,208,754**

In accordance with the Decision on the Bank's Interest Rates, during 2012 the Bank calculated interest on term deposits of legal entities in dinars at a rate from 3.0% up to 12.75% per annum, depending on the term of deposit and on the amount of deposit; and on term deposits indexed with foreign currency clause, in the range from 2.15% up to 5.5% per annum. On foreign currency deposits interest rate ranged from 4% up to 4.70%.

The Bank has calculated interest on term deposits of individuals depending on the term of deposit and accordingly for deposits in dinars, interest rate was 9% per annum, and on foreign currency deposits, at a rate from 2.75 up to 5.60% per annum.

Special purpose deposits based on the type of client as at 31 December 2012

In thousands of RSD	Special purpose deposits		
	In RSD	In currency	Total
Related parties	50,000	1,203,288	1,253,288
Enterprises	113,107	105,551	218,658
Individuals	-	51,634	51,634
Enterpreneurs	569	-	569
Public companies	2,500	-	2,500
Foreign individuals	-	-	-
Other customers	-	-	-
Total	**166,176**	**1,360,473**	**1,526,649**

25. OTHER DEPOSITS (Continued)

Of the total amount of special purpose deposits of the Kompanija Dunav Osiguranje, that are used as collateral for loans of other public entities, amounting to RSD 461,696 thousand, the amount of RSD 50,000 thousand is used as collateral for the Sale and Purchase Agreement of RMHK Trepca securities, and the amount of RSD 258,140 thousand is used as collateral for guarantees that are granted based on Company Dunav Osiguranje's request.

26. BORROWINGS AND OTHER LIABILITIES

In thousands of RSD	31-Dec-2012	31-Dec-2011
Borrowings with National bank of Serbia	-	672
Other financial liabilities	713	437
Balance as at 31 December	**713**	**1,109**

27. INTEREST, FEES AND COMMISSION PAYABLE AND CHANGE IN FAIR VALUE OF DERIVATIVES

In thousands of RSD	31-Dec-2012	31-Dec-2011
Liabilities toward NBS	-	6
Liabilities toward companies	-	614
Other customers liabilities	-	227
Related parties liabilities in foreign currency	-	1,343
Other customers liabilities in foreign currency	-	41
Balance as at 31 December	**-**	**2,231**

28. PROVISIONS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Provisions for off-balance sheet items	5,780	4,977
Provision for litigations	1,964	379
Provisions for retirement benefits	4,531	3,924
Balance as at 31 December	**12,275**	**9,280**

Provisions for contingent losses on off-balance sheet assets amounting to RSD 5,780 thousand were formed on the basis of issued performance bonds and payment guarantees in accordance with the internal methodology for the calculation of allowances for impairment and provisions for off-balance sheet items.

28. PROVISIONS (Continued)

Provisions for litigations in the amount of RSD 1,964 thousand were formed on the basis of the Bank's legal department's assessment of the result of litigation conducted against the Bank. For litigations for which outflow of resources was estimated as probable, the Bank made full provision, including penalty interest calculated up to the period when it is expected that the litigation costs will be borne by the Bank. The amount of provisions correspond to the present value of expected total outflows i.e. provisions. During 2012 the Bank has made a calculation of provisions in the amount of RSD 1,967 thousand. The Bank paid an amount of RSD 379 thousand during 2012 for a lost litigation for which assets were reserved in 2011.

The Bank has calculated provision for retirement benefits upon retirement as at 31 December 2012 and provisioned the amount of RSD 4,531 thousand, while the Bank paid RSD 176 thousand in retirement benefits.

29. TAX LIABILITIES

In thousands of RSD	31-Dec-2012	31-Dec-2011
Tax liabilities	374	113
Balance as at 31 December	**374**	**113**

30. OTHER LIABILITIES

In thousands of RSD	31-Dec-2012	31-Dec-2011
Liabilities to suppliers	20,086	1,112
Liabilities in settlement	1,788	579
Liabilities for contributions on salaries and fringe benefits	3,948	3,949
Liabilities for temporary service contracts	680	210
Accrued interest liabilities	15,383	7,276
Accrued income from fees from loans	12,463	6,589
Other accruals	9,954	8,351
Balance as at 31 December	**64,302**	**28,066**

Other liabilities mostly include accrued interest liabilities amounting to RSD 15,383 thousand, based on term deposits from legal entities and individuals and accrued fee income on loans and guarantees.

Accrued fee income on loans includes receivables recorded at amortized cost using the effective interest rate.

31. EQUITY

Equity of the Bank as at 31 December 2012 relates to: share capital, share premium, reserves from profit and profit for the current period.

Equity structure

In thousands of RSD	31-Dec-2012	31-Dec-2011
Share capital	1,690,498	1,452,053
Share premium	74,089	62,167
Profit reserves for estimated losses	43,335	25,897
Current year profit	28,932	17,438
Balance as at 31 December	**1,836,854**	**1,557,555**

a) Share capital

As at 31 December 2012, share capital of the Bank consists of 1,690,498 common shares with nominal value of RSD 1,000 per shares (2011: 1,452,053 common shares with nominal value of RSD 1,000 per share). Share premium amounts to RSD 74,089 thousand (2011: RSD 62,167 thousands). Profit reserves for estimated losses formed in accordance with the regulations of NBS amounted to RSD 43,335 thousand (2011: RSD 25,897 thousand).

During 2012 the Bank had two issues of shares.

Pursuant to the Decision of Dunav Banka's Shareholders Assembly related to 5th share issue by public offering on 20 April 2012, the Bank filed a request to the Securities Commission for approval of unique prospectus for share issuing and for the inclusion of these shares to MTP market, as at 7 May 2012.

By public offering 350,000 shares were offered, with a nominal value of RSD 1,000 per share. Sale price was RSD 1,050 per share. The period for registration and payment started on 28 May and ended on 26 June 2012.

As at 28 June 2012, increase of share capital for 202,239 shares was registered on the issuing account of Dunav Banka with the Central Securities Register. Share premium amounted to RSD 10,112 thousand.

31. EQUITY (Continued)

Structure of top 10 Bank's shareholders after 5th share issue:

No	Shareholder	No of shares	% of total issue
1.	KOMP. DUNAV OSIGURANJE A.D.O.	1,013,128	61.24239
2.	DUNAV RE AD BEOGRAD	238,095	14.39256
3.	JP SRBIJAGAS NOVI SAD	152,388	9.21167
4.	LAVERA DOO VRBAS	47,619	2.87851
5.	KOTEKS DOO BEOGRAD	28,570	1.72702
6.	PRO LOGISTIC RPC DOO	23,809	1.43923
7.	GP GRADITELJ BEOGRAD AD	4,761	0.28780
8.	SEMENARSTVO KLINA	3,665	0.22154
9.	EPS JP KOSOVO OBILIC	3,009	0.18189
10.	KOSOVKA PRISTINA	2,874	0.17373
11.	OTHERS	136,374	8.24366
	TOTAL	**1,654,292**	**100.00000**

Kompanija Dunav Osiguranje a.d.o. Beograd is the controlling shareholder with the ownership of 61.24% of shares. Considering that Dunav RE a.d. Beograd owns 14.39% of shares, and is also a related party of Kompanija Dunav Osiguranje, these two related parties own 75.63% of shares.

During the process of realization of the fifth issue of Dunav banka's shares, JP Srbija gas also participated and purchased 95,238 shares. When we include 57,150 shares from previous-fourth issue which are also bought by the same enterprise, JP Srbija gas owns 9.22% of the Bank's equity, i.e. voting rights.

In accordance with regulations, in calling for the purchase of shares from fifth issue, the Bank stated the obligation to all potential customers, who intend to acquire 5% or more of shares, to provide prior approval of the National Bank of Serbia (hereinafter: NBS).

JP Srbija gas acted in compliance with this obligation. As at 8 June 2012 it submitted a request to NBS with appropriate documentation for the acquisition of more than 5% of the Bank's equity. The request was rejected by the NBS, but only on 19 November 2012.

NBS has submitted a copy of the Decision which requires JP Srbija gas to sell until 30 September 2013 ownership rights that allow 5% or more of voting rights, and immediately after receiving the Decision, to undertake all necessary actions in accordance with the law that governs the capital market, with a view to registering restrictions on the exercise of voting rights with the Central Securities Depository and Clearing House. JP Srbija gas acted in accordance with this decision.

The Bank has warned JP Srbija gas in writing about the need to act upon the order of NBS, i.e. sale of shares of the Bank that exceeded 5%.

31. EQUITY (Continued)

The Bank's management expects that JP Srbija Gas will proceed in accordance with the NBS order and will sell the Bank's shares that exceed 5% not later than 30 September 2013. The Bank doesn't expect any consequences from regulatory authorities.

Dunav banka a.d. Shareholders Assembly, on its 5th extraordinary session held on 26 October 2012, reached a Decision on Issuing Common Shares by Public Offering of 6th issue without any publication of prospectus, using the right of exemption from the obligation to publish the prospectus in accordance with articles 12 and 13 of Capital Market Law ("Official Gazette of RS" no. 31/2011). The main goal of this decision is increase in share capital.

This Decision stipulates that the period for registration and payment lasts for 10 days from the day of registration of this Decision in the Companies register of the Serbian Business Register Agency.

Determined scope of 6th issue amounted to 100,000 common shares, with nominal value of RSD 1,000 per share. The issue price of shares amounted to RSD 1,050 per share.

As at 29 November 2012, 32,206 shares of the 6th issue were registered on the issuing account of Dunav Banka with the Central Securities Register.

Structure of top 10 Bank's shareholders after 6th share issue:

No	Shareholder	No of shares	% of total issue
1.	KOMP. DUNAV OSIGURANJE A.D.O.	1,013,128	59.93074
2.	DUNAV RE AD BEOGRAD	238,095	14.08431
3.	JP SRBIJAGAS NOVI SAD	152,388	9.01439
4.	KOTEKS DOO BEOGRAD	57,141	3.38013
5.	LAVERA DOO BEOGRAD	47,619	2.81686
6.	PRO LOGISTIC RPC DOO	23,809	1.40840
7.	GP GRADITELJ BEOGRAD AD	5,761	0.34079
8.	SEMENARSTVO KLINA	3,665	0.21680
9.	EPS JP KOSOVO OBILIC	3,009	0.17799
10.	KOSOVKA PRISTINA	2,874	0.17001
11.	OTHERS	143,009	8.45958
	TOTAL	1,690,498	100.00000

After the sixth issue, Kompanija Dunav Osiguranje a.d.o. Beograd with the ownership of 59.93% of shares, and the Company Dunav RE a.d. Beograd, with 14.08% of shares, jointly hold 74.01% of shares. These two companies are controlling shareholders. This is a decrease of 1.62% comparing to the situation before the sixth issue of shares.

31. EQUITY (Continued)

b) Earnings per share

Earnings per share are equal to current year profit attributable to holders of common shares divided by weighted average number of outstanding common shares for the respective period.

Earnings per share as at 31 December 2012 amounted to RSD 19.60 and as at 31 December 2011, they amounted to RSD 12.29.

c) Capital adequacy and other ratios prescribed by the Law on Banks

The main aims of capital management are to ensure the Bank's compliance with the requirements relating to capital, as defined by the National Bank of Serbia, to provide adequate level of capital for continued operations and to maintain capital at a level that will provide future business development. Capital adequacy and the use of the Bank's capital are monitored continuously by the management of the Bank. The National Bank has defined the following limits for capital:

– minimum of the capital amounted to EUR 10 million,
– minimum capital adequacy ratio of 12 percent.

The Bank's capital ratio is equal to the ratio between equity and net risk assets. Net risk assets represent the sum of: total credit risk weighted assets, capital requirements for market risks and capital requirements for operational risk, multiplied by the reciprocal value of the capital adequacy ratio. The Bank is required to maintain capital adequacy at a level not lower than 12%. The Bank is required to maintain at all times its equity at a level needed for covering all risks to which it is exposed or to which it could be exposed in its operations, and at least in the aggregate sum of the following capital requirements:

- Capital requirements for credit risk and for counterparty risk for all of the Bank's banking activities and capital requirements for settlement/supply risk for its trading activities;
– Capital requirements for price risk for trading activities;
– Capital requirement for foreign currency risk and commodity risk for all business activities of the bank.
– Capital requirements for operating risk for all banking activities.

Capital adequacy for credit risks is calculated by multiplying total credit risk weighted assets with 12%.

31. EQUITY (Continued)

Statement of total capital requirements and capital adequacy ratios

(In thousands of RSD)

Name	Amount	Coverage charged to basic equity	Coverage charged to additional equity
	1	2	3
EQUITY	1,357,394		
TOTAL BASIC EQUITY	1,357,394		
TOTAL ADDITIONAL EQUITY			
CAPITAL REQUIREMENTS	447,663		
CAPITAL REQUIREMENTS FOR CREDIT RISK	399,581	399,581	
Standardized approach (SA)	3,329,843		
SA class of exposure	3,329,843		
CAPITAL REQUIREMENTS FOR MARKET RISKS	21,390	21,390	
Capital requirements for price risk, foreign exchanges risk, commodity risk according to standardized approach	21,390	21,390	
Capital requirements for foreign exchange risk	21,390	21,390	
CAPITAL REQUIREMENT FOR OPERATIONAL RISK	26,693	26,693	
Capital requirement for operational risk calculated using the basic indicator approach	26,693	26,693	
COVERAGE OF CAPITAL REQUIREMENTS	447,663	447,663	
Capital adequacy ratio (%)	**36.39**		

Capital adequacy of the Bank as at 31 December 2012 amounted to 36.39% (prescribed minimum is 12%) and as at 31 December 2011 it amounted to 42.32%.

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.

31. EQUITY (Continued)

Compliance with indicators of National Bank of Serbia

As at 31 December 2012, the Bank has achieved following indicators:

	2012		2011	
Performance indicators	**Achieved**	**Prescribed**	**Achieved**	**Prescribed**
	EUR	Min EUR	EUR	Min EUR
Regulatory capital	11,936,461	10,000,000	10,908,555	10,000,000
Capital adequacy	36.39%	min12%	42.32%	min12%
Exposure to a single entity or a group of related entities	22.41%	max25%	22.62%	max 25%
Related party exposure	3.72%	max 5%	3.58%	max 5%
Total exposure to related parties	6.49%	max 20%	4.91%	max 20%
Sum of all large exposures	161.88%	max 400%	159.51%	max 400%
Bank investments in entity that doesn't belong to financial sector	8.26%	max 10%	9.99%	max 10%
Sum of Bank investments in entities that doesn't belong to financial sector and investments in fixed assets	17.12%	max 60%	18.47%	max 60%
Average monthly liquidity ratio:				
- in the first month of the reporting period	2.32%	min 1%	3.83%	min 1%
- in the second month of the reporting period	2.39%	min 1%	3.22%	min 1%
- in the third month of the reporting period	2.57%	min 1%	3.02%	min 1%
Foreign exchange risk ratio	13.52%	max 20%	6.87%	max 20%

d) Regulatory capital of the Bank

Management strategy related to Dunav banka capital defines the relationship towards the Bank's capital in a manner that provides continued capital management on a long-term basis. The aim of the strategy is to ensure creation and maintenance of an adequate level and structure of internal capital, as well as the strengthening of the capital base of the Bank.

On one hand, the Bank plans capital requirements in a way that ensures the implementation of strategic plans and, on the other hand, covering of all expected and unexpected losses, and potential losses calculated using stress tests.

31. EQUITY (Continued)

d) Regulatory capital of the Bank (Continued)

In order to realistically perceive required level of capital, the Bank projects its financial and capital positions in a way that will include all current and anticipated changes in the Bank's business profile and macroeconomic environment.

The process of internal capital adequacy assessment is a key parameter in the capital management of the Bank and is implemented through following actions:
- identification of all risks the Bank is exposed to or could be exposed to, and that are included in the calculation of internal capital requirements;
- risk measurement on the basis of clearly established methodology based on quantitative criteria;
- risk assessment on the basis of clearly established methodology based on qualitative criteria;
- calculating internal capital requirements for each risk separately;
- estimation of total internal capital;
- reporting on internal capital adequacy assessment process.

During the process of determination of entire internal capital, the Bank considers the structure of available capital, i.e. capital levels, as well as integral elements within each level, taking into account limitations prescribed both regarding the use of certain levels of capital to cover risk and the relation within and between different levels of capital.

In case of a low level of capital and capital adequacy ratio below targeted established limits, the Bank seeks to implement a program in order to increase capital and its capital adequacy ratio to an acceptable level.

The Bank's management bodies are responsible for:
- establishing and monitoring the process of internal capital adequacy evaluation;
- ensuring the implementation of internal capital adequacy process and ensuring compliance with strategic plans;
- adopting and revising management capital strategy;
- providing documentation of internal capital adequacy process;
- providing adequate resources for implementation of internal capital adequacy process;
- establishing an adequate system of internal controls in the process of assessing and maintaining the internal capital adequacy and define the powers and responsibilities of functions and organizational units of the Bank that participate in internal capital adequacy assessment;
- ensuring that internal capital adequacy process exists as an integral part of the management and decision-making processes in the Bank.

31. EQUITY (Continued)

d) Regulatory capital of the Bank (Continued)

The Bank's equity consists of the aggregate of basic equity and additional equity, reduced for deductible items from equity. Basic equity consists of the aggregate of the following elements decreased for deductible items according to the Decision on Capital Adequacy (NBS):
- Paid in share capital, except for cumulative preference shares;
- Profit reserves;
- Profit.

Elements to be included in share capital must fulfil the following requirements:
– No specified maturity date and no possibility of withdrawal;
– They can be used unconditionally, completely and without delay to cover losses from regularly business operations of the Bank;
– The Bank has the right not to pay dividends or to limit their payment;
– In the event of bankruptcy or liquidation, the right of the owner of the instruments included in the capital, to participate in the distribution of the bankruptcy or liquidation assets, is subordinated to the rights of other creditors of the Bank and other equity instruments owners;
– Decreased for all potential tax liabilities.

The Bank`s basic equity includes paid in share capital registered and paid, based on common and preferred stocks except for cumulative preferred stocks and amounted to:

1) the nominal value of common and preference shares and
2) share premium for common and preference shares.

Profit reserves included in basic capital consist of all types of reserves of the Bank formed from profits after taxes, based on the decision by the Bank's shareholders' assembly.

Deductible items from basic equity are as follows:
1) Previous years' losses;
2) Current year loss;
3) Intangible assets;
4) Purchased common and preference shares, except for cumulative preference shares, in the amount of their book value (nominal value increased for share issue premium)
5) Common and preferred stocks, except for cumulative preferred shares, that the Bank received as collateral in the lower amount of receivables secured with pledged shares and nominal value of shares received as collateral increased for related share premium;
6) Required reserves for estimated losses on balance sheet asset and off-balance sheet items of the Bank.

31. EQUITY (Continued)

d) Regulatory capital of the Bank (Continued)

The Bank is required to maintain basic equity in the dinar equivalent amount of 10,000,000 euro, using the official average exchange rate.

Statement of the equity

In 000 RSD

Description	Amount
EQUITY	**1,357,394**
BASIC EQUITY	1,539,911
Nominal value paid in share capital, except for cumulative preference shares	1,690,498
Share premium	74,089
Profit reserves	43,335
Intangible assets	207,171
Regulatory adjustments of value	60,839
Required reserve for estimated losses on balance sheet asset and off-balance sheet items of the Bank	60,839
DEDUCTIBLE ITEMS OF EQUITY	182,517
Reduction of basic equity	182,517
Reduction of additional equity	0
Required reserves for estimated losses by balance sheet activities and off balance items of the Bank	182,517
TOTAL BASIC EQUITY	**1,357,394**

As at 31 December 2012 the Bank's regulatory capital amounted to RSD 1,357,394 thousand, which is at the official average exchange rate of the National Bank of Serbia amounted to EUR 11.9 million.

According to the National Bank`s of Serbia's Decision on capital adequacy as at 31 December 2012, the Bank has enough capital to fulfil the minimum requirements of the National Bank of Serbia.

32. OFF-BALANCE SHEET ITEMS

In thousands of RSD	31-Dec-2012	31-Dec-2011
Transactions on behalf of third parties	258	253
Granted guarantees, sureties and undertaken irrevocable commitments	1,474,418	1,422,079
Other off-balance sheet items	82,363	71,531
Balance as at 31 December	**1,557,039**	**1,493,863**

In thousands of RSD Transactions on behalf of third parties	31-Dec-2012	31-Dec-2011
Transactions on behalf of third parties	258	253
Balance as at 31 December	**258**	**253**

In thousands of RSD	31-Dec-2012	31-Dec-2011
Granted guarantees, sureties and undertaken irrevocable commitments		
Granted guarantees and other sureties	1,365,841	1,328,859
Undertaken irrevocable commitments	108,577	93,220
Balance as at 31 December	**1,474,418**	**1,422,079**

In thousands of RSD Granted guarantees and other sureties	31-Dec-2012	31-Dec-2011
Payable guarantees	206,473	162,007
Performance guarantees	1,159,368	1,159,716
Letters of credit	-	7,136
Total	**1,365,841**	**1,328,859**

In thousands of RSD	31-Dec-2012	31-Dec-2011
Other off-balance sheet items		
Suspended interest	5,031	2,750
Other off-balance sheet items	77,332	68,781
Balance as at 31 December	**82,363**	**71,531**

Other off-balance sheet items include mostly potential receivables from the Beogradska banka a.d. in bankruptcy, based on the enforceable and executable decision of the Commercial Court in Belgrade, according to which the Bank's determined and recognized receivables amount to RSD 52,000 thousand, plus statutory penalty interest accrued from 1 November 2000 till payment and the amount of RSD 14,968 thousand plus interest accrued from 15 January 2002.

33. COURT CASES

As at 31 December 2012 the Bank is defendant in 4 court cases (one court case is kept only for the establishment of property rights) for a total of RSD 22,842 thousand and EUR 7,700 without accrued penalty interest.

For the amount of RSD 18,800 thousand the Bank won a court case during November 2011, and a hearing was held in March 2012, at the request of the prosecutor, Beogradska banka in bankruptcy. The basis of the court case is to determine the actual balance of share capital of Beogradska banka in bankruptcy and the Dunav banka a.d. Beograd. The Bank has contested the claim because the prosecutor hasn't submitted proper documentary evidence for his claims made in lawsuit.

On the basis of court cases conducted against the Bank in which the probability of negative outcomes was significant, the Bank made provisions in the amount of RSD 1,964 thousand.

34. RELATED PARTIES DISCLOSURE

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

Receivables and liabilities as at 31 December 2012 and 2011, as well as income and expenses during the year, resulting from transactions with related parties are disclosed in the following table:

In thousands of RSD	**Dunav osiguranje a.d.**	**Dunav Stockbroker**	**Dunav RE**	**Dunav auto**	**Dunav Turist**	**Srbijagas**	**Total**	**Total**
31 December 2012								
Assets								
Interest, fees and commission receivables and receivables from sale	6	-	-	-	-	1,536	1,542	50
Loans, deposits and other placements	4,800	-	-	-	-	199,007	203,807	-
Other receivables from operating business	8,146	-	-	-	-	-	8,146	5,553
Accrued expenses	228	-	-	36	-	-	264	-
Allowance for impairment	(32)	-	-	-	-	(129)	(161)	-
Total assets	**13,148**	**-**	**-**	**36**	**-**	**200,414**	**213,598**	**5,603**
Liabilities								
Deposits	3,642,250	8,007	1,519	1,379	1,881	663	3,655,699	2,020,478
Other liabilities	11,140	108				840	12,088	5,369
Total liabilities	**3,653,390**	**8,115**	**1,519**	**1,379**	**1,881**	**1,503**	**3,667,787**	**2,025,847**
Net balance sheet positions	**(3,640,242)**	**(8,115)**	**(1,519)**	**(1,343)**	**(1,881)**	**198,911**	**(3,454,189)**	**(2,020,244)**
Incomes								
Interest income	25	-	235	-	-	34,525	34,785	12
Fees and commission income	19,186	60	261	568	92	11	20,178	13,251
Income from change in value of assets and liabilities	-	-	-	-	-	1,582	1,582	605

Net foreign exchange gains	37,488	-	316	-	-	-	37,804	54,091
Income from reversal of provisions	282	-	-	-	-	3	285	-
Other operating income	76,768	-	-	-	-	-	76,768	31,752
Total income	**133,749**	**60**	**812**	**568**	**92**	**36,121**	**171,402**	**99,711**
Expenses								
Interest expenses	70,881	169	17,987	22	4	1	89,064	39,763
Fees and commission expenses	-	704	-	-	-	-	704	293
Expenses on change in value of assets and liabilities	-	-	-	-	-	413	413	4
Net foreign exchange losses	59,588	236					59,824	41,821
Expenses from provisions	311	-	-	-	-	132	443	539
Other operating expenses	28,713	-	-	78	-	-	28,791	17,327
Total expenses	**159,493**	**1,109**	**17,987**	**100**	**4**	**546**	**179,239**	**99,747**
Net incomes/expenses	**(25,744)**	**(1,049)**	**(17,175)**	**468**	**88**	**35,575**	**(7,837)**	**(36)**
Off-balance sheet	**254,888**	-	-	-	-	-	-	-

Aforementioned assets and liabilities at the balance sheet date, as well as revenues and expenses from transactions that occurred during the year with related parties part of normal business activities.

On its receivables and payables, the Bank charges and pays interest calculated using the usual interest rates.

As at 31 December 2012, exposures to individuals related to the Bank amounted to RSD 27,497 thousand (31 December 2011: RSD 11,976 thousand), and total liabilities amounted to RSD 12,529 thousand (31 December 2011: RSD 6,842 thousand).

Remunerations to members of the Management Board and the Executive Board

In thousands of RSD	**31-Dec-2012**	**31-Dec-2011**
Remunerations to members of the Management Board	6,996	1,898

In thousands of RSD	**31-Dec-2012**	**31-Dec-2011**
Remunerations to members of the Executive Board	13,478	11,890

35. RISK MANAGEMENT

Undertaking of risk represents the basis of the banking business and is of great importance for continuation of profitable Bank operations. Risk represents an indivisible part of banking operations and the bank manages it through constant processes of identification, measurement, monitoring, mitigation, imposing boundaries and other types of control, as well as reporting within the Bank.

35. RISK MANAGEMENT (Continued)

Basic goals that the Banks sets with its risk management system are the following:

- Minimizing negative effects on financial results and Bank's equity with respect to defined frames of acceptable risk levels,
- Maintaining required level of capital adequacy,
- Development of activities of the Bank in accordance with business opportunities and market development for the purpose of realizing a competitive advantage.

System for managing risks is regulated through the following procedures:
- Risk management strategy,
- Risk management policy,
- Procedure for managing individual risk,
- Methodology for the assessment of impairment of assets and probable loss on off-balance sheet items and calculation of reserve for estimated losses,
- Methodology for managing individual risks,
- Special instructions for managing individual risk.

The Bank has established an organizational structure with clearly defined, transparent and consistent lines of responsibility that are defined in the Rule Book of Internal Organization and Rule Book of Establishment of Job Positions in the Bank.

Consistent lines of responsibility are defined by the Rule Book of Internal Organization and refer to segregation of duties in organizational departments, including Executive Board through which the Bank prevents conflicts of interest.

Organizational structure is established in a way that can provide cooperation on all organizational levels for the purpose of implementing Business polices and Bank strategy, as well as risk management strategy and reporting system in terms of a formally defined system of controls.

The Bank has set up a special organizational unit, the Department for Risk Management and Bad Placements whose scope includes risk management. The Department contains two organizational units: Risk Management Department and Bad Placements Department.

The Risk Management Department monitors all risks that the Bank is exposed to, where the scope of this department is defined by the Rule Book of Internal Organization of the Bank.

Competencies:

The Board of Directors sets Strategy and Policies for Risk Management, as well as the Capital Management Strategy.

The Executive Board implements strategy and policies for managing all the risks that the Bank is exposed to, as well as strategy used for capital management, and establishes Procedures for Identification, Measurement and Estimation of Risks, as well as risk management, analyses the effectiveness of their implementation and reports to the Board of Directors about those activities.

35. RISK MANAGEMENT (Continued)

The Audit Committee analyzes usage and adequate implementation of the system and procedures for managing risks that the Bank is exposed to in its operations, reviews reports on the Bank's risk exposures and is responsible for reporting at least once a month in a written form to the Board of Directors about its activities, with suggestions for removal of eventual irregularities.

The Assets and Liabilities Committee monitors at least once a month exposure of the Bank to risks that arise from the structure of balance sheet liabilities and receivables, as well as off-balance sheet items and recommend measures for risk management.

The Compliance Service at least once a year also reviews the Bank's operational compliance in respect of risk management and reports to the Board of Directors about its findings.

Internal audit in realization of financial function of internal audit is responsible for initiating actions to ensure that risks to which the Bank is exposed are adequately identified and controlled, and that the Bank's sectors get informed in time about noted irregularities. Internal audit (at least) once a year, at the end of year, via work evaluation of a sector for risk and bad placements management, audits and assesses adequacy, reliability and efficiency of the system for risk management and reports to the Board of Directors.

Establishing the system for regular reporting to the Board of Directors, Audit Committee, Executive Board, as well as the Assets and Liabilities Committee, ensures adequate risk management.

The Bank does internal and external reporting on risk management.

Internal reporting on risk management in terms of the Risk Management and Bad Placements Department is addressed to the Board of Directors, Executive Board, Audit Committee and Assets and Liabilities Committee.

The Bank does external risk reporting in accordance with decisions and guidance of NBS.

Types of risk:

In its operations the Bank is exposed to the following risks:

Credit risk including residual risk;
Liquidity risk;
Foreign currency risk and other market risks;
Interest rate risk;
Concentration risk;
Investment risk;
Country risk;
Operating risk;
Risk of compliance;
Strategic risk.

35. RISK MANAGEMENT (Continued)

35.1. CREDIT RISK INCLUDING RESIDUAL RISK

Credit risk is conditioned by the creditworthiness of a debtor, timeliness in settling obligations toward the Bank, as well as quality of collaterals for securing the Bank's receivables. The Bank manages credit risk at debtor level, as well as at the level of related legal entities, legal entities related with the Bank and at portfolio level. The Bank takes precautions in regards to credit risk through identification, measuring, mitigation and tracing of credit risk trends, as well as at the level of individual investments and at portfolio level.

Making decision on exposure to credit risk and limits is defined in accordance with the Rulebook of the Bank's Credit Committee. For each placement the Bank opinion of the departments for risk management and bad placements is required.

Apart of credit exposure, the Bank also has off-balance sheet exposures (performance bonds and payment guarantees and letters of credit) based on which is has potential liabilities to make payments to the accounts of third parties. For off-balance sheet exposures the Bank uses the same control process and procedures that are used for credit risk.

The Basic goal of credit risk management is keeping high deposit-investment quality with low credit risk, and in this respect securing stability and security of the Bank's operations. Other goals of management are:

- Establishing and improving the internal system for risk management of risks to which the Bank is exposed in its operations,
- Minimizing and/or eliminating the effects of factor that can lead to losses, that is jeopardize financial result due to debtor's failure to fulfil obligations because of reduced technical efficiency for mitigating credit risk from expected or reduced values of bought back claims,
- Realization of expected incomes with acceptable risk level,
- Compliance with international standards of business.

The Bank identifies credit risk and residual risk through which it secures:

- Identification of existing sources of credit and residual risk
- Measuring credit and residual risk
- Monitoring credit and residual risk
- Controlling residual and credit risk by maintaining it at acceptable level for the Bank's risk profile through reduction or elimination.
- Reporting – internal or external reporting on credit risk and residual risk.

Measuring residual risk consist of applying quantitative methods through which the Bank estimates negative effects on financial results and the Bank's equity as conditioned by the fact that effects of applied techniques for mitigation of credit risk are less efficient than expected.

35. RISK MANAGEMENT (Continued)

35.1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

The Bank identifies residual risk through detailed technical analysis of credit risk mitigation and above all through analysis of suitable instruments for credit security and effects of using these instruments for credit risk mitigation.

Monitoring of residual risk consists of monitoring residual risk at the level of individual placements or at the level of portfolio for the purpose of identifying changes in quality of credit security instruments that can have a negative effect on realized financial results and equity of the Bank.

The Bank makes an annual stress test of credit risk in order to assess the sensitivity of the Bank to assumed external factors. In all scenarios the Bank has demonstrated resistance to potential risks.

CAPITAL REQUIREMENT FOR CREDIT RISK

In 000 RSD

Exposure classes	Gross exposure	Impairments and required reserves	Net exposure	The amount of risk weighted assets	Capital requirement
To states and central banks	2,215,082	-	2,215,082	-	-
To banks	917,344	2,249	915,094	124,18	14,902
To enterprises	3,775,014	159,862	3,615,152	2,554,479	306,537
To individuals	918,802	185,965	732,838	439,117	52,694
Other exposures	827,097	54,822	772,275	212,067	25,448
Total:	**8,653,339**	**402,898**	**8,250,441**	**3,329,843**	**399,581**

35. RISK MANAGEMENT (Continued)

35.1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

Overview of placements reduced for impairment and past due placements as at 31 December 2012

Description	Amount of placements that are not past due	Up to 30 days	From 31 to 90 days	From 91 to 180 days	From 181 to 365 days	Over 365 days	Net assets reduced for impairment	Individual impairment and provision	Group level impairment and provision	Collateral taken for placements reduced for impairment
Banks	579,652	-	-	-	-	1,971	579,645	(1,977)	(1)	-
Corporate	2,924,919	39,096	58,132	11,897	25,908	53,265	3,019,014	(90,833)	(3,370)	363,255
Entrepreneurs	18,226	462	6	3	658	3,613	18,958	(4,004)	(6)	9,273
Individuals	329,271	1,267	65	-	56	23	330,218	-	(464)	-
Others	2337	48	-	-	-	-	2,379	(1)	(5)	-
Total	**3,854,405**	**40,873**	**58,203**	**11,900**	**26,622**	**58,872**	**3,950,214**	**(96,815)**	**(3,846)**	**372,528**

Overview of placements reduced for impairment and past due placements as at 31 December 2011

Description	Amount of placements that are not past due	Up to 30 days	From 31 to 90 days	From 91 to 180 days	From 181 to 365 days	Over 365 days	Net assets reduced for impairment	Individual impairment and provision	Group level impairment and provision	Collateral taken for placements reduced for impairment
Banks	860,614	-	-	-	-	1,971	860,560	(1,971)	(54)	-
Corporate	1,540,388	26,390	205,003	8,224	29,717	22,709	1,799,577	(29,131)	(3,723)	294,807
Entrepreneurs	26,033	642	516	11	23	2,644	29,055	(813)	(1)	1,503
Individuals	204,713	1,321	51	17	-	22	206,042	-	(82)	-
Others	360	12	-	-	-	-	371	(1)	-	-
Total	**2,632,108**	**28,365**	**205,570**	**8,252**	**29,740**	**27,346**	**2,895,605**	**(31,916)**	**(3,860)**	**296,310**

35. RISK MANAGEMENT (Continued)

35.1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

Placements - structure by type of customer as at 31 December 2012

In thousands of RSD	Gross	Non impaired assets	Impaired assets	Individual impairment and provision	Group level impairment and provision	Net
Description						
Banks	581,624	568,031	13,593	(1,977)	(1)	579,646
Public sector and public enterprises	2,058	-	2,058	-	(5)	2,053
Corporate	3,113,217	546,925	2,566,292	(90,833)	(3,370)	3,019,014
Entrepreneurs	22,968	1	22,967	(4,004)	(6)	18,958
Individuals	330,681	330,166	515	-	(464)	330,217
Others	327	-	327	(1)	-	326
Total	**4,050,875**	**1,445,123**	**2,605,752**	**(96,815)**	**(3,846)**	**3,950,214**

Placements - structure by type of customer as at 31 December 2011

In thousands of RSD	Gross	Non impaired assets	Impaired assets	Individual impairment and provision	Group level impairment and provision	Net
Description						
Banks	862,585		862,585	(1,971)	(54)	860,560
Corporate	1,832,431	388,458	1,443,973	(29,131)	(3,723)	1,411,119
Entrepreneurs	29,868	2,422	27,446	(813)	(1)	26,632
Individuals	206,125	205,687	438	-	(82)	356
Others	372	-	372	(1)	-	371
Total	**2,931,381**	**596,567**	**2,334,814**	**(31,916)**	**(3,860)**	**2,299,038**

35. RISK MANAGEMENT (Continued)

35. 1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

Total amount of balance and off-balance receivables exposed to credit risk toward industry and type of a client

SECTOR	Balance sheets assets	Off-balance sheet assets	Total 31-Dec-2012	Balance sheets assets	Off-balance sheet assets	Total 31-Dec-2011
FINANCE AND INSURANCE SECTOR	**21,823**	**254,888**	**276,711**	**696,797**	**194,653**	**891,450**
Central Bank	-	-	**-**	-	-	**-**
Local banks and other monetary brokerage	2,221	-	**2,221**	634,331	-	**634,331**
Supportive activities related to financial services, insurance and pension funds	1,058	-	**1,058**	1,065	-	**1,065**
Holding company activity and other services of giving loans, financing excluding insurance and pension funds	5,592	-	**5,592**	55,798	-	**55,798**
Related financial organizations that are not consolidated	12,952	254,888	**267,840**	5,603	194,653	**200,256**
Related financial organizations that are consolidated	-	-	**-**	-	-	**0**
PUBLIC SECTOR COMPANIES	**202,618**	**15,698**	**218,316**	**42**	**3,180**	**3,222**
Mining, manufacturing, water supply, managing water waste, waste disposal management and similar activities	-	15,698	**15,698**	-	1,200	**1,200**
Electric supply, gas supply, steam and cooling	17	-	**17**	-	-	**-**
Real Estate business, expert science innovations, technical activities, administrative services, support service activities, art, entertainment and recreation, other services activities	2,058	-	**2,058**	42	1,980	**2,022**
Transport and storage, accommodation and food services, information and communication	200,543	-	**200,543**	-	-	**-**
INDUSTRY SECTOR	**2,881,602**	**1,155,709**	**4,037,311**	**1,769,959**	**1,188,255**	**2,958,214**
Agriculture, forestry, fishing	18,951	21,055	**40,006**	8,833	-	**8,833**
Mining, manufacturing, water supply, managing water waste, waste disposal management and similar activities	1,127,556	31,814	**1,159,370**	761,650	106,479	**868,129**

Electric supply, gas supply, steam and cooling	15	-	**15**	11	-	**11**
Construction	267,772	662,448	**930,220**	198,629	793,729	**992,358**
Wholesaler, Retailer, service for motor vehicles and motorbikes	1,061,826	229,659	**1,291,485**	615,859	104,119	**719,978**
Traffic and Warehousing, accommodation and food, information service and communication	81,865	120,885	**202,750**	36,688	82,583	**119,271**
Real Estate business, expert science innovations, technical activities, administrative services, support service activities, art, entertainment and recreation, other services activities	323,617	89,848	**413,465**	148,289	101,345	**249,634**
ENTREPRENEURIAL SECTOR	**22,972**	**4,793**	**27,765**	**29,865**	**5,944**	**35,809**
PUBLIC SECTOR	**-**	**-**	**-**	**1**	**-**	**1**
POPULATION SECTOR	**330,681**	**9,727**	**340,408**	**206,125**	**7,601**	**213,726**
Local individuals	330,681	9,727	**340,408**	206,125	7,601	**213,726**
Foreign individuals-residents	-	-	**-**	-	-	**-**
FOREIGN SECTOR	**579,402**	**-**	**579,402**	**228,254**	**-**	**228,254**
Foreign Banks	579,402	-	**579,402**	228,254	-	**228,254**
OTHER CLIENT'S SECTOR	**11,777**	**33,604**	**45,381**	**338**	**22,446**	**22,784**
Total	**4,050,875**	**1,474,419**	**5,525,294**	**2,931,381**	**1,422,079**	**4,353,460**

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35. 1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

Overview of credit risk and impairment toward the client and type of balance sheet placements

In thousands of RSD

31 December 2012	Banks	Corporate	Entrepreneurs	Individuals	Other Clients	Total
Short-term loans	-	1,225,987	5,108	105,864	2,000	1,338,959
Long-term loans		930,405	13,027	213,550	-	1,156,982
Overdue receivables	1,841	165,708	4,259	1,299	-	173,107
Interest, fees and commissions	354	30,836	560	261	65	32,076
Securities	-	616,427	-	-	-	616,427
Deposits with banks	568,030	-	-	-	-	568,030
Other receivables	11,399	11,676	15	9,324		32,414
Assets acquired through the payment of receivables	-	3,452	-	384	-	3,836
Equity investments	-	128,724	-	-	320	129,044
Gross	**581,624**	**3,113,215**	**22,969**	**330,682**	**2,385**	**4,050,875**
Non-impaired	568,031	546,925	1	330,167	-	1,445,124
Impaired	13,593	2,566,290	22,968	515	2,385	2,605,751
Individual impairment	(1,977)	(90,833)	(4,004)	-	(1)	(96,815)
Group impairment	(1)	(3,370)	(6)	(464)	(5)	(3,846)
Net	**579,646**	**3,019,012**	**18,959**	**330,218**	**2,379**	**3,950,214**

31 December 2011	Banks	Corporate	Entrepreneurs	Individuals	Other Clients	Total
Short-term loans	-	728,994	9,008	86,702	20	824,724
Long-term loans	-	451,891	16,561	117,525	-	585,977
Overdue receivables	1,841	268,404	3,353	1,410	-	275,008
Interest, fees and commissions	2,455	21,006	559	52	32	24,104
Securities	-	223,939	-	-	-	223,939
Deposits with banks	856,480	-	-	-	-	856,480
Other receivables	1,809	5,684	387	52	-	7,932
Assets acquired through the payment of receivables	-	3,789	-	384	-	4,173
Equity investments	-	128,724	-	-	320	129,044
Gross	**862,585**	**1,832,431**	**29,868**	**206,125**	**372**	**2,931,381**
Non-impaired	-	388,459	2,421	205,687	-	596,567
Impaired	862,585	1,443,972	27,447	438	372	2,334,814
Individual impairment	(1,971)	(29,131)	(813)	-	(1)	(31,916)
Group impairment	(54)	(3,723)	(1)	(82)	-	(3,860)
Net	**860,560**	**1,799,577**	**29,054**	**206,043**	**371**	**2,895,605**

35. 1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

Overview of credit risk and impairment toward the client and type of placements of off-balance sheet items

31 December 2012	Corporate	Entrepreneurs	Individuals	Total
Payment guarantees	206,474	-	-	206,474
Performance guarantees	1,155,669	3,700	-	1,159,369
Undertaken irrevocable commitments	97,756	1,093	9,727	108,576
Gross	**1,459,899**	**4,793**	**9,727**	**1,474,419**
Non-impaired	464,553		9,727	474,280
Impaired	995,346	4,793		1,000,139
Individual impairment	(5,247)	-	-	(5,247)
Group impairment	(533)	-	-	(533)
Net	**1,454,119**	**4,793**	**9,727**	**1,468,639**

31 December 2011	Corporate	Entrepreneurs	Individuals	Other Clients	Total
Payment guarantees	161,007	1,000	-	-	162,007
Performance guarantees	1,154,046	3,716	1,954	-	1,159,716
Undertaken irrevocable commitments	84,364	1,230	5,646	1,980	93,220
Other off-balance items	7,136	-	-	-	7,136
Gross	**1,406,553**	**5,946**	**7,600**	**1,980**	**1,422,079**
Non-impaired	325,597	523	7,600	-	333,720
Impaired	1,080,956	5,423	-	1,980	1,088,359
Individual impairment	(11)	-	-	-	(11)
Group impairment	(4,967)	-	-	-	(4,967)
Net	**1,401,575**	**5,946**	**7,600**	**1,980**	**1,417,101**

35. 1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

Exposure to credit risk on 31 December 2012 and 2011 shown in following table

Estimate	Loans and deposits		Other placements		Securities		Equity investments		Interest, fees and commissions		Other Assets		Cash and cash equivalents		Balance		Off-Balance	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Individual Estimate																		
Legal Entity A	289,979	-	-	-	333,854	-	-	320	2,675	-	14,513	-	568,030	-	1,209,051	320	601,532	-
Legal Entity B	1,037,845		-	-	277,794	-	-	128,724	12,784	-	8,164	-	-	-	1,336,587	128,724	197,864	-
Legal Entity C	-	370,799	-	-	-	-	-	-	-	6,350	-	12	-	-	-	377,161		132,875
Legal Entity D	-	33,668	-	-	-	-	-	-	-	1,503	-	2	-	-	-	35,173	-	1,086
Legal Entity E	-	39,934	-	3,789	-	-	-	-	-	2,316	-	19	-	-	-	46,058	-	-
Individuals	319,297	54	-	384	-	-	-	-	258	1	9,324	-	-	-	328,879	439	9,727	-
Gross	1,647,121	444,455	-	4,173	611,648	-	-	129,044	15,717	10,170	32,001	33	568,030	-	2,874,517	587,875	809,123	133,961
Impairments	2,612	16,359	-	1,035	715	-	-	13,629	32	889	21	4	-	-	3,380	31,916	534	21
Net	**1,644,509**	**428,096**	**-**	**3,138**	**610,933**	**-**	**-**	**115,415**	**15,685**	**9,281**	**31,980**	**29**	**568,030**	**-**	**2,871,137**	555,959	**808,589**	**133,940**
Group Estimate																		
Legal Entity A	-	879,208	-	-	-	60,113	320	-	-	5,257	-	7,839	-	226,480	320	1,178,897	-	196,219
Legal Entity B	-	470,475	-	-	-	163,826	1,058	-	-	5,965	-	8	-	-	1,058	640,274	-	758,179
Legal Entity C	255,360	-	-	-	4,780	-	-	-	1,763	-	4	-	-	-	261,907	-	171,425	-
Legal Entity D	143,293	-	-	-	-	-	77,666	-	4,166	-	30	-	-	-	225,155	-	29,318	-
Legal Entity E	129,208	-	3,452	-	-	-	-	-	8,428	-	379	-	-	-	141,467	-	-	-
Individuals	128	204,756	384	-	-	-	-	-	3	51	-	52	-	-	515	204,859	-	7,600
Gross	527,989	1,554,439	3,836	-	4,780	223,939	79,044	-	14,360	11,273	413	7,899	-	226,480	630,422	2,024,030	200,743	961,998
Impairments	75,165	2,748	1,854	-	10	1,072	15,536	-	4,502	25	214	1	-	14	97,281	3,860	5,246	4,956
Net	**452,824**	**1,551,691**	**1,982**	**-**	**4,770**	**222,867**	**63,508**	**-**	**9,858**	**11,248**	**199**	**7,898**	**-**	**226,466**	**533,141**	2,020,170	**195,497**	**86,481**
Without Estimation																		
Legal Entity A	28,701	27,915	-	-	-	-	-	-	-	91	-	-	-	-	28,701	28,006	94,798	211,229
Legal Entity B	229,136	17,338	-	-	-	-	-	-	160	-	-	-	-	-	229,296	17,338	365,935	113,071
Legal Entity C	234,757	268,354	-	-	-	-	-	-	1,839	2,569	-	-	-	-	236,596	270,923	784	1,506
Legal Entity D	56	2,380	-	-	-	-	50,000	-	-	-	-	-	-	-	50,056	2,380	3,036	314
Legal Entity E	-	-	-	-	-	-	-	-	-	-	-	-	--	-	-	-	-	-
Individuals	1,287	828	-	-	-	-	-	-	-	1	-	-	-	-	1,287	829	-	-
Gross	493,937	316,815	-	-	-	-	50,000	-	1,999	2,661	-	-	-	-	545,936	319,476	464,553	326,120
Impairments																		
Net	**493,937**	**316,815**	**-**	**-**	**-**	**-**	**50,000**	**-**	**1,999**	**2,661**	**-**	**-**	**-**		**545,936**	**319,476**	**464,553**	**326,120**
Total gross	**2,669,047**	**2,315,709**	**3,836**	**4,173**	**616,428**	**223,939**	**129,044**	**129,044**	**32,076**	**24,104**	**32,414**	**7,932**	**568,030**	**226,480**	**4,050,875**	**2,931,381**	**1,474,419**	**1,422,079**
Total impairments	**77,777**	**19,107**	**1,854**	**1,035**	**725**	**1,072**	**15,536**	**13,629**	**4,534**	**914**	**235**	**5**	**-**	**14**	**100,661**	**35,776**	**5,780**	**4,977**
Total net	**2,591,270**	**2,296,602**	**1,982**	**3,138**	**615,703**	**222,867**	**113,508**	**115,415**	**27,542**	**23,190**	**32,179**	**7,927**	**568,030**	**226,466**	**3,950,214**	**2,895,605**	**1,468,639**	**1,417,102**

35. 1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

Balance structure of risk assets according to calculation of impairment:

31 December 2012	Non matured and non impaired	Due and non impaired	Impaired	Total gross monetary assets	Individual impairment	Group impairment	Total impairment	Total gross monetary asset
Cash and cash equivalents	568,030	-	-	568,030	-	-	-	568,030
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	-	2,259	29,817	32,076	(4,502)	(32)	(4,534)	27,542
Loans and deposits	814,339	1,170	1,853,538	2,669,047	(74,700)	(3,077)	(77,777)	2,591,270
Securities	-	-	616,428	616,428	(10)	(715)	(725)	615,703
Equity investments	50,000	-	79,044	129,044	(15,536)	-	(15,536)	113,508
Other placements	-	-	3,836	3,836	(1,854)	-	(1,854)	1,982
Other assets	9,325	-	23,089	32,414	(213)	(22)	(235)	32,179
Total	**1,441,694**	**3,429**	**2,605,751**	**4,050,875**	**(96,815)**	**(3,846)**	**(100,661)**	**3,950,214**

31 December 2011	Non matured and non impaired	Due and non impaired	Impaired	Total gross monetary assets	Individual impairment	Group impairment	Total impairment	Total gross monetary asset
Cash and cash equivalents	-	-	226,480	226,480	-	(14)	(14)	226,466
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	-	4,832	19,272	24,104	(889)	(25)	(914)	23,190
Loans and deposits	401,893	189,788	1,724,028	2,315,709	(16,359)	(2,748)	(19,107)	2,296,602
Securities	-	-	223,939	223,939	-	(1,072)	(1,072	222,867
Equity investments			129,044	129,044	(13,629)	-	(13,629)	115,415
Other placements	-	-	4,173	4,173	(1,035)	-	(1,035)	3,138
Other assets	54	-	7,878	7,932	(4)	(1)	(5)	7,927
Total	**401,947**	**194,620**	**2,334,814**	**2,931,381**	**(31,916)**	**(3,860)**	**(35,776)**	**2,895,605**

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35. 1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

Default risk

Placements are considered at risk if total receivables from the debtor are overdue by 90 days, as well as placements to clients with whom changes were identified that could significantly affect the ability of debtors to settle obligations toward the Bank.

Overview of placements with default status

	31 December 2012			31 December 2011		
In thousands of RSD	**Gross**	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Banks	1,971	(1,971)	-	1,971	(1,971)	-
Corporate	177,081	(60,820)	116,261	44,801	(14,898)	29,903
Entrepreneurs	4,247	(3,968)	279	2,678	(732)	1,946
Individuals	77	(77)	-	39	(23)	16
Others	-	-	-	-	-	-
Total	**183,376**	**(66,836)**	**116,540**	**49,489**	**(17,624)**	**31,865**

Write-off of uncollectible receivables .

Write-offs of uncollectible receivables are performed on the basis of a court decision, settlement between interested parties, or if there is evidence of uncollectability of receivables (completed bankruptcy, liquidation, removal from companies register, etc.), and that all necessary actions for collection of receivables have been taken, as defined by business policies, as well as based on Management Board decisions. Write-offs of uncollectible receivables are charged to expenses in the income statement.

Credit risk mitigation (collaterals)

In order to mitigate exposure to credit risk, in addition to regular monitoring of the client, the Bank obtains collaterals (collateral), which secure receivables and minimize credit risk. The level of placements coverage is defined depending on assessment of possibility of settlement of liabilities, in order to activate collateral in case of debtor's default in payment, for the purpose of realistic possibility of collection of receivables. Value and type of collateral depend on amount of loan.

As standard collaterals the Bank obtains authorization based on contract and bills of exchange from the client, while as additional instruments, depending on the assessment of credit risk, the following are contracted: a pledge on movable and immovable assets (mortgages), deposits, guarantees, etc.

35. 1. CREDIT RISK INCLUDING RESIDUAL RISK (Continued)

Overview of placements covered with collaterals as at 31 December 2012:

In thousands of RSD	Deposits	Mortgage	Total
Short-term loans	411,928	32,316	444,244
Long-term loans	82,010	443,968	525,978
Overdue receivables	-	11,697	11,697
Interest, fees and commission receivables	2,000	4,731	6,731
Equity share in other legal entities	50,000	-	50,000
Other assets	-	19	19
Payable guarantees	29,512	74,457	103,969
Undertaken irrevocable commitments	437	9,148	9,585
Performance guarantees	434,603	83,221	517,824
Total	**1,010,490**	**659,557**	**1,670,047**

Overview of placements covered with collaterals as at 31 December 2011:

In thousands of RSD	Deposits	Mortgage	Total
Short-term loans	83,564	21,827	105,391
Long-term loans	44,808	322,463	367,271
Overdue receivables	188,440	7,702	196,142
Interest, fees and commission receivables	2,661	2,485	5,146
Other assets	-	2	2
Payable guarantees	17,427	69,979	87,406
Undertaken irrevocable commitments	-	6,798	6,798
Performance guarantees	308,692	4,145	312,837
Total	**645,592**	**435,401**	**1,080,993**

35.2. LIQUIDITY RISK

Liquidity risk is the risk of potential negative effects on the Bank's financial result and equity due to the Bank's inability to settle its liabilities as they mature. Objectives of liquidity policy are as follows:

- establishment and improvement of internal risk management system which the Bank is exposed in its operations;
- maintaining liquid assets at a level that provides settlement of the bank`s liabilities at any time;
- minimize and/or eliminate the impact of factors that can lead to losses or compromise the Bank's financial results due to alterations in liquidity;
- achieving planned income at an acceptable level of liquidity risk;
- compliance with international standards of business.

35.2. LIQUIDITY RISK (Continued)

The Bank monitors and considers the relationship of liquidity risk and other risks. The Bank establishes a system for managing liquidity risk by:

- Establishing principles for liquidity risk management;
- Organizing the management of liquidity risk;
- Establishing procedures for the identification, measurement, mitigation, control, monitoring and reporting of liquidity risk;
- Establishing an information system that supports the management of liquidity risk;
- Ensuring timely and appropriate treatment in the event of increased liquidity risk;
- Establishing an adequate system of internal controls to manage liquidity.

The Bank has:

- Formalized procedures, measures, activities, and similar instruments for managing liquidity risk (in terms of formalized notification and exchange of information between persons and bodies involved in the management of liquidity risk, and taking measures and actions in the interests of minimizing and / or eliminating the impact of factors that may affect the Bank's operations in the zone of low and / or acceptable risk liquidity);
- Documented and updated analytical documentation basis for reviewing, analyzing, monitoring liquidity risk;
- Defined authority and responsibility for liquidity risk management;
- Plan and measures and activities for managing liquidity risk in situations of overstepping of set limits, or when the Bank's operations are in the zone of high liquidity risk.

The Management of the Bank is responsible for establishing and ensuring prerequisites for the proper functioning of the systems and procedures for managing liquidity risk.

The Risk Management Department monitors operating liquidity, based on analysis of daily, weekly, monthly and annual cash flow plans, submitted by sectors. Decisions about the management of operational liquidity are made daily at meetings of the Commission for liquidity.

Measurement and assessment of liquidity risk in the Bank is done through quantitative and qualitative assessment of identified liquidity risk by using the following techniques:

- GAP analysis and
- Ratio analysis.

Measuring liquidity risk is based on GAP analysis which involves measuring the difference between assets and liabilities in a certain period of time, and on a ratio prescribed by the regulatory body and by the Bank. The Risk Management and Bad Placements Department performs monitoring and projections of liquidity risk to maintain the level prescribed by regulatory bodies and within internally established limits.

In order to ensure efficient and effective system of monitoring and controlling liquidity risk, the Bank has established a system of limits for liquidity risk. The exposure to liquidity risk the Bank maintains an acceptable level while respecting the internally and externally prescribed limits.

35.2. LIQUIDITY RISK (Continued)

In order to maintain minimum daily and monthly liquidity the Bank adheres to the criteria prescribed by the National Bank of Serbia, so that daily and monthly liquidity ratios are not below prescribed limits.

The Bank defines internal limits as the maximum permitted level of cash flow mismatch of assets and liabilities for a certain period of time, and as the maximum level of internally defined liquidity ratios.

Liquidity ratio during 2012	2012	2011
As at 31 December	3.55	3.14
Average for the period	2.57	3.02
Maximum for the period	3.66	3.59
Minimum for the period	2.27	2.28

During 2012, the liquidity ratio was significantly above prescribed limits. The Bank monitors structural liquidity through ratios of placements and liabilities and their prescribed limits.

Results of stress tests for liquidity risks show that the Bank is moderately sensitive to liquidity risk.

Maturity structure of monetary assets and monetary liabilities relate to:

In thousands of RSD

As at 31 December 2012	Up to 3 month	From 3 to 12 month	From 1 to 5 years	Over 5 years	Total
Cash and cash equivalents	1,200,140	-	-	-	1,200,140
Revocable deposits and loans	2,201,529	-	-	-	2,201,529
Interest, fees and commission receivables	27,709	-	-	-	27,709
Loans and deposits	652,372	904,000	833,430	195,801	2,585,603
Securities	549,624	66,079	-	-	615,703
Equity investments	-	-	-	113,508	113,508
Other placements	23,285	-	-	-	23,285
Intangible assets	-	-	207,171	-	207,171
Fixed assets and investment property	-	-	-	119,882	119,882
Deferred tax assets	-	-	-	8,432	8,432
Other assets	46,748	-	-	-	46,748
	4,701,407	**970,079**	**1,040,601**	**437,623**	**7,149,710**
Transaction deposits	3,076,107	-	-	-	3,076,107
Other deposits	1,152,978	615,506	386,237	3412	2,158,133
Borrowings	713	-	-	-	713
Provisions	7,396	4,665	142	72	12,275
Tax liabilities	374	-	-	-	374
Liabilities from Income Tax	952	-	-		952
Other liabilities	64,302	-	-	-	64,302
Total equity	-	-	-	1,836,854	1,836,854
	4,302,822	**620,171**	**386,379**	**1,840,338**	**7,149,710**
Net liquidity gap as at 31 December 2012	**398,585**	**349,908**	**654,222**	**(1,402,715)**	
Net liquidity gap as at 31 December 2011	**618,116**	**52,612**	**557,736**	**(1,228,464)**	

35.2. LIQUIDITY RISK (Continued)

The overview on maturity structure of assets and liabilities presents balance sheet items that are divided by specified maturities from balance sheet date to contractual date of maturity, whereby items are classified by the remaining period to maturity. Therefore a conservative assumption was used where all transaction and a vista deposits would be withdrawn within one month.

The Bank's management is of the opinion that diversity of deposits by types and by number and type of depositors, as well as previous experience of the Bank offer a sound basis for the conclusion that deposits represent a long-term and stable source of financing, and in this respect significant outflow of assets that could jeopardize the Bank's liquidity is not expected.

35.3. FOREIGN CURRENCY RISK AND OTHER MARKET RISKS

Foreign currency risk is the risk that causes negative effects on financial results and Bank equity due to changes in exchange rates, and the Bank is exposed to it by items in the banking book and trading book. Other market risks represent probability of occurrence of negative effects on financial results and the Bank`s equity due to changes in value of the portfolio of financial instruments.

The goal of managing foreign currency risk and other market risks is:

- Establishment and improvement of internal system of risk management at which Bank is exposed at in its operations;
- Minimizing and/or/eliminating factors that can cause losses, and jeopardize financial results due to volatility in exchange rates and prices;
- Compliance with international standards of business;
- Achieving greater profitability rates with acceptable level of foreign exchange risk and other market risks. .

The Bank follows and takes into consideration the relationship between foreign exchange, other market risks and other types of risk.

The Bank identifies exposure to foreign exchange risk by determining open foreign currency positions of the Bank in certain currencies, as well as total amounts for all the currencies with which the Bank operates.

The Bank regularly monitors and projects foreign currency risks in order to maintain it within the framework of internally established limits and in accordance with the statutory established level.

Monitoring of foreign currency risk depends on the level of currency mismatch between the Bank's assets and liabilities, which is used for controlling and eliminating possible negative effects of exchange rate fluctuations on the stability of the Bank's financial position. The Bank maintains exposure to foreign currency risk at an acceptable level by respecting externally and internally established limits.

The Bank is implementing stress tests for foreign currency risk through analysis that evaluates what would be the value of the foreign currency portfolio if some stress related situation were to occur, such as significant increase in the exchange rate.

35.3. FOREIGN CURRENCY RISK AND OTHER MARKET RISKS (Continued)

In thousands of RSD

As at 31 December 2012	EUR	USD	Other currencies	RSD	Total
Cash and cash equivalents	499,906	45,504	58,174	596,556	1,200,140
Revocable deposits and loans	1,025,829	-	-	1,175,700	2,201,529
Interest, fees and commission receivables	15,652	-	-	12,057	27,709
Loans and deposits	1,700,567	-	-	885,036	2,585,603
Securities (excluding treasury shares)	-	-	-	615,703	615,703
Equity investments	-	-	-	113,508	113,508
Other placements	11,371	-	-	11,914	23,285
Intangible assets	-	-	-	207,171	207,171
Fixed assets and investment property	-	-	-	119,882	119,882
Deferred tax assets	-	-	-	8,432	8,432
Other assets	508	-	-	46,240	46,748
Total asset	**3,253,833**	**45,504**	**58,174**	**3,792,199**	**7,149,710**
Transactional deposits	1,396,421	11,329	47,367	1,620,990	3,076,107
Other deposits	1,705,389	4,594	-	448,150	2,158,133
Borrowings	713	-	-	-	713
Interest, fees and commission payable	-	-	-	-	-
Provisions	4,614	12	-	7,649	12,275
Tax liabilities	-	-	-	374	374
Liabilities for Income Tax	-	-	-	952	952
Other liabilities	13,355	99	-	50,848	64,302
Equity	-	-	-	1,836,854	1,836,854
Total liabilities	**3,120,492**	**16,034**	**47,367**	**3,965,817**	**7,149,710**
Foreign currency position on 31 December 2012	**133,341**	**29,470**	**10,807**	**(173,618)**	**-**
Foreign currency position on 31 December 2011	**(74,052)**	**(1,988)**	**6,853**	**69,187**	**-**

Foreign currency assets and liabilities include positions in dinars indexed by a foreign currency clause.

35.4. INTEREST RATE RISK

Interest rate risk is the risk that can cause negative effects on financial results and Bank's equity due to changes in interest rates and the Bank is exposed to this risk because of items presented in the Bank's balance sheet.

Based on interest rate risk the Bank estimates negative effects of changes in interest rates on its financial result (income statement) as well as on economic value of the Bank's equity and that accordingly defines interest rate sensitive assets and liabilities exposure limits.

35.4. INTEREST RATE RISK (Continued)

The Bank's risk profile is determined at the level of risk that the Bank is ready to accept in accordance with defined goals and principles of interest rate management.

The Bank identifies exposure to interest rate risk by determining mismatch in the following positions:

- Total for all currencies with which the Bank operates and
- Separately for local currency and separately for items that are presented in foreign currency or with a foreign currency clause.

Measuring of interest rate risk is performed through a GAP report or report on mismatch in assets and liabilities items that are exposed to changes in interest rates on the market or other analysis.

Overview of bank exposure to the change in interest rate risk as at 31 December 2012

In thousands of RSD

As at 31 December 2012	Up to 3 month	From 3 month to 1 year	From 1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and cash equivalents	568,030	-	-	-	632,110	1,200,140
Revocable deposits and loans	2,201,529	-	-	-	-	2,201,529
Interest, fees and commission receivables, sales and other receivables	-	-	-	-	27,709	27,709
Loans and deposits	652,372	904,000	833,430	195,801	-	2,585,603
Securities (excluding treasury shares)	549,624	66,079	-	-	-	615,703
Equity investments					113,508	113,508
Other placements	23,285	-	-	-	-	23,285
Intangible assets	-	-	-	-	207,171	207,171
Fixed assets and investment property	-	-	-	-	119,882	119,882
Deferred tax assets	-	-	-	-	8,432	8,432
Deferred tax assets and other assets	-	-	-	-	46,748	46,748
Total asset (I)	**3,994,840**	**970,079**	**833,430**	**195,801**	**1,155,560**	**7,149,710**
Liabilities						
Transactional deposits	3,076,107	-	-	-	-	3,076,107
Other deposits	1,152,978	615,506	386,237	3,412	-	2,158,133
Borrowings	713	-	-	-	-	713
Interest, fees and commission payable	-	-	-	-	-	-
Provisions	7,396	4,665	142	72		12,275
Tax liabilities	-	-	-	-	374	374
Liabilities for Income Taxes	-	-	-	-	952	952
Other liabilities	-	-	-	-	64,302	64,302
Equity	-	-	-	-	1,836,854	1,836,854
Total liabilities (II)	**4,237,194**	**620,171**	**386,379**	**3,484**	**1,902,482**	**7,149,710**
Net interest rate gap as at 31 December 2012	**(242,354)**	**349,908**	**447,051**	**192,317**	**(746,922)**	
Net interest rate gap as at 31 December 2011	**(262,485)**	**55,400**	**342,423**	**108,267**	**(243,605)**	

35.5. CONCENTRATION RISK

Concentration risk relates to probability of negative effects on the Bank`s business and capital due to inadequate level of its exposure to the same or similar type of risk factors or risk, such as exposure to: a party or a group of related parties, a party related to the Bank, exposure to industries, geographical areas, types of products and activities, credit protection instruments, financial instruments, commodities, etc. as closely defined with Procedures for the management of risk concentrations.

The aim of concentration risk management is:

– establishment and improvement of internal risk management system for risks to which the Bank is exposed in its operations;
– minimizing and / or eliminating the impact of factors that can lead to losses or jeopardizing Bank's financial results due to concentration risk;
– compliance with international standards of business;
– achievement of higher profitability rate at an acceptable level of risk concentrations.

The Bank monitors and considers relationships between concentration risk and other risks.

The Bank identifies current concentration risk and concentration risk to which it can be exposed by introducing new products or business activities.

The Bank identifies concentration risk at the level of individual placements and at portfolio level.

Identifying concentration risk at the level of individual investments is carried out through:

- analysis of the exposure level of the debtor, group of debtors or debtors related to the Bank, and
- control of limits by the relevant organizational units of the Bank prior to approval of individual loans by competent authorities of the Bank.

Measuring and assessment of risk concentration performed at the level of individual placements and at portfolio level. Measuring of concentration risk is performed by calculating the overall balance sheet and off-balance sheet exposure to a single legal entity or group of related entities, or defined portfolio segments in relation to capital and / or in relation to overall balance sheet and off-balance sheet exposures.

In order to ensure efficient and effective system of monitoring and control of concentration risk, the Bank established a system concentration risk limits.

35.5. CONCENTRATION RISK (Continued)

Concentration by regions

31 December 2012	Republic of Serbia	European Union	Other
Cash and cash equivalents	632,110	526,407	41,623
Revocable deposits and loans	2,201,529	-	-
Interest, fees and commission receivables	27,709	-	-
Loans and deposits	2,585,603	-	-
Securities	615,703	-	-
Other placements	23,285	-	-
Other assets	35,376	-	11,372
Equity investments	113,508	-	-
Total	**6,234,823**	**526,407**	**52,995**

31 December 2011	Republic of Serbia	European Union
Cash and cash equivalents	180,067	226,466
Revocable deposits and loans	1,191,081	-
Interest, fees and commission receivables	23,370	-
Loans and deposits	2,279,935	-
Securities	270,256	-
Equity investments	115,415	-
Other placements	18,440	-
Other assets	17,232	1,774
Total	**4,095,796**	**228,240**

35.6. INVESTMENT RISK

Investment risk of the Bank is the probability of negative effects on the Bank`s operations due to inadequate level of investment in other legal entities and fixed assets.

Investment risk in other legal entities represents the probability of negative effects on the Bank`s operations arising from investment into one legal entity or related parties; while investment in another entity is permanent investment of the Bank, which relates to the acquisition of ownership rights in proportion to the made investment. Investment in another legal entity may be effected through the acquisition of shares, equity instruments, or the acquisition of equity investments.

Investment risk in fixed assets represents the possibility of achieving negative effects on the Bank`s result and equity due to: inadequate structure of investments in fixed assets in relation to the amount of assets and equity and changes in value of fixed assets.

The Bank monitors and considers the relationship of investment risk and other risks.

The Bank's risk profile is specified by the level of risk that the Bank is ready to undertake in accordance with defined objectives and principles of management of investment risk.

The Bank monitors and considers continuously investment risk in order to keep it within prescribed limits.

35.7. COUNTRY RISK

The risks related to the country of a legal entity's origin to which the Bank is exposed (hereinafter country risk), include the negative effects that could affect the financial results and equity and the Bank's inability to collect receivables due as a result of political, economic or social conditions in the country of origin. Country risk includes political, economic and transfer risk.

The Bank monitors and considers the relationship of country risk and other types of risks.

The Bank's risk profile is determined by the level of risk that the Bank is ready to undertake in accordance with defined objectives and principles of management of country risk.

Identification of country risk at the level of individual loans is conducted through:
- gathering information about the debtor's country of origin;
- analysis of risk level or rating of the country of debtor`s origin;
- analysis of events/factors that can cause negative effect on business operations and Bank's equity due to risk exposure and
- control of limits by the relevant organizational units of the Bank prior to approval of individual loans by the relevant authorities of the Bank in order to determine the level of unused limit for investments in a specific country.

Measuring and assessment of country risk is performed at the level of individual placement and at the Bank's portfolio.

The Bank regularly monitors and projects country risk, both at the level of individual placements and at portfolio level, in order to maintain it within internally established limits.

35.8. OPERATING RISK

Operating risk represents the possibility of negative effects on the Bank's financial result and equity due to employee errors, inadequate procedures and processes in the Bank, inadequate management of information and other systems in the Bank, as well as occurrence of unforeseen external events. Operating risk includes legal risk which represents the possibility of negative effects on the Bank's financial result and equity due to court or extra-judicial proceedings related to the Bank's operations.

Operating risk related to introduction of new products / services represents risk of business interruption due to the Bank's inability to deliver already launched new product. Operating risk related to the activities that the Bank is entrusted to third parties is a risk of negative effects on the financial result and equity due to inadequate service providers in terms of its ability to provide services, financial condition and its business reputation.

The objective of operating risk managements is:
- establishment and improvement of internal risk management system for the risk to which the Bank is exposed in its operations;
- minimizing and / or eliminating the impact of factors that can lead to losses or that jeopardize the Bank's financial results;
- achievement of anticipated income, with an acceptable level of operating risk;
- compliance with international standards of business.

The Bank monitors and considers the relationship of operating risk and other types of risk.

35.9. COMPLIANCE RISK

Compliance risk can be defined as the risk of compromising the integrity of the Bank, or damage to its reputation, legal risk or risk sanctions from regulatory bodies, as well as the risk of financial loss resulting from non-compliance with legislation, procedures and standards.

A compliance function of the Bank is to identify, assess and monitor the compliance risk and to manage these risks. Compliance risk is a particular risk of legal sanctions or other regulatory bodies and financial loss as well as reputational risk, in accordance with the specifics of banking and financial regulatory and market demands.

In carrying out its statutory obligations and performing the tasks within their competence Compliance, the Department of Internal Audit and Risk management and bad placements department cooperate with each other, exchange

Reports on their operations, plans and programs of work, elaboration of proposals of internal regulations, standards, procedures and operating policies of the Bank's activities and cooperate in assisting in the work of external control and auditing authorities that control operations of the Bank.

In carrying out activities mentioned in the previous paragraph Compliance, Internal Audit and Risk management and Bad placements department may, if necessary, in whole or in part, perform joint control of the operation of certain organizational units of the Bank, according to plans and programs adopted by the Bank or as needed.

35.10. STRATEGIC RISK

Strategic risk is the risk of negative effects on the financial result and capital of the Bank due to lack of appropriate policies and strategies, their inadequate enforcement, as well as due to changes in the environment in which the Bank operates, or lack of appropriate Bank response to these changes.

The objective of strategic risk management is:
- establishment and improvement of internal risk management systems for risks to which the Bank is exposed in its operations;
- minimizing and / or eliminating the impact of factors that can lead to loss or compromise the Bank's financial results due to strategic risk;
- compliance with international standards of business;
- achieving a greater profitability rate at an acceptable level of strategic risk.

The Bank monitors and considers the relationship of strategic risk and other types of risk.

The Bank’s risk profile is determined by the level of risk that the Bank is ready to undertake in accordance with defined objectives and principles of strategic risk management.

Identification of strategic risks is conducted through a strategic planning process and involves identifying the causes that lead to a strategic risk and may affect the realization of losses to the Bank. This includes identification of external or environmental factors in which the Bank operates, and internal factors that may cause loss to the Bank and affect the ability of the Bank to realize its plans in terms of market share, products and customers of banking services.

36. SUBSEQUENT EVENTS

There were no subsequent events after balance sheet date which would require restatement of financial statements or disclosures.

37. FOREIGN EXCHANGE RATE

The principal exchange rates applied in the translation of balance sheet items set on the interbanking foreign currency market as at 31 December 2012 were as follow:

Currency	2012	2011
CHF	94.1922	85.9121
GBP	139.1901	124.6022
USD	86.1763	80.8662
EUR	113.7183	104.6409

Person responsible for preparing the financial statements

Legal Representative of the Bank

Mirjana Bojat

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