ERSTE BANK A.D., NOVI SAD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

CONTENT

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Building a better working world

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

INDEPENDENT AUDITORS' REPORT
TO THE OWNERS OF ERSTE BANK A.D. NOVI SAD

Report on Financial Statements

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 2013, 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 regulations of the National Bank of Serbia governing the 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 2013, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Accounting and regulations of the National Bank of Serbia governing the financial reporting of banks.

Belgrade, 11 March 2014

PREDUZEĆE ZA REVIZIJU Ernst & Young d.o.o. II BEOGRAD

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

Draško Popović
Authorised 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 160-0000000399176-13 kod Banca Intesa a.d. Beograd

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 2013

(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	7.333.386	6.513.786
60	Interest expenses	202	4	2.863.547	2.346.557
	Interest gains (201-202)	203		4.469.839	4.167.229
	Interest loss (202-201)	204		0	0
71	Fee and commission income	205	5	2.233.973	2.334.741
61	Fee and commission expenses	206	5	537.496	708.798
	Fee and commission gains (205-206)	207		1.696.477	1.625.943
	Fee and commission loss (206-205)	208		0	0
720-620	Net gains on the basis of sale of securities - fair value	209		3	0
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		4	1.568
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	259.597	2.814.493
766	Dividend and participation income	221		106	10.585
74.76 (766,799)	Other operating income	222	7	77.514	74.133
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	961.052	887.315
63	Expences of wages and salaries, salary fees and other personal expenses	225	9	1.619.176	1.595.216
642	Depreciation expenses	226	10	245.825	211.830
64 (642), 66 (669)	Operational and other expenses	227	11	2.405.425	2.199.096
77	Income from the change of the value of assets and liabilities	228	12	2.926.217	6.494.994
67	Loss from the change of the value of assets and liabilities	229	13	2.533.965	3.590.421
	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		1.125.120	1.076.081
	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		1.125.120	1.076.081
	Result for the period; pre-tax loss (231-230+233-232)	235		0	0
850	Profit tax	236	14	2.265	2.359
861	Profit from created deferred tax assets and reduction of deferred tax liabilities	237	14	0	176.370
860	Loss from created deferred tax assets and reduction of deferred tax liabilities	238		63.478	0
	Profit (234-235-236+237-238)	239		1.059.377	1.250.092
	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
20.02.2014.

Person responsible for financial statement making
Stevan Čomić

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

BALANCE SHEET
AS OF 31st DECEMBER 2013

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	7.885.991	7.370.004
01,06	Loans and deposits repayable on demand	002	16	18.176.784	7.170.274
02,08	Interest and fee receivables, receivables from sale, change of fair value of derivatives and other receivables	003	17	798.900	357.939
10,11,20,21	Granted loans and deposites	004	18	58.211.657	55.648.156
12 (excluding 128),22	Securities (excluding own shares)	005	19	10.234.547	7.862.110
13,23	Participations in capital	006	19	50	52
16,26	Other placements	007	20	549.695	260.764
33	Intangible assets	008	21	411.865	357.551
34,35	Fixed assets and investment property	009	21	707.363	729.299
36	Fixed assets intended for sale and assets of operation suspended	010		0	0
37	Deferred tax assets	011		107.551	172.062
03,09,19,29,30,38	Other assets	012	22	857.816	762.096
842	Loss above capital amount	013		0	0
	TOTAL ASSETS (FROM 001 TO 013)	014		**97.942.219**	**80.690.307**

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	15.324.812	12.462.894
from 401 to 405 from 501 to 505	Other deposites	102	24	39.457.975	29.348.336
from 406 to 409 from 506 to 509	Received loans	103	25	23.420.615	20.219.867
41,51	Liabilities against securities	104		1.465.000	1.465.000
42,52	Interest and fee liabilities, and liabilities from change of fair value of derivatives	105	26	26.647	23.869
450 do 454	Provisions	106	27	461.839	418.652
456,457	Tax liabilities	107		56.053	18.272
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		0	0
43 (excluding 434), 44,48,49,53,58,59	Other liabilities	111	28	3.369.901	3.434.074
	TOTAL LIABILITIES (FROM 101 TO 111)	112		**83.582.842**	**67.390.964**
80 (excluding 803) - 128	Capital	113	29	10.164.475	10.164.475
81	Reserves from profit	114	29	2.534.108	1.843.171
82 (excluding 823)	Revaluations reserves	115	29	39.870	32.988
823	Non-realised losses based on securities available for sale	116	29	7.230	6.198
83	Profit	117	29	1.628.154	1.264.907
84 (842)	Loss up to the level of capital	118			
	TOTAL CAPITAL (113+114+115+117-116-118)	119		**14.359.377**	**13.299.343**
	TOTAL LIABILITIES (112+119)	120		**97.942.219**	**80.690.307**
	OFF-BALANCE SHEET POSITIONS (FROM 123 TO 127)	121		**32.308.287**	**30.598.458**
90 alternatively 95	Operations on behalf of and for the account of third parties	122	30	755.714	780.975
91 (excluding 911,916) alternatively 96 (961,966)	Assumed future liabilities	123	30	12.941.471	9.730.334
911,916,932 alternatively 961,966,982	Received guarantees for liabilities	124		0	0
92 alternatively 97	Derivatives	125	30	0	792.810
93 (excluding 932) alternatively 98 (excluding 982)	Other off-balance sheet positions	126	30	18.611.102	19.294.339

Novi Sad
20.02.2014.

Person responsible for financial statement making
Stevan Čomić

ERSTE BANK a.d. NOVI SAD

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 2013

(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	**9.105.106**	**8.585.970**
1. Interest inflow	302	6.810.078	6.161.597
2. Fee inflow	303	2.217.857	2.331.974
3. Inflow on the basis of other operating income	304	77.065	81.814
4. Inflow of dividends and participations in profit	305	106	10.585
II. Cash outflow from operating activities (from 307 to 311)	306	**7.005.271**	**6.749.380**
5. Interest outflow	307	2.773.587	2.261.681
6. Fee outflow	308	534.685	697.568
7. Outflow on the basis of gross salaries, salary fees, and other personal expenses	309	1.617.404	1.594.533
8. Taxes, contributions and other duties charged to income	310	285.344	305.561
9. Outflow on the basis of other operating costs	311	1.794.251	1.890.037
III Net cash inflow from operating activities before loans and deposit increase or decrease (301 minus 306)	312	**2.099.835**	**1.836.590**
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	**12.971.557**	**3.123.711**
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	12.971.557	3.123.711
VI. Increase in lending and decrease in deposits received (from 319 to 321)	318	**15.433.548**	**3.746.090**
13. Increase in credits and lending to banks and clients	319	14.635.155	1.315.456
14. Increase in securities at fair value through income statement, tradable investment and short-term securities held to maturity	320	798.393	2.430.634
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	**0**	**1.214.211**
VIII. Net cash outflow from operating activities before profit tax (313 plus 318 minus 312 minus 314)	323	**362.156**	**0**
16. Profit tax paid	324	979	0
17. Dividends paid	325	0	0
IX. Net cash inflow from operating activities (322 minus 323 minus 324 minus 325)	326	**0**	**1.214.211**
X. Net cash outflow from operating activities (323 minus 322 plus 324 plus 325)	327	**363.135**	**0**
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflows from investing activities (from 329 to 333)	328	**106**	**761.486**
1. Long-term investment in securities	329	0	761.098
2. Sale of interest (stake)	330	106	388
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	**1.849.223**	**254.455**
6. Investment in long-term securities	335	1.570.965	0
7. Purchase of interest (stake)	336	0	0
8. Purchase of intangible investment and fixed assets	337	278.258	254.455
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	**0**	**507.031**
IV. Net cash outflow from investing activities (334 minus 328)	341	**1.849.117**	**0**
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (from 343 to 348)	342	**3.280.291**	**4.254.005**
1. Capital increase	343	0	0
2. Subordinated liabilities, net	344	0	0
3. Credits received, net	345	3.280.291	2.626.409
4. Securities, net	346	0	1.465.000
5. Sale of own shares	347	0	0
6. Other inflows from financing activities	348	0	162.596
II. Cash outflows from financing activities (from 350 to 354)	349	**292.454**	**23.082**
7. Purchase of own shares	350	0	0
8. Subordinated liabilities, net	351	216.275	23.082
9. Credits received, net	352	0	0
10.Securities, net	353	0	0
11.Other outflows from financing activities	354	76.179	0
III. Net cash inflow from financing activities (342 minus 349)	355	**2.987.837**	**4.230.923**
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	**25.357.060**	**16.725.172**
E. TOTAL NET OUTFLOW OF CASH (306 plus 318 plus 324 plus 325 plus 334 plus 349)	358	**24.581.475**	**10.773.007**
F. NET INCREASE IN CASH (357 minus 358)	359	**775.585**	**5.952.165**
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	**7.370.004**	**4.232.332**
I. EXCHANGE RATE GAINS	362	**5.344.918**	**9.187.360**
J. EXCHANGE RATE LOSSES	363	**5.604.516**	**12.001.853**
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	**7.885.991**	**7.370.004**

Novi Sad

20.02.2014

Person responsible for financial statement making

Stevan Čomić

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 2013

(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 81)	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 2012.	401	10.040.000	414	0	427	0	440	124.475	453	1.054.168	466	26.054	479	810.513	492	0	505	0	518	3.929	531	12.051.281	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 2012. (no. 1+2-3)	404	10.040.000	417	0	430		443	124.475	456	1.054.168	469	26.054	482	810.513	495	0	508	0	521	3.929	534	12.051.281	547	
5	Total increase in the prior year	405	0	418	0	431		444	0	457	789.003	470	20.071	483	1.252.450	496		509		522	2.269	535	2.059.255	548	
6	Total decrease in the prior year	406		419	0	432		445		458	0	471	13.137	484	798.056	497		510	0	523		536	811.193	549	
7	**Balance as at 31 December of the prior year 2012. (no. 4+5-6)**	**407**	**10.040.000**	**420**	**0**	**433**		**446**	**124.475**	**459**	**1.843.171**	**472**	**32.988**	**485**	**1.264.907**	**498**	**0**	**511**	**0**	**524**	**6.198**	**537**	**13.299.343**	**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 2013. (no. 7+8-9)**	410	**10.040.000**	423	0	436		449	**124.475**	462	**1.843.171**	475	**32.988**	488	**1.264.907**	501	0	514	0	527	**6.198**	540	13.299.343	**553**	
11	Total increase in the current year	411		424		437		450		463	690.937	476	8.777	489	1.061.642	502		515		528	1.099	541	1.760.257	554	
12	Total decrease in the current year	412		425		438		451		464		477	1.895	490	698.395	503		516		529	67	542	700.223	555	
13	Balance as at 31 December of the current year 2013. (no. 10+11-12)	413	**10.040.000**	426	0	439		452	**124.475**	465	**2.534.108**	478	**39.870**	491	**1.628.154**	504	**0**	517	**0**	530	**7.230**	543	**14.359.377**	556	

Novi sad
20.02.2014

Person responsible for financial statement making
Stevan Comić

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 2013

(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	873.712	840.271
631	Expenses for compensations of wages	602	164.186	157.283
632	Expenses for tax on wages and compensations of wages	603	141.484	154.441
633	Expanses for contributions for wages and compensations of wages	604	262.254	233.093
634	Expenses for fees for temporary and occasional work	605	0	0
635	Other personal expenses	606	177.540	210.128
642	Depreciation expenses	607	245.825	211.830
part 643	Insurance premium expenses	608	162.295	141.315
part 643	Compensation of employee costs	609	63.520	55.623
part 641	Rental expenses	610	369.256	356.707
644	Tax expenses	611	43.359	43.045
645	Contribution expenses	612	279.757	254.171
part 746	Rental income	613	4.931	3.078
68	Exchange rate losses	614	5.604.514	12.001.853
78	Exchange rate gains	615	5.344.917	9.187.360
30	Inventories	616	40.751	1.657
	Avarage number of employees based on the balance at the end of each month of the business year (integer)	617	976	990
	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

20.02.2013.

Person responsible for financial statement making

Stevan Čomić

ERSTE BANK a.d. NOVI SAD

Executive Committee President:

Slavko Carić

Executive Committee Member:

Suzan Tanriyar

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2013

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 (Erste Group Bank) 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 as well as 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, 47 branches, 9 sub-branches, 1 outlet and 4 counters.

The Bank had 972 employees as at 31 December 2013 (31 December 2012: 993 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 2013 have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, which are based on the Law on Accounting ("Official Gazette of the Republic of Serbia", no. 62/2013), 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis of Preparation and Presentation of the Financial Statements (continued)

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

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

These financial statements are presented in Republic of Serbia Dinars ("RSD") and all values are rounded to the nearest thousand (RSD'000) except when otherwise indicated. Dinar (RSD) represents the 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 historical cost convention, except for the measurement at fair value of securities held for trading as well as securities available for sale.

The accompanying financial statements 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 2012.

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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

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 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 and Republic of Croatia 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.

2.6.2. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

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 recognized 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

Impairment of Loans and Other Financial Assets (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and 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.

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

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. Unrealized gains and losses are recognized 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 recognized in equity, are recognized in the income statement.

Equity instruments represent 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 and unworkable. Therefore, available-for-sale investment equity securities 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.

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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.6. Issued Financial Instruments and Other Financial Liabilities (continued)

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.

2.7. 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. Special Reserves for Estimated Losses on Bank Balance Sheet Assets and Off-balance Sheet Items

Special reserves for potential losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items ("Official Gazette of the Republic of Serbia", no. 94/2011, 57/2012, 123/2012 and 43/2013 and Decisions about changes and amendment on classification of balance sheet assets and off-baalance sheet items 113/2013).

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, the amount of the special reserves against potential losses is calculated by applying the following percentages: A (0%), B (2%), V (15%), G (30%) and D (100%).

In its enactments, the Bank defined in more detail criteria and methodology for the calculation of special reserves for estimated losses within the percentage bands from the Decision. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Special Reserves for Estimated Losses on Bank Balance Sheet Assets and Off-balance Sheet Items (continued)

Special reserves for estimated losses are reduced by allowances for impairment of balance sheet assets and provisions against losses on off-balance sheet items, which are calculated in accordance with the Bank's accounting policy disclosed in Note 2.6.3. and charged to the income statement (Note 8). All positive differences will constitute the necessary reserves for estimated losses on balance sheet assets and off balance sheet items which are deducted from equity in accordance with the National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items. The Bank is required to maintain capital at any moment at a level which is necessary to cover all risks to which the Bank is exposed and the capital adequacy ratio shall be maintained at the level that is not below 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), checks and foreign currency current accounts held with other domestic banks and foreign banks (Note 15).

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 programs 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 recognized 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.

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

Contingent liabilities are not recognized in the financial statements. 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 Labor 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 favorable 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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)).

2.18. 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 15% 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 180 days after the date of expiry of financial year end, i.e. until the 30 June 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 33% 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. The currently-enacted tax rates or the substantively-enacted rates at the balance sheet date are used to determine the deferred income tax amount. The tax of 15 % is provided for calculation of amount deferred income tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Taxes and Contributions (continued)

(a) Income Taxes (continued)

Deferred Income Tax (continued)

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled.

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 it is not obliged to calculate and disclose the earning per share as required by IAS 33 "Earning per Share".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 on Behalf of Third Parties

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation 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.).

In the case of assessment of impairment losses on loans, the Bank reviews its loan portfolio in the event of provision on a group basis (regardless of whether they are in the status of default or not), at least once a month to assess impairment in their value. Individual assessment of impairment is performed in the case of changes in assumptions for the calculation of future cash flows and their revision is done at least once every quarter.

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 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(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.

(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 2,208 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 recognized 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(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.

4. INTEREST INCOME AND EXPENSE

RSD thousands

	2013	2012
Interest income		
- Banks	1,299,355	607,533
- Public companies	215,335	294,665
- Other companies	1,781,459	1,940,437
- Enterpreneurs	81,072	109,693
- Public sector	905,563	754,576
- Retail customers	2,997,280	2,734,256
- Foreign customers	5,265	3,421
- Agricultural sector	39,270	61,303
- Other customers	8,787	7,902
Total	**7,333,386**	**6,513,786**
Interest expense		
- Banks	647,753	273,440
- Public companies	198,446	7,796
- Other companies	537,848	448,775
- Enterpreneurs	1,262	1,221
- Public sector	172,854	136,143
- Retail customers	677,135	737,549
- Foreign entities	561,773	690,632
- Other customers	66,476	51,001
Total	**2,863,547**	**2,346,557**
Net interest income	**4,469,839**	**4,167,229**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2013

4. INTEREST INCOME AND EXPENSE (continued)

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:

	RSD thousands	
	2013	2012
Interest income		
Loans	5,824,820	5,463,245
REPO transactions	496,490	225,531
Treasury bills of the Ministry of Finance	890,087	738,031
Obligatory reserve	99,462	63,451
Deposits	5,775	9,529
Securities	2,584	56
Other placements	14,168	13,943
Total	**7,333,386**	**6,513,786**
Interest expense		
Loans	569,734	736,734
Deposits	2,073,989	1,573,198
Securities	219,750	36,625
Other placements	74	-
Total	**2,863,547**	**2,346,557**
Net interest income	**4,469,839**	**4,167,229**

5. FEE AND COMMISSION INCOME AND EXPENSE

	RSD thousands	
	2013	2012
Fee and commission income		
Domestic payment transactions services	392,566	371,816
International payment transaction services	116,939	104,020
Foreign exchange transactions	280,485	568,470
Loans	562,555	554,270
Debit and credit cards operations	337,597	255,043
Guarantees and other warranties	139,486	132,925
Other fees and commission	404,345	348,197
Total	**2,233,973**	**2,334,741**
Fee and commission expense		
Domestic payment transaction services	34,984	32,130
International payment transaction services	18,207	14,672
Foreign exchange transactions	133,207	384,562
Loans	213,021	181,326
Debit and credit cards services	110,067	71,733
Other fees and commissions	28,010	24,375
Total	**537,496**	**708,798**
Net fee and commission income	**1,696,477**	**1,625,943**

5. FEE AND COMMISSION INCOME AND EXPENSE

5a. Profits from the sale of securities

RSD thousands

	2013	2012
Investments in equity securities available for sale	4	1,568
Total	**4**	**1,568**

6. NET FOREIGN EXCHANGE LOSSES

RSD thousands

	2013	2012
Foreign exchange gains	5,344,918	9,187,361
Foreign exchange losses	(5,604,515)	(12,001,854)
Net foreign exchange losses	**(259,597)**	**(2,814,493)**

7. OTHER OPERATING INCOME

RSD thousands

	2013	2012
Income from sales of fixed and intangible assets	22,318	19,509
Other operating income	19,265	32,618
Other income from operating activities	35,931	22,006
Total	**77,514**	**74,133**

8. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS AND PROVISIONS

In RSD thousands

	2013	2012
Expenses from indirect write- offs of placements and provisions		
– Interest, fees and sales receivables(Note 17)	(158,247)	(160,830)
– Loans and advances (Note 18(d))	(6,021,740)	(8,624,176)
- Cash and cash equivalents	(14,806)	-
– Securities(Note 19)	(207,565)	(73,231)
– Other placements (Note 20)	(1,391,454)	(233,543)
– Other assets (Note 22)	(59,131)	(106,957)
	(7,852,925)	**(9,198,737)**
Provisions for losses on off-balance sheet assets (Note 28)	(882,550)	(1,132,073)
Provisions for litigation (Note 28)	(10,762)	(19,949)
	(893,312)	**(1,152,022)**
Total	**(8,746,255)**	**(10,350,759)**
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)	149,728	146,327
– Loans and advances (Note 18(d))	5,182,144	7,681,089
- cash and cash equivalents	7,424	-
– securities(Note 19)	93,424	74,758
-other placements (Note 20)	1,236,780	140,244
– other assets (Note 22)	54,777	10,788
	6,724,277	**8,053,206**
Release of provision for losses off-balance sheet assets (Note 28)	900,743	1,193,348
Income from collected suspended interest	136,584	216,890
Release of other provisions (Note 27)	3,599	-
Total	**7,765,203**	**9,463,444**
Impairment losses and provisions, net	**(981,052)**	**(887,315)**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2013

9. SALARIES AND OTHER PERSONNEL EXPENSES

	2013	2012
	RSD thousands	
Net salaries	1,037,898	997,554
Tax and contributions payable on behalf of employees	403,738	387,533
Severance payments, jubilee awards, bonuses and holiday allowance	165,782	198,893
Other personnel expenses	11,758	11,236
Total	**1,619,176**	**1,595,216**

10. DEPRECIATION AND AMORITIZATION EXPENSE

	2013	2012
	RSD thousands	
Depreciation and amortization expense:		
– tangible assets (Note 21)	91,715	94,609
– intangible assets (Note 21)	154,110	117,221
Total	**245,825**	**211,830**

11. OTHER OPERATING EXPENSES

	2013	2012
	RSD thousands	
Professional services	643,059	581,216
Donations and sponsorships	44,676	52,303
Advertising, marketing and representation	270,423	271,902
Telecommunication services and postage	65,117	64,403
Insurance premiums	162,296	141,315
Rental cost	384,334	374,047
Material	110,166	110,397
Taxes and contributions	81,591	64,360
Maintenance of tangible assets and software	189,527	186,436
Losses on sale and disposal of fixed and intangible assets	340	388
Payroll contributions payable by the employer	243,924	235,255
Per diems and travel expenses	73,666	63,262
Education and counseling	21,344	20,707
Other expenses	114,961	33,105
Total	**2,405,424**	**2,199,096**

12. GAINS FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2013	2012
	RSD thousands	
Income from changes in value of placements and receivables	2,747,720	6,073,675
Income from changes in value of securities	10,534	25,240
Income from changes in value of liabilities	160,291	240,836
Income from changes in value of derivatives	7,672	155,243
Total	**2,926,217**	**6,494,994**

13. LOSSES FROM CHANGES IN VALUE OF ASSETS AND LIABILITIES

	2013	RSD thousands 2012
Losses from changes in value of placements and receivables	2,354,971	3,110,820
Losses from changes in value of securities	7,458	20,045
Losses from changes in value of liabilities	163,856	312,125
Losses from changes in value of derivatives	7,680	147,431
Total	**2,533,965**	**3,590,421**

14. INCOME TAX

(a) Components of Income Tax

Components of income tax/(expenses) are:

	2013	RSD thousands 2012
Current income tax	(2,265)	(2,359)
Income from deferred tax assets and decrease of deferred tax liabilities	-	176,370
Loss from deferred tax assets and decrease of deferred tax liabilities	(63,478)	-
Total	**(65,743)**	**174,011**

The outstanding balance of prepaid current income tax amounts to RSD 3,286 thousand as an advance payment for the current income tax liability for 2013. From this prepaid amount the tax liability (amounted to RSD 2,265 thousand) for income tax for 2013 will be covered.

14. INCOME TAX (continued)

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

	In RSD thousands 2013	2012
Profit before tax	**1,125,121**	**1,076,081**
Income tax at the rate of 15%	**168,768**	**107,608**
Tax effects of expenses not recognised for the tax purposes	30,189	31,263
Effects of usage of tax loss carry forwards with respect to deferred tax assets that were not recognized	-	(138,871)
Dividend income deductible for tax purposes	(1,115)	(2,359)
Recognition of deferred tax assets with respect to tax loss carryforwards	-	164,993
Non-taxable income	(139,427)	-
Other	7,328	(6,659)
Total income tax reported in the Income Statement	**(65,743)**	**(174,011)**
Effective tax rate	***5,84%***	***16,17%***

(c) Deferred tax assets and deferred tax liabilities

In RSD thousands

	Deferred tax asset 2013	Deferred tax liabilities 2013	Deferred tax asset 2012	Deferred tax liabilities 2012
Temporary differences in fixed assets	-	(261)	11,377	-
Temporary differences in securities avaliable for sales	-	(1,032)	-	(4,308)
Carry forward losses from previous years	108,844	-	164,993	-
	108,844	**(1,293)**	**176,370**	**(4,308)**

(d) Deferred tax credits on the basis of which deferred tax assets were not recognized

As at 31 December 2013 The Bank has transferred a tax credit based on investments in fixed assets, for which did not recognize deferred tax assets, in the amount of RSD 53.058 thousand.

Right to transfer unused tax credits expires in the following periods:

	RSD thousands Tax credits 2013	Tax credits 2012
From 1 to 5 years	47,667	42,982
More than 5 years	5,391	9,188
Ukupno	**53,058**	**52,170**

15. CASH AND CASH EQUIVALENTS

	RSD thousands	
	2013	2012
In RSD		
Gyro account	3,354,490	4,021,931
Cash on hand	1,343,904	1,079,580
Cash equivalents	48,857	582,407
	4,747,251	**5,683,918**
In foreign currency		
Current accounts held with foreign banks	2,414,420	1,053,939
Foreign currency cash on hand	731,296	632,124
Cash equivalents	23	23
	3,145,739	**1,686,086**
Gross receivables	**7,892,990**	**7,370,004**
Minus: allowance	(6,999)	-
Balance as at 31 December	**7,885,991**	**7,370,004**

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

Obligatory reserve represents the minimum reserve in RSD set aside in accordance with the National Bank of Serbia on mandatory reserves with the National Bank of Serbia ("Official Gazette of the Republic of Serbia", no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012 and 62/2013), which provides that banks calculate obligatory Reserves at the rate of 5% on the average daily balance of local currency liabilities with agreed maturity up to two years, or at the rate of 0% on the average daily balance local currency liabilities with agreed maturity of over two years, during one calendar month.

During the period the Bank is required to maintain the average daily balance of required reserve on its bank account.

Calculated obligatory reserve whose level has to be maintained on the bank account for the period from 18 December 2013 to 17 January of 2014 amounted to RSD 4,231,573.

The average interest rate on the amount of bank reserves during the year 2013 amounted to 2.50% per annum.

16. REVOCABLE DEPOSITS AND LOANS

		RSD thousand
	2013	**2012**
Due from the National Bank of Serbia for repurchase transactions	7,501,561	701,165
In foreign currency		
Obligatory reserves with the National Bank of Serbia	10,675,223	6,469,109
Balance as at 31 December	**18,176,784**	**7,170,274**

Obligatory reserves represent the minimum foreign currency set aside in accordance with the National Bank of Serbia on mandatory reserves with the National Bank of Serbia ("Official Gazette of the Republic of Serbia ", no . 3/2011 , 31/2012 , 57/ 2012, 78/2012 , 87/ 2012, 107/2012 and 62 /2013), which provides that banks calculate obligatory reserve rate of 29 % of the average daily balance of foreign currency deposits with agreed maturity up to two years, and the amount of local currency funds that are indexed currency clause with agreed maturity up to two years at a rate of 50 %, then, at the rate of 22 % of the average daily balance of foreign currency liabilities with agreed maturity of over two years, and the amount of local currency funds that are indexed currency clause with agreed maturity of over two years in the course of one calendar month at a rate of 50 %.

Foreign currency obligatory reserves for the period from 18 December 2013 to 17 January in 2014 amounted to EUR 62,518 thousand.

On the average balance of obligatory reserves in foreign currency, the National Bank of Serbia does not pay interest.

Receivables reverse repurchase transactions amounting to RSD 7,501,560 thousand as at 31 December 2013 relate to the purchase of treasury bills of the National Bank of Serbia with maturities of 7 days and an interest rate of 7.49% per annum

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

		RSD thousand
	2013	**2012**
In dinars		
Interest and fees receivable:		
- Banks	515,195	66,129
- Public companies	82	973
- Other companies	222,453	206,932
- Entrepreneurs	13,817	18,279
- Public sector	730	766
- Retail customers	81,879	80,480
- Foreign entities	509	427
- Agriculture	8,760	9,393
- Other customers	53,355	51,359
Receivables from sales	496	39
	897,276	**434,777**
In foreign currency		
Interest and fees receivable:		
- Other companies	56,538	56,315
- Entrepreneurs	52	52
- Foreign entities	1,411	61
- Other customers	17,581	17,439
	75,582	**73,867**
Gross receivables	**972,858**	**508,644**
Less: Allowance for impairment	(173,958)	(150,705)
Balance as at 31 December	**798,900**	**357,939**

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

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

		RSD thousand
	2013	**2012**
Interest and fee receivables		
Balance as at 1 January	150,705	183,178
Charge for the year	158,247	160,791
Reversal of impairment losses	(149,728)	(146,327)
Foreign exchange differences	14,734	(46,976)
Balance as at 31 December	**173,958**	**150,666**
Receivables from sales		
Balance as at 1 January	-	-
Charge for the year	-	39
Reversal of impairment losses	-	-
Foreign exchange differences	-	-
Balance as at 31 December	**-**	**39**
Total		
Balance as at 1 January	150,705	183,178
Charge for the year (Note 8)	158,247	160,830
Reversal of impairment losses (Note 8)	(149,728)	(146,327)
Foreign exchange differences	14,734	(46,976)
Balance as at 31 December	**173,958**	**150,705**

18. LOANS AND ADVANCES

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

RSD thousand

	2013			2012		
In dinars	**Short-term**	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
Loans and advances:						
- Banks	167,659	204,666	372,325	698,971	210,280	909,251
- Public companies	3,119	4,592,747	4,595,866	5,135	4,564,386	4,569,521
- Other companies	8,427,019	19,126,421	27,553,440	5,583,224	23,089,985	28,673,209
- Entrepreneurs	337,952	512,510	850,462	252,362	694,334	946,696
- Public sector	16,155	246,490	262,645	11,175	289,401	300,576
- Retail customers	1,365,642	22,476,998	23,842,640	1,181,135	20,894,118	22,075,253
- Foreign entities	19	503	522	16	-	16
- Agriculture	200,346	214,226	414,572	162,766	346,924	509,690
- Other customers	1,835,830	86,477	1,922,307	1,554,121	68,391	1,622,512
Total	**12,353,741**	**47,461,038**	**59,814,779**	**9,448,905**	**50,157,819**	**59,606,724**
In foreign currency						
Loans and advances:						
- Banks	65,719	-	65,719	65,191	-	65,191
- Other companies	1,409,731	73,760	1,483,491	1,444,732	70,076	1,514,808
- Public sector	11,656	-	11,656	13,181	-	13,181
- Foreign entities	3,209,979	-	3,209,979	-	-	-
- Other customers	311,700	-	311,700	309,188	-	309,188
Total	**5,008,785**	**73,760**	**5,082,545**	**1,832,292**	**70,076**	**1,902,368**
Gross loans and advances	**17,362,526**	**47,534,798**	**64,897,324**	**11,281,197**	**50,227,895**	**61,509,092**
Less: Allowance for impairment (Note 18(d)):						
- Individually assessed			(4,212,729)			(3,717,735)
- Collectively assessed			(2,472,938)			(2,143,201)
Balance as at 31 December			**58,211,657**			**55,648,156**

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

18. LOANS AND ADVANCES (continued)

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

(b) 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 2013 and 31 December 2012, is as follows:

		RSD thousand
	2013	**2012**
Loans in arrears (overdue receivables)	10,054,090	6,167,723
Up to 30 days	3,179	16
From 1 to 3 months	1,334,056	129,644
From 3 to 12 months	5,971,200	4,046,208
Over 1 year	47,534,799	51,165,501
	64,897,324	**61,509,092**

Maturity structure of loans in arrears is as follows:

		RSD thousand
	2013	**2012**
Up to 30 days	3,550,842	971,500
From 1 to 3 months	257,409	651,763
From 3 to 12 months	1,154,310	354,565
Over 1 year	5,091,529	4,189,895
	10,054,090	**6,167,723**

18. LOANS AND ADVANCES (continued)

(c) Industry Concentration of Loans and Advances

As at 31 December 2013 and 31 December 2012, the gross loan and advances portfolio of the Bank is concentrated on the following sectors:

	2013	RSD thousand 2012
Trade	6,668,551	7,627,124
Manufacturing	11,461,603	10,331,405
Construction	2,238,252	2,731,854
Production and distribution energy	1,863,296	1,512,753
Services and tourism	9,280,807	10,385,026
Agriculture and food industry	2,120,289	2,169,376
Population	23,842,656	22,075,269
Domestic and foreign banks and other financial institutions	3,648,023	974,442
The public sector	274,301	313,757
Foreign legal entities	505	-
Farmers	414,572	509,690
Other customer sector	2,234,007	1,931,700
Entrepreneurs	850,462	946,696
	64,897,324	**61,509,092**

(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:

	2013 RSD thousand	2012 RSD thousand
Balance as at 1 January	5,860,936	4,982,225
Charge for the year (Note 8)	6,021,740	8,624,176
Reversal of impairment losses (Note 8)	(5,182,144)	(7,681,089)
Write-offs of allowances	(1,539)	-
Foreign exchange differences	(13,326)	(64,376)
Balance as at 31 December	**6,685,667**	**5,860,936**

19. SECURITIES (EXCLUDING OWN SHARES)

	2013 RSD thousand	2012 RSD thousand
In dinars		
Securities available-for-sale:		
-Treasury bills of the Republic of Serbia	1,530,105	1,032,948
-Equity investments	143,383	144,328
Securities at fair value through profit or loss:		
-Treasury bills	769,277	50,000
Securities held-to-maturity:		
-Treasury bills of the Republic of Serbia	5,711,844	5,004,229
-Discounted corporate bills	1,296,945	1,707,203
	9,451,553	**7,938,708**
In foreign currency		
Securities held-for-trading	933,854	79,586
Securities available-for-sale	151,995	33,608
	1,085,848	**113,194**
Total securities	**10,537,401**	**8,051,902**
Less: Allowance for impairment	(302,854)	(189,792)
Balance as at 31 December	**10,234,547**	**7,862,110**

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

	2013 RSD thousand	2012 RSD thousand
Balance as at 1 January	189,792	191,428
Charge for the year (Note 8)	207,565	73,231
Reversal of impairment losses (Note 8)	(93,424)	(74,758)
Write-offs of allowance	(1,079)	(109)
Foreign exchange differences	-	-
Balance as at 31 December	**302,854**	**189,792**

Status of shares as at 31 December 2013 amounted to 50 thousand RSD (December 31, 2012 amounts to 52 thousand RSD).

20. OTHER PLACEMENTS

	2013 RSD thousand	2012 RSD thousand
In dinars		
Factoring	20,093	1
Receivables for guarantees paid	691,806	321,474
Other placements	244,864	173,139
	956,763	**494,614**
In foreign currency		
Other placements	125,438	137,676
	125,438	**137,676**
Gross other placements	**1,082,201**	**632,290**
Less: Allowance for impairment	(532,506)	(371,526)
Balance as at 31 December	**549,695**	**260,764**

Allowance for impairment of other placements as at 31 December 2013 mostly relates to allowance for impairment of overdue receivables for guarantee amounted to RSD 410,753 thousand.

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

	2013 RSD thousand	2012 RSD thousand
Balance as at 1 January	371,526	260,750
Charge for the year (Note 8)	1,391,454	233,543
Reversal of impairment losses (Note 8)	(1,236,780)	(140,244)
Foreign exchange differences	6,306	17,477
Balance as at 31 December	**532,506**	**371,526**

21. TANGIBLE AND INTANGIBLE ASSETS

COST	Land and buildings	Equipment	Equipment taken in finance leases	Construction in progress	Total tangible assets	Intangible assets
Balances as at 1 January 2012	**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**
Additions	-	-	-	296,872	296,872	-
Transfers	23,938	60,510	4,127	(297,000)	(208,427)	208,424
Disposals and write-offs	(31,254)	(63,357)	-	-	(94,611)	-
Balance as at 31 December 2013	**755,646**	**702,967**	**4,127**	**-**	**1,462,740**	**826,481**
AKUMULATED DEPRECIATION AND AMORTIZATION						
Balance as at 31 December 2012	**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**
Depreciation and amortization (Note 10)	18,542	71,586	1,587	-	91,715	154,110
Disposals and write-offs	(13,067)	(62,876)	-	-	(75,943)	
Balance as at 31 December 2013	**230,002**	**523,788**	**1,587**	**-**	**755,377**	**414,616**
Net book value as at:						
- 31 December 2013	**525,644**	**179,177**	**2,540**	**-**	**707,363**	**411,865**
- 31 December 2012	**538,435**	**190,736**	**-**	**128**	**729,299**	**357,551**

The Bank does not have buildings that are mortgaged to secure repayment of obligations on loans.

Due to incomplete land records, the Bank does not have a list of property for buildings with net book value of RSD 54,224 thousand (31 December 2012: RSD 53,320 thousand). Management has taken all necessary measures to obtain title deeds from the land records.

Net book value of equipment as of 31 December 2013 is comprised mostly from computer and telecommunication equipment, and office furniture. Net book value of intangible assets as of 31 December 2013 mostly comprises of software and licenses.

Based on management's estimates, as at 31 December 2013 there were no indications that the value of fixed assets and intangible assets was impaired.

22. OTHER ASSETS

	2013 RSD thousand	2012 RSD thousand
in Dinars		
Other receivables:		
-Advances paid	6,524	5,421
-Receivables from employees	4,545	26,237
- Inventories	142,740	122,254
- Other receivables	182,635	227,553
Accruals:		
- Accrued interest	543,630	463,587
- Other accruals	87,293	25,728
	967,367	**870,780**
In foreign currency		
Other receivables:		
-Advances paid	21,973	21,766
-Receivables from employees	1,425	1,154
- Other receivables	70,855	84,430
Accruals:		
- Accrued interest	13,205	9,170
- Accrued interest expenses	7,835	17,898
- Other accruals	4,212	-
	119,505	**134,418**
Gross other assets	**1,086,872**	**1,005,198**
Less: Allowance for impairment	(229,056)	(243,102)
Balance as at 31 December	**857,816**	**762,096**

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

	2013 RSD thousand	2012 RSD thousand
Balance as at 1 January	243,102	146,057
Charge for the year (Note 8)	59,131	106,957
Reversal of impairment losses (Note 8)	(54,777)	(10,788)
Write-offs charged to the allowance	(52)	-
Foreign exchange differences	(18,348)	876
Balance as at 31 December	**229,056**	**243,102**

23. TRANSACTION DEPOSITS

RSD thousand

	2013			2012		
	In dinars	In foreign currency	Total	In dinars	In foreign currency	Total
Other banks	2,435	5	2,440	2,611	-	2,611
Financial organizations	107,544	294,091	401,635	1,438,814	150,894	1,589,708
Companies	4,551,295	2,477,165	7,028,460	2,789,463	1,447,118	4,236,581
Public companies	15,222	1,024	16,246	143,107	1,581	144,688
Public sector	1,794	13,680	15,474	1,355	19,824	21,179
Entrepreneurs	560,216	76,165	636,381	466,231	59,709	525,940
Retail customers	2,078,872	3,421,296	5,500,168	1,592,024	2,532,356	4,124,380
Agriculture	274,722	-	274,722	203,975	-	203,975
Foreign entities	143,290	420,761	564,051	44,084	821,727	865,811
Other customers	715,524	169,711	885,235	577,594	170,427	748,021
Balance as at 31 December	**8,450,914**	**6,873,898**	**15,324,812**	**7,259,258**	**5,203,636**	**12,462,894**

24. OTHER DEPOSITS

RSD thousand

	2013			2012		
	Short-term	Long-term	Total	Short-term	Long-term	Total
In dinars						
Revocable deposits	2,485,697	-	2,485,697	-	-	-
Saving deposits:						
- Retail customers	671,831	469,520	1,141,351	462,139	230,016	692,155
- Foreign entities	5,052	20,043	25,095	1,210	806	2,016
Specific purpose deposits	606,517	412,209	1,018,726	254,160	283,955	538,115
Other deposits	6,535,293	613,649	7,148,942	5,527,882	140,584	5,668,466
Total	**10,304,390**	**1,515,421**	**11,819,811**	**6,245,391**	**655,361**	**6,900,752**
In foreign currency						
Saving deposits:						
- Retail customers	7,648,151	12,270,431	19,918,582	7,727,876	9,995,610	17,723,486
- Foreign entities	91,901	477,711	569,612	48,188	454,381	502,569
Specific purpose deposits	734,257	632,608	1,366,865	459,778	533,599	993,377
Other deposits	4,212,036	1,571,069	5,783,105	2,792,783	435,369	3,228,152
Total	**12,686,345**	**14,951,819**	**27,638,164**	**11,028,625**	**11,418,959**	**22,447,584**
Balance as at 31 December	**22,990,735**	**16,467,240**	**39,457,975**	**17,274,016**	**12,074,320**	**29,348,336**

Structure of other deposits by customer type is as follows:

	2013 RSD thousand	2012 RSD thousand
Banks	1,377,588	1,234,796
Financial organizations	4,619,088	2,231,100
Public companies	2,212,598	182,030
Public sector	37,989	184,268
Companies	7,635,981	4,932,248
Retail customers	21,774,693	19,309,800
Foreign banks	-	51,800
Foreign entities	600,764	562,272
Entrepreneurs	9,662	7,627
Agriculture	267	267
Other customers	1,189,345	652,128
Balance as at 31 December	**39,457,975**	**29,348,336**

25. BORROWINGS

RSD thousand

2013

	Overnight	Borrowings	Other financial liabilities	Total
In dinars				
Deposits:				
Other clients	-	-	90,290	90,290
	-	**-**	**90,290**	**90,290**
In foreign currency				
Deposits:				
Banks	-	-	751	751
Other companies	-	-	41,069	41,069
Public sector	-	4,075,449	-	4,075,449
Retail customers	-	-	551	551
Foreign entities	-	19,195,122	16,329	19,211,451
Other customers	-	-	1,054	1,054
	-	**23,270,571**	**59,754**	**23,330,325**
	-	**23,270,571**	**150,044**	**23,420,615**

RSD thousand

2012

	Overnight	Borrowings	Other financial liabilities	Total
In dinars				
Deposits:				
Banks	200,000	-	-	200,000
Other clients	-	-	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**

As at 31 December 2013 the major portion of outstanding liabilities arise from borrowings in foreign currency from Erste GCIB Finance I.B.V., Holland in the amount of RSD 11,291,294 thousand (31 December 2012: RSD RSD 11,412,471 thousand) and EIB loans in the amount of RSD 5,610,986 thousand (31 December 2012: RSD 2,842,958 thousand).

26. LIABILITIES WITH RESPECT TO SECURITIES ISSUED

Bank issued 146,500 units of bonds on 8 November 2012 with nominal value of 10,000.00 thousand. The bonds were publicly offered to all legal entities and individuals, residents and non-residents in the primary market on the BSE 6 November 2012, with the prior approval of the prospectus by the Securities and Exchange Commission of the Republic of Serbia. Bonds are included at the Open Market segment of the regulated market of the Belgrade Stock Exchange on 31 November 2012.

Bonds are long-term debt securities, denominated in dinars and issued for a period of two years (731 days), unlimited for transfer and registered in the name of the Central Depository and Clearing of Securities ad Beograd, the CFI code: DBFUFR and ISIN number : RSNOVBD19613.

The nominal interest rate on bonds is fixed at 15% per annum, or coupon interest rate is 3.75% and shall be paid quarterly. The principal is paid once at maturity, i.e. there is no amortization plan but the total amount of principal is paid on the maturity date 9th November of 2014.

Bonds are direct, unconditional and prioritized, unsecured obligations of the Issuer, which is equal and mutually equal to minimum pari passu of all other present and future unsecured obligations of the Issuer, except for obligations that have priority against them in accordance with the imperative provisions.

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

	2013 RSD thousand	2012 RSD thousand
Interests and fees payable:		
In dinars		
-Banks	-	50
-Entrepreneurs	52	26
-Public sector	26,595	23,665
-Foreign entities	-	10
-Other customers	-	118
Balance as at 31 December	**26,647**	**23,869**

28. PROVISIONS

	2013 RSD thousand	2012 RSD thousand
Provision for off-balance sheet exposures (a)	138,835	156,754
Provisions for long-term employee benefits (b):		
- retirement benefits	82,380	72,473
- jubilee awards	126,201	105,693
Provisions for litigation (c)	70,320	64,075
Other long term provisions	44,104	19,657
Balance as at 31 December	**461,839**	**418,652**

(a) According to the Bank's internal policy, provisions for commitments and other risky off balance sheet items (guarantees, acceptances, 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 R category (default).

Individual assessment of impairment of 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 3.31%, 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 3.5% 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:

	2013 RSD thousand	2012 RSD thousand
Provisions for off-balance sheet exposures		
Balance as at 1 January	156,754	207,870
Charge for the year (Note 8)	882,550	1,132,073
Reversal of provision (Note 8)	(900,743)	(1,193,348)
Other changes	274	10,159
	138,835	**156,754**
Provisions for long-term employee benefits - retirement benefits and jubilee awards		
Balance as at 1 January	178,166	157,001
Interest expenses and current service costs	24,127	24,112
Benefits paid during the year	(13,271)	(16,256)
Actuarial losses relating to jubilee awards	14,365	6,614
Actuarial (gains)/losses relating to retirement benefits	5,193	6,695
	208,581	**178,166**
Provisions for litigation		
Balance as at 1 January	64,075	47,700
Charge for the year (Note 8)	10,762	19,949
Amounts utilized during the year	(13,644)	(3,574)
Other changes	9,127	-
	70,320	**64,075**
Other provisions		
Balance as at 1 January	19,657	11,441
Charge for the year	37,988	13,666
Amounts utilized during the year	(13,541)	(5,450)
	44,104	**19,657**
Balance as at 31 December	**461,839**	**418,652**

29. OTHER LIABILITIES

	2013 RSD thousand	2012 RSD thousand
In dinars		
Trade payables	20,954	2,079
Liabilities for advances	6,068	3,090
Advances received	2,653	1,034
Net salaries and compensations	295	144
Taxes, contributions and other duties		
Accruals and deferrals:		
- Interest accrued	149,789	96,547
- Deferred interest income	23.412	37,135
- Deferred loan origination fees	349,161	303,061
- Accrued liabilities for unused holidays	130,794	165,526
- Other accruals	115,770	112,961
Other liabilities	96,399	50,532
	895,294	**772,109**
In foreign currency		
Advances received	9,252	7,141
Subordinated liabilities	2,191,300	2,407,579
Accruals:		
- Interest accrued	264,195	236,395
- Other	2,148	4,517
Other liabilities	7,711	6,333
	2,474,606	**2,661,965**
Balance as at 31 December	**3,369,901**	**3,434,074**

Outstanding balance of subordinated liabilities as at 31 December 2013 and 31 December 2012 are as follows:

Creditor	Currency	Contracted amount	Maturity date	Interest rate	31 December 2013	RSD thousand 31 December 2012
Erste Bank AD, Vienna	EUR	10,800,000	20 December 2015	Euribor + 2.4% p.a.	471,670	701,804
Erste GCIB	EUR	15,000,000	27 December 2021	Euribor + 3.65% p.a.	1,719,632	1,705,775
Total		**25,800,000**			**2,191,302**	**2,407,579**

29. OTHER LIABILITIES (continued)

Subordinated liabilities relate to a subordinated long-term 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 grade period. Also, subordinated long-term loan granted by Erste GICB Finance, Amsterdam on 27 December 2011 in the amount of EUR 15,000,00 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 grade period.

The Bank can include its subordinated liabilities into its Tier 2 capital (Note 33.10.) in an 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 approval for new subordinated loan issued on 7 October 2011.

30. EQUITY

(a) Equity Structure

The Bank's equity structure is presented as follows:

	2013 RSD thousand	2012 RSD thousand
Share capital - ordinary shares /i/	10,040,000	10,040,000
Share premium /ii/	124,475	124,475
Special reserves for estimated losses /iii/	2,534,108	1,843,171
Revaluation reserves /iv/	32,640	26,790
Retained earnings	568,777	14,815
Profit for the year	1,059,377	1,250,092
Balance as at 31 December	**14,359,377**	**13,299,343**

/i/ Share capital

As at 31 December 2013, the subscribed and paid share capital of the Bank comprised 1,004,000 ordinary shares, with a nominal value of RSD 10,000 (31 December 2012: 1,004,000 ordinary shares, with nominal value of RSD 10,000). In 2013 and 2012, there were no changes in share capital.

30. EQUITY (continued)

(a) Equity Structure (continued)

/i/ *Share capital* (continued)

The major shareholder of the Bank is EGB CEPS HOLDING GMBH, Vienna holding 74 % of the shares as at 31 December 2013. The shareholder structure of the Bank as at 31 December 2013 is as follows:

Shareholder	Number of shares	In %
EGB CEPS HOLDING GMBH, Vienna	742,960	74,00
Steiermärkische Bank und Sparkassen AG, Graz	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 2013 and 31 December 2012 resulted from a positive difference between the selling price of the shares and their nominal value.

/iii/ *Reserves from Profit*

Reserves from profit amount to RSD 2,534,108 thousand as at 31 December 2013. Reserves from profit amounted to RSD 1,843,171 thousand as at 31 December 2012. Reserves from profit increased by RSD 690,937 thousand from the retained earnings from 2012, in accordance with the General Assembly's Decision dated 29 March 2012.

/iv/ *Revaluation Reserves*

Revaluation reserves amount to RSD 32,640 thousand as at 31 December 2013 (31 December 2012: RSD 26,790 thousand), have been established as a result of fair value adjustments of securities available-for-sale, as adjusted for the effects of deferred taxes arising from revaluation of these securities.

/v/ *Special Reserves for Estimated Losses*

Special reserves for estimated losses arising from credit risk contained in the Bank's loan portfolio are calculated in accordance with the National Bank of Serbia's Decision on Classification of Bank Balance Sheet Assets and Off-balance Sheet Items ("Official Gazette of the Republic of Serbia", no. 94/2011, 57/2012, 123/2012 43/2013 and Decision on Amendments to the Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Exposures 113/2013) and is deducted from the bank's capital in line with the decision which determines the adequacy of bank capital. As at 31 December 2013, required special reserves against estimated losses on balance sheet assets and off-balance sheet items, after being reduced for allowances for impairment of balance sheet assets and provision for losses for off-balance sheet items, and calculated in accordance with the aforementioned Decision of the National Bank of Serbia (Note 2.8.), amounts to RSD 3,091,087 thousand (31 December 2012: RSD 2,534,108 thousand).

30. EQUITY (continued)

(b) Capital Adequacy and Performance Indicators - Compliance with Legal Regulations

The Bank is obliged to reconcile the scope and the structure of its operations and risky placements with the performance indicators prescribed by the Law on Banks and the relevant decisions of National Bank of Serbia brought on the basis of the aforementioned law. As at 31 December 2013, the Bank was in compliance with all prescribed performance indicators. The Bank's performance indicators as at 31 December 2013 are as follows:

Performance indicators	**Prescribed**	**Realized**
1. Capital	Minimum EUR 10 miliona	103,758.768
2. Capital adequacy ratio	Minimum 12%	20.95
3. Permanent investments indicator	Maximum 60%	6.12
4. Related parties exposure	Maximum 20%	14.64
5. Indicator of large and the largest permissible loans	Maximum 400%	72.17
6. Liquidity ratio:		
- in the first month of the reporting period	Minimum 1	2.44
- in the second month of the reporting period	Minimum 1	2.73
- in the third month of the reporting period	Minimum 1	2.92
7. Foreign currency risk indicator	Maximum 20%	0.61
8. Exposure to a group of related parties	Maximum 25%	19.23
9. Exposure to an entity related to the Bank	Maximum 5%	4.67
10. Bank's investments in legal entities which are not in the financial sector	Maximum 10%	0.13

31. OFF-BALANCE SHEET ITEMS

	2013 RSD thousand	**2012 RSD thousand**
Funds managed on behalf of third parties (a)	755,714	780,975
Guarantees and other irrevocable commitments (b)	12,941,471	9,730,334
Derivatives (c)	-	792,810
Other off-balance sheet items (d)	18,611,102	19,294,339
Balance as at 31 December	**32,308,287**	**30,598,458**

(a) Funds Managed on Behalf of Third Parties

	2013 RSD thousand	**2012 RSD thousand**
Placements on behalf of third parties in dinars:		
- short-term	8,642	5,253
- long-term	747,072	775,722
Balance as at 31 December	**755,714**	**780,975**

Short-term funds managed on behalf of third parties relate to funds of the Ministry of Agriculture in the amount of RSD 3,248 and managed funds 2,913 thousand. Long-term funds managed on behalf of third parties relate to long-term loans to citizens' housing loans insured with NKOSK of RSD 642,072 thousand and loans to agricultural in the amount of RSD 105,000 thousand.

31. OFF-BALANCE SHEET ITEMS (continued)

(d) Guarantees and Other Irrevocable Commitments

	2013 RSD thousand	2012 RSD thousand
In dinars		
Payment guarantees	1,181,763	1,343,432
Performance bonds	6,084,031	4,049,616
Avals and acceptances	13,802	4,617
Irrevocable commitments for undisbursed loans and placements	4,391,311	3,231,795
Other contingencies and commitments	41,039	52,837
	11,711,946	**8,682,297**
In foreign currency		
Payment guarantees	103,178	43,088
Performance bonds	766,391	754,871
Irrevocable commitments for undisbursed loans and placements	27,642	11,966
Letters of credit	286,428	238,112
Other irrevocable commitments	45,886	-
	1,229,525	**1,048,037**
Balance as at 31 December	**12,941,471**	**9,730,334**

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 2013, provision for guarantees and other irrevocable commitments amounts to RSD 138,835 thousand (31 December 2012: RSD 156,754 thousand).

c) Derivatives

	2013 RSD thousand	2012 RSD thousand
Currency swap with EBG Ceps Holding GMBH	-	792,810
Balance as at 31 December	**-**	**792,810**

31. OFF-BALANCE SHEET ITEMS (continued)

(d) Other off-balance sheet items

	2013 RSD thousand	2012 RSD thousand
Suspended interest receivables	2,830,505	2,182,068
Foreign currency sale and purchase	6,097,013	3,167,807
LORO guarantees	1,260,305	499,039
Received counter guarantees	569,294	11,837
Records of public foreign currency saving bonds	2,238,536	2,649,787
Funds available for liquidity	5,158,895	7,391,689
Other	456,554	3,392,112
Balance as at 31 December	**18,611,102**	**19,294,339**

Funds available for liquidity (RSD 5,158,895 thousand) are related to assets that EGB Ceps Holding GmbH made available to the Bank. In order to meet liquidity limits set by the Group a contract for the provision of bank deposits by EGB Holding was signed.

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 AG, Vienna and other members of Erste Group. Outstanding balance of receivables and payables as at 31 December 2013 and 31 December 2012, as well as income and expenses, resulting from transactions with shareholders and other Bank's related parties are as follows:

RSD thousand

	2013		2012	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Receivables				
Cash and cash equivalents	327,512	403,482	340,752	-
Interest, fees and commissions receivable	348	142	327	87
Loans and advances	-	129	-	201
Other placements	127,218	15,100	8	14,760
Other assets	3,043	22,649	9,851	10,363
	458,121	**441,502**	**350,938**	**25,411**
Payables				
Transaction deposits	89,021	92,385	590,381	257,858
Other deposits	-	141,010	-	541,574
Borrowings	-	11,291,294	-	11,412,472
Interest, commissions and fees payable	-	-	613	18,084
Provisions	-	-	-	20
Other payables	472,063	1,749,232	701,804	1,705,802
	561,084	**13,273,921**	**1,292,798**	**13,935,810**
Off-balance sheet items				
Guarantees and other warranties	2,361	2,787	187,951	3,447
Irrevocable commitments	-	2,789		3,116
Other off-balance sheet items	5,666,267	597,547	8,184,499	193,808
Total	**5,668,628**	**603,123**	**8,372,450**	**200,371**

32. RELATED PARTY DISCLOSURES (continued)

In RSD thousand

	2013		2012	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	1,040	1,058	915	-
Interest expense	(16,629)	(476,663)	(27,212)	(541,454)
Fee and commission income	32,799	57,788	168,872	39,466
Fee and commission expenses	(174,448)	(58)	(154,551)	(1)
Other operating income	4,772	30,083	5,626	15,689
Operating and other expenses	(10,011)	(397,728)	(23,876)	(439,889)

Fees on crossborder loans in the year ended 31 December 2013 amounted to RSD 375,071 thousand (2012: RSD 296,611 thousand).

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

As at 31 December 2013 and 31 December 2012, 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 2013	Income/ (expense) 2013	Balance as at 31 December 2012	Income/ (expense) 2012
Overdrafts, credit cards, cash and consumer loans	538	105	1,161	410
Housing loans	42,760	4,983	48,033	2,786
Other placements and receivables	1,454	25	1,841	87
Total allowances for impairment	(266)	43	(275)	21
Deposits	78,868	(3,504)	68,280	(3,690)

(e) Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2013 and 2012, are presented in the table below:

	2013 RSD thousand	2012 RSD thousand
Salaries of the members of the Executive Board	54,662	51,191
Remunerations to the members of the Board of Directors	10,855	10,902
Accrued other benefits	44,104	19,657
Total	**109,621**	**81,750**

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 the interest risk, currency risk and other market risks). The Bank is also subject to operating risk and the risk of its exposure to one entity or a group of related entities, risk of the Bank's investments in other legal entities and property and equipment, as well as the impact of risk related to the country of origin of the entity to which the Bank is exposed, and which the Bank continuously monitors.

Risk management in 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 control 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 risks. In addition, the Bank has established separate independent bodies for managing and monitoring risks.

33. RISK MANAGEMENT (continued)

33.1. Introduction (continued)

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 interest rates, foreign exchange and other market risks.

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 daily, weekly and monthly reports related to assets and liabilities management for the purposes of the Bank and external users, as well as a report for the Asset and Liability Management Committee.

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 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 in which Bank operates. The Bank also runs the method of "worst case scenarios" that might arise in case of the extreme events for which probability of occurrence is remote.

Monitoring and controlling risks is primarily based on establishing of limits and procedures. 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 new risks. 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 prepared and sent on a daily, weekly or monthly basis or upon management's request.

33. RISK MANAGEMENT (continued)

33.1. Introduction (continued)

Risk Management and Reporting System (continued)

The Bank quarterly presents comprehensive report on risks to the Board of Directors that includes all relevant information needed to estimate the risks the Bank is exposed to.

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.

33.2. Credit Risk

Credit risk is the risk that credit beneficiaries will not be able to fulfill contractual obligations to the Bank, whether fully or partially that will generate the loss for the Bank.

The Bank's credit risk is caused by the debtor's credit capacity, good credit history, 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 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.

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 during loan approval (which reflects knowledge and experience) 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 policy, Credit Policy 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 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 is the residual risk, risk of decrease in receivables, settlement / delivery risk, counterparty risk and credit and foreign exchange risk. Bank risks related to credit risk overcomes with processes and procedures used for credit risk.

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, having in mind their type, maturity and credit quality of clients.

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. The 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 minimize the credit risk, safety measures are established through defining levels of exposures and credit limits and regular monitoring of compliance with the established limits. Also, on a regular annual basis the Bank carried out a detailed and comprehensive analysis of concentrations of credit (and other) risks across different dimensions (exposure classes, economic sectors, collateral, products, etc.).

(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 2013 and 31 December 2012 is as follows:

	31 December 2013 RSD thousand	31 December 2012 RSD thousand
Exposure to credit risk by balance sheet items:		
Nostro transactions	2,414,419	1,053,939
Interest, fees and commission receivable, changes in fair value of derivatives and other receivables	972,857	508,633
Loans and advances	64,897,325	61,495,913
Securities (excluding own securities)	1,480,068	1,885,138
Equity investments	2,163	2,163
Other placements	1,082,201	632,290
Other assets	501,616	436,050
Total	**71,350,649**	**66,014,126**
Exposure to credit risk by off-balance sheet items:		
Payment guarantees		
Payment guarantees	1,284,941	1,343,432
Performance guarantees	6,850,422	4,803,487
Uncovered letters of credit	146,689	93,250
Avails and acceptances	13,801	4,617
Irrevocable commitments	4,464,219	3,243,714
Other off-balance sheet items	41,659	52,838
Total	**12,801,731**	**9,541,338**
Total exposure to credit risk	**84,152,380**	**75,555,464**

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 of RSD 55,199,750 thousand (31 December 2012: RSD 43,550,174).

Where financial instruments are recorded at fair value, the amounts presented above correspond to the current credit risk exposure, but 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 2013 amounted to RSD 19,599,108 thousand (31 December 2012: RSD 4,562,673 thousand), without deductions (collateral or other means of credit risk protection), i.e., without exposure (31 December 2012: RSD 13,941 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 2013 and 31 December 2012, before taking into account collateral held or other credit enhancements, is analyzed by geographical area and is as follows:

RSD thousand

	Placements with banks	Loans and advances to customers and other placements	Equity investments and securities	Interests, fees and other assets	Guarantees and other commitments	Total 2013
Serbia	3,256,285	59,370,421	1,442,491	1,397,413	12,384,112	**77,850,722**
European Union	1,005,548	2,293,353	17	36,263	417,619	**3,752,800**
Other countries	1,551,189	917,149	39,723	40,797	-	**2,548,858**
Total	**5,813,022**	**62,580,923**	**1,482,231**	**1,474,473**	**12,801,731**	**84,152,380**

RSD thousand

	Placements with banks	Loans and advances to customers	Equity investments and securities	Interests, fees and other assets	Guarantees and other commitments	Total 2012
Serbia	682,622	61,470,863	1,853,693	944,194	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**
Total	**1,711,263**	**61,470,879**	**1,887,301**	**944,684**	**9,541,338**	**75,555,464**

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 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 2013 and 31 December 2012 is as follows:

RSD thousand

	Gross maximum exposure 2013	Net maximum exposure 2013	Gross maximum exposure 2012	Net maximum exposure 2012
Retail	25,326,598	23,622,255	23,424,292	15,881,185
Processing industry and mining	14,214,351	12,556,166	14,014,694	10,974,413
Trade	7,481,581	6,505,677	9,402,589	7,102,342
Energy	2,308,350	2,180,767	1,792,372	1,656,027
Agriculture, hunting, fishing and forestry	7,498,409	7,368,872	2,278,074	1,947,677
Civil engineering	4,921,218	4,433,940	5,688,164	5,047,393
Traffic and communications, tourism, hospitality and services	8,279,949	8,118,166	8,855,423	3,765,454
Entrepreneurs	1,000,240	874,308	1,100,954	797,859
Agriculturalist	464,362	331,438	554,807	276,058
Banks	6,389,903	6,336,766	1,731,028	1,875,735
Other financial institutions	1,085,282	975,553	602,573	501,696
Other	5,182,137	2,827,172	6,110,494	3,372,887
Total	**84,152,380**	**76,131,080**	**75,555,464**	**53,198,726**

(b) Portfolio Quality

The Bank manages the quality of its financial assets using the internal classification of placements. The following tables present 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 2013 and 31 December 2012:

RSD thousand

	Neither past due nor individually impaired					
	High quality level	**Standard quality level**	**Sub standard quality level**	**Past due and collectively impaired**	**Individually impaired**	**Total 2013**
Placements to banks	5,793,076	4,290	-	4,502	11,154	**5,813,022**
Placements to Customers						
Corporate customers	6,415,275	4,859,793	4	698,589	2,322,367	**14,296,028**
Small size and medium size companies	13,347,545	2,477,963	520,041	3,468,601	4,638,448	**24,452,598**
Entrepreneurs	497,280	33,271	-	252,450	92,128	**875,129**
Retail customers	20,709,398	89,526	12,104	3,160,880	459,732	**24,431,640**
Securities	1,001,214	94,074	840	51,058	335,045	**1,482,231**
Guarantees and Acceptances	7,178,027	442,295	14,905	498,119	15,819	**8,149,165**
Letters of credit	30,779	11,040	-	104,870	-	**146,689**
Unused commitments	3,925,929	320,740	3,377	214,173	-	**4,464,219**
Other off balance sheet items	38,446	1,825	-	1,388	-	**41,659**
Total	**58,936,969**	**8,334,817**	**551,271**	**8,454,630**	**7,874,693**	**84,152,380**

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(b) Portfolio Quality (continued)

RSD thousand

	Neither past due nor individually impaired					
	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 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**

Ageing analysis of loans and advances to customers past due

The ageing analysis of loans and advances to customers past due and collectively impaired but not impaired as at 31 December 2013 and 31 December 2012 is presented in the tables below:

RSD thousand

2013	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2013
Placements to banks	4,286	-	216	**4,502**
Placements to customers:				
- Corporate customers	883,239	111,701	8,088	**1,003,028**
- Small size and medium size companies	2,272,992	1,294,722	445,007	**4,012,721**
- Entrepreneurs	169,114	5,224	86,453	**260,791**
- Retail customers	1,342,146	387,158	1,444,284	**3,173,588**
Balance as at 31 December	**4,671,777**	**1,798,805**	**1,984,048**	**8,454,630**

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	174,493	**3,539,585**
- Entrepreneurs	87,721	58,805	62,473	**208,999**
- Retail customers	938,071	307,061	1,127,153	**2,372,285**
Balance as at 31 December	**2,967,133**	**2,523,554**	**1,364,371**	**6,855,058**

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.

33. RISK MANAGEMENT (continued)

33.2. Credit Risk (continued)

(b) Portfolio Quality (continued)

Collateral and Other Credit Enhancements (continued)

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's management monitors the movements in the fair value of collateral, demands additional collateral in accordance with the relevant contracts and controls the fair value of collateral arrived at by perceiving the adequacy of the allowance for impairment.

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: whether any payments of principal or interest are overdue for more than 90 days, or there are any known difficulties in the debtors' ability to settle due obligations (adequate generating of cash flows), credit rating downgrades or breaches of the original terms of the contract. The Bank performs the impairment assessment at two levels: individual and collective depending on whether the non-performing exposure is materially significant. 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 availability of other sources of financial support, the realizable value of collateral and its timing, the availability of other 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 and established 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 portfolio level, current economic conditions, the number of days in arrears.

Financial guarantees and letters of credit are assessed and provisions are made in similar manner as for loans, except for each placement of funds, estimation is made.

Special 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 special reserves for estimated losses as defined by 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 the applied internal policy, the Bank pays special attention to default loans by monitoring the total outstanding balance and the trend of these amounts in order to prompt respond to the collection of receivables or on the other hand, adequate determination of the impairment. Default loans are monitored at the Bank level in accordance with the product criteria (for individuals) and the industrial sector the customers belongs to. Days of delay, restructuring, insolvency 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 2013, default loans amounted to RSD 10,265,647 thousand (31 December 2012: RSD 8,008,442 thousand). The impairment loss of default loans recognized in the balance sheet amounted to RSD 6,761,148 thousand (31 December 2012: RSD 5,361,602 thousand).

Additionally, default off-balance sheet items amounted to RSD 21,613 thousand as at 31 December 2013 (31 December 2012: RSD 37,305 thousand), while the related provisions for those items amounted to RSD 11,695 thousand (31 December 2012: RSD 24,345 thousand).

(d) Rescheduled Loans

In accordance with the Bank's methodology, the Bank pays special attention to placements that are subject of rescheduling due to the increased level of credit risk. Under these claims the Bank considers loans and investments 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 2013, gross rescheduled loans and placements, that are in default status and have been rescheduled for reasons to avoid default, amounted to RSD 329,715 thousand (31 December 2012: RSD 355,830 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, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows in Dinars and foreign currency 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 funds held with the Bank in accordance with agreed terms.

The Assets and Liability Committee and the Operating Liquidity Committee (OLC Committee) are responsible for monitoring liquidity risk, managing the liquidity risk and for 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 Business plan in case of extraordinary circumstances (liquidity crisis) ("PFNS"). Apart from this, PFNS defines other indicators and their limits as well as personnel/department in charge of their monitoring and reporting. The trend of these indicators is presented semi-weekly on OLC meetings, or more often in case of overriding the PFNS limits or change in liquidity status.

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Funding Management (continued)

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 (cash, gold and other noble metals, assets on accounts with other banks, deposits with the National Bank of Serbia, receivables in the process of realization, irrevocable lines of credit granted to the Bank, stock and quoted debt securities, 90% of the fair value of securities denominated in dinars, without a currency clause, issued by the Republic of Serbia and with a minimum maturity of three months or 90 days, and classified as securities held for trading or securities available for sale) and second level (other receivables due within a month) and the sum of liabilities on demand without determined maturity date and liabilities with fixed maturity up to a month.

Besides common liquidity ratio, there is quick liquidity ratio, determined as the proportion of the sum of the liquid assets of the first level and the sum of liabilities with fixed maturity up to a month.

In 2013 and 2012, the Bank had an indicator of daily liquidity exceeding the legally-prescribed levels.

	2013	2012
Average during the period	2.69	1.84
Highest	3.41	2.34
Lowest	1.72	1.10
As at 31 December	2.69	1.89

Quick liquidity ratio during the year 2013:

	2013
Average during the period	1.77
Highest	2.27
Lowest	1.10
As at 31 December	1.78

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Funding Management (continued)

Maturity Analysis of Financial Liabilities

The table below presents the ageing analysis of the Bank's financial liabilities as at 31 December 2013 and 31 December 2012 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.

RSD thousand

2013	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2013
Borrowings and deposits	21,588,702	12,833,137	27,239,862	8,546,583	9,460,117	79,668,402
Interest and fees payable	292,964	206,922	2,905,442	1,377,195	2,422,943	7,205,466
Subordinated liabilities	-	117,916	117,918	235,835	1,719,632	2,191,300
Balance as at 31 December	**21,881,666**	**13,157,975**	**30,263,222**	**10,159,613**	**13,602,692**	**89,065,168**

2012	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2012
Borrowings and deposits	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
Balance as at 31 December	**15,953,492**	**11,215,965**	**14,694,481**	**20,199,419**	**6,965,506**	**69,028,861**

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

RSD thousand

2013	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 2013
Guarantees, acceptance and letters of credit	333,967	298,735	800,744	2,385,054	4,144,983	517,994	8,481,477
Irrevocable commitments	29,128	22,673	167,323	2,280,758	1,339,222	620,890	4,459,994
Balance as at 31 December	**363,095**	**321,408**	**968,067**	**4,665,812**	**5,484,205**	**1,138,884**	**12,941,471**

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
Guarantees, acceptance and letters of credit	113,589	91,565	696,363	2,023,895	3,508,324	-	6,433,736
Irrevocable commitments	43,512	37,732	273,042	1,055,032	1,469,733	417,547	3,296,598
Balance as at 31 December	**157,101**	**129,297**	**969,405**	**3,078,927**	**4,978,060**	**417,547**	**9,730,334**

33. RISK MANAGEMENT (continue)

33.3. Liquidity Risk and Funding management (continued)

Maturity Analysis of Financial Liabilities (continued)

The Bank expects that not all contingencies and commitments would 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 used a loan from the EIB on the basis of agreement totaling EUR 50 million.

The Bank used funds of the European Bank for Reconstruction and Development (EBRD) for the purpose of financing the small and medium enterprises. In 2012 the Bank used a loan from the EBRD of EUR 10 million.

The Bank used funds of the German government-owned development bank (KfW) for the purpose of financing the micro, small and medium enterprises and energy efficiency / renewable energy projects of EUR 10 million.

Analysis of the maturity structure of assets and liabilities

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 2013 is presented as follows:

33. RISK MANAGEMENT (continued)

33.3. Liquidity Risk and Funding Management (continued)

Maturity Mismatch Analysis

In RSD thousand

	Up to 14 days	15 days to 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	2013
ASSETS							
Cash and cash equivalents	7,837,134	-	48,857	-	-	-	7,885,991
Callable deposits and loans	18,176,784	-	-	-	-	-	18,176,784
Interest and fee receivables, change in fair value of derivatives and other receivables	798,402	-	-	498	-	-	798,900
Loans and deposits	8,273,848	1,451,668	4,571,677	11,597,598	19,765,592	12,551,274	58,211,657
Securities	438,324	132,500	900,239	5,926,693	1,576,423	1,260,369	10,234,547
Investments	-	-	-	-	-	50	50
Other placements	452,419	-	9,261	41,676	46,339	-	549,695
Intangible assets	-	-	-	-	-	411,865	411,865
Fixed assets and investment property	-	-	-	-	-	707,363	707,363
Deferred tax assets	-	-	107,551	-	-	-	107,551
Other assets	112,344	165,687	579,112	9	-	664	857,816
Total assets	**36,089,255**	**1,749,854**	**6,216,697**	**17,566,474**	**21,388,354**	**14,931,585**	**97,942,219**
LIABILITIES							
On sight deposits	15,324,812	-	-	-	-	-	15,324,812
Other deposits	6,001,689	4,844,480	5,352,618	16,127,257	5,702,877	1,429,054	39,457,975
Borrowings	59,754	-	-	9,700,992	5,557,517	8,102,352	23,420,615
Liabilities arising from securities	1,465,000	-	-	-	-	-	1,465,000
Interest and fees payables and change in the fair value of derivatives	26,647	-	-	-	--	-	26,647
Provisions	-	-	461,839	-	-	-	461,839
Tax liabilities	-	-	56,053	-	-	-	56,053
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	634,387	124,835	531,900	121,282	235,836	1,721,661	3,369,901
Total liabilities	**23,512,289**	**4,969,315**	**6,402,410**	**25,949,531**	**11,496,230**	**11,253,067**	**83,582,842**
Total equity	**-**	**-**	**-**	**-**	**-**	14,359,377	**14,359,377**
Total liabilities and equity	**23,512,289**	**4,969,315**	**6,402,410**	**25,949,531**	**11,496,230**	**25,612,444**	**97,942,219**
Maturity mismatch at:							
- 31 December 2013	**12,576,966**	**(3,219,461)**	**(185,713)**	**(8,383,057)**	**9,892,124**	**(10,680,859)**	
-31 December 2012	**943,535**	**(2,021,854)**	**49,538**	**3,640,282**	**3,827,385**	**(6,438,886)**	

33. RISK MANAGEMENT (continued)

33.5. Market Risk

In its ordinary course of business, the Bank is exposed to the following market risks: price risk, interest rate risk, foreign currency risk and other market risks.

Market risk management is defined by policies, procedures and regulations approved by the Board of Directors and in accordance with the risk management strategy at the level of Erste Group, as well as all relevant laws and by-laws of the Republic of Serbia. Audit of policies, procedures and regulations is being done in accordance with needs, and, at least, once a year.

Market risk is managed by the Asset and Liability Management Committee, Asset and Liability Management department and the Market risk and liquidity risk department.

Identification, measurement, analysis and reporting of market risk exposures are managed by a separate organizational unit, i.e., Asset and Liability Management department. This department and Market risk and liquidity risk department monitors changes in open foreign currency position and other relevant indicators of the Bank's exposure to market risks on daily basis.

The Asset and Liability Management department prepares reports to the Asset and Liability Management Committee at least once a month. The Market risk and liquidity risk department monitors market risk through defined limits, risk 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 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 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 Erste Group strategy, macroeconomic analysis and forecasts of the Bank's liquidity, interest trends analysis for different segments of assets and liabilities.

33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.1. Interest Rate Risk (continued)

The following table shows Reprising Gap report, i.e. the Bank's exposure to the interest rate risk as at 31 December 2013. The table includes the Bank's assets, liabilities and currency swap as off-balance sheet items are categorized by the earlier of contractual re-pricing or maturity dates.

RSD thousand

	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	-	-	-	-	-	2,045,079	2,045,079
Correspondent accounts	-	-	-	-	-	2,195,757	2,195,757
Obligatory reserve	3,354,490	-	-	-	-	10,675,223	14,029,713
Securities	1,750,169	443,811	799,294	237,589	5,871,597	-	9,102,459
Loans to banks	10,852,079	-	-	-	-	-	10,852,079
Loans to customers	32,664,062	5,412,213	3,436,874	2,881,350	11,677,564	-	56,072,062
Other assets	-	-	-	-	-	3,645,069	3,645,069
Total assets	**48,620,799**	**5,856,024**	**4,236,167**	**3,118,939**	**17,549,161**	**18,561,128**	**97,942,219**
Due to banks	1,468,397	2,191,302	-	-	-	-	3,659,699
Due to FI	-	5,846,207	15,767,358	-	1,654,285	-	23,267,850
On sight deposits	3,851,451	2,587,674	3,881,511	2,932,565	7,911,516	-	21,164,717
Term deposits	7,021,916	4,621,045	5,454,509	10,402,358	4,417,493	-	31,917,321
Issuance of bonds	-	-	-	1,465,000	-	-	1,465,000
Other liabilities	-	-	-	-	-	2,108,255	2,108,255
Equity	-	-	-	-	-	14,359,377	14,359,377
Total liabilities and equity	**12,341,764**	**15,246,228**	**25,103,378**	**14,799,923**	**13,983,295**	**16,467,632**	**97,942,219**
Net exposure to interest rate risk:							
- 31 December 2013	36,279,035	(9,390,203)	(20,867,211)	(11,680,984)	3,565,866	2,093,497	
- 31 December 2012	21,909,256	(6,197,510)	(13,683,713)	(3,869,415)	6,196,141	(4,354,759)	

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 2013 and 31 December 2012.

RSD thousand

Currency	Change in percentage	Income statement sensitivity 2013	Change in percentage	Income statement sensitivity 2012
Increase of percentage:				
RSD	1%	120,050	1%	70,182
EUR	1%	63,309	1%	25,286
Decrease of percentage:				
RSD	1%	(120,051)	1%	(70,031)
EUR	1%	(19,923)	1%	(28,629)

33.4.2. Foreign Exchange Risk

Foreign currency 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, carries out the policy of low level exposure to foreign currency risk and contracts the foreign currency clause with its customers.

The Asset and Liability Management Unit and Treasury Department monitor daily movements of the overall foreign currency risk, as well as risk by specific currencies. The Risk control unit 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 2013, the Bank continuously paid attention to keep 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 2013.

RSD thousand

Position	EUR	USD	CHF	Other currencies	Total	Gold and other precious metals
Net spot position	**53,312**	**12,670**	**(9,509)**	**4,265**	**60,737**	**-**
Assets in foreign currency	60,008,972	2,055,595	1,920,607	248,174	**64,233,349**	-
Liabilities in foreign currency	59,955,661	2,042,926	1,930,116	243,909	**64,172,612**	-
Net forward positions (2.1 - 2.2)	**-**	**-**	**-**	**-**	**-**	-
Long position	-	-	-	-	**-**	-
Short position	-	-	-	-	**-**	-
Long open position	53,312	12,670	-	7,027	**73,008**	-
Short open position	-	-	9,509	2,762	**12,271**	-
Net open foreign currency position	-	-	-	-	-	73,008
Regulatory capital	-	-	-	-	-	11,895,123
Foreign exchange risk ratio – 31 December 2013						**0.61**
Foreign exchange risk ratio – 31 December 2012						**3.37**

33. RISK MANAGEMENT (continued)

33.5. Market Risk (continued)

33.5.2. Foreign Risk (continued)

The following table presents the Bank's exposure to foreign currency risk as at 31 December 2013 and 31 December 2012 of its non-trading assets and liabilities.

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

RSD thousand

Currency	Changes in the exchange rate (%) 2013	Effect to the income statement before taxation 2013	Changes in the exchange rate (%) 2012	Effect to the income statement before taxation 2012
EUR	2%	1,066	2%	7,191
CHF	2%	(190)	2%	(120)
USD	2%	253	2%	114

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2013. 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)

RSD thousand

	EUR	USD	CHF	Other currencies	Total in foreign currencies	Total in RSD	Total
Assets							
Cash and cash equivalents	1,177,190	1,614,426	98,949	248,174	**3,138,739**	4,747,252	**7,885,991**
Callable deposits and loans	10,675,223	-	-	-	**10,675,223**	7,501,561	**18,176,784**
Interest and fee receivables, change in the fair value of derivatives and other receivables	665,050	1,083	3,218	-	**669,351**	129,549	**798,900**
Loans and advances	43,485,890	414,203	1,818,050	-	**45,718,143**	12,493,514	**58,211,657**
Securities	1,938,753	22,898	-	-	**1,961,651**	8,272,896	**10,234,547**
Investments	-	-	-	-	**-**	50	**50**
Other placements	369,182	-	-	-	**369,182**	180,513	**549,695**
Intangible assets	-	-	-	-	**-**	411,865	**411,865**
Fixed assets and investment properties	-	-	-	-	**-**	707,363	**707,363**
Deferred tax asset	-	-	-	-	**-**	107,551	**107,551**
Other assets	120,688	2,985	391	-	**124,064**	733,752	**857,816**
Total assets	**58,431,976**	**2,055,595**	**1,920,608**	**248,174**	**62,656,353**	**35,285,866**	**97,942,219**
Liabilities							
On sight deposits	5,788,123	853,036	135,715	97,024	**6,873,898**	8,450,914	**15,324,812**
Other deposits	28,387,623	1,005,677	202,601	132,504	**29,728,405**	9,729,570	**39,457,975**
Borrowings	21,803,283	12,052	1,591,475	13,805	**23,420,615**	-	**23,420,615**
Liabilities arising from securities	-	-	-	-	**-**	1,465,000	**1,465,000**
Interest and fee payables and change in the fair value of derivatives	26,595	-	-	-	**26,595**	52	**26,647**
Provisions	117,564	665	-	697	**118,926**	342,913	**461,839**
Tax liabilities	-	-	-	-	**-**	56,053	**56,053**
Deferred tax liabilities	-	-	-	-	**-**	-	**-**
Other liabilities	2,510,236	9,587	325	576	**2,520,724**	849,177	**3,369,901**
Total liabilities	**58,633,424**	**1,881,017**	**1,930,116**	**244,606**	**62,689,163**	**20,893,679**	**83,582,842**
Total equity	**-**	**-**	**-**	**-**	**-**	14,359,377	14,359,377
Total liabilities and equity	**58,633,424**	**1,881,017**	**1,930,116**	**244,606**	**62,689,163**	**35,253,056**	**97,942,219**
Net foreign currency position as at:							
- 31 December 2013	**(201,448)**	**174,578**	**(9,508)**	**3,568**	**(32,810)**		
- 31 December 2012	**661,414**	**(391,084)**	**(5,999)**	**19,273**	**283,604**		

33. RISK MANAGEMENT (continued)

33.6. Bank's exposure Risk

The Bank's exposure 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 committee which approves the Bank's placements has the information regarding the total amount of the Bank's exposure to a single party or a group of related parties in proportion to the Bank's regulatory capital.

During 2013, the Bank maintained the exposure risk indicators within the prescribed values. 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 policies, the Bank's management approves the exposures and limits, i.e. the loan concentration on certain legal entities or a group of related parties, and persons 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 of the Bank in the other legal entities' capital and in tangible assets.

In accordance with the National Bank of Serbia 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 single non-financial sector entity do not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in tangible assets cannot exceed 60% of its regulatory capital.

The Bank's investment risk exposure arising on investments into other legal entities and property and equipment is monitored by the organizational unit or the Bank's body competent for procurement of tangible assets and investing in legal entities 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 2013, the Bank maintained the investment risk indicators within the prescribed values and it ensured that investments were reconciled 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, economic 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 portion of assets it keeps on the accounts with foreign banks.

The Bank monitors its exposure on geographic basis 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.

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 or unforeseen external events.

Reporting system for operational risk events is used for early identification of operational risk events, while the approximation process provides completeness, coherence and comprehensiveness of operational risk events that have occurred in the Bank.

Operational risk events are collected in a single database and further analyzed and monitored. Also, the Bank collects and external data on operational risk events.

The Bank cannot expect to eliminate all operational risks, however, it can manage the risk by increasing the awareness of the employees o operational risk management, implementation of the solid system of controls and monitoring and adequate prevention and detection corrective measures in order to decrease the level of operational risk on the acceptable level.

The Bank has adopted operational risk management policy that regulates the Bank's exposure to operational risks, i.e., active risk management for reducing these risks on an acceptable level which can be controlled.

33. RISK MANAGEMENT (continued)

33.9. Operational Risk (continued)

The Bank reduces the operational risks by other activities such as BCM project (project of management of business continuity), whereby the Bank will introduce a plan for providing continuity of operations and business plan in case of unexpected events, self-assessment of risks conducted during the outsourcing of a portion of business operations, as well as continuous monitoring and reporting on the development of operational risk and operational risk assessment that may occur.

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 responsibility.

Continuous assessment of risk that arise in the process of introducing new products / services and activities that occur entrusting third parties is carried out.

The Bank calculates the capital requirement for operational risk using the basic indicator approach, starting from 31.12.2011.

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;
- to ensure that the level and composition of capital that can support the expected growth in placements;
- 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 и 123/2012, 23/2013, 43/2013 и 92/2013) and the Decision on capital adequacy ("Official Gazette of the Republic of Serbia", no. 46/2011 i 6/2013).

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 Bank conducts a process of internal capital adequacy assessment process (ICAAP), determine available internal capital and makes a distribution, and develop a strategy and plan for capital management in accordance with the risk management of the bank.

The table below summarizes the structure of the Bank's capital as at 31 December 2013 and 31 December 2012, as well as the capital adequacy ratio:

		In RSD thousand
	2013	**2012**
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	2,534,108	1,843,171
Retained earnings from previous years	573,970	14,815
Intangibles	(411,865)	(357,551)
Unrealized losses on securities available for sale	(1,470)	(1,470)
Reserves from profit for estimated losses on balance sheet assets and off-balance sheet items	(1,545,544)	(633,527)
	11,313,675	**11,029,913**
Supplementary capital		
Part of the revaluation reserve bank	33,890	28,039
Subordinated liabilities	2,096,968	2,267,218
	2,130,858	**2,295,257**
Deduction from capital		
The amount by which are exceeded the qualified participation in entities which are not in the financial sector	3,866	3,925
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	1,545,544	1,900,581
	1,549,410	**1,904,506**
Total (1)	**11,895,123**	**11,420,664**
Risk-weighted assets		
Capital requirement for credit risk, counterparty risk and settlement / delivery on the basis of free delivery	5,968,042	5,673,706
Capital requirement for price risk	43,797	2,531
Capital requirement for foreign exchange risk	-	46,145
Capital requirement for operational risk	800,205	699,511
Total (2):		
Capital adequacy ratio (1/2 x 100)	*20.95*	*21.34*

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.

33. RISK MANAGEMENT (continued)

33.11. Fair value of the financial assets and liabilities (continued)

	2013			RSD thousand	2012			RSD thousand
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**-**	**1,772,937**	**-**	**1,772,937**	**73,060**	**255,442**	**-**	**328,502**
Treasury bills of the Republic of Serbia	-	636,434	-	636,434	-	255,442	-	255,442
Quoted bonds	-	1,136,503	-	1,136,503	73,060	-	-	73,060
Financial assets available for sale	**24,316**	**1,738,342**	**-**	**1,762,658**	**33,567**	**1,203,969**	**-**	**1,237,536**
Treasury bills of the Republic of Serbia	-	1,699,148	-	1,699,148	-	1,165,157	-	1,165,157
Quoted shares	24,316	685	-	25,001	18,807	-	-	18,807
Investment units	-	-	-	-	14,760	-	-	14,760
Unquoted shares	-	38,459	-	38,459	-	38,750	-	38,750
Other investments	-	50	-	50	-	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:

	31 December 2013 RSD thousand	31 December 2012 RSD thousand
Up to 1 year	111,182	92,908
From 1 to 5 years	206,538	204,032
	317,720	**296,940**

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 2013 the Bank recognized a provision of RSD 70,320 thousand (31 December 2012: RSD 64,075 thousand) for potential losses that might arise as a result of the adverse outcome of litigation. 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 so as to collect its receivables. All disputed receivables from corporate and retail customers have been adequately provided for.

(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.

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 31 October 2013. Based on the exchanged confirmations, the following receivables and payables remained unreconciled:

The total amount of unreconciled confirmations is RSD 2,087,547 thousand.

The underlying reason for unreconciled confirmations are incorrect addresses (RSD 2,086,144 thousand) and disputed confirmations (RSD 1,403 thousand).

The total amount of reconciled receivables is RSD 41,411,182 thousand.

36. EXCHANGE RATES

The official exchange rates for major currencies, determined on the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies as at 31 December 2013 and 31 December 2012 into Serbian Dinars (RSD) were as follows:

		RSD
	2013	2012
EUR	114,6421	113,7183
USD	83,1282	86,1763
CHF	93,5472	94,1922

37. SUBSEQUENT EVENTS

Erste Bank ad Novi Sad made the payment of the agreed amount, based on the agreement of purchase and transfer of shares with Steiermarkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH. On the date of payment of the agreed amount the Bank has acquired a 75% stake in the share capital of the company S Leasing d.o.o, Serbia throughout the payment of 25% of ownership to Steiermarkische Bank und Sparkassen AG and 50% of ownership to Immorent AG. Also the Bank has acquired 19% stake in the share capital of the company S Rent d.o.o, Serbia paying 19% interest to Immorent Int Holding GMBH. With this transaction both companies will remain a member of Erste Group. According to the unaudited financial statements of S-Leasing d.o.o, total assets and total equity as at 31 December 2013 amounted to RSD 3,117,125 thousand and RSD 216,884 thousand, respectively, while total assets and total equity of S-Rent d.o.o. amounted to RSD 2,777,558 thousand and RSD 460,216 thousand, respectively.

Novi Sad, 11 March 2014

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

Čomić Stevan Head of Accounting and Finance Department	Suzan Tanriyar Member of the Evecutive Board	Slavko Carić President of the Executive Board