ERSTE BANK A.D. NOVI SAD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

CONTENT

ERNST & YOUNG

Ernst & Young d.o.o. Beograd
Španskih boraca 3
11070 Beograd, Srbija

Tel: +381 11 2095 800
Fax: +381 11 2095 890
www.ey.com/rs

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ERSTE BANK A.D., NOVI SAD

We have audited the accompanying financial statements of Erste Bank a.d., Novi Sad (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2012, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and Auditing and regulations of National Bank of Serbia governing financial reporting of banks.

Belgrade, 11 March 2013

Stephen Fish
for Ernst & Young d.o.o. Beograd

Jelena Ivanović
Authorized Auditor

PIB: 101824091 • Matični broj: 17155270 • Upisan i unet osnovni kapital: 15.075,01 EUR
Registarski broj 47839 kod Agencije za privredne registre
Poslovni račun 255-0009930101000-91 kod Privredne Banke Beograd AD

REGISTRATION NUMBER: 08063818
ACTIVITY CODE: 110105
ACTIVITY CODE ACCORDING TO NEW ACTIVITY CLASSIFICATION: 6419
TAX IDENTIFICATION NUMBER: 101626723

NAME OF BANK OR OTHER FINANCIAL ORGANISATION: ERSTE BANK AD NOVI SAD
REGISTERED OFFICE: NOVI SAD

PROFIT AND LOSS STATEMENT
AS OF 31st DECEMBER 2012

(in RSD thousand)

Account group, account	POSITION	AOP designation	Note number	Current year	Previous year
	Ordinary operating income and expenses				
70	Interest income	201	4	6.513.786	5.873.469
60	Interest expenses	202	4	2.346.557	1.915.342
	Interest gains (201-202)	203		4.167.229	3.958.127
	Interest loss (202-201)	204		0	0
71	Fee and commission income	205	5	2.334.741	1.977.948
61	Fee and commission expenses	206	5	708.798	548.918
	Fee and commission gains (205-206)	207		1.625.943	1.429.030
	Fee and commission loss (206-205)	208		0	0
720-620	Net gains on the basis of sale of securities - fair value	209		0	38.046
620-720	Net loss on the basis of sale of securities - fair value	210		0	0
721-621	Net gains on the basis of sale of securities available for sale	211		1.568	217
621-721	Net losss on the basis of sale of securities available for sale	212		0	0
722-622	Net gains on the basis of sale of securities held to maturity	213		0	0
622-722	Net loss on the basis of sale of securities held to maturity	214		0	0
723-623	Net gain on the basis of participation sale	215		0	0
623-723	Net loss on the basis of participation sale	216		0	0
724-624	Net gain on the basis of sale of other placements	217		0	0
624-724	Net loss on the basis of sale of other placements	218		0	0
78	Net foreign exchange gains	219		0	0
68	Net foreign exchange loss	220	6	2.814.493	320.422
766	Dividend and participation income	221		10.585	42
74,76 (766,799)	Other operating income	222	7	74.133	51.094
75-65	Net gains of indirect write-offs of placements and provisions	223		0	0
65-75	Net loss of indirect write-offs of placements and provisions	224	8	887.315	883.049
63	Expences of wages and salaries, salary fees and other personal expenses	225	9	1.595.216	1.468.157
642	Depreciation expenses	226	10	211.830	172.440
64 (642), 66 (669)	Operational and other expenses	227	11	2.199.096	1.979.333
77	Income from the change of the value of assets and liabilities	228	12	6.494.994	5.035.462
67	Loss from the change of the value of assets and liabilities	229	13	3.590.421	4.905.549
	Ordinary operating gains (203-204+207-208+209-210 +211-212+213-214+215-216+217-218+219-220+221+222+223-224-225-226-227+228-229)	230		1.076.081	783.068
	Ordinary operating loss (204-203+208-207+210-209 +212-211+214-213+216-215+218-217+220-219-221-222+224-223+225+227+226+229-228)	231		0	0
769-669	Net gains from the operation suspended	232		0	0
669-769	Net loss from the operation suspended	233		0	0
	Result for the period; pre-tax profit (230-231+232-233)	234		1.076.081	783.068
	Result for the period; pre-tax loss (231-230+233-232)	235		0	0
850	Profit tax	236	14	2.359	765
861	Profit from created deferred tax assets and reduction of deferred tax liabilities	237	14	176.370	6.700
860	Loss from created deferred tax assets and reduction of deferred tax liabilities	238		0	
	Profit (234-235-236+237-238)	239		1.250.092	789.003
	Loss (235-234+236+238-237)	240		0	0
	Earning per share	241			
	Basic earning per share	242			
	Diluted earnings per share	243			

Novi Sad
25.02.2013

Person responsible for financial statement making
Vlasta Putnik

Executive Committee President
Slavko Caric

Executive Committee Member
Suzan Tannyar

REGISTRATION NUMBER 08063818
ACTIVITY CODE 110105
ACTIVITY CODE ACCORDING TO NEW ACTIVITY CLASSIFICATION 6419
TAX IDENTIFICATION NUMBER 101626723

NAME OF BANK OR OTHER FINANCIAL ORGANISATION **ERSTE BANK AD NOVI SAD**
REGISTERED OFFICE **NOVI SAD**

BALANCE SHEET
AS OF 31st DECEMBER 2012

ASSETS

(in RSD thousand)

Group of accounts, account	ITEM	AOP code	Note number	CURRENT YEAR AMOUNT	PREVIOUS YEAR AMOUNT
00,05,07	Cash and cash equivalents	001	15	7.370.004	4.232.332
01,06	Loans and deposits repayable on demand	002	16	7.170.274	13.641.927
02,08	Interest and fee receivables, receivables from sale, change of fair value of derivatives and other receivables	003	17	357.939	258.985
10,11,20,21	Granted loans and deposites	004	18	55.648.156	45.952.772
12 (excluding 128),22	Securities (excluding own shares)	005	19	7.862.110	6.173.995
13,23	Participations in capital	006	19	52	52
16,26	Other placements	007	20	260.764	254.657
33	Intangible assets	008	21	357.551	295.083
34,35	Fixed assets and investment property	009	21	729.299	762.528
36	Fixed assets intended for sale and assets of operation suspended	010		0	0
37	Deferred tax assets	011		172.062	0
03,09,19,29,30,38	Other assets	012	22	762.096	504.608
842	Loss above capital amount	013		0	0
	TOTAL ASSETS (FROM 001 TO 013)	014		**80.690.307**	**72.076.939**

LIABILITIES

(thousands of RSD)

Account group, account	POSITION	AOP designation	Note number	CURRENT YEAR AMOUNT	PREVIOUS YEAR AMOUNT
	LIABILITIES				
400,500	Transaction deposites	101	23	12.462.894	8.791.459
from 401 to 405 from 501 to 505	Other deposites	102	24	29.348.336	29.896.060
from 406 to 409 from 506 to 509	Received loans	103	25	20.219.867	17.430.862
41,51	Liabilities against securities	104		1.465.000	0
42,52	Interest and fee liabilities, and liabilities from change of fair value of derivatives	105	26	23.869	53.720
450 do 454	Provisions	106	27	418.652	424.012
456,457	Tax liabilities	107	14	18.272	26.614
434,455	Liabilities from profit	108		0	0
46	Liabilities based on fixed assets intended for sale and liabilities based on operation suspended	109		0	0
47	Deferred tax liabilities	110	14	0	2.038
43 (excluding 434), 44,48,49,53,58,59	Other liabilities	111	28	3.434.074	3.400.893
	TOTAL LIABILITIES (FROM 101 TO 111)	112		**67.390.964**	**60.025.658**
80 (excluding 803) - 128	Capital	113	29	10.164.475	10.164.475
81	Reserves from profit	114	29	1.843.171	1.054.168
82 (excluding 823)	Revaluations reserves	115	29	32.988	26.054
823	Non-realised losses based on securities available for sale	116	29	6.198	3.929
83	Profit	117	29	1.264.907	810.513
84 (842)	Loss up to the level of capital	118			
	TOTAL CAPITAL (113+114+115+117-116-118)	119		**13.299.343**	**12.051.281**
	TOTAL LIABILITIES (112+119)	120		**80.690.307**	**72.076.939**
	OFF-BALANCE SHEET POSITIONS (FROM 123 TO 127)	121		**30.598.458**	**38.802.897**
90 alternatively 95	Operations on behalf of and for the account of third parties	122	30	780.975	705.529
91 (excluding 911,916) alternatively 96 (961,966)	Assumed future liabilities	123	30	9.730.334	11.363.221
911,916,932 alternatively 961,966,982	Received guarantees for liabilities	124		0	0
92 alternatively 97	Derivatives	125	30	792.810	3.579.900
93 (excluding 932) alternatively 98 (excluding 982)	Other off-balance sheet positions	126	30	19.294.339	23.154.247

Novi Sad
25.02.2013

Person responsible for financial statement making

Vlasta Putnik

Executive Committee President

Slavko Carić

Executive Committee Member

Suzan Tanriyar

REGISTRATION NUMBER: **08063818**
ACTIVITY CODE: **110105**
ACTIVITY CODE ACCORDING TO NEW ACTIVITY CLASSIFICATION: **6419**
TAX IDENTIFICATION NUMBER: **101626723**

NAME OF BANK OR OTHER FINANCIAL ORGANISATION: **ERSTE BANK AD NOVI SAD**
REGISTERED OFFICE: **NOVI SAD**

STATEMENT OF CASH FOWS
in the period from 1st January to 31st December 2012

(in RSD thousand)

ITEM	AOP code	Current year amount	Previous year amount
1	2	3	4
A. CASH FLOW FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (from 302 to 305)	301	**8.585.970**	**7.819.559**
1. Interest inflow	302	6.161.597	5.776.981
2. Fee inflow	303	2.331.974	1.990.829
3. Inflow on the basis of other operating income	304	81.814	51.707
4. Inflow of dividends and participations in profit	305	10.585	42
II. Cash outflow from operating activities (from 307 to 311)	306	**6.749.380**	**5.639.684**
5. Interest outflow	307	2.261.681	1.845.927
6. Fee outflow	308	697.568	545.634
7. Outflow on the basis of gross salaries, salary fees, and other personal expenses	309	1.594.533	1.471.037
8. Taxes, contributions and other duties charged to income	310	305.561	247.977
9. Outflow on the basis of other operating costs	311	1.890.037	1.529.109
III Net cash inflow from operating activities before loans and deposit increase or decrease (301 minus 306)	312	**1.836.590**	**2.179.875**
IV Net cash outflow from operating activities before loans and deposit increase or decrease (306 minus 301)	313	**0**	**0**
V Decrease of loans and increase of taken deposits (from 315 to 317)	314	**3.123.711**	**5.426.629**
10. Decrease in credits and lending to banks and clients	315	0	0
11. Decrease in securities at fair value through income statement, tradable investment and short-term securities held to maturity	316	0	0
12. Increase in deposits received from banks and clients	317	3.123.711	5.426.629
VI. Increase in lending and decrease in deposits received (from 319 to 321)	318	**3.746.090**	**9.306.488**
13. Increase in credits and lending to banks and clients	319	1.315.456	8.559.792
14. Increase in securities at fair value through income statement, tradable investment and short-term securities held to maturity	320	2.430.634	746.696
15. Decrease in deposits from banks and clients	321	0	0
VII. Net cash inflow from operating activities before profit tax (312 minus 313 plus 314 minus 318)	322	**1.214.211**	**0**
VIII. Net cash outflow from operating activities before profit tax (313 plus 318 minus 312 minus 314)	323	**0**	**1.699.984**
16. Profit tax paid	324	0	6.371
17. Dividends paid	325	0	0
IX. Net cash inflow from operating activities (322 minus 323 minus 324 minus 325)	326	**1.214.211**	**0**
X. Net cash outflow from operating activities (323 minus 322 plus 324 plus 325)	327	**0**	**1.706.355**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflows from investing activities (from 329 to 333)	328	**761.486**	**28.896**
1. Long-term investment in securities	329	761.098	28.310
2. Sale of interest (stake)	330	388	586
3. Sale of intangible investment and fixed assets	331	0	0
4. Sale of investment property	332	0	0
5. Other inflows from investing activities	333	0	0
II. Cash outflows from investing activities (from 335 to 339)	334	**254.455**	**230.461**
6. Investment in long-term securities	335	0	0
7. Purchase of interest (stake)	336	0	0
8. Purchase of intangible investment and fixed assets	337	254.455	230.461
9. Procurement of investment property	338	0	0
10 Other outflows from investing activities	339	0	0
III. Net cash inflow from investing activities (328 minus 334)	340	**507.031**	**0**
IV. Net cash outflow from investing activities (334 minus 328)	341	**0**	**201.565**
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (from 343 to 348)	342	**4.254.005**	**3.541.033**
1. Capital increase	343	0	0
2. Subordinated liabilities, net	344	0	1.345.536
3. Credits received, net	345	2.626.409	2.195.497
4. Securities, net	346	1.465.000	0
5. Sale of own shares	347	0	0
6. Other inflows from financing activities	348	162.596	0
II. Cash outflows from financing activities (from 350 to 354)	349	**23.082**	**46.641**
7. Purchase of own shares	350	0	0
8. Subordinated liabilities, net	351	23.082	0
9. Credits received, net	352	0	0
10 Securities, net	353	0	0
11 Other outflows from financing activities	354	0	46.641
III. Net cash inflow from financing activities (342 minus 349)	355	**4.230.923**	**3.494.392**
IV. Net cash outflow from financing activities (349 minus 342	356	**0**	**0**
D. TOTAL NET INFLOW OF CASH (301 plus 314 plus 328 plus 342)	357	**16.725.172**	**16.816.117**
E. TOTAL NET OUTFLOW OF CASH (306 plus 318 plus 324 plus 325 plus 334 plus 349)	358	**10.773.007**	**15.229.645**
F. NET INCREASE IN CASH (357 minus 358)	359	**5.952.165**	**1.586.472**
G. NET DECREASE IN CASH (358 minus 357	360	**0**	**0**
H. CASH AT THE BEGINNING OF THE YEAR (Note: 15) (361, col. 3 = 001, col. 6)	361	**4.232.332**	**2.966.282**
I. EXCHANGE RATE GAINS	362	**9.187.360**	**9.309.672**
J. EXCHANGE RATE LOSSES	363	**12.001.853**	**9.630.094**
K. CASH AT END-PERIOD (Note: 15) (359 minus 360 plus 361 plus 362 minus 363) (364, col. 3 = 001, col. 5 and 364, col. 4 = 001, col. 6) (364, col. 4 = 361, col. 3)	364	**7.370.004**	**4.232.332**

Novi Sad
25.02.2013

Person responsible for financial statement making
Vlasta Putnik

Executive Committee President
Slavko Carić

Executive Committee Member
Suzan Tanriyar

REGISTRATION NUMBER: **08063818**
ACTIVITY CODE: **110105**
ACTIVITY CODE ACCORDING TO NEW ACTIVITY CLASSIFICAT
TAX IDENTIFICATION NUMBER: **101626723**

NAME OF BANK OR OTHER FINANCIAL ORGANISATION: **ERSTE BANK AD NOVI SAD**
REGISTERED OFFICE: **NOVI SAD**

STATEMENT OF CHANGES IN EQUITY
in the period from 1st January to 31st December 2012

(in RSD thousand)

No.	DESCRIPTION	AOP	Share capital (acc. 800)	AOP	Other capital (acc. 801)	AOP	Unpaid subscribed share capital (acc. 803)	AOP	Premium on issue of shares (acc. 802)	AOP	Reserves from profit and other reserves (group of accounts 811	AOP	Revaluation reserves (group of accounts 82	AOP	Profit (group of accounts 83)	AOP	Losses up to the level of capital (acc. 840, 841	AOP	Own shares (acc. 128)	AOP	Non realised loss based on securities available for sale	AOP	Total (col. 2+3-4+5+6+7+8-9-10)	AOP	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	401	10.040.000	414	0	427	0	440	124.475	453	736.001	466	23.620	479	338.906	492	0	505	0	518	3.685	531	11.259.317	544	
2	Adjustment for material errors and changes in accounting policies in the prior year – increase	402		415		428		441		454		467		480		493		506		519		532	0	545	
3	Adjustment for material errors and changes in accounting policies in the prior year – decrease	403		416		429		442		455		468		481		494		507		520		533	0	546	
4	Adjusted opening balance as at 1 January of the prior year 2011 (no. 1+2-3)	404	10.040.000	417	0	430		443	124.475	456	736.001	469	23.620	482	338.906	495	0	508	0	521	3.685	534	11.259.317	547	
5	Total increase in the prior year	405	0	418	0	431		444	0	457	318.167	470	3.551	483	790.539	496		509		522	244	535	1.112.013	548	
6	Total decrease in the prior year	406		419	0	432		445		458	0	471	1.117	484	318.932	497		510	0	523		536	320.049	549	
7	**Balance as at 31 December of the prior year 2011. (no. 4+5-6)**	**407**	**10.040.000**	**420**	**0**	**433**		**446**	**124.475**	**459**	**1.054.168**	**472**	**26.054**	**485**	**810.513**	**498**	**0**	**511**	**0**	**524**	**3.929**	**537**	**12.051.281**	**550**	
8	Adjustment for material errors and changes in accounting policies in the current year – increase	408		421		434		447		460		473		486		499		512		525		538	0	551	
9	Adjustment for material errors and changes in accounting policies in the current year – decrease	409		422		435		448		461		474		487		500		513		526		539	0	552	
10	**Adjusted opening balance as at 1 January of the current year 2012. (no. 7+8-9)**	410	**10.040.000**	423	**0**	436		449	**124.475**	462	**1.054.168**	475	**26.054**	488	**810.513**	501	**0**	514	**0**	527	**3.929**	540	12.051.281	**553**	
11	Total increase in the current year	411		424		437		450		463	789.003	476	20.071	489	1.252.450	502		515		528	2.269	541	2.059.255	554	
12	Total decrease in the current year	412		425		438		451		464		477	13.137	490	798.056	503		516		529		542	811.193	555	
13	Balance as at 31 December of the current year 2012. (no. 10+11-12)	413	**10.040.000**	426	**0**	439		452	**124.475**	465	**1.843.171**	478	**32.988**	491	**1.264.907**	504	**0**	517	**0**	530	**6.198**	543	**13.299.343**	556	

Novi sad
25.02.2013

Person responsible for financial statement making
Vlasta Putnik

Executive Committee President
Slavko Carić

Executive Committee Member
Suzan Tanriyar

REGISTRATION NUMBER: **08063818**
ACTIVITY CODE: **110105**
ACTIVITY CODE ACCORDING TO NEW ACTIVITY CLASSIFICATION: **6419**
TAX IDENTIFICATION NUMBER: **101626723**

NAME OF BANK OR OTHER FINANCIAL ORGANISATION: **ERSTE BANK AD NOVI SAD**
REGISTERED OFFICE: **NOVI SAD**

STATISTICAL ANNEX
AS OF 31st DECEMBER 2012

(in RSD thousand)

Group of accounts, account	ITEM	AOP code	CURRENT YEAR AMOUNT	PREVIOUS YEAR AMOUNT
1	2	3	4	5
630	Expenses for wages	601	840.271	721.850
631	Expenses for compensations of wages	602	157.283	137.510
632	Expenses for tax on wages and compensations of wages	603	154.441	133.178
633	Expanses for contributions for wages and compensations of wages	604	233.093	200.586
634	Expenses for fees for temporary and occasional work	605	0	0
635	Other personal expenses	606	210.128	275.033
642	Depreciation expenses	607	211.830	172.440
part 643	Insurance premium expenses	608	141.315	119.456
part 643	Compensation of employee costs	609	55.623	51.710
part 641	Rental expenses	610	356.707	322.803
644	Tax expenses	611	43.045	39.205
645	Contribution expenses	612	254.171	222.009
part 746	Rental income	613	3.078	2.535
68	Exchange rate losses	614	12.001.853	9.630.094
78	Exchange rate gains	615	9.187.360	9.309.672
30	Inventories	616	1.657	777
	Avarage number of employees based on the balance at the end of each month of the business year (integer)	617	990	988
	Number of ordinary shares	618	1.004.000	1.004.000
	Number of preference shares	619	0	0
	Nominal value of ordinary shares	620	10.040.000	10.040.000
	Nominal value of preference shares	621	0	0

Novi Sad

25.02.2013.

Person responsible for financial statement making

Vlasta Putnik

Executive Committee President:

Slavko Carić

Executive Committee Member:

Suzan Tanriyar

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. CORPORATE INFORMATION

Erste Bank a.d., Novi Sad (hereinafter referred to as "the Bank") was founded on 25 December 1989, under the name of Novosadska banka a.d., Novi Sad. At the beginning of August 2005, subsequent to the successful finalization of privatization process, it became a member of Erste Bank Group.

In accordance with the Decision of the Business Registers Agency no. BD 101499/2005 dated 21 December 2005, the change of the previous name Novosadska banka a.d., Novi Sad to Erste Bank a.d. Novi Sad was registered.

The Bank's shareholders are EGB CEPS HOLDING GMBH, Vienna, with 74% interest and Steiermärkische Bank und Sparkassen AG, Graz, with 26% interest in the Bank's share capital.

The Bank is registered in the Republic of Serbia for the following activities: payment transaction services in the country and abroad, loan and deposit activities in the country, payment cards transactions, transaction with securities of dealer operations. In accordance with the Law on Banks, the Bank operates on the principles of stable and secure business.

The Bank's Head Office is in Novi Sad, no. 5 Bulevar Oslobođenja. The Bank operates through 7 business centers, 46 branches, 9 sub-branches 1, 1 sub-branch 2 and 4 counters.

The Bank had 993 employees as at 31 December 2012 (31 December 2011: 988 employees).

The Bank's registration number is 08063818. Its tax identification number is 101626723.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation and Presentation of the Financial Statements

The accompanying financial statements for 2012 have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Law on Accounting and Auditing ("Official Gazette of the Republic of Serbia", no. 46/2006 and 11/2009), Law on Banks ("Official Gazette of the Republic of Serbia", no. 107/05 and 91/2010) and the respective decisions issued by the National bank of Serbia that are based on the aforementioned legislation. Pursuant to the Law on Accounting and Auditing, banks are obliged to maintain, prepare and present their financial statements in accordance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and Interpretations of Standards.

IAS, IFRS and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee as at 1 January 2009 have been officially adopted by the Republic of Serbia Ministry of Finance Decision on publication of International Financial Reporting Standards (decision number 401-00-1380/2010-16) and published in the Official Gazette of the Republic of Serbia no. 16 dated 5 October 2010.

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

The accompanying financial statements have been prepared in the form prescribed by the Rulebook on format and contents of financial statements for banks (Official Gazette of the Republic of Serbia No. 74/2008, 3/2009, /revised 12/2009/ and 5/2010). Rulebook determine the legal definition of forms of the financial statements, content of the financial statement items, as well as minimum content of the notes to the financial statements, which contain departures from IAS 1 Presentation of Financial Statements regarding the presentation of certain financial statement items.

As a result of the above, the Bank's management did not clearly and unconditionally disclose the compliance of the accompanying financial statements with the requirements of all standards and interpretations issued by the International Accounting Standards Board issuing the IFRS.

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

These financial statements are presented in thousands of Dinars except when otherwise indicated. Dinar (RSD) represents the Bank's functional and reporting currency. All transactions in currencies other than the functional currency are treated as transactions in foreign currencies.

The accompanying financial statements have been prepared under the going concern principle.

2.2. Comparative Figures

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Interest Income and Expenses

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

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as available for sale, interest income and expense are recognized within "Interest income" and "Interest expense" in the income statement using the effective interest method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation of the effective interest rate takes into account all contractual terms of the financial instrument, except fees and incremental costs that are related to loan approval, but no future credit losses.

Loan origination fees, which are charged, collected or paid on a one-time basis in advance, are deferred and amortized to interest earned on loans and advances over the life of the loan.

Interest is suspended from interest income to off-balance, in the case when the Bank estimates that there are problems in collectability of certain loans and advances.

2.4. Fee and Commission Income and Expense

The Bank earns/pays fee and commission income from rendering and using banking services. Fees and commissions are generally recognized on an accrual basis when the service has been provided, i.e. rendered.

Fees and commission income are earned from a diverse range of banking services provided to clients. Fee income can be divided into the two following categories:

/i/ Fee Income Earned from Services that are provided Over a Certain Period of Time

Fees earned for the provision of services over time are accrued over that period.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as deferrals and transferred to the income statement as interest income during the due period of financial instruments.

/ii/ Fee Income from Providing Transaction Services

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

/iii/ Dividend Income

Revenue is recognized when the Bank's right to receive the payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Foreign Currency Translation

Balance Sheet and Income Statement items stated in the financial statements are valued by using the currency of the primary economic environment (functional currency). The accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency as at the balance sheet date are translated into dinars at the official exchange rate determined on the Interbank Foreign Currency Market, prevailing at that date (Note 36).

Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses (Note 6).

Income or expenses arising upon the translation of financial assets and liabilities with contacted foreign currency clause are credited or debited as appropriate, to the income statement, as gains/losses from changes in value of assets and liabilities (Notes 12 and 13).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official middle exchange rate of the National Bank of Serbia prevailing at the balance sheet date.

2.6. Financial instruments

All financial instruments are initially recognized at fair value (usually equal to the consideration paid) including any directly attributable incremental costs of acquisition or issue, except for financial assets and financial liabilities at fair value through profit and loss.

Financial assets and financial liabilities are recognized in the Bank's balance sheet on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date the assets is delivered to the counterparty.

"Day 1" Profit

When the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value ("Day 1" profit) in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

Derecognition of Financial Assets and Financial Liabilities

Financial assets cease to be recognized when the Bank loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. When the Bank has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a "guarantee" over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

Classification of Financial Instruments

The Bank's management determines the classification of its investments at initial recognition. Classification of financial instruments upon initial recognition depends on the purposes for which financial instruments have been obtained and their characteristics.

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

The subsequent measurement of financial assets depends on their classification as follows:

2.6.1. Financial Assets at Fair Value through Profit or Loss

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

The management did not classify financial instruments, on initial recognition, into the category of the financial assets recorded at fair value through profit or loss.

Financial assets are classified as held for trading if they have been primarily acquired for sale or repurchase in short term for the purpose of generating profit from short-term price fluctuations or are derivatives. Trading securities are stated in the balance sheet at fair value.

Securities held for trading comprise Government savings bonds and Republic of Serbia treasury bills.

All realized or unrealized gains and losses arising upon measurement and sale of financial assets at fair value are stated in the Income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

2.6.2. Securities Held-to-Maturity

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

Held-to-maturity investments include discounted bills and other debt securities.

After initial recognition, securities held-to-maturity are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment or impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

The Bank performs individual assessment in order to determine whether there is objective evidence on impairment of the investment into securities held-to-maturity.

If there are objective evidence that such securities have been impaired, the amount of impairment loss for investments held to maturity is calculated as the difference between the investments' carrying amount and the present value of expected future cash flows discounted at the investment's original effective interest rate and stated in the income statement as impairment losses on financial assets (Note 8).

If, in a subsequent year, the amount of the estimated impairment loss decreases as a consequence of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced and effects are credited to the income statement.

Interest income is calculated using the effective interest rate, and is recorded in „interest income“. Fees that are part of the effective yield from these instruments are accrued and recorded as deferrals. They are subsequently recognized in the income statement during the useful life of the instrument.

2.6.3. Loans and Advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances are recognized when cash is advanced to borrowers. Loans and receivables are initially recognized at fair value.

After the initial recognition, loans and advances to banks and customers are subsequently measured at the outstanding amount of placements taking into account all discounts and premiums in acquisition, less any allowance for impairment. Interest income and receivables in respect of these instruments are recorded and presented under interest income, i.e., interest receivables. Interest which is part of effective yield on these instruments is recognised as deferred income and credited to the income statement as interest income over the life of a financial instrument.

Loans in dinars, with contracted foreign currency clause, i.e. RSD – EUR and RSD - CHF foreign exchange rates, are revalued in accordance with the contract signed for each loan. The difference between the carrying amount of loan and the amount calculated applying the foreign currency clause is disclosed within loans and advances. Income and expenses resulting from the application of foreign currency clause are recorded in the income statement, as gains/losses from changes in value of assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.3. Loans and Advances (continued)

Impairment of Loans and Other Financial Assets

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

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

In assessing of impairment for placements with banks and loans and advances to customers valued at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes an asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and its recoverable value, being the present value of estimated future cash flows, discounted at the original effective interest rate for that particular financial asset. If a loan has a variable interest rate, current effective interest rate is applied.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics and the Bank's internal grading system by an asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of contracted cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The Bank regularly reviews the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.3. Loans and Advances (continued)

Impairment of Loans and Other Financial Assets (continued)

The carrying amount of the loan is reduced through the use of an allowance account and the amount of the impairment loss arising from impairment of loans and receivables, as well as other financial assets measured at amortized cost, is recognized in the income statement as impairment losses on financial assets (Note 8). Loans together with the associated allowance for impairment are written off when there is no realistic prospect of future recovery and when collateral has been realized or has been transferred to the Bank.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement (Note 8).

A write-off is made when all or part of a claim is deemed uncollectible, and when all collaterals have been activated, pursuant to a court decision, or based on decisions made by the Shareholders' Assembly or the Executive Board.

2.6.4. Renegotiated Loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2.6.5. Available-for-sale Securities

Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as "available-for-sale". Available-for-sale securities include other legal entities' equity instruments and debt securities.

Subsequent to the initial measurement, these securities are measured at fair value. The fair values of securities quoted in active markets are based on current bid prices. Unrealised gains and losses are recognised directly in revaluation reserves, until such a security is sold, collected or otherwise realized, or until it is impaired. In case of disposal of securities or their impairment, gains or losses, previously recognised in equity, are recognised in the income statement.

Equity investments in other legal entities that do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are inappropriate are excluded from measurement at fair value and are measured at cost, less any allowance for impairment.

Dividends earned whilst holding available-for-sale financial instruments are recognized in the income statement as "dividend income and income from equity investments" when the right of the payment has been established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.5. Available-for-sale Securities (continued)

For investments in shares and other securities available for sale, at the balance sheet date, the Bank assesses if there is significant evidence of impairment of one or more investments. The Bank records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. When there is evidence of impairment, the cumulative loss, assessed as the difference between cost and fair value, decreased for any impairment of investment that have been recognized in the income statement, is removed from equity and recognized in the income statement. Impairments of investments are not reversed through the income statement; subsequent increases of fair value, after recognition of impairment, are credited to equity. Impairments of investments, which are not quoted in an active market and whose fair value cannot be determined with certainty, are measured as the difference between the book value and current value of expected future cash flows, and are recognized in the income statement and are not reversed before derecognition.

In case of debt securities that are classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If there is an increase in fair value through next year, and if that increase might objectively refer to an event that happened after the impairment loss has been recognized in the income statement, the impairment loss is reversed through profit or loss.

2.6.6. Issued Financial Instruments and Other Financial Liabilities

Issued financial instruments or their components are classified as liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Deposits from Other Banks and Customers

All deposits from other banks and customers and interest-bearing borrowings are initially recognized at the fair value of the consideration received, including transaction costs, except for financial liabilities through profit and loss. After initial recognition, interest-bearing deposits and borrowings are subsequently measured at amortized cost.

Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Borrowings are classified as current liabilities, unless the Bank has the indisputable right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

Operating Liabilities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Offsetting Financial Assets and Financial Liabilities

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

2.8. Required Reserve for Estimated Losses on Bank Balance Sheet Assets and Off balance Sheet Items

Required reserve for estimated losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items ("Official Gazette of the Republic of Serbia", no. 129/2007, 63/2008, 104/2009, 30/2010, 94/2011, 57/2012 and 123/2012).

All receivables (balance sheet and off-balance sheet exposure) from a single borrower are classified in categories from A to D in accordance with the assessment of their recoverability. Individual credit exposures are evaluated based upon the assessment of the borrower's financial position and creditworthiness, timely settlement of obligations towards the bank and quality of the collateral.

In accordance with the classification of receivables and pursuant to the aforementioned decision of the National bank of Serbia, required reserve for estimated losses is calculated by applying the following percentages: A (0%), B (2%), V (15%), G (30%) and D (100%).

In its enactments, the Bank defined in more detail criteria for the calculation of required reserves for estimated losses within the percentages prescribed by the Decision of the National bank of Serbia. The criteria include past due status in the settlement of obligations, financial position and analysis of financial performance, adequacy of cash flow and adequacy of collaterals.

Required reserve for estimated losses is reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the Bank's accounting policy disclosed in Note 2.6.3. and charged to the income statement (Note 8).

The amount of required reserve for estimated losses, after reducing by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, the Bank allocates from retained earnings based on the Decision of the Bank's General Assembly and recognizes within the reserves from profit for estimated losses on placements.

In accordance with the new Decision on classification of bank's balance sheet assets and off-balance sheet items, the Bank is not required to establish the required reserve for estimated losses from profit; however, the Bank is obliged to maintain capital in every moment at a level required for coverage of all risks to which it is or may be exposed to in its operations, as well as to maintain capital adequacy ratio at a level not lower than 12%.

2.9. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances on the Bank's dinars current accounts and cash in hand (both in dinars and foreign currency), cheques and foreign currency current accounts held with other domestic banks and foreign banks (Note 15).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Repurchase Agreements ("Repo Transactions")

Securities bought under agreements to repurchase at a specified future date ('repos') are recognized in the balance sheet.

The corresponding cash given, including accrued interest, is recognized in the balance sheet. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement.

2.11. Intangible Assets

Intangible assets are measured at cost, less accumulated amortization and impairment losses, if any.

Intangible assets comprise licenses and other intangible assets.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least once a year, at the financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embedded in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

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

Software licenses	up to 10 years
Other intangible assets	4 years

The amortization cost on intangible assets with finite lives is recognized in the income statement (Note 10).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. Tangible Assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses, if any.

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

Depreciation is provided for on a straight-line basis to the cost of fixed assets, using the following prescribed annual rates, in order to write them off over their useful lives:

Buildings	40 years
Computer equipment	4 years
Other equipment	5 to 10 years

Changes in the expected useful lives of assets are accounted for as changes in the accounting estimates.

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

Gains from the disposal of property and equipment are credited directly to other income, whereas any losses arising on the disposal of property and equipment are charged to other operating expenses.

The calculation of the depreciation and amortization for tax purposes is determined by the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes. Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 14(c)).

2.13. Impairment of Non-financial Assets

In accordance with the adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. Leases

The determination of whether an arrangement is a lease, or contains lease elements, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets.

(a) Finance Lease - Bank as a Lessee

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

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

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

(b) Operating Lease -Bank as a Lessee

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

The total payments made under operating leases are charged to other operating expenses in the income statement (when they occur) on a straight-line basis over the period of the lease.

2.15. Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In order to be maintained, the best possible estimates of provisions are considered, determined and, if necessary, adjusted at each balance sheet date. Provisions are measured at the present value of estimated future cash outflows necessary to settle the liabilities arising thereof, using the discount rate which reflects the current market estimate of the value of money and risks related to the liability.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognised in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognised initially for. Provisions are not recognised for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in the financial statements (Note 34), unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Employee Benefits

(a) Employee Taxes and Contributions for Social Security - Defined Benefit Plans

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

(b) Other Employee Benefits - Retirement Benefits and Jubilee Awards

In accordance with the Labour Law, there is a mandatory retirement indemnity equal to 3 average monthly salaries realized in the Republic of Serbia in the month prior to the month of retirement or equal to 3 average salaries in the Bank earned in the month prior to retirement or to payment, or equal to 3 monthly salaries earned by the employee in the month prior to payment- depending on what is more favourable for an employee.

In addition, in accordance with the collective agreement, a qualifying employee is entitled to jubilee awards for ten, twenty and thirty years of service held in the Bank. Jubilee awards are paid in the amount of one, two or three average salaries realized in the Bank in the three months prior to the date of payment, depending on how long the continuing work for the employer lasted.

Expenses and liabilities for the plans are not funded. Liabilities for fees and related expenses are recognized in the amount of present value of estimated future cash flows using the actuarial method of projected unit cost.

Actuarial gains and losses and past service costs are recognized in the income statement when incurred, while actuarial gains and losses in respect of retirement benefits upon retirement are recognized in the equity.

(c) Short-Term accrued vacation pay

Unused days of vacation may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of unused days of vacation is recognized in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as at the balance sheet date. In the instance of non-accumulating unused days of vacation, no liability or expense is recognized until the time of the absence.

2.17. Equity

Equity consists of share capital (ordinary shares), share premium, reserves from profit, revaluation reserves and profit for the current year and previous years (Note 30(a)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18. Financial Guarantees

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

Financial guarantees are initially recognized in the financial statements at fair value as at the date the guarantee is given. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of the guarantee.

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

2.19. Taxes and Contributions

(a) Income Taxes

Current Income Tax

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

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

In accordance with the Law on Corporate Income Tax of the Republic of Serbia, tax credits are recognized in the amount equal to 20% of the investment in property and equipment made, and can be used for setting off against future current tax liability in the amount that cannot exceed 50% of current tax liability. The tax credits in respect of investments in property and equipment can be used in the next ten years.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than five ensuing years.

Deferred Income Tax

Deferred income taxes are provided for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Rate of 15% is used to determine the deferred income tax amount.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Taxes and Contributions (continued)

(a) Income Taxes (continued)

Deferred Income Tax (continued)

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

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

Current and deferred taxes are recognized as income or expense and are included in net profit/(loss) for the period.

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

(b) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Bank's operating result, include property taxes, value added tax, employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other operating expenses (Note 11).

2.20. Earnings per Share

Basic earning per share is calculated by dividing the net profit (loss) attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

Pursuant to the Serbian Business Registers Agency Decision no. BD. 243088/2006 dated 22 December 2006, the Bank is registered as a closed joint-stock company, and therefore is not obliged to calculate and disclose the earning per share as required by IAS 33 "Earning per Share".

2.21. Segment information

The Management of the Bank monitors business units of the Bank as a unique segment for the purpose of making decisions about resource allocation and performance assessment.

2.22. Funds Managed For and on Behalf of Third Parties

The funds that the Bank manages for and on behalf of third parties, are disclosed within off-balance sheet items (Note 31(a)). The Bank bears no risk in respect of repayment of these placements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

(a) Impairment of Financial Assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, and impairment losses are incurred, if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated (see Note 2.6.3.).

Regarding impairment assessment of loans, the Bank reviews its loan portfolio to assess impairment at least on a quarterly basis.

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

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

(b) Determination of Fair Value of Financial Instruments

The fair value of financial instruments traded in active markets as at the balance sheet date is based on their quoted market prices, without any deductions for transaction costs. For all other financial instruments not listed in an active market, the fair value is determined using the appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

When market inputs are not available, they are determined by estimates that include a certain degree of assumptions in the estimate of fair value. Valuation models reflect the current market conditions before or after the measurement date. Consequently, all valuation techniques are revised periodically, in order to appropriately reflect the current market conditions.

(c) Impairment of Equity Investments

The Bank deems equity investments available for sale to be impaired when there is a documented (market data) or estimated decrease in the fair value of these assets below their cost.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(d) Useful Lives of Intangible and Tangible Assets

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

The impact of any changes in these assumptions could be material to the Bank's financial position, and the results of its operations. As an example, if the Bank was to shorten the average useful life by 1%, this would result in additional depreciation and amortization expense of approximately RSD 2,040 thousand for the twelve-month period.

(e) Impairment of Non-Financial Assets

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

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

(f) Provisions for Litigation

The Bank is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Bank routinely assesses the likelihood of any adverse judgments or outcomes to these matters as well as ranges of probable and reasonable estimated losses.

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

A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available.

Matters that are either possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

(g) Deferred Tax Assets

Deferred tax assets are recognized for all tax losses and/or to the extent to which taxable profit will be available against which the unused tax losses /credits can be utilized.

Significant estimates of the management is necessary to determine the amount of deferred tax asset which can be recognized, based on the period in which it was created and the amount of future taxable profits and the tax policy planning strategy (Note 14(c)).

(h) Retirement and Other Post-Employment Benefits to Employees

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuations in the number of employees. As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 28 to the financial statements.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

4. INTEREST INCOME AND EXPENSE

In RSD thousand

	2012	2011
Interest income		
- Banks	607,533	566,299
- Public companies	294,665	224,925
- Other companies	1,940,437	1,901,080
- Entrepreneurs	109,693	95,270
- Public sector	754,576	735,646
- Retail customers	2,734,256	2,250,565
- Foreign entities	3,421	28,461
- Agricultural sector	61,303	67,839
- Other customers	7,902	3,384
Total	**6,513,786**	**5,873,469**
Interest expense		
- Banks	273,440	189,584
- Public companies	7,796	8,372
- Other companies	448,775	308,141
- Entrepreneurs	1,221	1,224
- Public sector	136,143	251,046
- Retail customers	737,549	612,511
- Foreign entities	690,632	512,593
- Other customers	51,001	31,871
Total	**2,346,557**	**1,915,342**
Net interest income	**4,167,229**	**3,958,127**

For impaired financial assets revenue recognition of accrued interest is suspended and interest income is recognized when collected.

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

In RSD thousand

	2012	2011
Interest income		
Loans	5,463,245	4,712,599
REPO transactions	225,531	355,484
Treasury bills of the Ministry of Finance	738,031	713,406
Obligatory reserve	63,451	32,876
Deposits	9,529	33,887
Securities	56	-
Other placements	13,943	25,217
Total	**6,513,786**	**5,873,469**
Interest expense		
Loans	736,734	573,046
Deposits	1,573,198	1,342,296
Securities	36,625	-
Total	**2,346,557**	**1,915,342**
Net interest income	**4,167,229**	**3,958,127**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

5. FEE AND COMMISSION INCOME AND EXPENSE

In RSD thousand

	2012	2011
Fee and commission income		
Domestic payment transaction services	371,816	355,224
International payment transaction services	104,020	82,620
Foreign exchange transactions	568,470	547,128
Loans	554,270	314,103
Debit and credit cards operations	255,043	194,033
Guarantees and other warranties	132,925	93,859
Other fees and commission	348,197	390,981
Total	**2,334,741**	**1,977,948**
Fee and commission expense		
Domestic payment transaction services	32,130	31,632
International payment transaction services	14,672	10,789
Foreign exchange transactions	384,562	382,325
Loans	181,326	59,776
Debit and credit cards operations	71,733	48,517
Other fees and commission	24,375	15,879
Total	**708,798**	**548,918**
Net fee and commission income	**1,625,943**	**1,429,030**

Gain on sale of securities

In RSD thousand

	2012	2011
Equity investments and securities available for sale	1,568	217
Total	**1,568**	**217**

In 2012 the Bank recognized gain on sale of 1,097 shares of Banka Poštanska štedionica a.d. Beograd, in the amount RSD 1,568 thousand.

6. NET FOREIGN EXCHANGE LOSSES

In RSD thousand

	2012	2011
Foreign exchange gains	9,187,361	9,309,672
Foreign exchange losses	(12,001,854)	(9,630,094)
Net foreign exchange losses	**(2,814,493)**	**(320,422)**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

7. OTHER OPERATING INCOME

		In RSD thousand
	2012	**2011**
Income from sales of fixed and intangible assets	19,509	19,432
Other operating income	32,618	25,303
Other income from operating activities	22,006	6,359
Total	**74,133**	**51,094**

8. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS

		In RSD thousand
	2012	**2011**
Expenses from indirect write-offs of placements and provisions		
Impairment losses on financial assets:		
– interest, fees and sales receivables (Note 17)	(160,830)	(154,734)
– loans and advances (Note 18(d))	(8,624,176)	(6,217,487)
– securities (Note 19)	(73,231)	(61,039)
– other placements (Note 20)		
– other assets (Note 22)	(233,543)	(199,628)
	(106,957)	(20,900)
	(9,198,737)	**(6,653,788)**
Provisions for losses on off-balance sheet assets (Note 28)	(1,132,073)	(1,254,629)
Provisions for litigation (Note 28)	(19,949)	(32,016)
	(1,152,022)	**(1,286,645)**
Total	**(10,350,759)**	**(7,940,433)**
Income from reversal of indirect write-offs of placements and provisions		
Reversal of impairment losses on balance sheet assets:		
– interest, fees and sales receivables (Note 17)	146,327	130,825
– loans and advances (Note 18(d))	7,681,089	5,388,843
– securities (Note 19)	74,758	70,169
– other placements (Note 20)	140,244	135,320
– other assets (Note 22)	10,788	3,382
	8,053,206	**5,728,539**
Release of provision for losses on off-balance sheet assets (Note 28)	1,193,348	1,207,639
Income from collected suspended interest	216,890	110,073
Release of other provisions (Note 28)	-	11,133
Total	**9,463,444**	**7,057,384**
Impairment losses and provisions, net	**(887,315)**	**(883,049)**

9. SALARIES AND OTHER PERSONNEL EXPENSES

In RSD thousand

	2012	2011
Net salaries	997,554	859,361
Tax and contributions payable on behalf of employees	387,533	333,764
Severance payments, jubilee awards, bonuses and holiday allowance	198,893	264,558
Other personnel expenses	11,236	10,474
Total	**1,595,216**	**1,468,157**

10. DEPRECIATION AND AMORTIZATION EXPENSE

In RSD thousand

	2012	2011
Depreciation and amortization expense:		
– tangible assets (Note 21)	94,609	107,132
– intangible assets (Note 21)	117,221	65,308
Total	**211,830**	**172,440**

11. OTHER OPERATING EXPENSES

In RSD thousand

	2012	2011
Professional services	581,215	471,629
Donations and sponsorships	52,303	56,226
Advertising and marketing	271,902	337,580
Telecommunication services and postage	64,403	60,669
Insurance premiums	141,315	119,456
Rental cost	374,046	343,555
Material	110,397	95,742
Taxes and contributions	64,360	60,026
Maintenance of tangible assets and software	186,436	123,457
Losses on sale and disposal of fixed and intangible assets	388	1,274
Payroll contributions payable by the employer	235,255	203,589
Per diems and travel expenses	63,262	58,998
Education and counseling	20,707	14,820
Other expenses	33,105	32,312
Total	**2,199,094**	**1,979,333**

12. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

In RSD thousand

	2012	2011
Income from changes in value of placements and receivables	6,073,675	3,957,765
Income from changes in value of securities	25,240	45,144
Income from changes in value of liabilities	240,836	474,511
Income from changes in value of derivatives	155,243	558,042
Total	**6,494,994**	**5,035,462**

13. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

In RSD thousand

	2012	2011
Losses from changes in value of placements and receivables	3,110,820	3,837,157
Losses from changes in value of securities	20,045	80,150
Losses from changes in value of liabilities	312,125	440,141
Losses from changes in value of derivatives	147,431	548,101
Total	**3,590,421**	**4,905,549**

14. INCOME TAX

(a) Components of Income Tax

Total tax (expense)/income comprise the following:

In RSD thousand

	2012	2011
Current income tax	(2,359)	(765)
Profit from created deferred tax assets and reduction of deferred tax liabilities	176,370	6,700
Total income tax	**174,011**	**5,935**

Prepaid liabilities for current income tax amounts to RSD 2,402 thousand and relate to advance income tax for 2010. This advance will be used for coverage of income tax liabilities for 2012 in the amount RSD 2,359 thousand.

(b) Reconciliation of the Tax Expense Recognized in the Income Statement and Profit Before Tax Multiplied by the Statutory Income Tax Rate

In RSD thousand

	2012	2011
Profit before tax	**1,076,081**	**783,068**
Income tax at the rate of 10%	**107,608**	**78,307**
Tax effects of expenses not recognised for the tax purposes	31,263	35,774
Effects of usage of unused tax losses with respect to deferred tax assets that were not recognized	(138,871)	(113,660)
Tax credits on investments in tangible assets	(2,359)	(765)
Recognised deferred tax assets on losses from previous years	(164,993)	-
Other	(6,659)	(5,591)
Total tax income recognized in the Income Statement	**(174,011)**	**(5,935)**
The effective tax rate	16.17%	0.76%

14. INCOME TAX (continued)

(c) Deferred tax assets and deferred tax liabilities

In RSD thousand

	Deferred tax assets 2012	Deferred tax liabilities 2012	Deferred tax assets 2011	Deferred tax liabilities 2011
Temporary differences on fixed assets	11,377	-	420	-
Temporary differences on securities available for sale	-	(4,308)	-	(2,458)
Carry forward losses from previous years	164,993	-	-	-
	176,370	**(4,308)**	**420**	**(2,458)**

d) Carry forward of unused tax credits based on which deferred tax assets were not recognized

As of 31 December 2012 the Bank has carry forward of unused tax credit for investments in fixed assets, for which deferred tax assets in the amount of RSD 52,170 thousand were not recognized.

Right to carry forward of unused tax credits expires in the following periods:

In RSD thousand

	Carry forward of tax credits 2012	Total 2012	Carry forward of tax losses 2011	Carry forward of tax credits 2011	Total 2011
From 1 to 5 years	42,982	42,982	195,022	-	195,022
Over 5 years	9,188	9,188	53,844	48,944	102,788
Total	**52,170**	**52,170**	**248,866**	**48,944**	**297,810**

15. CASH AND CASH EQUIVALENTS

In RSD thousand

	2012	2011
In dinars		
Gyro account	4,021,931	2,100,731
Cash on hand	1,079,580	814,864
Cash equivalents	582,407	-
	5,683,918	**2,915,595**
In foreign currency		
Current accounts held with foreign banks	1,053,939	824,094
Foreign currency cash on hand	632,124	492,622
Cash equivalents	23	21
	1,686,086	**1,316,737**
Balance as at 31 December	**7,370,004**	**4,232,332**

Cash equivalents relate to treasury bills of the Republic of Serbia with maturity of 3 months.

The obligatory reserve in dinars represents the minimal reserve in foreign currency allocated in accordance with the National bank of Serbia's (NBS) decision on Required Reserves of Banks held with the NBS ("Official Gazette of the Republic of Serbia", no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012 and 107/2012), which prescribes that banks are required to calculate obligatory reserves amounting to 5% of the average daily balance of liabilities in dinars with contractual maturity up to 2 years and amounting to 0% of the average daily balance of liabilities in dinars with contractual maturity over 2 years during the preceding calendar month.

The Bank is required to calculate and allocate the obligatory reserves in dinars to its gyro account.

The obligatory reserve in dinars calculated for the period from 18 December 2012 to 17 January 2013 amounted to RSD 3,587,129 thousand and it was in accordance with the aforementioned Decision of the National bank of Serbia.

The interest rate on the average balance of the obligatory reserve in Dinars set aside equaled 2.50% annually during 2012.

16. REVOCABLE DEPOSITS AND LOANS

		In RSD thousand
	2012	**2011**
In dinars		
Repo placements with the National bank of Serbia	701,165	5,916,250
In foreign currency		
Obligatory reserve with the National bank of Serbia	6,469,109	7,725,677
Balance as at 31 December	**7,170,274**	**13,641,927**

The obligatory reserve in foreign currency represents the minimal reserve in foreign currency allocated in accordance with the National bank of Serbia's (NBS) Decision on Required Reserves of Banks held with the NBS ("Official Gazette of the Republic of Serbia", no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012 and 107/2012), which prescribes that banks are required to calculate and allocate the obligatory reserves of 29% of the average daily balance of foreign currency deposits with contractual maturity up to two years, as well as dinar balance indexed with foreign currency clause with contractual maturity up to two years, at the rate of 50%. Also, the rate of 22% of the average daily balance of foreign currency liabilities with agreed maturity over two years, as well as dinar balances indexed with foreign currency clause with agreed maturity over two years in a single calendar month at the rate of 50%.

Calculated foreign currency required reserves for the accounting period 18 December 2012 to 17 January 2013 in the amount EUR 56,887 thousand was in compliance to the aforementioned Decision of the National bank of Serbia.

The National bank of Serbia does not pay interest on the average balance of the foreign currency reserves,

Repo placements in the amount RSD 701,165 thousand at 31 December 2012 relate to treasury bills of the National bank of Serbia with maturity 14 days and interest rate of 9.99% per annum.

17. INTEREST, FEES AND COMMISSION RECEIVABLE, CHANGES IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES

In RSD thousand

	2012	2011
In dinars		
Interest and fees receivable:		
- Banks	66,129	39,041
- Public companies	973	1,416
- Other companies	206,932	163,249
- Entrepreneurs	18,279	14,047
- Public sector	766	746
- Retail customers	80,480	60,643
- Foreign entities	427	358
- Agriculture	9,393	5,060
- Other customers	51,359	33,002
Receivables from sales	39	5,776
	434,777	**323,338**
In foreign currency		
Interest and fees receivable:		
- Other companies	56,315	102,405
- Entrepreneurs	52	48
- Foreign entities	61	37
- Other customers	17,439	16,335
	73,867	**118,825**
Gross receivables	**508,644**	**442,163**
Less: Allowance for impairment	(150,705)	(183,178)
Balance as at 31 December	**357,939**	**258,985**

17. INTEREST, FEES AND COMMISSION RECEIVABLE, CHANGES IN FAIR VALUE OF DERIVATIVES AND OTHER RECEIVABLES (continued)

Movements in allowance for impairment of interest and fees receivables and receivables from sales during the year are as follows:

		In RSD thousand
	2012	**2011**
Interest and fee receivables		
Balance as at 1 January	183,178	159,244
Charge for the year	160,791	154,734
Reversal of impairment losses	(146,327)	(130,825)
Foreign exchange differences	(46,976)	25
Balance as at 31 December	**150,666**	**183,178**
Receivables from sale		
Charge for the year	39	-
Balance as at 31 December	**39**	**-**
Total		
Balance as at 1 January	183,178	159,244
Charge for the year (Note 8)	160,830	154,734
Reversal of impairment losses (Note 8)	(146,327)	(130,825)
Foreign exchange differences	(46,976)	25
Balance as at 31 December	**150,705**	**183,178**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

18. LOANS AND ADVANCES

(a) Summary per Type of Customers of Loans and Advances

In RSD thousand

	2012			2011		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In dinars						
Loans and advances:						
- Banks	698,971	210,280	909,251	2,795	13,603	16,398
– Public companies	5,135	4,564,386	4,569,521	3,155	4,697,172	4,700,327
– Other companies	5,583,224	23,089,985	28,673,209	4,828,819	15,065,420	19,894,239
– Entrepreneurs	252,362	694,334	946,696	228,529	589,169	817,698
– Public sector	11,175	289,401	300,576	3	274,334	274,337
– Retail customers	1,181,135	20,894,118	22,075,253	844,292	18,847,175	19,691,467
– Foreign entities	16	-	16	16	-	16
– Agriculture	162,766	346,924	509,690	125,197	444,806	570,003
– Other customers	1,554,121	68,391	1,622,512	925,934	34,172	960,106
Total	**9,448,905**	**50,157,819**	**59,606,724**	**6,958,740**	**39,965,851**	**46,924,591**
In foreign currency						
Loans and advances:						
- Banks	65,191	-	65,191	59,986	-	59.986
– Other companies	1,444,732	70,076	1,514,808	1,834,106	25.649	1.859.755
– Public sector	13,181	-	13,181	13,400	-	13.400
– Foreign entities	-	-	-	1,831,216	-	1.831.216
– Other customers	309,188	-	309,188	246,049	-	246.049
Total	**1,832,292**	**70,076**	**1,902,368**	**3,984,757**	**25.649**	**4.010.406**
Gross loans and advances	**11,281,197**	**50,227,895**	**61,509,092**	**10,943,497**	**39.991.500**	**50.934.997**
Less: Allowance for impairment (Note 18(d)):						
– Individually assessed			(3,717,735)			(3,144,283)
– Collectively assessed			(2,143,201)			(1,837,942)
Balance as at 31 December			**55,648,156**			**45,952,772**

Loans with foreign currency clause are presented in the summary of loans and advances in dinars.

(a) Maturity Structure of Loans and Advances

The maturity of gross loan portfolio, based on the remaining period on the balance sheet date to the contractual maturity date, as at 31 December 2012 and 31 December 2011, is as follows:

In RSD thousand

	2012	2011
Loans in arrears (overdue receivables)	6,167,723	6,788,241
Up to 30 days	16	3,016
From 1 to 3 months	129,644	51,389
From 3 to 12 months	4,046,208	3,163,068
Over 1 year	51,165,501	40,929,283
	61,509,092	**50,934,997**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

18. LOANS AND ADVANCES (continued)

b) Maturity Structure of Loans and Advances (continued)

Structure of overdue receivables is shown as follows:

	2012	In RSD thousand 2011
Up to 30 days	971,500	2,146,451
From 1 to 3 months	651,763	113,653
From 3 to 12 months	354,565	667,730
Over 1 year	4,189,895	3,860,407
	6,167,723	**6,788,241**

c) Concentration of Loans and Advances

As at 31 December 2012 and 31 December 2011, the gross loan portfolio is concentrated on the following sectors:

	2012	In RSD thousand 2011
Trade	7,627,124	5,544,882
Manufacturing	10,331,405	7,847,975
Construction	2,731,854	2,735,631
Production and distribution energy	1,512,753	659,858
Services and tourism	10,385,026	8,385,420
Agriculture and food industry	2,169,376	1,280,555
Population	22,075,269	19,691,483
Domestic and foreign banks and other financial institutions	974,442	1,122,793
The public sector	313,757	287,737
Foreign legal entities	-	784,807
Farmers	509,690	570,003
Other customer sector	1,931,700	1,206,155
Entrepreneurs	946,696	817,698
	61,509,092	**50,934,997**

(d) Movements in Allowance for Impairment of Loans and Advances

Movements in allowance for impairment of loans and advances during the year are as follows:

	2012	In RSD thousand 2011
Balance as at 1 January	4,982,225	4,164,943
Charge for the year (Note 8)	8,624,176	6,217,487
Reversal of impairment losses (Note 8)	(7,681,089)	(5,388,843)
Foreign exchange differences	(64,376)	(11,362)
Balance as at 31 December	**5,860,936**	**4,982,225**

19. SECURITIES (EXCLUDING OWN SHARES)

		In RSD thousand
	2012	**2011**
In dinars		
Securities available-for-sale:		
-Treasury bills	1,032,948	3,672,833
- Equity investments	144,328	154,223
Securities at fair value through profit or loss		
-Treasury bills	50,000	819,149
Securities held-to-maturity:		
-Treasury bills	5,004,229	245,833
-Discounted corporate bills	1,707,203	1,379,019
	7,938,708	**6,271,057**
In foreign currency		
Securities held-for-trading	79,586	67,839
Securities available-for-sale	33,608	26,527
	113,194	**94,366**
Total securities	**8,051,902**	**6,365,423**
Less: Allowance for impairment	(189,792)	(191,428)
Balance as at 31 December	**7,862,110**	**6,173,995**

Movements in allowance for impairment during the year are as follows:

		In RSD thousand
	2012	**2011**
Balance as at 1 January	191,428	197,542
Charge for the year (Note 8)	73,231	61,039
Reversal of impairment losses (Note 8)	(74,758)	(70,169)
Foreign exchange differences	(109)	3,016
Balance as at 31 December	**189,792**	**191,428**

Equity investments as at 31 December 2012 amounted to RSD 52 thousand and there were no changes compared to previous year.

20. OTHER PLACEMENTS

	2012	In RSD thousand 2011
In dinars		
Factoring	1	196,503
Receivables for guarantees paid	321,474	290,941
Other placements	173,139	13,781
	494,614	**501,225**
In foreign currency		
Other placements	137,676	14,182
	137,676	**14,182**
Gross other placements	**632,290**	**515,407**
Less: Allowance for impairment	(371,526)	(260,750)
Balance as at 31 December	**260,764**	**254,657**

Allowance for impairment of other placements as at 31 December 2012 mostly relates to allowance for impairment of overdue receivables for guarantee amounted to RSD 257,844 thousand.

Movements in allowance for impairment of other placements during the year are as follows:

	2012	In RSD thousand 2011
Balance as at 1 January	260,750	205,493
Charge for the year (Note 8)	233,543	199,628
Reversal of impairment losses (Note 8)	(140,244)	(135,320)
Write-offs of allowance	-	-
Foreign exchange differences	17,477	(9,051)
Balance as at 31 December	**371,526**	**260,750**

21. TANGIBLE AND INTANGIBLE ASSETS

In RSD thousand

COST	Land and buildings	Equipment	Construction in progress	Total tangible assets	Intangible assets
Balance as at 1 January 2011	**776,573**	**672,174**	**640**	**1,449,387**	**276,655**
Additions	-	46	230,127	230,173	-
Transfers	15,519	53,182	(230,414)	(161,713)	161,713
Disposals and write-offs	(12,025)	(54,428)		(66,453)	-
Balance as at 31 December 2011	**780,067**	**670,974**	**353**	**1,451,394**	**438,368**
Additions	-	-	254,230	254,230	-
Transfers	4,853	69,913	(254,455)	(179,689)	179,689
Disposals and write-offs	(21,958)	(35,073)	-	(57,031)	-
Balance as at 31 December 2012	**762,962**	**705,814**	**128**	**1,468,904**	**618,057**
ACCUMULATED DEPRECIATION AND AMORTIZATION					
Balance as at 1 January 2011	**200,204**	**439,777**	**-**	**639,981**	**77,977**
Depreciation and amortization (Note 10)	19,482	87,650	-	107,132	65,308
Disposals and write-offs	(5,129)	(53,118)	-	(58,247)	
Balance as at 31 December 2011	**214,557**	**474,309**	**-**	**688,866**	**143,285**
Depreciation and amortization (Note 10)	19,155	75,454	-	94,609	117,221
Disposals and write-offs	(9,185)	(34,685)	-	(43,870)	
Balance as at 31 December 2012	**224,527**	**515,078**	**-**	**739,605**	**260,506**
Net book value as at:					
- 31 December 2012	**538,435**	**190,736**	**128**	**729,299**	**357,551**
- 31 December 2011	**565,510**	**196,665**	**353**	**762,528**	**295,083**

The Bank did not pledge any buildings as collateral for borrowings.

Due to incomplete cadastrial records the Bank does not have title deeds for buildings with a net book value of RSD 53,320 thousand (31 December 2011: RSD 56,782 thousand). The Bank's management has taken all necessary measures in order to obtain the title deeds.

The net book value of equipment as at 31 December 2012 mostly relates to computer and telecommunication equipment and office furniture. The net book value of intangible assets as at 31 December 2012 mostly relates to software and licenses.

The Bank's management concluded that there were no indications of impairment of the tangible and intangible assets as at 31 December 2012.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

22. OTHER ASSETS

	2012	In RSD thousand 2011
In dinars		
Other receivables:		
-Advances paid	5,421	4,600
-Receivables from employees	26,237	16,911
- Inventories	122,254	54,976
- Other receivables	227,553	137,591
Accruals:		
- Accrued interest	463,587	290,141
- Other accruals	25,728	49,626
	870,780	**553,845**
In foreign currency		
Other receivables:		
-Advances paid	21,766	20,050
-Receivables from employees	1,154	1,047
- Other receivables	84,430	56,620
Accruals:		
- Accrued interest	9,170	3,594
- Accrued interest expenses	17,898	15,509
	134,418	**96,820**
Gross other assets	**1,005,198**	**650,665**
Less: Allowance for impairment	(243,102)	(146,057)
Balance as at 31 December	**762,096**	**504,608**

Movements in allowance for impairment of other assets during the year were as follows:

	2012	In RSD thousand 2011
Balance as at 1 January	146,057	126,865
Charge for the year (Note 8)	106,957	20,900
Reversal of impairment losses (Note 8)	(10,788)	(3,382)
Foreign exchange differences	876	1,674
Balance as at 31 December	**243,102**	**146,057**

23. TRANSACTION DEPOSITS

In RSD thousand

	2012			2011		
	In dinars	In foreignn currency	Total	In dinars	In foreign currency	Total
Other banks	2,611	-	2,611	2,421	-	2,421
Financial organizations	1,438,814	150,894	1,589,708	345,628	398,864	744,492
Companies	2,789,463	1,447,118	4,236,581	2,232,037	1,054,520	3,286,557
Public companies	143,107	1,581	144,688	58,967	1	58,968
Public sector	1,355	19,824	21,179	903	19,079	19,982
Entrepreneurs	466,231	59,709	525,940	456,402	46,687	503,089
Retail customers	1,592,024	2,532,356	4,124,380	1,413,029	1,777,206	3,190,235
Agriculture	203,975	-	203,975	145,474	-	145,474
Foreign entities	44,084	821,727	865,811	36,687	261,056	297,743
Other customers	577,594	170,427	748,021	455,996	86,502	542,498
Balance as at 31 December	**7,259,258**	**5,203,636**	**12,462,894**	**5,147,544**	**3,643,915**	**8,791,459**

24. OTHER DEPOSITS

In RSD thousand

	2012			2011		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In dinars						
Saving deposits:						
- Retail customers	462,139	230,016	692,155	623,347	151,308	774,655
- Foreign entities	1,210	806	2,016	4,911	7,858	12,769
Specific purpose deposits	254,160	283,955	538,115	322,576	399,299	721,875
Other deposits	5,527,882	140,584	5,668,466	7,095,346	116,247	7,211,593
Total	**6,245,391**	**655,361**	**6,900,752**	**8,046,180**	**674,712**	**8,720,892**
In foreign currency						
Saving deposits:						
- Retail customers	7,727,876	9,995,610	17,723,486	6,870,552	7,845,311	14,715,863
- Foreign entities	48,188	454,381	502,569	48,101	365,478	413,579
Specific purpose deposits	459,778	533,599	993,377	459,826	606,469	1,066,295
Other deposits	2,792,783	435,369	3,228,152	4,522,697	456,734	4,979,431
Total	**11,028,625**	**11,418,959**	**22,447,584**	**11,901,176**	**9,273,992**	**21,175,168**
Balance as at 31 December	**17,274,016**	**12,074,320**	**29,348,336**	**19,947,356**	**9,948,704**	**29,896,060**

Structure of other deposits by customer type is as follows:

In RSD thousand

	2012	2011
Banks	1,234,796	2,093,840
Financial organizations	2,231,100	1,125,031
Public companies	182,030	14,380
Public sector	184,268	154,278
Companies	4,932,248	8,997,866
Retail customers	19,309,800	16,446,436
Foreign banks	51,800	128,884
Foreign entities	562,272	481,521
Entrepreneurs	7,627	22,235
Agriculture	267	267
Other customers	652,128	431,322
Balance as at 31 December	**29,348,336**	**29,896,060**

25. BORROWINGS

2012 — In RSD thousand

	Overnight	Borrowings	Other financial liabilities	Total
In dinars				
Deposits:				
Banks	200,000	-	-	200,000
Other	-	-	89,563	89,563
	200,000	**-**	**89,563**	**289,563**
In foreign currency				
Deposits:				
Banks	-	-	33	33
Other companies	-	-	57,124	57,124
Public sector	-	4,397,668	-	4,397,668
Retail customers	-	-	1,894	1,894
Foreign entities	-	15,392,613	80,848	15,473,461
Other customers	-	-	124	124
	-	**19,790,281**	**140,023**	**19,930,304**
	200,000	**19,790,281**	**229,586**	**20,219,867**

2011 — In RSD thousand

	Overnight	Borrowings	Other financial liabilities	Total
In dinars				
Banks	300,000	1,772	-	**301,772**
	300,000	**1,772**	**-**	**301,772**
In foreign currency				
Deposits:	-	-	871	871
Banks	-	-	38,688	38,688
Other companies	-	4,046,631	-	4,046,631
Public sector	-	-	9,476	9,476
Retail customers	-	13,015,466	17,948	13,033,414
Foreign entities	-	-	10	10
	-	**17,062,097**	**66,993**	**17,129,090**
	300,000	**17,063,869**	**66,993**	**17,430,862**

As at 31 December 2012 the major portion of outstanding liabilities arise from long-term borrowings in foreign currency from Erste GCIB Finance I.B.V., Netherlands in the amount RSD 11,412,471 thousand (31 December 2011: RSD 10,744,758 thousand), EIB loans in the amount RSD 2,842,958 thousand (31 December 2011: RSD 2,270,707 thousand) and EBRD loan in the amount RSD 1,137,183 thousand.

26. LIABILITIES FOR SECURITIES

The Bank issued 146,500 bonds with nominal value of RSD 10,000 per bond on 8 November 2012. Bonds were publicly offered to all legal entities and private individuals, residents and non-residents, on the primary market of the Belgrade Stock Exchange on 6 November 2012, with the prior approval of the Unique prospect from Securities Commission of the Republic of Serbia. Bonds are included on the Open Market segment of the regulated market of the Belgrade Stock Exchange a.d. on 30 November 2012.

Bonds are long-term debt securities, denominated in dinars and issued with maturity of 2 years (731 days), unlimited transferable and registered in the name at the Central Depository and Clearing House a.d. Beograd, under CFI code: DBFUFR and ISIN number: RSNOVBD19613.

Nominal interest rate on the bonds is fixed at 15% per annum, with coupon interest rate of 3.75% and is paid quarterly. The principal is paid at once at maturity, there is no amortization plan and total amount of principal is paid at maturity date 9 November 2014.

A bond is a direct, unconditional and priority, unsecured liablitity of the issuer, which is equal and has mutually equal treatment and is at least pari passu with all other present and future unsecured liabilities of the Issuer, except for liabilities that may take precedence over them in accordance with the peremptory legislation.

27. INTEREST AND FEES PAYABLE AND CHANGES IN FAIR VALUE OF DERIVATIVES

		In RSD thousand
	2012	**2011**
Interests and fees payable:		
In dinars		
-Banks	50	2,999
-Entrepreneurs	26	13
-Public sector	23,665	12,499
-Foreign entities	10	38,154
-Other customers	118	55
Balance as at 31 December	**23,869**	**53,720**

28. PROVISIONS

In RSD thousand

	2012	2011
Provision for off-balance sheet exposures (a)	156,754	207,870
Provisions for long-term employee benefits (b):		
- retirement benefits	72,473	65,191
- jubilee awards	105,693	91,810
Provisions for litigation (c)	64,075	47,700
Other long term provisions	19,657	11,441
Balance as at 31 December	**418,652**	**424,012**

(a) According to the Bank's internal policy, provisions for commitments and other risky off balance sheet items (guarantees, acceptances, letters of credit, undrawn credit facilities etc.) are evaluated when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank's commitments.

Evidence based on which the Bank performs the individual assessment of impairment are: payments effected on the Bank's accounts with respect to commitments arising from guarantees, bills of guarantees, etc., late payments for other liabilities, and the customers has been classified in accordance with the Bank's internal classification criteria into default category (bad placements).

Individual assessment of impairment for off-balance sheet items is performed in the same manner as for the balance sheet assets. Commitments and other risky off-balance sheet items, for which the Bank does not expect any outflow of resources and/or it estimates that in the case of an outflow of resources all receivables will be fully collected, the Bank collectively assesses them for impairment, in a similar way as for balance sheet items.

(b) Provision for retirement benefits has been recorded in the Bank's financial statements on the basis of an independent actuary's calculation as at the balance sheet date, and it is stated in the amount of present value of the defined benefit obligation, determined by discounting estimated future outflows. The discounted rate used by the actuary was 5.07%, representing the adequate rate under IAS 19 "Employee Benefits", in the absence of a developed market for high quality corporate bonds. Provision was determined in line with the Bank's Collective agreement and the assumption of average salary increase rate of 5% per annum.

(c) The Bank has recognized a provision for legal claims filed against the Bank, for which the Bank's expert team expects a negative outcome (see Note 34(b)).

28. PROVISIONS (continued)

Movements in provisions during the year are as follows:

Movements in provisions during the year

In RSD thousand

	2012	2011
Provisions for off-balance sheet exposures		
Balance as at 1 January	207,870	159,750
Charge for the year (Note 8)	1,132,073	1,254,629
Reversal of provision (Note 8)	(1,193,348)	(1,207,639)
Other changes	10,159	1,130
	156,754	**207,870**
Provisions for long-term employee benefits		
Balance as at 1 January	157,001	156,511
Interest expenses and current service costs	24,112	22,589
Benefits paid during the year	(16,256)	(10,196)
Actuarial losses/(gains) relating to jubilee awards	6,614	(11,133)
Actuarial losses/(gains) relating to retirement benefits	6,695	(770)
	178,166	**157,001**
Provisions for litigation		
Balance as at 1 January	47,700	17,400
Charge for the year (Note 8)	19,949	32,016
Amounts utilized during the year	(3,574)	(1,716)
Other changes	-	-
	64,075	**47,700**
Other long-term provisions		
Balance as at 1 January	11,441	-
Charge for the year	13,666	12,049
Amounts utilized during the year	(5,450)	(608)
	19,657	**11,441**
Balance as at 31 December	**418,652**	**424,012**

29. OTHER LIABILITIES

In RSD thousand

	2012	2011
In dinars		
Trade payables	2,079	9,387
Advances received	3,090	5,734
Net salaries and compensations	1,034	403
Taxes, contributions and other duties	144	92
Accruals and deferrals:		
- Interest accrued	96,547	55,788
- Deferred interest income	37,135	76,556
- Deferred loan origination fees	303,061	273,150
- Accrued liabilities for unused holidays	165,526	122,112
- Other accruals	112,961	129,528
Other liabilities	50,532	98,739
	772,109	**771,489**
In foreign currency		
Advances received	7,141	3,487
Subordinated liabilities	2,407,579	2,430,659
Accruals and deferrals:		
- Interest accrued	236,395	189,364
- Other accruals	4,517	896
Other liabilities	6,333	4,998
	2,661,965	**2,629,404**
Balance as at 31 December	**3,434,074**	**3,400,893**

Outstanding balance of subordinated liabilities as at 31 December 2012 and 2011 are as follows:

In RSD thousand

Creditor	Currency	Contracted amount	Maturity date	Interest rate	31 December 2012	31 December 2011
Erste Bank AG, Vienna	EUR	10,800,000	20/12/2015	Euribor+2.4%	701,804	861,045
Erste GCIB	EUR	15,000,000	27/12/2021	Euribor+3.65%	1,705,775	1,569,614
Total		**25,800,000**			**2,407,579**	**2,430,659**

Subordinated liabilities relate to subordinated loan granted by EGB CEPS HOLDING GMBH, Vienna on 20 December 2005 granted in the amount of EUR 10,800,000 for the period of 10 years with a 5 year grace period and interest rate equal to quarterly EURIBOR increased by 2.4% per annum. In accordance with the agreement, loan principal is repayable in 21 quarterly repayments and the first repayment is due upon the end of the grace period. Also, subordinated liabilities relate to subordinated long-term loan granted by Erste GICB Finance, Amsterdam on 27 December 2011 in the amount of EUR 15,000,000 for the period of 10 years with a 5 year grace period and interest rate equal to quarterly EURIBOR increased by 3.65% per annum. In accordance with the agreement, loan principal is repayable in 21 quarterly repayments and the first repayment is due upon the end of the grace period of 5 years.

The Bank can include its subordinated liabilities into its Tier 2 capital (Note 33.10.) in the amount not exceeding 50% of Tier 1 capital, subsequent to the National bank of Serbia's determination that the conditions for granting the approval to include the subordinated liabilities into Tier 2 capital are fulfilled, based on the documentation and the Agreement provided by the Bank. The Supervision Department of the National Bank of Serbia issued the aforementioned approval on 9 December 2005, also, the approval for new subordinated loan is issued on 7 October 2011.

30. EQUITY

(a) Equity Structure

The Bank's equity structure is presented as follows:

	2012	In RSD thousand 2011
Share capital - ordinary shares /i/	10,040,000	10,040,000
Share premium /ii/	124,475	124,475
Reserves from profit /iii/	1,843,171	1,054,168
Revaluation reserves /iv/	26,790	22,125
Retained earnings	14,815	21,510
Profit for the year	1,250,092	789,003
Balance as at 31 December	**13,299,343**	**12,051,281**

/i/ Share capital

As at 31 December 2012, the subscribed and paid share capital of the Bank comprised 1,004,000 ordinary shares, with a nominal value of RSD 10,000 per share (31 December 2011: 1,004,000 ordinary shares, with nominal value of RSD 10,000 per share). In 2012 and 2011, there were no changes in share capital.

The major shareholder of the Bank is EGB CEPS HOLDING GMBH, Vienna holding 74% of the shares as at 31 December 2012. The shareholder structure of the Bank as at 31 December 2012 is as follows:

Shareholder	Number of shares	In %
EGB CEPS HOLDING GMBH	742,960	74.00
Steiermärkische Bank und Sparkassen AG, Grac	261,040	26.00
Total	**1,004,000**	**100.00**

/ii/ Share Premium

Share premium amounting to RSD 124,475 thousand as at 31 December 2012 and 2011 resulted from a positive difference between the selling price of the shares and their nominal value.

/iii/ Required Reserve for Estimated Losses

Required reserve for estimated losses at 31 December 2012. amount to RSD 1,843,171 thousand. On 31 December 2011 the required reserve for estimated losses amounted to RSD 1,054,168 thousand. According to the Decision of the Shareholders Assembly as of 26 March 2012 the amount of required reserves from profit increased by RSD 789,003 thousand based on retained earnings for 2011.

30. EQUITY (continued)

(b) Equity Structure (continued)

/iv/ Revaluation reserves

Revaluation reserves at 31 December 2012 amounted to RSD 26,789 thousand (31 December 2011: RSD 22,125 thousand), were formed as a result of fair value adjustments of securities available-for-sale, adjusted for the effects of deferred taxes arising from the revaluation of these securities.

/v/ Required reserves for estimated losses

Required reserves against potential losses arising from credit risks inherent in the Bank's loan portfolio is calculated in accordance with the Decision of the National Bank of Serbia on the Classification of Assets and Off-Balance Sheet Items ("Official Gazette of the Republic of Serbia", No. 94/2011) and represents deductible item of the bank's capital in accordance with the decision that determines the bank's capital adequacy. At 31 December 2012 required reserves for estimated losses that may arise in respect of balance sheet and off-balance sheet items, net of allowance for impairment and provisions for losses on off-balance sheet items, calculated in accordance with this decision, amounts to (Note 2.9.) RSD 2,534,108 thousand (31 December 2011: RSD 2,436,112 thousand).

(b) Performance Indicators - Compliance with Legal Regulations

The Bank is required to comply the scope and structure of its operations and risk assets with the performance indicators prescribed by the Law on Banks and relevant decisions of the National bank of Serbia. At 31 December 2012 the Bank was in compliance with all indicators of the standard values. Bank's performance indicators at 31 December 2012 were as follows:

Performance indicators	Prescribed	Realized
1. Capital	Minimum EUR 10 million	100,429,432
2. Capital adequacy ratio	Minimum 12%	21.34
3. Permanent investments indicator	Maximum 60%	6.57
4. Related parties exposure	Maximum 20%	8.28
5. Indicator of large and the largest permissible loans	Maximum 400%	58.73
6. Liquidity ratio:		
- in the first month of the reporting period	Minimum 1	1.27
- in the second month of the reporting period	Minimum 1	1.47
- in the third month of the reporting period	Minimum 1	1.82
7. Foreign currency risk indicator	Maximum 20%	3.37
8. Exposure to a group of related parties	Maximum 25%	21.70
9. Exposure to an entity related to the Bank	Maximum 5%	3.51
10. Bank's investments in legal entities which are not in the financial sector	Maximum 10%	0.18

31. OFF-BALANCE SHEET ITEMS

In RSD thousand

	2012	2011
Funds managed for and on behalf of third parties (a)	780,975	705,529
Guarantees and other irrevocable commitments (b)	9,730,334	11,363,221
Derivatives (c)	792,810	3,579,900
Other off-balance sheet items (d)	19,294,339	23,154,247
Balance as at 31 December	**30,598,458**	**38,802,897**

(a) Funds Managed For and on Behalf of Third Parties

In RSD thousand

	2012	2011
Placements for and on behalf of third parties in dinars:		
- short-term	5,253	3,848
- long-term	775,722	701,681
Balance as at 31 December	**780,975**	**705,529**

Short-term funds managed for and on behalf of third parties relate to funds of the Ministry of Agriculture in the amount RSD 3,711 thousand and commission transactions RSD 1,269 thousand. Long-term funds managed for and on behalf of third parties relate to subsidized housing loans insured with NKOSK in the amount RSD 632,532 thousand and long-term agriculture loans in the amount RSD 143,190 thousand.

(b) Guarantees and Other Irrevocable Commitments

In RSD thousand

	2012	2011
In dinars		
Payment guarantees	1,343,433	1,232,910
Performance guarantees	4,049,615	2,532,147
Avals and acceptances	4,617	69,158
Irrevocable commitments for undisbursed loans and placements	3,231,795	5,845,151
Other contingencies and commitments	52,837	54,022
	8,682,297	**9,733,388**
In foreign currency		
Payment guarantees	43,088	146,356
Performance guarantees	754,871	869,477
Irrevocable commitments for undisbursed loans and placements	11,966	6,907
Letters of credit	238,112	266,585
Other irrevocable commitments	-	340,508
	1,048,037	**1,629,833**
Balance as at 31 December	**9,730,334**	**11,363,221**

31. OFF-BALANCE SHEET ITEMS (continued)

(b) Guarantees and Other Irrevocable Commitments

Irrevocable commitments represents unused loan commitments that cannot be canceled unilaterally and relates to: overdrafts, loans to companies, multi-purpose revolving loans and other irrevocable commitments.

Irrevocable commitments usually have fixed expiry dates or other stipulations with respect to expiry dates. Since irrevocable commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Bank monitors maturity periods of credit commitments because longer-term commitments have a greater degree of loan risk than short-term commitments.

As at 31 December 2012, provision for guarantees and other irrevocable commitments amounts to RSD 156,754 thousand (31 December 2011: RSD 207,870 thousand).

(c) Derivatives

In RSD thousand

	2012	2011
Currency swap with the National Bank of Serbia	-	2,093,657
Currency swap with EBG Ceps Holding GMBH	792,810	1,486,243
Balance as at 31 December	**792,810**	**3,579,900**

(d) Other off-balance sheet items

In RSD thousand

	2012	2011
Suspended interest receivables	2,182,068	1,558,342
Foreign currency sale and purchase	3,167,807	10,287,051
LORO guarantees	499,039	298,594
Received counter guarantees	11,837	347,051
Records of public foreign currency saving bonds	2,649,787	2,250,119
Available liquidity funds	7,391,689	6,278,454
Other	3,392,112	2,134,636
Balance as at 31 December	**19,294,339**	**23,154,247**

Available liquidity funds (RSD 7,391,689 thousand) relate to funds from EGB Ceps Holding Gmbh available to the Bank. In order to meet liquidity limits set by the Group the Bank signed the Agreement on deposit ensurance from the Holding.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

32. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with shareholders and other related parties in the ordinary course of business.

(a) The Bank enters into transactions with the Parent Company- majority shareholder EGB CEPS HOLDING GMBH, Vienna and other members of Erste Group. Outstanding balance of receivables and payables as at 31 December 2012 and 31 December 2011, as well as income and expenses, resulting from transactions with shareholders and other Bank's related parties are as follows:

In RSD thousand

	2012		2011	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Receivables				
Cash and cash equivalents	340,752	-	187,802	-
Interest, fees and commissions receivable	327	87	147	171
Loans and advances	-	201	-	140
Other placements	8	14,760	16,941	13,059
Other assets	9,851	10,363	5,143	3,745
	350,938	**25,411**	**210,033**	**17,115**
Liabilities				
Transaction deposits	590,381	257,858	9,140	121,816
Other deposits	-	541,574	4,243	743,368
Borrowings	-	11,412,471	-	10,744,758
Interest, commissions and fees payable	613	18,084	1,228	5,512
Provisions	-	20	-	7
Other liabilities	701,804	1,705,802	899,207	1,569,614
	1,292,798	**13,935,809**	**913,818**	**13,185,075**
Off-balance sheet items				
Guarantees and other warranties	187,951	3,447	148,875	7,253
Irrevocable commitments	-	3,116	-	3,120
Other off-balance sheet items	8,184,499	193,808	1,486,243	-
	8,372,450	**200,371**	**1,635,118**	**10,373**

32. RELATED PARTY DISCLOSURES (continued)

In RSD thousand

	2012		2011	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	915	-	55,284	1,114
Interest expense	(27,212)	(541,454)	(36,740)	(469,560)
Fee and commission income	168,872	39,466	44,747	22,677
Fee and commission expenses	(154,551)	(1)	(22,237)	-
Other operating income	5,626	15,689	-	-
Operating and other expenses	(23,876)	(439,889)	(27,076)	(241,024)

Fees on crossborder loans amounted to RSD 296,611 thousand (2011: RSD 246,729 thousand).

Crossborder loans give opportunity to customers to borrow directly from abroad, whereby all activities in the approval process and administration of loans are performed by the Bank. This type of services provides customer more favorable terms of borrowing, while the Bank earns fee income on related services.

(a) As at 31 December 2012 and 31 December 2011, the Bank had no impaired placements with related parties.

(b) In its regular course of operations, the Bank enters into business relationships and arrangements with the members of the Executive Board, other key personnel, at common market conditions. Balances at the end of the year and effects of those transactions are presented as follows:

In RSD thousand

	Balance as at 31 December 2012	Income/ (expense) 2012	Balance as at 31 December 2011	Income/ (expense) 2011
Overdrafts, credit cards, cash and consumer loans	1,161	410	943	389
Housing loans	48,033	2,786	49,097	2,761
Other loans				
Other placements and receivable	1,841	87	1,599	99
Total allowances for impairment	(275)	21	274	38
Deposits	68,280	(3,690)	93,922	(3,690)

c) Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2012 and 2011, are presented in the table below:

In RSD thousand

	2012	2011
Salaries of the members of the Executive Board	51,191	49,892
Remunerations to the members of the Board of Directors	10,902	9,796
Accrued other benefits	19,657	11,441
Total	**81,750**	**71,129**

33. RISK MANAGEMENT

33.1. Introduction

Risk is inherent in banking activities, but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls.

Due to the nature of its activities, the Bank is exposed to the following major risks: credit risk, liquidity risk and market risk (which includes price risk, currency risk and commodity risk). The Bank is also subject to operating risk, concentration risk which includes the Bank's exposure to one entity or a group of related entities, interest rate risk, risk of the Bank's investments in other legal entities and property and equipment, risk related to the country of origin of the entity to which the Bank is exposed, as well as other risks, which the Bank continuously monitors.

Risk management in the Bank is a comprehensive process that includes identification, analysis, rating and control of all forms of business risks (credit, interest rate, foreign exchange and other market risk exposure, investment and operating risk). The aim of the risk management process is to establish an adequate system for identifying, measuring, assessing and monitoring the risks the Bank is exposed to in its business operations, as well as an adequate response in order to minimize potential adverse effects to the Bank's capital and financial performance.

The Bank has adopted policies and procedures that provide control and application of internal by-laws of the Bank related to risk management, as well as procedures related to the Bank's regular reporting in relation to the risk management. The processes of risk management are critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his/her responsibilities. This system of risk management provides timely notification of the management of all risks that are present or may occur, and provides adequate and timely response in the case of the same.

The independent risk management process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

The Board of Directors and the Executive Board are ultimately responsible for identifying and controlling of risks, while the operating responsibility is delegated to the Risk management department. In addition, the Bank has established separate independent bodies for managing and monitoring of risks.

Risk Management is committed to the following organs/bodies:

Board of Directors and Executive Board

The Board of Directors and Executive Board are responsible for the overall risk management approach and for approving the risk strategies and principles. Their decisions are made on the basis of Assets and Liabilities Management Committee proposals and other proposals of other relevant organs/bodies of the Bank.

Assets and Liability Management Committee

Assets and Liability Management Committee (ALMC) has overall responsibility for the development of a comprehensive risk management strategy and implementation of the principles, framework, policies and limits. ALMC is responsible for fundamental findings in respect of risks and for managing and monitoring of relevant decisions related to risk, principally for liquidity risk, interest rate and foreign exchange risks.

33. RISK MANAGEMENT (continued)

33.1. Introduction (continued)

Asset and Liability Management Unit

Asset and Liability Management Unit is organized as an independent organizational unit that is directly responsible to the Executive Board of the Bank. Also, it is primarily responsible for funding and liquidity of the Bank. Asset and Liability Management Unit prepares report for the Asset and Liability Management Committee, as well as reports related to assets and liabilities management for the purposes of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited at least annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with such procedures. Internal audit discusses the results of all assessments with the Bank's management and reports its findings and recommendations to the Audit Committee.

Risk Management and Reporting System

The Bank's risks are measured using a method which reflects both the expected losses that are likely to arise in regular circumstances and unexpected losses, which are an estimate of the ultimate losses based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also uses the method of "worst case scenarios" that might arise in case of the extreme events for which probability of occurrence is remote, i.e. stress test analysis.

Monitoring and controlling risks is primarily based on establishing of limits. The limits reflect the business strategy and market environment of the Bank, as well as the level of risks the Bank is willing to accept. The Bank also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all operating activities are being examined and processed in order to identify, analyze and control risks to which the Bank is or might be exposed. This information is presented and explained to the Board of Directors, Executive Board, ALMC and heads of all business units. Such reports contain the total credit exposure, investment forecasts, departure from established limits, market risk measurement, liquidity ratios and changes of risk profiles.

Reports are sent on a daily, weekly, monthly or quarterly basis or upon the management's request.

Detailed risk report containing all necessary information needed for assessment and concluding on the Bank's exposure to risks is quarterly submitted to the Board of Directors.

Special reports on risk management are prepared for each level in the Bank to ensure that all business units have access to comprehensive, necessary and updated information.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk

Credit risk is the risk that credit beneficiaries will not be able to fulfill contractual obligations to the Bank, and therefore cause negative effects on the Bank's financial result and capital.

The Bank's credit risk is caused by the debtor's credit capacity, good credit history within the Bank, as well as quality of collateral, and is being identified, estimated and monitored in accordance with the internal by-laws for credit risk management, as well as in accordance with decisions that regulate the classification of the Bank's balance sheet assets and off-balance sheet items and capital adequacy.

By its business policy, the Bank requires and assesses the maximum credit risk protection, as most important risk in banking industry.

The Bank controls and manages credit risk by establishing rigorous process for determining minimal credit capacity of the debtor in the process of credit approval, as well as by regular monitoring during credit contract life, by defining the different level of decision making during loan approval (which reflects knowledge and experience of the employees) and by establishing limits, by which the level of acceptable risk is determined on the individual client basis, geographical basis and industries, and risk monitoring accordingly.

By its internal by-laws, policies and procedures, the Bank has implemented the adequate system of credit risk management so as to reduce the credit risk to an acceptable level.

In accordance with the Bank's Risk management strategy, Credit Policy, as well as Policies and Procedures for managing the credit risk, the process of credit risk management for individual placements and risks at the portfolio level, i.e., the procedures of identification, measurement and monitoring (control) of placements, especially those with increased risk levels, has been defined.

The Risk management department identifies, measures and evaluates the credit risk according to the debtor's creditworthiness and its credit history within the Bank, as well as the quality of collateral. The process of monitoring the quality of loan enables the Bank to assess the potential losses as a result of which is exposed to risk and to take corrective measures.

Credit-related Risks

Credit risk relates to residual risk, risk of impairment, risk of collection/delivery, risk of the other contractual party and credit-currency risk. Credit-related risks, are mitigated by same processes and procedures used for mitigating credit risks.

Risk of the other contractual party

The Bank operates with derivative financial instruments due to which is exposed to the risk of other contractual party in the transaction before final settlement of related cash flows.

Credit risk of derivatives is limited by determining the maximum limit for each individual derivative financial instrument based on type, maturity and credit quality of the client. In addition, credit risk of derivatives is controlled and monitored on the portfolio level based on maximum possible amount of the trading book for derivatives. As of 31 December 2012 the Bank has currency swap (FX swap) with EGB CEPS HOLDING GMBH, Vienna in nominal amount of USD 4,600 thousand, i.e. RSD 396,411 thousand.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

Loan Concentration Risks

The concentration risk is the risk of incurring losses due to an excessive volume of placements into a certain group of debtors or individual debtor. The credit risk concentration occurs when a significant number of debtors belong to the similar industry or the same geographical area or when they have similar economic characteristics, which may affect their ability to settle their contractual obligations in case of changes in economic, political or some other circumstances that affect them equally. In order to achieve and maintain more secure loan portfolio and minimize the credit concentration risk, safety measures are established through defining levels of exposures and credit limits, as well as regular monitoring of compliance with established limits.

Derivative Financial Instruments

Derivative financial instruments lead to the Bank's exposure to credit risk in case their fair value is positive. Such credit risk is limited by determining the maximum far value of the total derivatives' portfolio, as well as determination of the maximum positive fair value of each individual transaction. As at 31 December 2012, the Bank had currency swap (FX swap) with EGB CEPS HOLDING GMBH, Vienna in nominal amount USD 4,600 thousand.

(a) Maximum Exposure to Credit Risk by Balance Sheet and Off-balance Sheet Items

The breakdown of maximum credit risk exposure, presented gross, before allowances for impairment and collateral held, as at 31 December 2012 and 2011 is as follows:

a) Maximum Exposure to Credit Risk by Balance Sheet and Off-balance Sheet Items

		In RSD thousand
	31/12/2012	31/12/2011
Exposure to credit risk by balance sheet items:		
Nostro bank account with other banks	1,053,939	824,094
Interest, fees and commission receivable, changes in fair value of derivatives and other receivables	508,633	408,962
Loans and advances	61,495,913	50,934,996
Securities (excluding own securities)	1,885,138	1,559,769
Equity investments	2,163	2,163
Other placements	632,290	515,408
Other assets	436,050	312,437
Total	**66,014,126**	**54,557,829**
Exposure to credit risk by off-balance sheet items:		
Payment guarantees	1,343,432	1,373,269
Performance guarantees	4,803,487	3,407,621
Uncovered letters of credit	93,250	262,551
Avails and acceptances	4,617	69,158
Irrevocable commitments	3,243,714	6,192,537
Other off-balance sheet items	52,838	54,022
Total	**9,541,338**	**11,359,158**
Total exposure to credit risk	**75,555,464**	**65,916,987**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(a) Maximum Exposure to Credit Risk by Balance Sheet and Off-balance Sheet Items (continued)

The abovementioned amounts do not include assets that are not classified in accordance with the Decision on the Classification of assets and off-balance sheet items in the amount RSD 43,550,174 thousand (31 December 2011: RSD 51,559,402 thousand).

Where financial instruments are measured at fair value, the amounts presented above correspond to the current credit risk exposure, and not the maximum risk exposure that might arise in the future as a result of changes in fair value.

Concentration of risk is managed by setting the limits by individual debtor, geographical area and industry sector.

The maximum credit exposure to any client or group of related debtors as at 31 December 2012 amounted to RSD 4,562,673 thousand (31 December 2011: RSD 4,703,261 thousand), not taking into consideration deductible items (collateral or other means of credit risk protection), i.e., an amount of RSD 13,941 thousand (31 December 2011: RSD 485,812 thousand) net of collateral.

A breakdown of maximum credit risk exposure (gross risk balance and off-balance assets subject to classification), as at 31 December 2012 and 2011, before taking into account collateral held or other credit enhancements, is analyzed by geographical area and is as follows:

In RSD thousand

	Accounts with the NBS, other banks and other placements to banks	Loans and advances to customers	Securities and equity investments	Interests, fees and other assets	Guarantees and other commitments	Total 2012
Serbia	682,622	61,470,863	1,853,693	944,193	9,352,705	**74,304,076**
European Union	984,309	4	-	353	187,951	**1,172,617**
Other countries	44,332	12	33,608	137	682	**78,771**
Ukupno	**1,711,263**	**61,470,879**	**1,887,301**	**944,683**	**9,541,338**	**75,555,464**

In RSD thousand

	Accounts with the NBS, other banks and other placements to banks	Loans and advances to customers	Securities and equity investments	Interests, fees and other assets	Guarantees and other commitments	Total 2011
Serbia	642,387	47,822,467	1,561,912	1,501,361	11,353,408	**62,881,535**
European Union	1,291,527	784,829	16	13,701	1,750	**2,091,823**
Other countries	-	909,194	4	30,431	4,000	**943,629**
Total	**1,933,914**	**49,516,490**	**1,561,932**	**1,545,493**	**11,359,158**	**65,916,987**

33.2. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(a) Maximum Exposure to Credit Risk by Balance Sheet and Off-balance Sheet Items (continued)

The Bank's credit risk exposure analysis, by industry sectors, before and after taking into account collateral held and other credit enhancements, as at 31 December 2012 and 2011 is as follows:

In RSD thousand

	Gross maximum exposure 2012	Net maximum exposure 2012	Gross maximum exposure 2011	Net maximum exposure 2011
Retail	23,424,292	15,881,185	20,895,549	18,899,878
Processing industry and mining	14,014,694	10,974,413	12,849,433	9,386,855
Trade	9,402,589	7,102,342	7,961,664	5,434,925
Energy	1,792,372	1,656,027	1,084,782	970,287
Agriculture, hunting, fishing and forestry	2,278,074	1,947,677	1,410,028	929,863
Construction	5,688,164	5,047,393	4,716,008	3,748,931
Traffic and communications, tourism, hospitality and services	8,855,423	3,765,454	7,747,824	2,822,450
Entrepreneurs	1,100,954	797,859	943,248	683,810
Agricultural	554,807	276,058	611,455	497,357
Banks	1,731,028	1,875,735	2,473,845	2,414,476
Other financial institutions	602,573	501,696	175,538	91,872
Other	6,110,494	3,372,887	5,047,613	2,858,665
Total	**75,555,464**	**53,198,726**	**65,916,987**	**48,739,369**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(b) Portfolio quality

The Bank manages the quality of its financial assets using the internal classification of placements. The following table presents the quality of portfolio (gross placements and off-balance sheet exposure) by types of placements, and based on the Bank's classification system, as at 31 December 2012 and 2011:

In RSD thousand

	Neither past due nor individually imaparied					
	High quality level	Standard quality level	Sub standard quality level	Past due and collectively impaired	Individually impaired	Total 2012
Placements to banks	1,074,056	621,161	-	40	16,006	**1,711,263**
Placements to customers						
Corporate customers	7,461,922	4,811,386	231,485	633,773	1,634,875	**14,773,441**
Small size and medium size companies	13,122,229	3,059,584	922,987	2,888,126	3,910,331	**23,903,257**
Entrepreneurs	706,142	8,860	16,103	198,437	40,846	**970,388**
Retail customers	19,427,830	265,629	97,912	2,361,759	615,345	**22,768,475**
Securities	1,394,456	330,042	840	30,165	131,799	**1,887,302**
Guarantees and acceptances	4,577,208	1,083,501	12,657	444,755	33,415	**6,151,536**
Letters of credit	5,686	87,564	-	-	-	**93,250**
Unused commitments	2,749,274	189,851	6,511	298,003	75	**3,243,714**
Other off-balance sheet items	49,327	3,511	-	-	-	**52,838**
Total	**50,568,130**	**10,461,089**	**1,288,495**	**6,855,058**	**6,382,692**	**75,555,464**

In RSD thousand

	Neither past due nor individually imaparied					
	High quality level	Standard quality level	Sub standard quality level	Past due and collectively impaired	Individually impaired	Total 2011
Placements to banks	1,887,943	30,536	-	415	15,020	**1,933,914**
Placements to customers						
Corporate customers	3,939,603	5,135,199	60,718	1,303,373	989,864	**11,428,757**
Small size and medium size companies	8,517,906	3,635,551	729,316	1,927,473	3,599,076	**18,409,322**
Entrepreneurs	577,138	8,667	5,749	218,437	26,607	**836,598**
Retail customers	17,698,642	257,854	126,241	1,965,616	338,953	**20,387,306**
Securities	1,042,462	225,035	2,537	196,829	95,069	**1,561,932**
Guarantees and acceptances	2,965,701	1,376,304	219,104	163,111	125,830	**4,850,050**
Letters of credit	155,462	49,908	-	57,180	-	**262,550**
Unused commitments	4,966,608	1,022,103	1,328	194,148	8,350	**6,192,537**
Other off-balance sheet items	47,555	4,816	-	-	1,650	**54,021**
Total	**41,799,020**	**11,745,973**	**1,144,993**	**6,026,582**	**5,200,419**	**65,916,987**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(b) Portfolio quality (continued)

Ageing analysis of loans and advances to customers past due

The ageing analysis of loans and advances to customers past due and collectively impaired as at 31 December 2012 and 2011 is presented in the tables below:

In RSD thousand

2012	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2012
Placements to banks	86	-	40	**126**
Placements to customers:				
- Corporate customers	627,744	106,319	-	**734,063**
- Small size and medium size companies	1,313,511	2,051,369	174,705	**3,539,585**
- Entrepreneurs	87,721	58,805	62,473	**208,999**
- Retail customers	938,071	307,061	1,127,153	**2,372,285**
Total	**2,967,133**	**2,523,554**	**1,364,371**	**6,855,058**

In RSD thousand

2011	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2011.
Placements to banks	86	-	415	**501**
Placements to customers:				
- Corporate customers	1,023,913	483,084	217,164	**1,724,161**
- Small size and medium size companies	1,310,059	477,878	314,674	**2,102,611**
- Entrepreneurs	102,136	74,088	47,302	**223,526**
- Retail customers	766,206	306,350	903,227	**1,975,783**
Total	**3,202,400**	**1,341,400**	**1,482,782**	**6,026,582**

Collateral and Other Credit Enhancements

The amount and type of the collateral required depends on an assessment of the credit risk of each customer. Types of collateral with respect to each placement are determined by the analysis of customers' creditworthiness, type of exposure to the credit risk, placements' maturity, as well as the amount of the particular loan. Using its internal methodology, the Bank determines the types of collateral and the parameters of their valuation.

Standard collateral accepted by the Bank is as follows: real estate mortgages, deposits, as well as bank guarantees or guarantees of the Republic of Serbia. The Bank regularly monitors the market value of collaterals and demands additional collateral in accordance with the relevant contracts. Also, market value of collateral is considered when reassessing the adequacy of the allowance for impairment of balance sheet assets and provisions for losses on off-balance sheet items.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(b) Portfolio quality (continued)

Collateral and Other Credit Enhancements (continued)

At the moment of loan approval, and in order to insure the secondary source of loan repayment, the Bank takes collateral in accordance with the estimated credit risk and catalogue of collateral that defines types of collateral. The fair value of collateral is regularly monitored and updated.

Assessment of Impairment of Financial Assets

The main considerations for the loan impairment assessment include: any payments of principal or interest overdue for more than 90 days, any known difficulties in the debtors' ability to settle due obligations (adequate generating of cash flows), credit rating downgrades, bankruptcy of the customer as well as breaches of the original terms of the contract. The Bank performs the impairment assessment at two levels: individual and collective. The Bank's senior management evaluates quarterly the adequacy of assessed impairment.

Individual Impairment Assessment

The Bank determines an allowance for each individually significant loan or placement. Items considered when determining the amount of allowance for impairment include the sustainability of the customer's business plan, ability to improve performance once a financial difficulty has arisen, the realizable value of collateral and its timing, the availability of other sources of financial support, the possibility of collection of overdue receivables, as well as the timing of the expected cash flows. The impairment losses are evaluated at least quarterly, unless unforeseen circumstances require more frequent assessment.

Collective Impairment Assessment

Allowances for impairment are assessed collectively for loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated quarterly, and more frequently, if required.

Impairment losses are estimated by taking into consideration the following information: historical losses at the loan portfolio level, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment allowance; moreover, the time when impaired asset would be collected or recovered.

Financial guarantees and letters of credit are assessed and provisions are made in similar manner as for loans, with the difference in assessment of potential balance sheet exposure for that placement.

Required Reserves for Estimated Losses

For both corporate and retail loans, as per the regulatory requirements of the National bank of Serbia, the Bank also calculates reserves for estimated losses In accordance with internally defined methodology based on the Decision on the Classification of Banks Balance Sheet Assets and Off Balance Sheet Items (see Note 2.8.). Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(c) Default Loans

In accordance with internal rules, the Bank pays special attention to default loans (NPL clients) where default events occurred. Monitoring of total outstanding balance and the trend of these amounts is established on regular basis in order to promptly respond to the collection of receivables or on the other hand, adequately assess the impairment amount. Default loans are monitored at the Bank level, regional level and in accordance with the product criteria (for individuals) and the industrial sector the customers belongs to. Days of delay, restructuring, write-offs, bankruptcy or liquidation as well as other indicators that may indicate a reduced recoverability of placement are taken into consideration when determining the default occurrence.

As at 31 December 2012, default balance sheet assets amounted to RSD 8,008,442 thousand (31 December 2011: RSD 6,270,519 thousand) and related impairment loss amounted to RSD 5,631,602 thousand (31 December 2011: RSD 4,657,287 thousand).

Additionally, default off-balance sheet items amounted to RSD 37,305 thousand as at 31 December 2012 (31 December 2011: RSD 147,281 thousand), while related provisions amounted to RSD 24,345 thousand (31 December 2011: RSD 54,351 thousand).

(d) Rescheduled Loans

In accordance with internal methodology, the Bank pays special attention to placements that are subject of rescheduling due to the increased level of credit risk. These loans relate to loans and other placements for which restructuring and changes in initial conditions of the contract were carried out due to inability of the client to meet its obligations under the defined contract terms and conditions due to problems in business and deterioration in financial indicators, which is a significant deterioration in credit standing. As at 31 December 2012, gross rescheduled loans and placements in default, amounted to RSD 355,830 thousand (31 December 2011: RSD 140,468 thousand).

33.3. Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank would not be able to discharge its liabilities when they fall due. To reduce or to limit this risk, the Bank's management has arranged diversified funding sources, manages assets considering its liquidity, monitors Bank's liquidity on a daily basis as well as future cash flows. This incorporates an assessment of expected cash flows in Dinars and foreign currency on a daily basis and the availability of high grade collateral which could be used to secure additional funding, if required. The Bank manages its assets and liabilities in such a way that it can meet its due liabilities at all time, as well as to have customers disposing their fnds held with the Bank in accordance with agreed terms.

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Funding Management (continued)

The Assets and Liability Committee and the Operating Liquidity Committee (OLC Committee) are responsible for monitoring liquidity risk, managing liquidity risk and recommending to the Executive Board the measures and activities to maintain the liquidity, adjustment of the maturity structure, financing plan for reserves and other measures important for the financial stability of the Bank. The Department for asset and liability management and Department for market risk management and liquidity risk management monitors the liquidity ratio (LIK) on daily basis so that the daily liquidity ratio is within the limits prescribed by the National bank of Serbia and Business plan in case of extraordinary circumstances (liquidity crisis) ("PFNS"). Apart from this, PFNS defines other indicators and their limits as well as personnel/departments in charge of their monitoring and reporting. The trend of these indicators is presented every two weeks on OLC meetings, or more frequent in case of overriding the PFNS limits or change in liquidity status.

The Bank maintains a portfolio of highly liquid securities and diverse assets that can be easily converted to cash in the event of unforeseen and adverse fluctuations of the Bank's cash flows. In addition, the Bank maintains obligatory reserves in dinars and in foreign currency in accordance with requirements of the National bank of Serbia.

The level of liquidity is expressed using the liquidity ratio which is determined as the proportion of the sum of the liquid assets of the first rank (cash, gyro account, gold and other precious metals, accounts with banks with available credit rating of the appropriate credit agency of 3 or better, in accordance with the decision on bank's capital adequacy (investment rating), deposits with the National bank of Serbia, checks and other cash equivalents in realization, approved irrevocable credit lines, quoted shares and debt securities, 90% of fair value of dinar securities with no foreign currency clause issued by the Republic of Serbia with minimum maturity of 3 months, i.e. 90 days classified as held for trading securities or available for sale securities) and second rank (other Bank's receivables with maturity up to one month) and sum of on demand liabilities or liabilities with no contractual maturity (40% of on demand deposits of banks, 20% of on demand deposits of other customers, 10% of savings deposits, 5% of guarantees and other warranties and 20% of unused approved irrevocable credit lines) and liabilities with contractual due within a month.

In 2012 and 2011, the Bank had an indicator of daily liquidity exceeding the prescribed level.

Liquidity ratio in 2012 and 2011:

	2012	2011
Average during the period	1.84	1.93
Highest	2.12	2.40
Lowest	1.27	1.58
As of 31 December	1.89	1.99

33.4. Maturity Analysis of Financial Liabilities

The table below presents the ageing analysis of the Bank's financial liabilities as at 31 December 2012 and 2011 on the basis of contractual not discounted payments.

The Bank expects that the major part of the customers will not withdraw their deposits when they fall due.

33. RISK MANAGEMENT (continued)

33.4 Maturity Analysis of Financial Liabilities (continued)

In RSD thousand

2012	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2012
Borrowings, deposits and securities	15,838,158	11,048,315	14,010,367	17,934,562	4,664,695	63,496,097
Interest and fees payable	115,332	109,166	508,663	1,390,851	1,001,173	3,125,185
Subordinated liabilities	-	58,484	175,451	874,006	1,299,638	2,407,579
Total	**15,953,490**	**11,215,965**	**14,694,481**	**20,199,419**	**6,965,506**	**69,028,861**

In RSD thousand

2011	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2011
Borrowings, deposits and securities	11,601,010	14,568,042	11,527,932	13,617,063	4,804,334	56,118,381
Interest and fees payable	56,489	129,655	452,792	1,643,718	771,931	3,054,585
Subordinated liabilities	-	53,815	161,446	720,527	1,494,870	2,430,658
Total	**11,657,499**	**14,751,512**	**12,142,170**	**15,981,308**	**7,071,135**	**61,603,624**

The table below presents the ageing analysis of guarantees, letters of credit and other irrevocable commitments by contractual maturities:

In RSD thousand

2012	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2012
Commitments and contingencies	113,589	91,565	696,363	2,023,895	3,508,324	-	6,433,736
Irrevocable commitments and letters of credit	43,512	37,732	273,042	1,055,032	1,469,733	417,547	3,296,598
Total	**157,101**	**129,297**	**969,405**	**3,078,927**	**4,978,057**	**417,547**	**9,730,334**

In RSD thousand

2011	Up to 14 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2011
Commitments and contingencies	130,249	375,403	951,953	1,986,744	1,923,088	89,704	5,457,141
Irrevocable commitments and letters of credit	43,614	10,887	353,241	1,819,134	3,175,115	504,089	5,906,080
Total	**173,863**	**386,290**	**1,305,194**	**3,805,878**	**5,098,203**	**593,793**	**11,363,221**

33. RISK MANAGEMENT (continued)

33.4. Maturity Analysis of Financial Liabilities (continued)

The Bank expects that not all contingencies and commitments be withdrawn prior to their reaching maturity.

The Bank used funds of the European Investment Bank (EIB) for the purpose of financing the small and medium enterprises and small and medium infrastructure projects implemented by municipalities.

In 2012 the Bank signed new agreement with the European Investment Bank (EIB) for the purpose of financing the small and medium enterprises, as well as small and medium infrastructure projects implemented by municipalities in the amount EUR 50 million.

In 2012 the Bank signed an agreement with European bank for reconstruction and development (EBRD) for the purpose of financing small and medium enterprises in the amount EUR 10 mililion.

At the end of 2012 the Bank also signed an agreement with KfW, the German development bank, for the purpose of financing micro, small and medium enterprises and projects of energetical effiency/renewable energy in the amount EUR 10 million.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

33. RISK MANAGEMENT (continued)

33.4. Liquidity Risk and Funding Management (continued)

Maturity Mismatch Analysis

The table below provides an analysis of the maturities of assets and liabilities based on contractual terms of payment. Contractual maturities of assets and liabilities are determined based on the remaining period at the balance sheet date to the contractual maturity date. Maturity structure of assets and liabilities at 31 December 2012. is presented as follows:

In RSD thousand

ASSETS	Up to 14 days	15 days to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2012
Cash and cash equivalents	6,787,597	-	582,407	-	-	-	7,370,004
Callable deposits and loans	7,170,274	-	-	-	-	-	7,170,274
Interest and fee receivables, change in fair value of derivatives and other receivables	357,939	-	-	-	-	-	357,939
Loans and deposits	5,443,505	466,290	2,928,318	14,280,161	20,523,328	12,006,554	55,648,156
Securities	618,405	129,332	1,480,518	3,801,067	1,696,095	136,693	7,862,110
Investments	-	-	-	-	-	52	52
Other placements	110,823	-	9,088	40,892	99,961	-	260,764
Intangible assets	-	-	-	-	-	357,551	357,551
Fixed assets and investment property	-	-	-	-	-	729,299	729,299
Deferred tax assets	-	-	-	172,062	-	-	172,062
Other assets	166,571	94,107	500,631	11	-	776	762,096
Total assets	**20,655,114**	**689,729**	**5,500,962**	**18,294,193**	**22,319,384**	**13,230,925**	**80,690,307**
LIABILITIES							
On sight deposits	12,462,894	-	-	-	-	-	12,462,894
Other deposits	6,244,744	2,658,077	5,001,514	14,100,020	1,211,410	132,571	29,348,336
Borrowings	340,024	-	-	-	15,347,720	4,532,123	20,219,867
Interest and fees payables and change in the fair value of derivatives	23,869	-	-	-	-	-	23,869
Liabilities for securities	-	-	-	-	1,465,000	-	1,465,000
Provisions	-	-	-	418,652	-	-	418,652
Tax liabilities	-	-	-	18,272	-	-	18,272
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	640,048	53,506	449,910	116,967	467,869	1,705,774	3,434,074
Total liabilities	**19,711,579**	**2,711,583**	**5,451,424**	**14,653,911**	**18,491,999**	**6,370,468**	**67,390,964**
Total equity	**-**	**-**	**-**	**-**	**-**	**13,299,343**	**13,299,343**
Total liabilities and equity	**19,711,579**	**2,711,583**	**5,451,424**	**14,653,911**	**18,491,999**	**19,669,811**	**80,690,307**
Maturity mismatch at:							
- 31 December 2012	**943,535**	**(2,021,854)**	**49,538**	**3,640,282**	**3,827,385**	**(6,438,886)**	
-31 December 2011	**8,172,412**	**(3,443,286)**	**(2,665,077)**	**(220,157)**	**3,053,014**	**(4,906,907)**	

33. RISK MANAGEMENT (continued)

33.5. Market Risk

The Bank is exposed to the market risks, including foreign currency risk, price risk based on debt and equity securities and commodity risk.

The Bank's market risk management is defined by policies, procedures and rulebooks approved by the Board of Directors and Executive Board and are in accordance with the risk management strategy at level of the Erste Group, as well as all relevant laws and by-laws of the Republic of Serbia. Revision of policies, procedures and rulebooks is performed when neede, and, at least once a year.

Market risk management process is organized through the Asset and Liability Management Committee, Market and liquidity risk management department and Asset and Liability Management department.

Identification, measurement, analysis and reporting on market risk exposures are managed by a separate organizational unit, i.e., Market and liquidity risk management department. Asset and Liability Management department and Market and liquidity risk department monitor changes in open foreign currency position, whereas the Asset and Liability Management department prepares reports to the Asset and Liability Management Committee at least once a month. The Market and liquidity risk department monitors and manages market risk through control of the defined limits, change of existing and definition of new, as well as assessment of relevant risks arising from introduction of new products and complex transactions.

Assets and Liability Management Committee has an advisory role and gives recommendations to the Executive Board for adoption.

33.5.1. Interest Rate Risk

Interest rate risk is the risk of the occurrence of an adverse impact on the financial result and the Bank's capital due to changes in market interest rates. The Bank is exposed to this risk based on items from the banking book, and it assesses the aforementioned risk in total and per each significant foreign currency for whose definition it has established criteria. In accordance with these criteria, the Bank considers RSD and EUR to be materially significant currencies.

In determining interest rates the Bank considers market interest rates and their movements. Interest rate changes result in increases or decreases in interest margins. Interest rate risk management has as its goal the optimization of this influence, increasing the net interest revenue on one side and economic value of capital at the other side.

The Asset and Liability Management Committee manages maturity matching of assets and liabilities based on the Group strategy, macroeconomic analysis and forecasts, forecasts of conditions for achieving liquidity, analysis and forecast of interest rate trends on the market for different segments of assets and liabilities.

The following table shows the Bank's exposure to the interest rate risk (Repricing Gap) as of 31 December 2012.

Assets and liabilities and currency swaps as off-balance sheet items are categorized by the earlier of contractual re-pricing or maturity dates.

33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.1. Interest Rate Risk (continued)

In RSD thousand

Category	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total non interest bearing	Total
Cash	-	-	-	-	-	1,667,115	1,667,115
Correspondent accounts	52,524	105,046	157,571	85,948	515,686	-	916,775
Obligatory reserve	3,587,129	-	-	-	-	6,469,109	10,056,238
Securities	1,275,935	1,070,173	2,061,948	1,426,034	908,554	-	6,742,644
Loans to banks	1,300,000	-	-	-	-	-	1,300,000
Loans to customers	23,720,956	6,415,973	5,309,104	5,489,455	16,394,153	-	57,329,641
Other assets	-	-	-	-	-	2,677,894	2,677,894
FX Swap-off balance sheet item	*396,000*	-	-	-	-	-	396,000
Total assets	**30,332,544**	**7,591,192**	**7,528,623**	**7,001,437**	**17,818,393**	**10,814,118**	**81,086,307**
Due to banks	2,051,235	2,407,579	-	-	-	-	4,458,814
Due to FI	375,270	4,726,184	14,185,204	-	503,772	-	19,790,430
On sight deposits	846,463	1,692,926	2,539,389	1,385,121	8,310,728	-	14,774,627
Term deposits	4,754,320	4,962,015	4,487,743	9,485,731	1,342,750	-	25,032,559
Other liabilities	-	-	-	-	1,465,000	-	1,465,000
Due to banks	-	-	-	-	-	1,869,536	1,869,536
Equity	-	-	-	-	-	13,299,341	13,299,341
FX Swap-off balance sheet item	396,000	-	-	-	-	-	396,000
Total liabilities and equity	**8,423,288**	**13,788,704**	**21,212,336**	**10,870,852**	**11,622,250**	**15,168,877**	**81,086,307**
Net exposure to interest rate risk							
- 31 December 2012	**21,909,256**	**(6,197,512)**	**(13,683,713)**	**(3,869,415)**	**6,196,143**	**(4,354,759)**	
- 31 December 2011	**10,536,381**	**(8,557,805)**	**(2,871,301)**	**(5,590,847)**	**8,749,398**	**(2,245,150)**	

33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.1. Interest Rate Risk (continued)

Interest rate risk is also monitored by sensitivity analysis - scenario analysis, i.e. by observing the effect of interest rate fluctuations to the Bank's income and expenses.

The following table presents the income statement's sensitivity to the reasonably possible changes of interest rates (1%) with other variables held constant. The income statement's sensitivity represents the effect of predicted changes in interest rates on net interest income in one year on financial assets and liabilities based on interest rates as at 31 December 2012 and 2011.

In RSD thousand

Currency	Change in percentage	Income statement sensitivity 2012	Change in percentage	Income statement sensitivity 2011
Increase of percentage:				
RSD	1%	70,182	1%	48,118
EUR	1%	25,286	1%	(4,567)
Decrease of percentage:				
RSD	1%	(70,031)	1%	(48,734)
EUR	1%	(28,629)	1%	4,114

33.5.2. Foreign Exchange Risk

Foreign exchange risk is the risk of change of the value of financial instruments and occurrence of adverse effect to the Bank's financial result and equity due to the fluctuations in foreign exchange rates. The banking operations in different foreign currencies cause the exposure to fluctuation in foreign exchange rates.

The Bank manages foreign exchange risk, striving to prevent adverse effects of changes of cross-currency rates and foreign exchange rates comparing to the dinar (foreign currency losses) on the Bank's financial result, as well as on customers' ability to repay loans in foreign currency.

For the purposes of protection against the foreign currency risk, the Bank monitors the changes in foreign currency exchange rate on the financial market on a daily basis and contracts the foreign currency clause with its customers.

Treasury department and Asset and Liability Management Unit monitor daily movements of the overall foreign currency risk, as well as risk by specific currencies. Market and liquidity risk management department daily monitors movements in indicators of foreign exchange risk. The positions are monitored on a daily basis to ensure positions are maintained within established limits.

33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.2. Foreign Exchange Risk (continued)

In accordance with the National Bank of Serbia's requirements, the Bank regularly maintains its foreign currency position - foreign exchange risk indicator within maximal regulatory limits, determined in proportion to capital, in accordance to which the Bank is obligated to ensure that its total net open foreign currency position does not exceed 20% of its regulatory capital.

During 2012, the Bank continuously maintained the foreign currency risk indicator within the prescribed limit. The foreign currency indicator, at the end of each working day, was lower than 20% comparing to the Bank's capital.

The following table presents the Bank's exposure of foreign currency risk as at 31 December 2012.

In RSD thousand

2012

Position	**EUR**	**USD**	**CHF**	**Other currencies**	**Total**	**Gold and other precious metals**
Net spot position	**755,949**	**(390,693)**	**(5,999)**	**19,273**	**378,530**	**-**
Assets in foreign currency	50,970,615	572,414	2,141,924	181,893	**53,866,846**	-
Liabilities in foreign currency	50,214,666	963,107	2,147,923	162,620	**53,488,316**	-
Net forward positions (2.1 - 2.2)	**(396,399)**	**396,411**	**-**	**-**	**12**	-
Long position	-	396,411	-	-	**396,411**	-
Short position	396,399	-	-	-	**396,399**	-
Long open position	359,550	5,718	-	19,273	**384,541**	-
Short open position	-	-	5,999	-	**5,999**	-
Net open foreign currency position	-	-	-	-	-	384,540
Regulatory capital	-	-	-	-	-	11,420,664
Foreign exchange risk ratio – 31 December 2012						**3.37**
Foreign exchange risk ratio – 31 December 2011						**1.86**

33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.2. Foreign Risk (continued)

The following table presents currencies in which the Bank has significant exposures as at 31 December 2012 and 2011 of its monetary assets and non-trading liabilities.

The analysis presented calculates the effect of the reasonable changes in the exchange rate in relation to RSD with other variables held constant. Negative values refer to potential decreases in the income statement or equity, while the positive values refer to potential increases.

In RSD thousand

Currency	Changes in the exchange rate (%) 2012	Effect to the income statement before taxation 2012	Changes in the exchange rate (%) 2011	Effect to the income statement before taxation 2011
EUR	2%	7,191	2%	3,847
CHF	2%	(120)	2%	(577)
USD	2%	114	2%	(1,115)

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2012. The table includes assets and liabilities at their carrying amounts.

33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.2. Foreign Risk (continued)

2012 **In RSD thousand**

	EUR	USD	CHF	Other curre-ncies	Total in foreign currencies	Total in dinars	Total
ASSETS							
Cash and cash equivalents	1,200,996	103,936	199,261	181,893	**1,686,086**	5,683,918	**7,370,004**
Callable deposits and loans	6,469,109	-	-	-	**6,469,109**	701,165	**7,170,274**
Interest and fee receivables, change in the fair value of derivatives and other receivables	255,725	1,154	4,104	-	**260,983**	96,956	**357,939**
Loans and advances	41,323,303	447,036	1,938,190	-	**43,708,529**	11,939,627	**55,648,156**
Securities	1,360,649	16,158	-	-	**1,376,807**	6,485,303	**7,862,110**
Equity investments	-	-	-	-	**-**	52	**52**
Other placements	245,860	-	-	-	**245,860**	14,904	**260,764**
Intangible assets	-	-	-	-	**-**	357,551	**357,551**
Fixed assets and investment properties	-	-	-	-	**-**	729,299	**729,299**
Deferred tax assets	-	-	-	-	**-**	172,062	**172,062**
Other assets	114,973	4,130	369	-	**119,472**	642,624	**762,096**
Total assets	**50,970,615**	**572,414**	**2,141,924**	**181,893**	**53,866,846**	**26,823,461**	**80,690,307**
LIABILITIES							
On sight deposits	4,784,766	247,220	112,281	59,370	**5,203,637**	7,259,257	**12,462,894**
Other deposits	24,461,869	699,752	244,188	93,612	**25,499,421**	3,848,915	**29,348,336**
Borrowings	18,207,882	11,607	1,791,018	9,360	**20,019,867**	200,000	**20,219,867**
Liabilities for securities	-	-	-	-	**-**	1,465,000	**1,465,000**
Interest and fee payables and change in the fair value of derivatives	23,665	-	-	-	**23,665**	204	**23,869**
Provisions	114,192	391	-	-	**114,583**	304,069	**418,652**
Tax liabilities	-	-	-	-	**-**	18,272	**18,272**
Other liabilities	2,716,827	4,528	436	278	**2,722,069**	712,006	**3,434,075**
Total liabilites	**50,309,201**	**963,498**	**2,147,923**	**162,620**	**53,583,242**	**13,807,723**	**67,390,965**
Total equity	**-**	**-**	**-**	**-**	**-**	13,299,342	**13,299,342**
Total liabilities and equity	**50,309,201**	**963,498**	**2,147,923**	**162,620**	**53,583,242**	**27,107,065**	**80,690,307**
Net foreign currency position as at:							
– 31 December 2012	**661,414**	**(391,084)**	**(5,999)**	**19,273**	**283,604**		
– 31 December 2011	**(1,708,463)**	**(65,490)**	**(28,834)**	**3,970**	**(1,798,817)**		

33. RISK MANAGEMENT (continued)

33.6. Bank's concentration Risk

The Bank's concentration risk includes the risk of its exposure to a single party or a group of related parties, as well as its exposure risk to a party related to the Bank.

Monitoring the Bank's exposure to this risk is a compulsory part of the procedures in the phase of granting loans in the sense that the body - committee which approves the Bank's placements has the information regarding the total amount of the Bank's exposure to a to a single party or a group of related parties in proportion to the Bank's regulatory capital.

During 2012, the Bank maintained the exposure risk indicators within the prescribed values and by implementing appropriate activities anticipated by the relevant procedures and decisions on loan approval, the Bank kept the adequacy of its placements and investments in line with the performance indicators prescribed by the National bank of Serbia (see Note 30(b)).

In accordance with the risk management policy, the Bank's management approves limits, i.e. the maximum concentration of placements by certain legal entities or a group of related parties, and entities related to the Bank.

The procedures of exposure risk management are the subject of internal audit and the compliance control function.

33.7. Investment Risk

The Bank's investment risks include equity investments in other legal entities and in tangible assets.

In accordance with the National Bank of Serbia's legislation, the level of the Bank's investment and the level of regulatory capital is being monitored in order to ensure that the Bank's investments in a non-financial sector entity does not exceed 10% of its capital, and total Bank's investments in non-financial entities and in tangible assets cannot exceed 60% of its regulatory capital.

The Bank's investment risk exposure arising on investments in other legal entities and tangible assets is monitored by the organizational unit or the Bank's body competent for procurement of tangible assets and investing in legal entities which is familiar with the current exposure and the amount of capital for the purposes of acting in timely manner in accordance with the prescribed limits.

During 2012, the Bank maintained the investment risk indicators within the prescribed values and it ensured that investments were in compliance with the indicators prescribed by the National Bank of Serbia.

The procedures of exposure risk management are the subject of internal audit and the compliance control function.

33. RISK MANAGEMENT (continued)

33.8. Country Risk

Country risk is the risk related to the country of origin of a counterparty the Bank is exposed to and includes adverse effects which may influence the financial result and capital of the Bank, as the Bank might not be able to collect receivables from this counterparty, as a result of political, economical or social situation in the country of its origin.

The Bank mostly grants funds to the customers from the Republic of Serbia, while it is exposed to the country risk in the funds which may be placed with foreign banks up to the prescribed limits.

The Bank manages its country risk exposure by applying the limits determined by the parent bank and based on country ratings.

The Bank's exposure to the country risk is low, due to insignificant participation of nonresidents in the total loan portfolio of the Bank.

The Bank minimizes the country risk by implementing the policy of placing funds abroad, mainly by depositing assets (short-term) with the first-class foreign banks.

33.9. Operational Risk

Operational risk is the risk of the adverse effects on the Bank's financial result and equity due to failures in the employees performance, inadequate internal procedures and processes, inadequate information and other systems in the Bank, as well as unforeseen external events.

Timely identification of operational risk events is ensured by system of reporting on operational risk events, and completeness, coherence and coverage of all operational risk events occurred in the Bank is ensured by the process of compliance.

Operational risk events are gathered in the unique data base and are further being analyzed and followed up. Also, the Bank collects the external data on operational risk events.

The Bank manages operational risk by increasing the awareness of the employees, implementation of the solid system of identification and measurement of risk exposure, and adequate prevention and corrective measures in order to decrease the level of operational risk on the acceptable level.

The Bank has adopted appropriate internal policies that regulates the Bank's exposure to operational risks, in order to reduce these risks to an acceptable level which can be controlled.

The Bank reduces the operational risks by other activities such as business continuity management (BCM), education of all Bank's employees, continuous monitoring and reporting on occurrence of operational risk, i.e. assessment of operational risk exposure, which may occur by using qualitative assessment methods (for example: selfassessment, key operational risk indicators, scenario analysis, etc.)

The Bank is insured from the usual risks and specific banking risks through the Program of insurance from operational risks. The usual risks include damages to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Bank's internal and external frauds, technological risks and civil liability.

33. RISK MANAGEMENT (continued)

33.9. Operational Risk (continued)

Assessment of risks arising from the process of introduction of new products/services, as well as assessment of risks arising from transferring of operations to third parties, are being performed continuously.

The Bank calculates capital requirements for operational risk using the Basic indicator approach, starting from 31 December 2011.

33.10. Capital Management

The Bank permanently manages its capital, which is a broader concept than "capital" on the face of the balance sheet, in order to:

- comply with the capital requirements set by the National Bank of Serbia;
- ensure the possibility of a long-term going concern of operations with providing of profit to shareholders and benefits to other stakeholders; and
- provide a solid capital base to support the development of its business.

The Bank manages the capital structure and performs adjustments in accordance with changes in economic conditions and risk related to the Bank's operations. The Bank's management monitors regularly the Bank's capital adequacy ratios and other ratios established by the National Bank of Serbia and delivers quarterly reports on achieved values of ratios.

In accordance with the Law on Banks and relevant decisions of the National Bank of Serbia, banks are obliged to maintain minimal capital in the amount of EUR 10 million, in Dinar counter value translated at the official median exchange rate, a capital adequacy ratio of at least 12%, as well as to comply the volume and structure of its operations with ratios prescribed by the Decision on risk management ("Official Gazette of the Republic of Serbia", no. 45/2011, 94/2011, 119/2012 and 123/2012) and the Decision on capital adequacy ("Official Gazette of the Republic of Serbia", no. 46/2011).

The Decision on the capital adequacy of banks, adopted by the National Bank of Serbia, establishes the method of calculating the capital adequacy. The Bank's total capital comprises Tier 1 and Tier 2 capital, and by prescribed deductible items, while the risk weighted on balance sheet assets and off-balance sheet items are determined in accordance with the prescribed risk ratios for all types of assets.

Tier 1 capital is defined by the aforementioned Decision and must be at least 50% of the total capital. The capital adequacy ratio of the Bank is equal to the ratio of the Bank's capital and the sum of the risk-weighted assets, capital requirement in relation to foreign currency risk which is multiplied by the reciprocal value of the capital adequacy indicators (the prescribed 12%) and capital requirements in relation to other market risks multiplied with the reciprocal value of the capital adequacy indicators.

33. RISK MANAGEMENT (continued)

33.10. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as at 31 December 2012 and 2011, as well as the capital adequacy ratio:

In RSD thousand

	2012	2011
Share capital		
The nominal value of paid-in shares, other than preferred	10,040,000	10,040,000
Share premium	124,475	124,475
Reserves from profit	1,843,171	1,054,168
Retained earnings from previous years	14,815	21,510
Intangibles	(357,551)	(295,083)
Unrealized losses on securities available for sale	(1,470)	(1,470)
Required reserve from profit for estimated losses on the bank's balance sheet assets and off-balance sheet items	(633,527)	-
	11,029,913	**10,943,600**
Supplementary capital		
Part of the Bank's revaluation reserves	28,039	23,449
Subordinated liabilities	2,267,218	2,258,450
	2,295,257	**2,281,899**
Deduction from capital		
The amount by which are exceeded the qualified investments in entities which are not in the financial sector	3,925	2,888
Required reserves for estimated losses on balance sheet assets and off-balance sheet items of banks according to the decision on the capital adequacy of the bank, Article 427, Paragraph 1	1,900,581	2,436,112
	1,904,506	**2,439,000**
Total (1):	**11,420,664**	**10,786,499**
Risk-weighted balance sheet and off-balance sheet assets		
Capital requirement for credit risk, counterparty risk and settlement/delivery on the basis of free delivery	5,673,706	4,780,948
Capital requirement for price risk	2,531	6,038
Capital requirement for foreign exchange risk	46,145	24,097
Capital requirement for operational risk	699,511	627,997
Capital adequacy ratio (1/2 x 100)	**21.34**	**24.37**

33. RISK MANAGEMENT (continued)

33.11. Fair value of the financial assets and liabilities

It is a policy of the Bank to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their carrying amounts.

In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot be reliably determined in the absence of an active market. The Bank's management assesses its overall risk exposure, and in instances in which it estimates that the book value of assets may not have been realized, it recognizes a provision.

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

Financial Instruments whose Fair Value approximates Their Carrying Value

It is assumed that the carrying values of liquid financial assets and liabilities or with short-term maturities (up to 3 months) approximate their fair value. This assumption also relates to demand deposits, savings deposits without maturity period and financial instruments with variable interest rates.

Fixed-rate Financial Instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt instruments the fair values are calculated based on quoted market prices. For those instruments issued where quoted market prices are not available, a discounted cash flow model based on current interest rate yield curve appropriate for the remaining term to maturity is used.

Financial Instruments Measured at Fair Value

Financial instruments, such as securities available for sale, are measured at fair value based on available market information, i.e., quoted market prices on the reporting date.

In RSD thousand

	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**73,060**	**255,442**	**-**	**328,502**
Treasury bills of the Republic of Serbia	-	255,442	-	**255,442**
Quoted bonds	73,060	-	-	**73,060**
Financial assets available for sale	**33,567**	**1,203,969**	**-**	**1,237,536**
Treasury bills of the Republic of Serbia	-	1,165,167	-	**1,165,167**
Quoted shares	18,807	-	-	**18,807**
Investment units	14,760	-	-	**14,760**
Unquoted shares	-	38,750	-	**38,750**
Other investments	-	52	-	**52**

34. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating Lease Commitments

The Bank has entered into commercial leases on computer equipment and vehicles.

The future minimum lease payments under operating non-cancellable leases are as follows:

In RSD thousand

	2012	2011
Up to 1 year	92,908	84,940
From 1 to 5 years	204,032	194,184
	296,940	**279,124**

(b) Litigation

The final outcome of the legal proceedings still in progress is uncertain. As disclosed in Note 28 to the financial statements, as at 31 December 2012 the Bank recognized provisions for potential losses that may arise from disputes with estimated negative results in the total amount RSD 64,075 thousand (31 December 2011: RSD 47,700 thousand). The Bank's management considers that no material losses will arise from the remaining litigations still in course, other than those provided for.

The Bank is subject to a number of lawsuits, as a plaintiff for the purpose of collecting its receivables. All disputed receivables from corporate and retail customers the Bank assessed appropriate provisions charged to current and previous years result.

(c) Tax Risks

The tax system in the Republic of Serbia is undergoing continuous amendments. The tax period in the Republic of Serbia is opened during the period of 5 years. In different circumstances, tax authorities could have a different approach to some problems, and could detect additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are fairly presented in accordance with existing regulations.

35. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 20 of the Law on Accounting and Auditing, the Bank performed reconciliation of receivables and payables with its debtors and creditors, and it maintains credible documentation on the circularization process.

The Bank submitted the confirmations to its customers and debtors with the outstanding balance of receivables/payables as at 30 November 2012. Based on the exchanged confirmations, the following receivables and payables remained unreconciled:

The total amount of disputed confirmations in the amount RSD 1,268,566 thousand.

The underlying reason for disputed confirmations are incorrect addresses (RSD 1,162,323 thousand) and disclaimer of confirmations (RSD 106,243 thousand).

The total amount of reconciled receivables is RSD 28,839,026 thousand.

36. EXCHANGE RATES

The official exchange rates of the National bank of Serbia, determined on the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies as at 31 December 2012 and 2011 into functional currency were as follows:

		in RSD
	2012	2011
EUR	113.7183	104.6409
USD	86.1763	80.8662
CHF	94.1922	85.9121

37. SUBSEQUENT EVENTS

There have been no significant events subsequent to the reporting date, which would require adjustments and/or disclosures in the notes to the accompanying financial statements of the Bank as at and for the year ended 31 December 2012.

Novi Sad, 11 March 2013

Approved by the management of Erste Bank a.d., Novi Sad

Vlasta Putnik Head of Accounting and Finance Department	Suzan Tanriyar Member of the Executive Board	Slavko Carić President of the Executive Board