ERSTE BANK A.D., NOVI SAD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

CONTENT

Building a better
working world

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

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

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

We have audited the accompanying separate financial statements of Erste Bank a.d, Novi Sad (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cah flows 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 separate financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Belgrade, 31 March 2015

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

Jelena Čvorović

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

Jelena Čvorović
Authorised Auditor

PIB: 101824091 • Matični broj: 17155270 • Upisan i unet osnovni kapital: 15.079,01 EUR
Registarski broj 47839 kod Agencije za privredne registre
Poslovni račun 160-0000000399176-13 kod Banca Intesa a.d. Beograd

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

(thousand RSD)

POSITION	Note	2014	2013
Interest income	4	6,740,033	7,333,386
Interest expense	4	(2,163,155)	(2,863,547)
Net interest income	4	**4,576,878**	**4,469,839**
Fees and commission income	5	2,262,166	2,233,973
Fees and commission expense	5	(513,632)	(537,496)
Net fee and commission income	5	**1,748,534**	**1,696,477**
Net income from financial assets held for trading	6	86,256	3,072
Net income from risk protection	7	2,672	3,362
Net income from financial assets available for sale	8	5,829	4
Net income from foreign currency exchange difference and effects of contractual foreign currency clause	9	108,673	135,471
Other operating income	10	93,991	121,413
Net expenses from impairment of financial assets and credit-risky off-balance sheet items	11	(1,833,462)	(993,067)
TOTAL NET OPERATING INCOME		**4,789,371**	**5,436,571**
Costs of salaries, contributions and other personnel expenses	12	(1,617,003)	(1,619,176)
Depreciation costs	13	(268,051)	(245,825)
Other expenses	14	(2,738,689)	(2,446,450)
PROFIT BEFORE TAX	15	**165,628**	**1,125,120**
Income tax	15	(118)	(2,265)
Profit from deferred tax	15	107,298	-
Loss from deferred tax	15	-	(63,478)
PROFIT FOR THE YEAR	32	**272,808**	**1,059,377**

Novi Sad, 31 March 2015

Stevan Čomić Head of Accounting and Controlling Sector	Frank Michael Beitz Member of the Executive Board	Slavko Carić President of the Executive Board

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(thousand RSD)

POSITION	Note	2014	2013
PROFIT FOR THE YEAR	32	**272,808**	**1,059,377**
Components of other comprehensive income that can not be reclassified to profit or loss:			
Actuarial profit/(loss)		2,061	(5,193)
Components of other comprehensive income that can be reclassified to profit or loss:			
Positive effects of changes in fair value of financial assets available for sale		29,672	6,883
Unrealized losses from financial assets available for sale		(764)	-
Loss from taxes related to other comprehensive income		(4,336)	(1,032)
Total other comprehensive income		**26,633**	**658**
TOTAL RESULT OF PERIOD		**299,441**	**1,060,035**

Novi Sad, 31 March 2015

Stevan Čomić Director of Accounting and Controlling Sector	Frank Michael Beitz Member of the Executive Board	Slavko Carić President of the Executive Board

BALANCE SHEET AS AT 31 DECEMBER 2014

ASSETS

(thousand RSD)

	Note	31.12.2014	31.12.2013	1.1.2013
Cash and balances with Central bank	16	15,906,407	16,104,913	12,202,745
Financial assets held for trading	17	6,077,169	1,745,956	323,068
Financial assets available for sale	18	2,571,624	1,705,821	1,090,508
Financial assets held to maturity	19	6,509,844	5,711,842	5,386,635
Loans and receivables to banks and other financial institutions	20	3,898,755	13,417,006	2,667,925
Loans and receivables to customers	21	60,868,620	57,339,373	57,138,560
Investments in subsidiaries	22	93,560	-	-
Intangible assets	23	389,351	411,865	357,551
Property, plant and equipment	23	704,054	707,364	729,299
Investment property	23	13,827	-	-
Current tax asset		2,673	1,021	43
Deferred tax asset	15	210,513	107,551	172,062
Other assets	24	506,124	329,726	298,835
TOTAL ASSETS		**97,752,521**	**97,582,438**	**80,367,231**
LIABILITIES AND EQUITY				
LIABILITIES				
Financial liabilities held for trading	25	27,282	-	-
Deposits and other liabilities to banks, other financial institutions and Central bank	26	18,433,395	13,729,205	8,491,069
Deposits and other liabilities to other customers	27	61,602,685	64,904,207	53,877,266
Debt issued and other borrowed funds	28	-	1,465,000	1,465,000
Subordinated liabilities	29	2,063,751	2,191,301	2,407,579
Provisions	30	543,788	461,839	418,652
Other liabilities	31	422,801	471,509	408,323
TOTAL LIABILITIES		**83,093,702**	**83,223,061**	**67,067,889**
Equity	32			
Share capital		10,164,475	10,164,475	10,164,475
Retained earnings		1,343,984	1,628,154	1,264,907
Reserves		3,150,360	2,566,748	1,869,960
TOTAL EQUITY		**14,658,819**	**14,359,377**	**13,299,342**
TOTAL LIABILITIES AND EQUITY		**97,752,521**	**97,582,438**	**80,367,231**

Novi Sad, 31 March 2015

Stevan Čomić Director of Accounting and Controlling Sector	Frank Michael Beitz Member of the Executive Board	Slavko Carić President of the Executive Board

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

(thousand RSD)

	Share capital	Share premium	Other reserves	Revaluation reserves	Retained earnings	Total
Balance as at 1 January 2013	**10,040,000**	**124,475**	**1,843,171**	**26,789**	**1,264,907**	**13,2 99,342**
Actuarial loss	-	-	-	-	-	-5,193
Changes in fair value of financial assets available for sale	-	-	-	5,851		5,851
Profit for the year	-	-	-	-	1,059,377	1,059,377
Transfer of profit to reserves	-	-	690,937	-	-696,130	
Balance as at 31 December 2013	**10,040,000**	**124,475**	**2,534,108**	**32,640**	**1,628,154**	**14,359,377**
Balance as at 1 January 2014	**10,040,000**	**124,475**	**2,534,108**	**32,640**	**1,628,154**	**14,359,377**
Actuarial profit	-	-	-	2,061	-	2,061
Changes in fair value of financial assets available for sale	-	-	-	24,572	-	24,572
Profit for the year	-	-	-	-	272,809	272,809
Transfer of profit to reserves			556,979		-556,979	
Balance as at 31 December 2014	**10,040,000**	**124,475**	**3,091,087**	**59,273**	**1,343,984**	**14,658,819**

Novi Sad, 31 March 2015

Stevan Čomić
Director of Accounting and Controlling Sector

Frank Michael Beitz
Member of the Executive Board

Slavko Carić
President of the Executive Board

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2014

	2014	(thousand RSD) 2013
A. Cash flows from operating activities		
Cash inflows from operating activities	**9,512,005**	**9,105,106**
Inflow from interest	7,170,699	6,810,078
Inflow from fees	2,272,242	2,217,857
Inflow from other operating income	68,939	77,065
Inflow from dividends and share in profit	125	106
Cash outflows from operating activities	**7,572,920**	**7,005,271**
Outflow from interest	2,090,217	2,773,587
Outflow from fees	512,171	534,685
Outflow from gross salaries, wages and other personel expenses	1,594,988	1,617,404
Outflow from taxes , contributions and other duties charged to income	362,535	285,344
Outflow from other operating income	3,013,009	1,794,251
Net cash inflows from operating activities before increase or decrease in placements and deposits	**1,939,085**	**2,099,835**
Decrease in placements and increase in deposits	**15,564,191**	**12,971,557**
Decrease in loans and advances to banks, other financial intitutions, Central bank and clients	6,819,865	-
Increase in deposits to banks, other financial intitutions, Central bank and clients	8,744,326	12,971,557
Increase in placements and decrease in deposits and other liabilities	**1,382,927**	**15,828,617**
Increase in loans and advances to banks, other financial intitutions, Central bank and clients	-	15,030,224
Increase in financial assets initially recognized at fair value trough Income statement, financial assets available for sale and other non-investment	1,382,927	798,393
Net cash inflows from operating activities before tax	**16,120,349**	**-**
Net cash inflows from operating activities before income tax	**-**	**757,225**
Paid income tax	1,651	979
Net cash inflows from operating activities	**16,118,698**	**-**
Net cash outflows from operating activities	**-**	**758,204**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Cash inflows from investment activities	**-**	**106**
Cash outflows from investment activities	**4,665,796**	**1,898,080**
Outflows from purchase of investment securities	4,287,594	1,619,822
Outflows from purchase of investments in subsidiaries and associates and joint ventures	120,565	-
Outflows from purchases of intagible asstes, property, plant and equipment	-	278,258
Outflows from purchase of investment properties	257,637	-
Net cash outflows from investment activities	**4,665,796**	**1,897,974**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**226,982**	**3,280,291**
Inflow from loans taken	-	3,280,291
Other inflows from financing activities	226.982	-
Cash outflows from financing activities	**9,207,940**	**292,454**
Cash outflow from subordinated liabilities	128,100	216,275
Outflow from loans taken	7,642,122	-
Outflows from securities issued	1,437,718	-
Other cash outflows from financing activities	-	76,179
Net cash inflows from financing activities	**-**	**2,987,837**
Net cash outflows from financing activities	**8,980,958**	**-**
TOTAL CASH INFLOWS	**25,303,178**	**25,357,060**
TOTAL CASH OUTFLOWS	**22,831,234**	**25,025,401**
NET INCREASE IN CASH	**2,471,944**	**331,659**
CASH AT THE BEGINNING OF YEAR	**7,837,134**	**7,370,004**
POSITIVE FOREIGN EXCHANGE DIFFERENCES	**7,678,037**	**8,246,533**
NEGATIVE FOREIGN EXCHANGE DIFFERENCES	**7,569,364**	**8,111,062**
Cash and cash equivalents at the end of year	**10,417,751**	**7,837,134**

Novi Sad, 31 March 2015

Stevan Čomić Director of Accounting and Controlling Sector	Frank Michael Beitz Member of the Executive Board	Slavko Carić President of the Executive Board

NOTES TO THE SEPARATE FINANCIAL STATEMENTS for the year ended 31 December 2014

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.

On January 15th 2014 the Bank made the payment of the agreed amount on the basis of concluded contract 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 acquired 75% of stake in the share capital of the company S-leasing d.o.o Serbia in such a way that it paid 25% owned by Steiermarkische Bank und Sparkassen AG and 50% owned by Immorent AG.

Also, the bank acquired a 19% stake in the share capital of the company S Rent d.o.o Serbia by paying 19% stake to Immorent Int Holding GMBH.

By this transactions, both companies still remain members of Erste Group.

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 Oslobodjenja. The Bank operates through 7 business centers, 47 branches, 10 sub-branches and 5 counters.

The Bank had 992 employees as at 31 December 2014 (31 December 2013: 972 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

The financial statements of the Bank for 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the regulations of the National Bank of Serbia governing the financial reporting of banks.

The financial statements have been prepared in accordance with the requirements of the Decision on Contents and Format of the Financial Statements Forms for Banks (Official Gazette of the Republic of Serbia 71/2014 and 135/2014).

These financial statements are separate financial statements.

The Bank is the parent of a Group and, as such, is required by the Law on banks to prepare consolidated financial statements as at 31 December 2014. The consolidated financial statements includes financial statements of S Leasing which is 75% owned by the Bank. The result of consolidation performed in compliance with International Financial Reporting Standards (IFRS) is consolidated equity at the amount of 14,737,600 thousand dinars, consolidated profit of 228,324 thousand dinars and total consolidated assets of 100,955,437 thousand dinars as at 31 December 201X. The consolidated financial statements have been issued on 31 March 2015.

The financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss and liabilities for cash-settled share-based payments, all of which have been measured at fair value. The 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.

The financial statements are prepared on a going concern basis which assumes the Bank will continue its operations in the foreseeable future.

2.2. First-time adoption of IFRS

The financial statements for the year ended 31 December 2014 are the first the Bank has prepared in accordance with International Financial Reporting Standards.

In order to prepare the financial statements in accordance with IFRS and to comply with the newly issued regulations of the National Bank of Serbia, the Bank has:

- Prepared and presented an opening balance sheet in accordance with IFRS as at 1 January 2013.
- Assessed that no restatement to previously reported amounts of equity as at 1 January 2013 and 31 December 2013 and net income/loss for the year ended 31 December 2013 are required to comply with the requirements of IFRS. The estimates on 1 January 2013 and 31 December 2013 are consistent with those made for the same dates in accordance with previously applied regulations.
- Changed the presentation of its Balance Sheet and Income Statement to those previously required and presented a Statement of Comprehensive Income. The difference between the total assets in these financial statements and the previously reported total assets as at 1 January 2013 and 31 December 2013 were RSD 349,158 thousand and RSD 401,150 thousand respectively relate to unamortized deferred loan origination fees. Such fees are presented within the underlying instrument and were previously reported under liabilities.
- Changed the presentation of the Statement of Cash Flows. Cash and cash equivalents included in the Statement of Cash Flows are disclosed in Note 38.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Interest Income and Expenses

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

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as available for sale, interest income and expense are recognized 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.

2.4. Fee and Commssion Income and Expenses

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Foreign Currency Translation (continued)

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,

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.

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

2.6. Financial instruments

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

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

"Day 1" Profit

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

Classification of Financial Instruments

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

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

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

2.6.1. Financial Assets at Fair Value through Profit or Loss

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial instruments (continued)

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

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

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

2.6.2. 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.

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.

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.

Derecognition of Financial Assets and Liabilities

A financial asset is considered for derecognition when the contractual rights to the cash flows from the financial asset expire, or the Bank has either transferred the contractual right to receive the cash flows from that asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria. In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Bank derecognizes the transferred asset if control over that asset is relinquished. The rights and obligations retained in the transfer, such as servicing assets and liabilities, are recognized separately as assets and liabilities, as appropriate. If control over the asset is retained, the Group continues to recognize the asset to the extent of its continuing involvement, which is determined by the extent to which it remains exposed to changes in the value of the transferred asset.

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

Impairment of Loans and Other Financial Assets and risk reserves

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

Impairment of Loans and Other Financial Assets and risk reserves (continued)

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

In assessing of impairment for placements with banks and loans and advances to customers valued at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes an asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

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

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of contracted cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The Bank regularly reviews the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

Impairment of Loans and Other Financial Assets (continued)

The carrying amount of the loan is reduced through the use of an allowance account and the amount of the impairment loss arising from impairment of loans and receivables, as well as other financial assets measured at amortized cost, is recognized in the income statement as impairment losses on financial assets. 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. Some of indicators of default can be: delay in payment, initiation of the bankruptcy or liquidation, removal from the Business Entities Register, client does not recognize receivables within reconciliation procedures with the Bank.

A write-off is made when all or part of a claim is deemed uncollectible, and when all collaterals have been activated (e.g. pursuant to a court decision, completed bankruptcy proceedings, completed legal proceedings, all available collaterals are realized, cross-checking of client´s property was performed). Loans together with the associated allowance are written off when the financial asset is considered uncollectible. Write-offs are either charged against the allowance for impairment or direct to expenses. Uncollectible receivables are written-off on the basis of the court's decision, decision of the General Assembly of shareholders or the Executive Board when there is no realistic prospect of future recovery and all collateral has been realised.

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 as an income.

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, but if after restructuring evidence of impairment arises, the client will be marked as "default" again. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

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, or pledged with the National Bank of Serbia as security, 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 statement of other comprehensive income.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6. Financial Instruments (continued)

2.6.6. Issued Financial Instruments and Other Financial Liabilities

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

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

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

Deposits from Other Banks and Customers

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

Borrowings

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

Operating Liabilities

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

2.7. 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, 43/2013, 113/2013 and 135/2014).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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%).

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 National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items. 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 Bank Capital Adequacy. 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) and foreign currency current accounts held with other domestic banks and foreign banks.

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. Investments in subsidiaries

Subsidiary in an entity over which the Bank has control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

As at 31 December 2014 the Bank has 75% stake in share capital of S Leasing d.o.o. Belgrade. Investment is presented at cost reduced for impairment allowance.

2.12. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12. Intangible Assets (continued)

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.

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

2.13. Property, plant and equipment and Investment Properties

Property, plant and equipment and Investment Properties are stated at cost less accumulated depreciation and impairment losses, if any.

Costs include all expenses directly related to purchase of property, plant and equipment.

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.

The Bank has investments properties in order to make revenue from renting them and gains arising from changes in their fair values. Investment properties are measured initially at cost, net of allowances.

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.

Investments in other properties, plant and equipment are amortised over their usueful economic lives in accordance with conditions defined by contracts.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14. 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.

2.15. 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.

2.16. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Provisions and Contingencies

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, 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.

2.17. 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 2 average monthly salaries realized in the Republic of Serbia in the month prior to the month of retirement or equal to 2 average salaries in the Bank earned in the month prior to retirement or to payment, or equal to 2 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, thirty and fourthy 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)

2.18. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19. Taxes and Contributions (continued)

(a) Income Taxes (continued)

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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20. Earnings per Share

Basic earnings 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".

2.21. 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. The Bank bears no risk in respect of repayment of these placements.

2.23. New and amended standards and interpretations

The following new and amended IFRSs are effective from 1 January 2014:

- IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 12 Disclosures of Interests in Other Entities
- IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
- IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets
- IFRIC Interpretation 21: Levies

The impact of adoption of standards or interpretations on financial statements is presented below.

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**

  These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The effect of applying the amendments did not have an impact on the financial position and performance of the Bank.

- **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**

  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. New and amended standards and interpretations (continued)

- **IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting**

  Under the amendment there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The IASB made a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument changes in order to achieve clearing for that instrument. The effect of this amendment does not have impact on financial position and performance of the Bank.

- **IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets**

  These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. The effect of this amendment does not have impact on financial position and performance of the Bank.

- **IFRIC Interpretation 21: Levies**

  The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation does not have effect on financial performance of the Bank.

Standards issued, not yet effective

- **IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)**

  The amendments address issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Finally, the amendments to *IAS 28 Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- **IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization**

  The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. It is not expected that the amendments will have impact on financial statements of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. New and amended standards and interpretations (continued)

- **IAS 19 Employee benefits (Amended): Employee Contributions**

  The amendment is effective for annual periods beginning on or after 1 July 2014. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. It is not expected that the amendments will have impact on financial statements of the Bank.

- **IFRS 9 Financial Instruments – Classification and measurement**

  The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Bank currently assesses the impact of this standard on financial statements.

- **IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations**

  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. It is not expected that the amendments will have impact on financial statements of the Bank.

- **IFRS 14 Regulatory Deferral Accounts**

  The standard is effective for annual periods beginning on or after 1 January 2016. The IASB has a project to consider the broad issues of rate regulation and plans to publish a Discussion Paper on this subject in 2014. Pending the outcome of this comprehensive Rate-regulated Activities project, the IASB decided to develop IFRS 14 as an interim measure. IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The Bank currently assesses the impact of this standard on financial statements.

- **IFRS 15 Revenue from Contracts with Customers**

  The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Bank currently assesses the impact of this standard on financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. New and amended standards and interpretations (continued)

- **IAS 27 Separate Financial Statements (amended)**

  The amendment is effective from 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. The Bank currently assesses the impact of this standard on financial statements.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be effective from annual periods commencing on or after 1 January 2016. It is not expected that the amendments will have impact on financial statements of the Bank.

- **IAS 1: Disclosure Initiative (Amendment)**

  The amendments to IAS 1 *Presentation of Financial Statements* further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments.

Annual Improvements to IFRSs 2010 – 2012 Cycle

The IASB has issued Annual Improvements to IFRSs 2010 – 2012 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014.

- ***IFRS 2 Share-based Payment:*** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- ***IFRS 3 Business combinations:*** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- ***IFRS 8 Operating Segments:*** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- ***IFRS 13 Fair Value Measurement:*** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. New and amended standards and interpretations (continued)

- ***IAS 16 Property Plant & Equipment:*** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- ***IAS 24 Related Party Disclosures:*** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- ***IAS 38 Intangible Assets:*** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

Annual Improvements to IFRSs 2011 – 2013 Cycle

The IASB has issued Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014.

- ***IFRS 1 First-time adoption of IFRS:*** This improvement clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements.
- ***IFRS 3 Business Combinations:*** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- ***IFRS 13 Fair Value Measurement:*** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- ***IAS 40 Investment Properties:*** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

Annual Improvements to IFRSs 2012 – 2014 Cycle

The IASB has issued Annual Improvements to IFRSs 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016.

- ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- ***IFRS 7 Financial Instruments***: ***Disclosures***: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23. New and amended standards and interpretations (continued)

- ***IAS 19 Employee Benefits***: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- ***IAS 34 Interim Financial Reporting:*** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

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.

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 life 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.

(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.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(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.

(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 of the Bank 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.

(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.

4. INTEREST INCOME AND EXPENSE

RSD thousands

	2014	2013
Interest income		
- Banks	420,564	1,299,355
- Public companies	219,667	215,335
- Other companies	1,694,499	1,781,459
- Enterpreneurs	72,123	81,072
- Public sector	1,136,460	905,563
- Retail customers	3,139,248	2,997,280
- Foreign customers	8,433	5,265
- Agricultural sector	36,949	39,270
- Other customers	12,090	8,787
Total	**6,740,033**	**7,333,386**
Interest expense		
- Banks	440,713	647,753
- Public companies	202,189	198,446
- Other companies	323,906	537,848
- Enterpreneurs	1,982	1,262
- Public sector	81,823	172,854
- Retail customers	579,416	677,135
- Foreign entities	467,450	561,773
- Other customers	65,676	66,476
Total	**2,163,155**	**2,863,547**
Net interest income	**4,576,878**	**4,469,839**

4. INTEREST INCOME AND EXPENSE (continued)

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

		RSD thousands
	2014	**2013**
Interest income		
Loans	5,116,851	5,746,240
Repurchase ransactions with bills of Republic of Serbia	195,105	496,490
Treasury bills of the Ministry of Finance	1,015,550	890,087
Obligatory reserve	108,873	99,462
Deposits	8,124	5,775
Securities	107,512	2,584
Other placements	14,239	14,168
Total	**6,556,415**	**7,254,782**
Interest income on impaired financial assets	**2014**	**2013**
Loans	173,779	78,580
Other placements	8,839	24
Total	**183,618**	**78,604**
Total Interest Income	**6,740,033**	**7,333,386**
Interest expense		
Loans	481,518	569,734
Deposits	1,498,410	2,073,989
Securities	183,125	219,750
Other placements	102	74
Total	**2,163,155**	**2,863,547**
Net interest income	**4,576,878**	**4,469,839**

5. FEE AND COMMISSION INCOME AND EXPENSE

RSD thousands

	2014	2013
Fee and commission income		
Domestic payment transactions services	449,710	392,566
International payment transaction services	140,789	116,939
Foreign exchange transactions	226,504	280,485
Loans	455,222	562,555
Debit and credit cards operations	391,731	337,597
Guarantees and other warranties	140,433	139,486
Other fees and commission	457,777	404,345
Total	**2,262,166**	**2,233,973**
Fee and commission expense		
Domestic payment transaction services	36,251	34,984
International payment transaction services	21,670	18,207
Foreign exchange transactions	97,721	133,207
Loans	164,070	213,021
Debit and credit cards services	146,262	110,067
Other fees and commissions	47,658	28,010
Total	**513,632**	**537,496**
Net fee and commission income	**1,748,534**	**1,696,477**

6. NET INCOME ON FINANCIAL ASSETS HELD FOR TRADING

RSD thousands

	2014	2013
Income of financial assets held for trading		
Gains of sales of securities and other financial assets	7,972	26
Income of change in fair value of securities and other financial assets	99,671	10,535
Income of changes in value of derivatives	78,650	7,672
Total	**186,293**	**18,233**
Expenses of financial assets held for trading		
Losses of sale of securities and other financial assets	1,097	23
Expenses of changes in fair value of securities and other financial assets	36,660	7,458
Expenses of changes in value of derivatives	62,280	7,680
Total	**100,037**	**15,161**
Net income on financial assets held for trading	**86,256**	**3,072**

In 2014, the Bank made a profit in the amount of 7,972 thousand RSD through sale of financial assets held for trading of the Republic of Serbia.

7. NET INCOME FROM RISK PROTECTION

RSD thousands

	2014	2013
Income from risk protection		
Income of changes in value of investments and receivables	3,737	6,395
Total	**3,737**	**6,395**
Expense from risk protection		
Expense of changes in value of investments and receivable	1,065	3,033
Total	**1,065**	**3,033**
Net income from risk protection	**2,672**	**3,362**

8. NET INCOME FROM FINANCIAL ASSETS AVAILABLE FOR SALE

RSD thousands

	2014	2013
Income from financial assets available for sale		
Gains of sales of securities and other financial assets	5,829	4
Total	**5,829**	**4**
Net income from financial assets available for sale	**5,829**	**4**

In 2014, the Bank made a profit in the amount of 5,829 RSD thousand through sale of securities available for sale of the Republic of Serbia.

9. NET INCOME FROM FOREIGN CURRENCY EXCHANGE DIFFERENCE AND THE EFFECTS OF CONTRACTUAL FOREIGN CURRENCY CLAUSE

RSD thousands

	2014	2013
Foreign currency exchange gains	4,713,322	5,344,917
Foreign currency exchange losses	(6,831,586)	(5,604,515)
Positive effects of contractual foreign currency clause	2,964,715	2,901,616
Negative effects of contractual foreign currency clause	(737,778)	(2,506,548)
Net income from foreign currency exchange difference and effects of contractual foreign currency clause	**108,673**	**135,471**

10. OTHER OPERATING INCOME

RSD thousands

	2014	2013
Other income from operating activities	39,971	35,931
Income from reversal of unused provisions for bonuses	21,077	3,597
Income from reversal of unused other provisions	8,000	40,196
Other operating income	23,198	41,689
Income from changes in value of financial liabilities	1,745	-
Total	**93,991**	**121,413**

11. NET EXPENSES FROM IMPAIRMENT ON FINANCIAL ASSETS AND CREDIT RISKY OFF-BALANCE SHEET ITEMS

	2014	*RSD thousands* 2013
Income from impairment of financial assets and credit risky off-balance sheet items		
Income from reversal of indirect impairment of on-balance sheet items	8,681,050	6,820,664
Income from reversal of provision for off-balance sheet items	899,154	900,743
Total	**9,580,204**	**7,721,407**
Expense from the impairment of financial assets and credit risky off-balance sheet items		
Expense from reversal of impairment losses of on-balance sheet items	10,457,048	7,831,924
Expense from reversal of provision for off-balance sheet items	956,618	882,550
Total	**11,413,666**	**8,714,474**
Net expense from impairment of financial assets and credit risky off-balance sheet items	**(1,833,462)**	**(993,067)**

11a. Net expenses from impairment on financial assets and credit risky off-balance sheet items

	2014	*RSD thousands* 2013
Expenses from impairment of financial assets and credit risky off-balance sheet items		
Expense from indirect impairmentof on- balance sheet items:		
– receivables from financial assets available for sale	-	(297)
– Loans and receivables banks and other financial institutions (Note 20(b))	(375,003)	(1,136,692)
- Loans and receivables to customers (Note 21(b))	(10,000,813)	(6,666,805)
– other assets (Note 24)	(81,233)	(28,131)
	(10,457,049)	**(7,831,924)**
Provisions for losses of off-balance sheet assets (Note 30)	(956,618)	(882,550)
Total expenses from impairment of financial assets and credit risky off-balance sheet items	**(11,413,666)**	**(8,714,474)**
Income from impairment of financial assets and credit risky off-balance sheet items		
Income from indirect impairmentof on- balance sheet items:		
– receivables from financial assets available for sale	-	397
– Loans and receivables to banks and other financial institutions (Note 20(b))	367,522	1,116,319
- Loans and receivables to customers (Note 21(b))	7,899,291	5,143,992
– other assets (Note 24)	414,237	423,372
Income from collected suspended interest	-	136,584
	8,681,050	**6,820,664**
Provisions for losses on off-balance sheet assets (Note 30)	899,154	900,743
Total income from impairment of financial assets and credit risky off-balance sheet items	**9,580,204**	**7,721,407**
Net expenses from impairment of financial assets and credit risky off-balance sheet items	**1,833,462**	**993,067**

12. COST OF SALARIES, CONTRIBUTIONS AND OTHER PERSONNEL EXPENSE

		RSD thousands
	2014	**2013**
Cost of net salaries	1,092,572	1,037,898
The costs of taxes and contributions paid by employee	411,090	403,738
Redundancy costs, jubilee awards, bonuses and reimbursements	101,372	165,782
Other personnel expense	11,969	11,758
Total	**1,617,003**	**1,619,176**

13. DEPRECIATION COSTS

		RSD thousands
	2014	**2013**
Depreciation expense:		
- Tangible assets (Note 23)	79,303	91,715
- Intangible assets (Note 23)	188,748	154,110
Total	**268,051**	**245,825**

14. OTHER EXPENSES

		RSD thousands
	2014	**2013**
Professional services	820,156	643,059
Donations and sponsorships	39,859	44,676
Advertising, marketing and representation	243,416	270,422
Telecommunication services and postage	62,474	65,117
Insurance premiums	279,200	162,296
Rental cost	417,645	384,334
Material	105,090	110,166
Taxes and contributions	60,159	81,591
Maintenance of tangible assets and software	218,533	189,527
Losses on sale and disposal of fixed and intangible assets	1,641	340
Payroll contributions payable by the employer	248,623	243,924
Per diems and travel expenses	78,714	73,666
Education and counseling	32,041	21,344
Other expenses	131,138	155,988
Total	**2,738,689**	**2,446,450**

15. INCOME TAX

(a) Components of Income Tax

Components of income tax/(expenses) are:

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
Current income tax	(118)	(2.265)	(2.359)
Income from deferred tax assets and decrease of deferred tax liabilities	102,962	-	176,370
Loss from deferred tax assets and decrease of deferred tax liabilities	-	(63,478)	-
Total	**102,844**	**(65,743)**	**174,011**

The outstanding balance of prepaid current income tax amounts to RSD 2,673 thousand represents an advance payment for the current income tax liability for 2013. From this prepaid amount will be covered liabilities in the amount of 118 thousand RSD for income tax for 2014.

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

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
Profit before tax	**165,628**	**1,125,121**	**1,076,081**
Income tax at the rate of 15%	**24,844**	**168,768**	**107,608**
Tax effects of expenses not recognised for the tax purposes	24,121	30,189	31,263
Effects of usage of tax loss carry forwards with respect to deferred tax assets that were not recognized	-	-	(138,871)
Tax credits for investment in fixed assets	(58)	(1,115)	(2,359)
Recognition of deferred tax assets with respect to tax loss carryforwards	-	-	(164,993)
Non-taxable income	(154,457)	(139,427)	-
Other	2,708	7,328	(6,659)
Total expense/income tax reported in the Income Statement	**(102,844)**	**65,743**	**(174,011)**
Effective tax rate	***-62,09%***	***5,84%***	***16,17%***

15. INCOME TAX (continued)

(c) Deferred tax assets and deferred tax liabilities

In RSD thousands

	Deferred tax asset 31.12.2014.	Deferred tax liabilities 31.12.2014.	Deferred tax asset 31.12.2013.	Deferred tax liabilities 31.12.2013.	Deferred tax asset 01.01.2013.	Deferred tax liabilities 01.01.2013.
Temporary differences in fixed assets	513	-	-	(261)	11,377	-
Temporary differences in securities avaliable for sales	-	(4,336)	-	(1,032)	-	(4,308)
Carry forward losses from previous years	214,336	-	108,844	-	164,993	-
Total	**214,849**	**(4,336)**	**108,844**	**(1,293)**	**176,370**	**(4,308)**

(d) Tax credit carried forward on the basis of which deferred tax assets were not recognized

As at 31 December 2014 The Bank has tax credit carried forward based on investments in fixed assets in the amount of RSD 51,893 thousand for which deferred tax assets are not recognized,

RSD thousands

	Tax credits 31.12.2014.	Tax credits 31.12.2013.	Tax credits 01.01.2013.
From 1 to 5 years	51,626	47,67	42,982
More than 5 years	267	5,391	9,188
Total	**51,893**	**53,058**	**52,170**

16. CASH AND BALANCES WITH CENTRAL BANK

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
In RSD			
Current account with the Central Bank	5,961,360	3,354,490	4,021,931
Cash on hand	1,195,763	1,343,904	1,079,581
	7,157,123	**4,698,394**	**5,101,512**
In foreign currency			
Cash on hand	1,236,820	731,296	632,124
Obligatory reserves with the National Bank of Serbia	7,512,464	10,675,223	6,469,109
	8,749,284	**11,406,519**	**7,101,233**
Balance as at	**15,906,407**	**16,104,913**	**12,202,745**

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, 62/2013, 125/2014, 135/2014), 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 2014 to 17 January of 2015 amounted to RSD 4,927,665 thousand.

The average interest rate on the amount of bank reserves during the year 2014 amounted to 2.50% per annum.

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, 62 /2013, 125/2014, 135/2014), which provides that banks calculate obligatory reserve rate of 27 % 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 20 % 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 2014 to 17 January in 2015 amounted to EUR 62,108 thousand.

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

17. FINANCIAL ASSETS HELD FOR TRADING

RSD thousand

	31.12.2014	31.12.2013	01.01.2013
In RSD			
Financial assets at fair value through profit or loss			
–treasury bills issued by Ministry of Finance of the Republic of Serbia	570,660	617,927	250,000
– bonds of the Republic of Serbia	453,221	200,206	-
- receivables arising from derivatives held for trading	43.652	-	8
	1,067,533	**818,133**	**250,008**
In foreign currency			
Financial assets at fair value through profit or loss			
– treasury bills issued by Ministry of Finance of the Republic of Serbia	1,232,539	-	-
– bonds of the Republic of Serbia	3,777,097	927,823	73,060
	5,009,636	**927,823**	**73,060**
Balance as at	**6,077,169**	**1,745,956**	**323,067**

18. FINANCIAL ASSETS AVAILABLE FOR SALE

RSD thousand

	31.12.2014	31.12.2013	01.01.2013
In RSD			
Financial assets available for sale			
– treasury bills issued by Ministry of Finance of the Republic of Serbia	16,689	-	612,892
– bonds of the Republic of Serbia	1,538,177	1,530,105	420,059
– share in capital	136,786	143,383	144,327
	1,691,652	**1,673,488**	**1,177,278**
In foreign currency			
Financial assets available for sale			
– treasury bills issued by Ministry of Finance of the Republic of Serbia	944,701	112,254	-
– other financial assets available for sale	52,363	39,741	33,608
	997,064	**151,995**	**33,608**
Gross financial assets available for sale	**2,688,716**	**1,825,483**	**1,210,886**
Less: Allowance for impairment	(117,092)	(119,662)	(120,378)
Balance as at	**2,571,624**	**1,705,821**	**1,090,508**

18. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

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

		U RSD hiljada
	31.12.2014	**31.12.2013**
Balance as at 1 January	119,662	120,378
Foreign exchange differences	(2,570)	(716)
Balance as at 31 December	**117,092**	**119,662**

19. FINANCIAL ASSETS HELD TO MATURITY

			RSD thousand
	31.12.2014	**31.12.2013**	**01.01.2013**
In RSD			
Financial assets held to maturity:			
– treasury bills issued by Ministry of Finance of the Republic of Serbia	-	932,309	5,386,638
– bonds of the Republic of Serbia	6,509,844	4,779,534	-
Balance as at	**6,509,844**	**5,711,843**	**5,386,638**

20. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

RSD thousands

	31.12.2014			31.12.2013			01.01.2013		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD									
Revocable deposits and loans	-	-	**-**	7,501,560	-	**7,501,560**	701,166	-	**701,166**
Loans	-	1,801	**1,801**	163		**163**	873,319	47	**873,366**
Other placements	-	-	**-**	142,100	-	**142,100**	15,536	-	**15,536**
	-	**1,801**	**1,801**	**7,643,823**		**7,643,823**	**1,590,021**	**47**	**1,590,068**
Foreign currency									
Foreign currency bank account	2,034,677	-	**2,034,677**	2,414,420	-	**2,414,420**	1,053,939	-	**1,053,939**
Loans	-	101,157	**101,157**		158,452	**158,452**		11,375	**11,375**
Deposits	1,379,903	-	**1,379,903**	3,209,979	-	**3,209,979**	-	-	**-**
Other placements	399,250	-	**399,250**	11,207	-	**11,207**	22,527	-	**22,527**
	3,813,830	**101,157**	**3,914,987**	**5,635,606**	**158,452**	**5,794,058**	**1,076,466**	**11,375**	**1,087,841**
Gross loans and receivables	**3,813,830**	**102,958**	**3,916,788**	**13,279,429**	**158,452**	**13,437,881**	**2,666,487**	**11,422**	**2,677,909**
Less: Allowance for impairment			(18,033)			(20,875)			(9,984)
Balance as at			**3,898,755**			**13,417,006**			**2,667,925**

Loans with foreign currency clause are presented within loans and receivables in foreign currency.

20. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

(a) Overview by types of user of loans and deposits

RSD thousands

	31.12.2014			31.12.2013			01.01.2013		
	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD									
Central Bank	-	-	-	7,501,560	-	7,501,560	974,200	-	974,200
Domestic Banks	-	-	-	29	-	29	600,190	-	600,190
Insurance companies	-	122	122	-	-	-	-	-	-
Auxiliary activities of financial services and insurance	-	546	546				42	47	89
Creditors, investment funds and other funds	-	-	-	-	-	-	15,536	-	15,536
Other loan and financing services	-	175	175	-	-	-	-	-	-
Foreign Banks	-	958	958	142,234	-	142,234	53	-	53
	-	1,801	1,801	7,643,823	-	7,643,823	1,590,021	47	1,590,068
Foreign currency									
Domestic Banks	-	-	-	127	-	127	5,329	74	5,403
Finance lease		100,590	100,590	483	152,790	153,273		202	202
Auxiliary activities of financial services and insurance	399,178	567	399,745	9,001	5,662	14,663	17,171	11,099	28,270
Foreign banks	3,414,652	-	3,414,652	5,625,995	-	5,625,995	1,053,966	-	1,053,966
	3,813,830	101,157	3,914,987	5,635,606	158,452	5,794,058	1,076,466	11,375	1,087,841
Gross loans and receivables	3,814,788	102,958	3,916,788	13,279,429	158,452	13,437,881	2,666,487	11,422	2,677,909
Less: Allowance for impairment			(18,033)			(20,875)			(9,984)
Balance as at			3,898,755			13,417,006			2,667,925

Loans with foreign currency clause are presented within loans and receivables in foreign currency.

20. LOANS AND RECEIVABLES TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

b) Maturity of loans and receivables to banks and other financial services

Maturity of loans and receivables to banks and other financial institutions based on the remaining period on the balance sheet date to the contractual maturity date, as at 31 December 2014, 31 December 2013 and 01 January 2013, is as follows:

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
Without defined maturity	3,814,782	9,923,445	1,959,913
Under 30 days	-	2,438,847	706,574
From 1 to 3 months	-	917,137	-
From3 to 12 months	6	-	-
Over 1year	102,958	158,452	11,422
Balance as at	**3,916,788**	**13,437,881**	**2,677,909**

Changes of allowance for impairment during year are presented in the following table:

RSD thousands

	31.12.2014	31.12.2013
Opening balance	20,875	9,984
Allowances for impairment (Note 11(a))	375,003	1,136,692
Reversal of allowance for impairment (Note 11(a))	(367,522)	(1,116,319)
Write-offs	(27,474)	-
FX differences	17,151	(9,482)
Balance as at 31 December	**18,033**	**20,875**

21. LOANS AND RECEIVABLES TO CUSTOMERS

RSD thousands

	31.12.2014			31.12.2013			01.01.2013		
	Short-term	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**	**Short-term**	**Long-term**	**Total**
In RSD									
Loans	1,962,501	16,304,448	**18,266,949**	2,797,636	11,603,135	**14,400,771**	2,738,575	9,937,936	**12,676,511**
Bills of exchange	282,556	-	**282,556**	381,961	-	**381,961**	404,035	-	**404,035**
Other placements	108,911	4,000	**112,911**	82,997	-	**82,997**	28,481	-	**28,481**
	2,353,968	**16,308,448**	**18,662,416**	**3,262,594**	**11,603,135**	**14,865,729**	**3,171,091**	**9,937,936**	**13,109,027**
Foreign currency									
Loans	6,751,889	40,864,011	**47,615,900**	12,727,917	35,498,852	**48,226,769**	8,547,718	40,021,211	**48,568,929**
Bills of exchange	-	902,697	**902,697**	-	914,984	**914,984**		1,303,167	**1,303,167**
Deposits	86,037	-	**86,037**	-	-	**-**	-	-	**-**
Other placements	77,693	374,051	**451,744**	749,041	102,706	**851,747**	408,313	157,459	**565,772**
	6,915,619	**42,140,759**	**49,056,378**	**13,476,958**	**36,516,542**	**49,993,500**	**8,956,031**	**41,481,837**	**50,437,868**
Gross loans and receivables	**9,269,587**	**58,449,207**	**67,718,794**	**16,739,552**	**48,119,677**	**64,859,229**	**12,127,122**	**51,419,773**	**63,546,895**
Less: Allowance for impairment			(6,850,174)			(7,519,856)			(6,408,335)
Balance as at			**60,868,620**			**57,339,373**			**57,138,560**

Loans with foreign currency clause are presented within loans and receivables in foreign currency.

21. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

(a) Overview by types of users of loans and deposits

RSD thousands

	31.12.2014			31.12.2013			01.01.2013		
	2014			2013			2012		
	Short-term	Long-term	Total	Short-term	Long-term	Total	Short-term	Long-term	Total
In RSD									
Holdings	-	-	**-**	1,975	217	**2,192**	-	-	**-**
Public enterprises	18,373	8,125	**26,498**	3,135	-	**3,135**	19,248		**19,248**
Other companies	1,001,172	2,352,408	**3,353,580**	1,524,345	37,115	**1,561,460**	1,867,831	131,130	**1,998,961**
Entrepreneurs	77,752	268,490	**346,242**	108,999	34,187	**143,186**	130,496	32,250	**162,746**
Public sector	596,202	1,569	**597,771**	15,089	107	**15,196**	137,629		**137,629**
Retail customers	488,517	13,552,415	**14,040,933**	809,942	11,526,998	**12,336,940**	728,080	9,772,706	**10,500,786**
Foreign entities	38	-	**38**	36	500	**536**	28	-	**28**
Farmers	8,667	1,987	**10,654**	6,717	-	**6,717**	12,853	-	**12,853**
Other customers	163,246	123,454	**286,699**	792,356	4,011	**796,367**	274,926	1,850	**276,776**
	2,353,968	**16,308,448**	**18,662,416**	**3,262,594**	**11,603,135**	**14,865,729**	**3,171,091**	**9,937,936**	**13,109,027**
Foreign currency									
Holdings	50,829	-	**50,829**	742,164	45,730	**787,894**	229,160	197,717	**426,877**
Public enterprises	138,719	6,006,171	**6,144,890**	30	4,668,278	**4,668,308**	46	4,716,845	**4,716,891**
Other companies	6,308,400	20,746,141	**27,054,541**	9,336,943	19,967,356	**29,304,299**	5,870,621	24,213,529	**30,084,150**
Entrepreneurs	99,203	407,753	**506,956**	235,141	475,357	**710,498**	132,879	658,551	**791,430**
Public sector	71,296	709,469	**780,765**	13,364	244,956	**258,320**	25,272	289,401	**314,673**
Retail customers	3,843	12,555,540	**12,559,383**	630,107	10,819,913	**11,450,020**	547,655	10,994,401	**11,542,056**
Foreign entities	86,037	-	**86,037**	-	-	**-**	-	-	**-**
Farmers	46,870	330,794	**377,664**	201,290	212,986	**414,276**	161,898	346,924	**508,822**
Other customers	110,422	1,384,891	**1,495,313**	2,317,919	81,966	**2,399,885**	1,988,500	64,469	**2,052,969**
Gross loans and receivables	**6,915,619**	**42,140,759**	**49,056,379**	**13,476,958**	**36,516,542**	**49,993,500**	**8,956,031**	**41,481,837**	**50,437,868**
Less: Allowance for impairment			(6,850,174)			(7,519,856)			(6,408,335)
			(6,850,174)			**(7,519,856)**			**(6,408,335)**
Balance as at			60,868,620			57,339,373			57,138,560

Loans with foreign currency clause are presented within loans and receivables in foreign currency.

21. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

b) Maturity of loans and receivables to customers

Maturity of loans and receivables to customers based on the remaining period on the balance sheet date to the contractual maturity date, as at 31 December 2014, 31 December 2013, and 01 January 2013 is as follows:

RSD thousands

	31.12.2014	**31.12.2013**	**01.01.2013**
Without defined maturity	978,481	1,474,384	1,169,232
Under 30 days	174,180	8,791,590	6,471,323
From 1 to 3 months	667,130	514,281	304,210
From3 to 12 months	7,449,797	5,959,297	4,182,358
Over 1year	58,449,206	48,119,677	51,419,772
Balance as at	**67,718,794**	**64,859,229**	**63,546,895**

Changes of allowance for impairment during the year are presented in the following table:

RSD thousands

	31.12.2014	**31.12.2013**
Opening balance	7,519,856	6,408,335
Allowances for impairment (Note 11(a))	10,000,813	6,666,805
Reversal of allowance for impairment (Note 11(a))	(7,899,291)	(5,143,992)
Write offs	(2,640,526)	(40,750)
FX differences	(130,676)	(370,542)
Balance as at	**6,850,174**	**7,519,856**

21. LOANS AND RECEIVABLES TO CUSTOMERS (continued)

c) Concentration of loans and receivables to banks and other financial institutions and to customers

Concentration of loans and receivables to banks and other financial institutions and to customers are presented in gross amount, on 31 December 2014, 31 December 2013 and 1 January 2013, in the following table:

RSD thousands

	31.12.2014.	31.12.2013.	01.01.2013.
Holdings	50,829	789637	427,583
Trade	6,584,396	7,078,306	7,977,426
Manufacturing industry	12,179,630	12,642,664	11,725,990
Civil engineering	2,447,075	2,431,123	2,814,729
Production and supplying of power electricity	4,185,645	1,860,403	1,517,037
Services and tourism	8,867,708	9,373,810	10,578,395
Farming and food industry	2,328,270	2,145,892	2,225,910
Retail customers	26,587,145	23,867,445	22,010,553
Domestic and foreign banks and other financial institutions	3,916,788	13,486,740	2,677,909
Public sector	1,378,536	753,412	452,538
Foreign entities	86,121	502	-
Farmers	388,232	421,050	522,510
Sectors of other customers	1,782,012	2,641,034	2,340,084
Entrepreneurs	853,195	853,949	954,140
Balance as at	**71,635,582**	**78,345,967**	**66,224,804**

22. INVESTMENTS IN SUBSIDIARIES

RSD thousands

	31.12.2014.	31.12.2013.	1.1.2013.
In RSD	93,56	-	-
Total investments	**93,56**	**-**	**-**
Balance as	**93,56**	**-**	**-**

As at 15 January 2015, on the basis of the contract concluded with Steiermarkische Bank und Sparkassen AG and Erste Group Immorent International Holding GMBH about purchase and transfer of shares, the Bank paid agreed amount and obtained 75% of shares in capital of S-leasing doo Serbia. The Bank has obtained share in capital after payment of 25%of ownership to Steiermarkische Bank und Sparkassen AG and 50% of ownership to Immorent AG.

23. INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

RSD thousands

	Land and buildings	Equipment	Equipment taken in finance leases	Equipment under construction	Total (Tangible assets	Investment property	Intangible assets
COST							
Balances as at 1 January 2013	**762,962**	**705,814**	**-**	**128**	**1,468,904**		**618,057**
Additions	-	-	-	296,872	296,872		-
Transfers	23,938	60,510	4,127	(297,000)	(208,424)		208,424
Disposals and write-offs	(31,254)	(63,357)	-	-	(94,611)		-
Balance as at 31 December 2013	**755,646**	**702,967**	**4,127**	**-**	**1,462,741**		**826,481**
Additions				258,951	258,951		
Transfers	23,546	57,737	(2,446)	(258,898)	(180,061)	13,827	166,234
Disposals and write-offs	(2,225)	(65,309)			(67,534)		
Balances as at 31 December 2014	**776,967**	**695,396**	**1,681**	**53**	**1,474,097**	**13,827**	**992,715**
AKUMULATED DEPRECIATION AND AMORTIZATION							
Balances as at 1 January 2013	**224,527**	**515,078**	**-**	**-**	**739,605**		**260,506**
Amortization (note 13)	18,542	71,586	1,587	-	91,715		154,110
Disposals and write-offs	(13,067)	(62,876)	-	-	(75,943)		-
Balances as at 31 December 2013	**230,002**	**523,788**	**1,587**	**-**	**755,377**		**414,616**
Amortization (note 13)	18,884	60,325	94		79,303		188,748
Disposals and write-offs	(287)	(64,350)			(64,637)		
Balances as at 31 December 2014	**248,599**	**519,763**	**1,681**	**-**	**770,043**		**603,364**
Net book value on day :							
- 31 December 2014.	**528,368**	**175,633**	**-**	**53**	**704,054**	**13,827**	**389,351**
- 31 December 2013.	**525,644**	**179,180**	**2,540**	**-**	**-**	**707,364**	**411,865**

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 69,617 thousand (31 December 2013: RSD 54,224 thousand). Management has taken all necessary measures to obtain title deeds from the land records. Net book value of equipment as of 31 December 2014 is comprised mostly from computer and telecommunication equipment, and office furniture. Net book value of intangible assets as of 31 December 2014 mostly comprises of software and licenses. Based on management's estimates, as at 31 December 2014 there were no indications that the value of fixed assets and intangible assets was impaired.

24. OTHER ASSETS

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
In RSD			
Other receivables:			
- Receivables for accrued commission and compensation	26,832	73,823	418
- Receivables from sale	496	496	54,916
- Other receivables from regular business	137,109	-	-
- Advances paid	6,798	6,524	5,421
- Receivables from employees	13,572	4,545	26,238
- Inventories	122,578	142,740	122,255
- Other receivables	96,231	181,614	227,510
- Other investments	29,169	50	52
Prepayments and accrued income:			
- Other prepayments	216,352	84,507	24,049
	649,137	**494,299**	**460,859**
In foreign currency			
Other receivables:			
- Receivables for accrued commission and compensation	65	56	57
- Advances paid	23,142	21,973	21,766
- Receivables from employees	1,353	1,425	1,154
- Other receivables	86,380	70,855	84,429
Prepayments and accrued income:			
- Other prepayments	49,189	4,212	-
	160,129	**98,521**	**107,406**
Gross other assets	**809,266**	**592,820**	**568,265**
Less: Allowance for impairment	(303,142)	(263,094)	(269,430)
Balance as at	**506,124**	**329,726**	**298,835**

Changes of the allowances for impairment are presented in the following table:

RSD thousands

	31.12.2014	31.12.2013
Opening balance	263,094	269,430
allowances for impairment	81,233	28,131
Reversal of allowances for impairment	(414,237)	(423,373)
FX differences	373,052	388,906
Balance as at	**303,142**	**263,094**

25. FINANCIAL LIABILITIES HELD FOR TRADING

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
In RSD			
Derivatives held for trading	27,282	-	-
Balance as at	**27,282**	**-**	**-**

26. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

RSD thousands

	31.12.2014			31.12.2013			01.01.2013		
	Short term	Long term	Total	Short term	Long term	Total	Short term	Long term	Total
In RSD									
Transactional deposits	967,361	-	**967,361**	184,595	-	**184,595**	176,721	-	**176,721**
Deposits based on given loans	29,332	181,437	**210,769**	-	171,962	**171,962**	-	-	**-**
Special purpose deposits	10,003	-	**10,003**	149	-	**149**	867	113,718	**114,585**
Other deposits	2,629,315	646,437	**3,275,752**	1,174,335	583,069	**1,757,404**	1,600,794	-	**1,600,794**
Overnight deposits	-	-	**-**	-	-	**-**	200,050	-	**200,050**
Total	**3,636,011**	**827,874**	**4,463,885**	**1,359,079**	**755,031**	**2,114,110**	**1,978,432**	**113,718**	**2,092,150**
Foreign currency									
Transactional deposits	185,670	-	**185,670**	228,804	-	**228,804**	731,302	-	**731,302**
Special purpose loans	53,415	-	**53,415**	179,287	-	**179,287**	18,741	-	**18,741**
Other deposits	1,824,448	1,317,245	**3,141,693**	2,064,012	1,222,085	**3,286,097**	1,650,418	-	**1,650,418**
Borrowings	-	10,566,128	**10,566,128**	-	7,903,827	**7,903,827**	-	3,980,141	**3,980,141**
Other financial liabilities	22,604	-	**22,604**	17,080	-	**17,080**	18,317	-	**18,317**
Total	**2,086,137**	**11,883,373**	**13,969,510**	**2,489,183**	**9,125,912**	**11,615,095**	**2,418,778**	**3,980,141**	**6,398,919**
Balance as at	**5,722,148**	**12,711,247**	**18,433,395**	**3,848,262**	**9,880,943**	**13,729,205**	**4,397,210**	**4,093,859**	**8,491,069**

26. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK (continued)

Structure of remaining deposits by type of client is presented in the following table:

			RSD thousands
	31.12.2014	**31.12.2013**	**01.01.2013**
Central Bank	435	285	6
Domestic Banks	2,905,463	1,380,338	1,437,495
Insurance companies	2,334,463	3,209,606	972,447
Pension funds	-	170,000	125,000
Finance lease	1,014,494	828,366	910,054
Auxiliary activities of financial services and insurance	1,519,836	43,959	94,125
Creditors, investment and other funds	-	85,881	301,571
Other credit and finance services	5,424	-	-
Foreign Banks	10,653,280	8,010,770	4,650,371
Balance as at	**18,433,395**	**13,729,205**	**8,491,069**

As at 31 December 2014 the major portion of deposits from foreign banks relate to deposit from European Investment Bank (EIB) in the amount of RSD 8,325 thousand, deposit from KfW amounting to RSD 1,210 thousand and deposit from European Bank for Reconstruction and Development (EBRD) in the amount of RSD 1,050 thousand.

27. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS

RSD thousands

	31.12.2014			31.12.2013			01.01.2013		
	Short term	Long term	Total	Short term	Long term	Total	Short term	Long term	Total
In RSD									
Transactional deposits	9,124,196	-	**9,124,196**	8,266,754	-	**8,266,754**	7,092,185	-	**7,092,185**
Revocable deposits	-	-	**-**	2,485,697	-	**2,485,697**	-	-	**-**
Saving deposits	679,361	487,215	**1,166,576**	825,761	486,990	**1,312,751**	475,948	229,247	**705,195**
Deposits based on given loans	311,256	835,895	**1,147,151**	391,888	235,718	**627,606**	107,701	283,942	**391,643**
Special purpose deposits	335,940	4,105	**340,045**	241,379	4,529	**245,908**	172,155	13	**172,168**
Other deposits	7,322,097	42,680	**7,364,777**	5,360,970	30,580	**5,391,550**	3,998,541	26,866	**4,025,407**
Other financial liabilities	95,265	-	**95,265**	90,290	-	**90,290**	89,563	-	**89,563**
Total	**17,868,188**	**1,369,895**	**19,238,083**	**17,662,739**	**757,817**	**18,420,556**	**11,936,093**	**540,068**	**12,476,161**
Foreign currency									
Transactional deposits	10,654,083	-	**10,654,083**	6,675,903	-	**6,675,903**	4,515,680	-	**4,515,680**
Saving deposits	8,058,764	15,496,647	**23,555,411**	7,927,892	12,745,974	**20,673,866**	7,956,995	10,445,801	**18,402,796**
Deposits based on given loans	150,389	639,263	**789,652**	102,125	337,287	**439,412**	73,263	358,109	**431,372**
Special purpose deposits	281,555	328,181	**609,736**	459,972	295,321	**755,293**	375,735	175,490	**551,225**
Other deposits	1,190,567	212,266	**1,402,833**	2,186,048	343,485	**2,529,533**	1,145,748	422,437	**1,568,185**
Borrowings	28,060	5,062,921	**5,090,981**	-	15,366,970	**15,366,970**	-	15,810,140	**15,810,140**
Other financial liabilities	261,906	-	**261,906**	42,674	-	**42,674**	121,707	-	**121,707**
Total	**20,625,324**	**21,739,278**	**42,364,602**	**17,394,614**	**29,089,037**	**46,483,651**	**14,189,128**	**27,211,977**	**41,401,105**
Balance as at			**61,602,685**			**64,904,207**			**53,877,266**

27. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS (continued)

Structure of other deposits by type of other customers is presented in the following table:

			RSD thousands
	31.12.2014	**31.12.2013**	**01.01.2013**
Holdings	35	683,067	1,471,876
Public enterprises	4,912,915	2,228,844	329,318
Companies	12,756,006	14,705,510	9,246,635
Public sector	3,856,156	4,155,507	4,647,641
Retail customers	32,678,613	27,265,025	23,617,632
Foreign entities	2,875,153	12,365,261	12,331,437
Entrepreneurs	1,055,272	646,096	533,622
Farmers	291,938	274,989	204,242
Other customers	3,176,597	2,579,908	1,494,863
Balance as at	**61,602,685**	**64,904,207**	**53,877,266**

28. DEBT ISSUED AND OTHER BORROWED FUNDS

On 8 November 2012 Bank issued 146,500 units of bonds with nominal value of RSD 10,000 thousand. The bonds were publicly offered to all legal entities and individuals, residents and non-residents, in the primary market on the Belgrade Stock Echange as at 6 November 2012, with the prior approval of the prospectus by the Securities and Exchange Commission of the Republic of Serbia. Bonds were included at the Open Market segment of the regulated market of the Belgrade Stock Exchange on 30 November 2012. On 21 November 2013 bonds were excluded from the Open Market and admitted to MTP Belex in accordance with Rules of Business Operation of the Belgrade Stock Exchange.

The last day of trading with bonds of the Bank on Belgrade Stock Exchange was on 4 November 2014. On 9 November 2014 the last, 9^{th} coupon and face value of the bonds were paid up.

By such payments, all liabilities of the Bank, as an issuer of this financial instrument, ceased.

29. SUBORDINATED LIABILITIES

			RSD thousands
	31.12.2014	**31.12.2013**	**01.01.2013**
Foreign currency			
Subordinated liabilities	2,063,751	2,191,301	2,407,579
Balance as at	**2,063,751**	**2,191,301**	**2,407,579**

29. SUBORDINATED LIABILITIES (continued)

Balance of subordinated liabilities on 31 December 2014 and 2013 is presented in the following table:

RSD thousands

Name of creditor	Currency	Original contractual principal amount	Maturity	Interest	31.12.2014.	31.12.2013.
Erste Bank AG,Beč	EUR	10,800,000	20.12.2015.	3 M Euribor+2,4% p.a.	248,828	471,670
Erste GCIB	EUR	15,000,000	27.12.2021.	3 M Euribor+3,65% p.a.	1,814,375	1,719,631
Total		**25,800,000**			**2,063,203**	**2,191,301**

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

The Bank can include its subordinated liabilities into its Tier 2 capital (Note 35.10.) 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. PROVISIONS

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
Provision for off-balance sheet exposures (a)	200,995	138,835	156,754
Provisions for long-term employee benefits (b):			
- retirement benefits	82,641	82,380	72,473
- jubilee awards	133,113	126,201	105,693
Provisions for litigation (c)	90,525	70,320	64,075
Other long term provisions	36,514	44,103	19,657
Balance as at	**543,788**	**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 statementson 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 3.83%, 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 3.98% 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.

30. PROVISIONS (continued)

Changes of provision during the year are presented in the following table:

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
Provisions for off-balance sheet exposures			
Opening balance	138,835	156,754	207,870
Provisions during the year (Note 11 (a))	956,618	882,550	1,132,073
Unused reversed provisions (Note 11 (a))	(899,154)	(900,743)	(1,193,348)
Other changes	4,696	274	10,160
	200,995	**138,835**	**156,754**
Provisions for long-term employee benefits - retirement benefits and jubilee awards			
Opening balance	208,580	178,166	157,001
Interest expenses and current service costs	25,926	24,127	24,112
Compensations paid during year	(15,728)	(13,271)	(16,256)
Actuarial losses/(gains) on jubilee awards	(964)	14,366	6,614
Actuarial losses/(gains) on retirement benefits	(2,061)	5,193	6,695
	215,753	**208,581**	**178,166**
Provisions for litigation			
Opening balance	70,320	64,075	47,700
Provisions during year	40,630	10,762	19,949
Used provisions	(20,425)	(13,644)	(3,574)
Other changes	-	9,127	-
	90,525	**70,320**	**64,075**
Other long term provisions			
Opening balance	44,104	19,657	11,441
Provisions during year	17,294	37,989	13,666
Used provisions	(24,883)	(13,541)	(5,450)
	36,513	**44,104**	**19,657**
Balance as at	**543,788**	**461,839**	**418,652**

31. OTHER LIABILITIES

			RSD thousands
	31.12.2014	31.12.2013	01.01.2013
In RSD			
Liabilities to trade payables	1,607	20,954	2,079
Liabilities for advances	5,035	6,068	3,090
Liabilities for net salaries and compensations	-	2,653	1,033
Liabilities for taxes, contributions and other duties	637	56,347	18,415
Accruals and deferrals:			
– Accrued liabilities for unused holidays	76,630	130,794	50,013
– Other accruals	278,817	139,184	265,169
Other liabilites	39,555	96,398	50,533
	402,281	**452,398**	**390,332**
In foreign currency			
Liabilities based on compensation and commission	26	-	-
Liabilities for advances	11,255	9,252	7,141
Accruals and deferrals:			
– Other accruals	2,735	2,148	4,517
Other liabilities	6,504	7,711	6,333
	20,520	**19,111**	**17,991**
Balance as at	**422,801**	**471,509**	**408,323**

32. EQUITY

(a) Equity structure of the Bank

Structure of total equity of the Bank is presented in next table:

			RSD thousands
	31.12.2014	31.12.2013	01.01.2013
Share capital - ordinary shares /i/	10,040,000	10,040,000	10,040,000
Share premium /ii/	124,475	124,475	124,475
Other reserves /iii/	3,091,087	2,534,108	1,843,170
Revaluation reserves /iv/	59,273	32,640	26,790
Retained earnings	1,071,176	568,777	14,815
Profit for the year	272,808	1,059,377	1,250,092
Balance as at	**14,658,819**	**14,359,377**	**13,299,342**

32. EQUITY (continiued)

(a) Equity structure of the Bank(continued)

/i/ Share capital - ordinary shares

As at 31 December 2014, 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 2013: 1,004,000 ordinary shares, with nominal value of RSD 10,000). There were no changes in share capital in 2014 and 2013.

The major shareholder of the Bank is EGB CEPS HOLDING GMBH, Vienna holding 74 % of the shares as at 31 December 2014. The shareholder structure of the Bank as at 31 December 2014 is as follows:

Shareholder	Number of shares	In %
EGB CEPS HOLDING GMBH	742,960	74,00
Steiermärkische Bank und Sparkassen AG, Grac	261,040	26,00
Total	**1,004,000**	**100,00**

/ii/ Share premium

Share premium amounting to RSD 124,475 thousand as at 31 December 2014 and 31 December 2013 resulted from a positive difference between the selling price of the shares and their nominal value.

/iii/ Other reserves

As at 31 December 2014 reserves from profit amounted to RSD 3,091,087 thousand. Reserves from profit amounted to RSD 2.534.108 thousand as at 31 December 2013. Reserves from profit increased by RSD 556.979 thousand from the retained earnings from 2013, in accordance with the General Assembly's Decision dated 28 March 2014.

/iv/ Revaluation reserves

Revaluation reserves amounted to RSD 59.273 thousand as at 31 December 2014 (31 December 2013: RSD 32.640 thousand) and 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.

32. EQUITY (continiued)

(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 2014, the Bank was in compliance with all prescribed performance indicators. The Bank's performance indicators as at 31 December 2014 are as follows:

Performance indicators	Prescribed	Realized
1. Capital	Minimum EUR 10 milion	EUR 104,528,349
2. Capital adequacy ratio	Minimum 12%	20.49
3. Permanent investments indicator	Maksimum 60%	5.94
4. Related parties exposure	Maksimum 20%	17.08
5. Indicator of large and the largest permissible loans	Maksimum 400%	63.89
6. Liquidity ratio:		
– in the first month of the reporting period	Minimum 1	2.48
- in the second month of the reporting period	Minimum 1	2.28
- in the third month of the reporting period	Minimum 1	2.29
7. Foreign currency risk indicator	Maksimum 20%	2.33
8. Exposure to a group of related parties	Maksimum 25%	14.07
9. Exposure to an entity related to the Bank	Maksimum 5%	4.59
10. Bank's investments in legal entities which are not in the financial sector	Maksimum 10%	0.21

33. OFF-BALANCE SHEET ITEMS

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
Funds managed on behalf of third parties (a)	738,810	755,714	780,975
Guarantees and other irrevocable commitments (b)	18,491,291	12,941,470	9,730,334
Derivatives (c)	3,673,895	-	792,810
Other off-balance sheet items	107,815,422	18,611,103	19,294,339
Balance as at	**130,719,418**	**32,308,287**	**30,598,458**

Other off-balance sheet items relate to receivables on uncollectible loans, that are, in accordance with the Bank´s internal policy, removed from balance sheet to off-balance. In 2014 the Bank has transferred RSD 2,010,621 thousand. All transferred receivabls are disputed and in full provided for, so there is no effect on the Bank´s total assets.

33. OFF-BALANCE SHEET ITEMS (continued)

(a) Transactions on behalf and for the account of third parties

	31.12.2014	31.12.2013	*RSD thousands* 01.01.2013
Placements on behalf of third parties in dinars:			
- short-term	9,721	8,642	5,253
- long-term	729,089	747,072	775,722
Balance as at	**738,810**	**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 3,230 thousand and managed funds RSD 4,503 thousand. Long-term funds managed on behalf of third parties relate to long-term loans to citizens' housing loans insured with National Mortgage Insurance Corporation amounting RSD 670,883 thousand and loans to agricultural in the amount of RSD 53,736 thousand.

(b) Guarantees and other irrevocable commitments

	31.12.2014	31.12.2013	*RSD thousands* 01.01.2013
In RSD			
Payment guarantees	540,550	1,181,763	1,343,432
Performance bonds	6,260,084	6,084,030	4,049,616
Avals and acceptances	946	13,802	4,617
Received counter guarantees	983,368	-	-
Irrevocable commitments for undisbursed loans and placements	7,737,708	4,391,311	3,231,795
Other contingencies and commitments	114,288	41,039	52,837
	15,636,944	**11,711,945**	**8,682,297**
In foreign currency			
Payment guarantees	110,794	103,178	43,088
Performance bonds	1,489,374	766,391	754,871
Irrevocable commitments for undisbursed loans and placements	21,774	27,642	11,966
Letters of credit	1,181,386	286,428	238,112
Other irrevocable commitments	51,019	45,886	-
	2,854,347	**1,229,525**	**1,048,037**
Balance as at	**18,491,291**	**12,941,470**	**9,730,334**

33. OFF-BALANCE SHEET ITEMS (continued)

(b) Guarantees and other irrevocable commitments

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

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

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

As at 31 December 2014, provision for guarantees and other irrevocable commitments amounts to RSD 200,996 thousand (31 December 2013: RSD 138,835 thousand).

(c) Derivates

RSD thousands

	31.12.2014	31.12.2013	01.01.2013
Currency swap with EBG Ceps Holding GMBH	3,673,895	-	792,810
Balance as at	**3,673,895**	**-**	**792,810**

34. 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 2014 and 31 December 2013, as well as income and expenses, resulting from transactions with shareholders and other Bank's related parties are as follows:

	2014		2013	
	Shareholders	**Other members of Erste Group**	**Shareholders**	**Other members of Erste Group**
Receivables				
Financial assets held for trading	43,652	-	-	-
Loans and advances to customers	529,411	579,934	454,780	418,854
Investments in subsidiaries	-	93,560	-	-
Other assets	4,824	56,220	3,341	22,649
	577,887	**729,714**	**458,121**	**441,503**
Liabilities				
Financial liabilities held for trading	27,282	-	-	-
Deposits and other liabilities to banks, other financial institutions and Central bank	42,138	121,530	89,409	36,239
Deposits and other liabilities to customers	-	1,728,260	-	11,504,693
Subordinated liabilities	249,113	1,814,750	471,760	1,719,632
Provisions	3	18	-	-
Other liabilities	192	656	4	13,356
	318,728	**3,665,214**	**561,083**	**13,273,920**
Off-balance sheet items				
Guarantees and other warranties	35,361	230,999	2,361	2,787
Irrevocable commitments	-	1,697	-	2,789
Other off-balance sheet items	10,106,620	-	5,666,267	597,547
	10,141,981	**232,696**	**5,668,628**	**603,123**

34. RELATED PARTY DISCLOSURES (continued)

RSD thousands

	2014		2013	
	Shareholders	Other members of Erste Group	Shareholders	Other members of Erste Group
Interest income	1,656	1,093	1,040	1,058
Interest expense	(10,410)	(295,729)	(16,629)	(476,663)
Fees and commission income	27,484	37,964	32,799	57,788
Fees and commission expense	(146,268)	(71)	(174,448)	(58)
Other operating income	4,281	32,090	4,772	30,083
Other expenses	(115,833)	(455,263)	(10,011)	(397,728)

Fees on crossborder loans in the year ended 31 December 2013 amounted to RSD 303,213 thousand (2012: RSD 375.071 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.

(a) As at 31 December 2014 and 31 December 2013, 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:

RSD thousands

	Balance as at 31 Decemeber 2014	Incomes(expenses) 2014	Balance as at 31 Decemeber 2013	Incomes(expenses) 2013
Minus- Bank account, credit cards, cash loans and consumer loans	743	112	538	105
Housing loans	42,336	5,016	42,760	4,983
Other loans	-	-	-	-
Other placements and receivables	102	19	1,454	25
Total allowances for impairment	(241)	13	(266)	43
Deposits	77,336	(2,087)	78,868	(3,504)
Other liabilities	1,530	(2)	-	-
Unused credit limit	231	-	-	-

(c) Salaries and other benefits of the Executive Board's members and the Board of Directors' members (stated in gross amounts), during 2014 and 2013, are presented in the table below:

RSD thousands

	2014	2013
Salaries of the members of the Executive Board	69,182	65,517
Other benefits	36,513	44,104
Total	**105,695**	**109,621**

35. RISK MANAGEMENT

35.1. 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 while the operational responsibility is delgated to the Risk Management Division. In addition, the Bank has established separate independent bodies for managing and monitoring risks. Risk Management is committed to the following organs/bodies:

Board of Directors and Executive Board

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

Assets and Liability Management Committee

Assets and Liability Management Committee (ALMC) has overall responsibility for the development of a comprehensive risk management strategy and implementation of the principles, framework, policies and limits. ALMC is responsible for fundamental findings in respect of risks and for managing and monitoring of relevant decisions related to risk, principally for interest rates, foreign exchange and other market risks. ALMC has an advisory role and its decisions in the form of proposals are sent for approval to the Executive Board.

35. RISK MANAGEMENT (continued)

35.1. Introduction (continued)

Asset and Liability Management Unit

Asset and Liability Management Unit is organized as an independent organizational unit that is directly responsible to the Executive Board of the Bank. Also, it is primarily responsible for funding and liquidity of the Bank. Asset and Liability Management Unit prepares 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

Internal audit is established with the aim to ensure that the Bank's operations take place in accordance with the standards providing the function of an independent, objective assurance and advisory activities based on best practices. Through systematic and disciplined approach, internal audit helps the Bank accomplish its objectives by evaluating and improving the effectiveness of risk management, control and managerial processes.

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

In accordance with the Law on Banks in Erste Bank a.d. (the Bank) was established interial organisation which defines the organizational unit within its authority and resposibility has the task of risk management. The objective of risk management system is to identify and quantify the risks to which the Bank is exposed in the course of its business activities.

The functions of monitoring and risk management are the responsibility of the Risk Management Division as a separate organizational unit within the Bank. Risk management policies , risk management strategies as well as strategies for managing capital are linked to the Bank's strategy , and include defining the types of risks , the management of these risks and the level of risk that the Bank is willing to accept in order to achieve their business goals. Special attention is paid to full compliance with the relevant regulations of the National Bank of Serbia (NBS).

The responsibilities of the Risk Management Division include the following:

- Identification and measurement or assessment of Bank's exposure to certain types of risks;
- Risk monitoring, including its monitoring and control, analysis and repors on te amount of individual risks, their causes and consequences;
- Measurement and evaluation as well as management of the Bank's risk profile and capital adequacy;
- Tracking of parameters that influence the position of the Bank's exposure to risks, primarily including management and optimization of asset qualitiy and the cost of risk;
- Development and application of quantitative risk management models as elements in the process of advanced business decision making and pricing risk;
- Strategies development and limit proposals for the Bank's exposure to the individual types of risks and their control;
- Quantifying the impact of changes in the economic cycle or stress events on the Bank's financial position;
- Risk assessment of new products introduction and outsourcing activities;
- Development of methodologies, procedures and policies for risk management in accordance with relevant legislation, standards of Erste Group, good business practice and the special needs of the Bank;
- Development and implemetation of various technical platforms and tools;

35. RISK MANAGEMENT (continued)

35.1. Introduction (continued)

Risk Management and Reporting System (continued)

Bearing in mind the diversity of the areas covered, in order to efficiently perform their role, Risk Management Division consists of the following four organizational units:

- Strategic risk management department;
- Department of Corporate risk management;
- Department of Retail risk management;
- Restructuring and workout/Collection Department.

Information gathered from all business activities are examined and processed in order to identify, analyze and control the risks to which the Bank is or may be exposed.

The Bank and its operations are particularly exposed to: credit risk, concentration risk, market risk, liquidity risk, operational risk. The obtained information is presented and explained to the Board of Directors, Executive Committee, Asset and Liability Committee and the heads of all business units. Reports are sent to the authorities on a daily, weekly, monthly and quarterly basis, and in accordance with their requirements.

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.

35.2. 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.

35. RISK MANAGEMENT (continued)

35.2. Credit Risk (continued)

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.

Counterparty risk

The Bank operates with derivative financial instruments, which leads to its exposure to counterparty risk, the risk of non-fulfilment of counterparty obligations in the transaction before the final alignment of cash flows from the same transaction.

Derivatives credit risk is limited by determining the maximum far value for each derivative financial instrument, having in mind their type, maturity and credit quality of clients.

Loan Concentration Risks

The concentration risk is the risk of incurring losses due to an excessive volume of placements into a certain group of debtors or individual debitor. 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, they are exposed to the same factors that affect the income and expenditures, 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.).

35. RISK MANAGEMENT (continued)

35.2. Credit Risk (continued)

Loan Concentration Risks (continued)

(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 2014 and 31 December 2013 is as follows:

RSD thousand

	2014	2013
Exposure to credit risk by balance sheet items:		
Financial assets available for sale	189,149	183,123
Financial assets held to maturity	1,185,253	1,296,945
Loans and receivables to banks and other financial institution	3,916,962	6,499,678
Loans and receivables to customers	65,987,934	62,862,207
Other assets	613,411	508,696
Total	**71,892,709**	**71,350,649**
Exposure to credit risk by off-balance sheet items:		
Payment guarantees	651,343	1,284,941
Performance guarantees	7,749,459	6,850,422
Credentials	1,012,808	146,689
Avails and acceptances	947	13,801
Irrevocable commitments	7,810,500	4,464,219
Other off-balance sheet items	114,288	41,659
Total	**17,339,345**	**12,801,731**
Total exposure to credit risk	**89,232,054**	**84,152,380**

35. RISK MANAGEMENT (continued)

35.2. Credit Risk (continued)

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

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 2014 amounted to RSD 10,962,150 thousand (31 December 2013: RSD 19,599,108 thousand), without deductions (collateral or other means of credit risk protection), i.e., RSD 1,851,559 (without exposure in 2013), net of collateral.

A breakdown of maximum credit risk exposure (gross risk balance and off-balance assets subject to classification), as at 31 December 2014 and 31 December 2013, before taking into account collateral held or other credit enhancements, is analyzed by geographical area and is as follows:

RSD thousand

	Financial assets available for sale	Financial assets held to maturity	Loans and receivables to banks and other financial institution	Loans and receivables to customers	Other assets	Guarantees and other commitments	Total 2014
Serbia	136,786	1,185,253	501,377	65,901,775	537,780	16,652,660	**84,915,631**
European Union	19,890	-	3,414,679	86,134	38,776	565,727	**4,125,206**
Other countries	32,473	-	906	25	36,855	120,958	**191,217**
Total	**189,149**	**1,185,253**	**3,916,962**	**65,987,934**	**613,411**	**17,339,345**	**89,232,054**

RSD thousand

	Financial assets available for sale	Financial assets held to maturity	Loans and receivables to banks and other financial institution	Loans and receivables to customers	Other assets	Guarantees and other commitments	Total 2013
Serbia	143,383	1,296,945	731,474	62,857,966	436,841	12,384,112	**77,850,721**
European Union	17	-	3,298,544	4,217	32,404	417,619	**3,752,801**
Other countries	39,723	-	2,469,660	24	39,451	-	**2,548,858**
Total	**183,123**	**1,296,945**	**6,499,678**	**62,862,207**	**508,696**	**12,801,731**	**84,152,380**

35. RISK MANAGEMENT (continued)

35.2. 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 2014 and 31 December 2013 is as follows:

RSD thousand

	Gross maximum exposure 2014	Net maximum exposure 2014	Gross maximum exposure 2013	Net maximum exposure 2013
Retail	28,123,007	26,077,733	25,326,598	23,622,255
Processing industry and mining	14,705,849	13,682,610	14,214,351	12,556,166
Trade	9,570,685	8,314,814	7,481,581	6,505,677
Energy	6,229,316	6,018,113	2,308,350	2,180,767
Agriculture, hunting, fishing and forestry	2,357,409	2,167,005	7,498,409	7,368,872
Agriculture, hunting, fishing and forestry	6,024,520	5,460,976	4,921,218	4,433,940
Traffic and communications, tourism, hospitality and services	9,714,279	9,420,324	8,279,949	8,118,166
Entrepreneurs	1,025,125	865,147	1,000,240	874,308
Agriculturalist	439,105	289,473	464,362	331,438
Banks	4,207,962	4,167,622	6,389,903	6,336,766
Other financial institutions	727,725	725,798	1,085,282	975,553
Other	6,107,072	4,598,133	5,182,137	2,827,172
Total	**89,232,054**	**81,787,748**	**84,152,380**	**76,131,080**

35. RISK MANAGEMENT (continued)

35.2. Credit Risk (continued)

(b) Portfolio Quality

The Bank manages the quality of its financial assets using the internal classification of placements. Standard quality level relates to clients with the average probability of loan repayment and increased risk of non-settlement. Sub standard quality level refers to clients who bear the risk of non-performing and require reorganisation and loan restructuring.

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 2014 and 31 December 2013:

RSD thousand

	Neither past due nor individually impaired					
	High quality level	Standard quality level	Sub standard quality level	Dospeli i grupno obezvredeni	Past due and collectively impaired	Total 2014.
Placements to banks	2,884,960	7,860	-	536,629	18,474	**3,447,923**
Placements to Customers						
Corporate customers	3,266,816	4,900,265	-	164,018	898,907	**9,230,006**
Micro, small size and medium size companies	18,334,476	3,724,616	577,363	2,073,579	5,173,649	**29,883,683**
Entrepreneurs	594,053	16,434	-	126,289	127,827	**864,603**
Retail customers	22,519,984	146,874	16,266	3,683,092	696,708	**27,062,924**
Securities	960,977	100,070	840	6,640	335,045	**1,403,572**
Guarantees and Acceptances	7,273,340	432,475	60,670	627,965	7,298	**8,401,748**
Letters of credit	1,003,275	9,533	-	-	-	**1,012,808**
Unused commitments	6,454,346	1,298,914	3,088	54,152	-	**7,810,500**
Other off balance sheet items	113,644	125	-	518	-	**114,287**
Total	**63,405,871**	**10,637,166**	**658,227**	**7,272,882**	**7,257,908**	**89,232,054**

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 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**

35. RISK MANAGEMENT (continued)

35.2. Credit Risk (continued)

(b) Portfolio Quality (continued)

Ageing analysis of loans and advances to customers past due

The ageing analysis of loans and advances to customers past due and collectively impaired but not impaired as at 31 December 2014 and 31 December 2013 is presented in the tables below:

RSD thousand

2014	Up to 30 days	From 31 to 90 days	Over 91 days	Total 2014.
Placements to banks	537,983	-	1,092	**539,075**
Placements to customers:				
- Corporate customers	194,854	-	11	**194,865**
- Micro, small size and medium size companies	2,356,787	177,119	183,394	**2,717,300**
- Entrepreneurs	53,439	3,924	69,010	**126,373**
- Retail customers	1,535,114	445,377	1,714,778	**3,695,269**
Total	**4,678,177**	**626,420**	**1,968,285**	**7,272,882**

RSD thousand

2013	Upto 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**
- Micro, 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**
Total	**4,671,777**	**1,798,805**	**1,984,048**	**8,454,630**

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.

35. RISK MANAGEMENT (continued)

35.2. 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, mortgages on movables and receivables, deposits, as well as bank guarantees or guarantees of the Republic of Serbia. Also, securities, bonds and share in capital can be used as collateral. 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 monthly.

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 2.9.). Financial guarantees and letters of credit are assessed and provision is made in the same manner as for loans.

35. RISK MANAGEMENT (continued)

35.2. 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 2014, default loans amounted to RSD 9,516,921 thousand (31 December 2013: RSD 10,265,647 thousand). The impairment loss of default loans recognized in the balance sheet amounted to RSD 6,116,302 thousand (31 December 2013: RSD 6,761,148 thousand).

Additionally, default off-balance sheet items amounted to RSD 12,193 thousand as at 31 December 2014 (31 December 2013: RSD 21,613 thousand), while the related provisions for those items amounted to RSD 4,923 thousand (31 December 2013: RSD 11,695 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 2014, gross rescheduled loans and placements, that are in default are amounted to RSD 787,941 thousand (31 December 2013: RSD 329,715 thousand) with the correction value of RSD 432,553 thousand (31 December 2013: RSD 120,563 thousand).

35.3. 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.

Liquidity risk management in the Bank is defined by policies, procedures and regulations approved by the Steering Committee and Executive Committee and which are in compliance with the risk management strategy at the level of Erste Group, as well as with all relevant laws and regulations of theRepublic of Serbia. The audit of policies, procedures and regulations are carried out in accordance with the needs, at least once a year.

Liquidity risk management process is organized through the Asset and Liability Management Committee, Market Risk Management Department and Asset and Liability Management Deparment.

35. RISK MANAGEMENT (continued)

35.3. Liquidity Risk and Funding Management (continued)

The Assets and Liability Committee and the Operating Liquidity Committee (OLC Committee) are responsible for monitoring liquidity risk, managing 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.

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 with available credit rating which coresponds to the level of credit quality 3 or better determined in accordance with the decision on capital adequacy (investment grade); 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 (40% Bank's demand deposits, 20% demand deposits from other depositors, 10% savings deposits, 5% guarantees and other forms of guarantees and 20% undrawn irrevocable credit lines) 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.

35. RISK MANAGEMENT (continued)

35.3. Liquidity Risk and Funding Management (continued)

In 2014 and 2013, the Bank had an indicator of daily liquidity exceeding the legally-prescribed levels.

	2014	2013
Average during the period	3.20	2.69
Highest	4.59	3.41
Lowest	1.65	1.72
As at 31 December	1.65	2.69

Quick liquidity ratio during the year 2014

	2014
Average during the period	1.91
Highest	2.78
Lowest	1.09
As at 31 December	1.37

35. RISK MANAGEMENT (continued)

35.4 Maturity Analysis of Financial Liabilities

The table below presents the ageing analysis of the Bank's financial liabilities as at 31 December 2014 and 31 December 2013 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

	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2014
Borrowings, deposits and securities	11,294,888	7,766,538	28,614,165	27,120,073	8,649,265	83,444,930
Subordinated liabilities	-	-	248,828	-	1,814,375	2,063,203
Total	**11,294,888**	**7,766,538**	**28,862,993**	**27,120,073**	**10,463,640**	**85,508,133**

RSD thousand

	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total 2013
Borrowings, deposits and securities	12,881,013	7,523,887	38,883,612	17,772,585	9,372,138	86,433,235
Subordinated liabilities	-	58,959	176,876	972,820	982,646	2,191,301
Total	**12,881,013**	**7,582,846**	**39,060,488**	**18,745,405**	**10,354,784**	**88,624,536**

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

RSD thousand

	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 2014
Guarantees, acceptance and letters of credit	404,656	121,690	2,169,435	4,265,167	3,637,598	18,975	10,617,521
Irrevocable commitments	66,847	30,196	258,251	1,840,080	3,160,201	2,518,194	7,873,769
Total	**471,503**	**151,886**	**2,427,686**	**6,105,247**	**6,797,799**	**2,537,169**	**18,491,290**

RSD thousand

	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
Total	**363,095**	**321,408**	**968,067**	**4,665,812**	**5,484,205**	**1,138,884**	**12,941,471**

35. RISK MANAGEMENT (continue)

35.4. 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) in the end od 2012 for the purpose of financing the micro, small and medium enterprises and energy efficiency / renewable energy projects of EUR 10 million.

The Bank has signed a new contract in December 2014 with the German government-owned development bank (KfW), for the purpose of financing energy efficiency / renewable energy projects. The Bank has provided funds in the amount of EUR 20 million.

35. RISK MANAGEMENT (continue)

35.4. Liquidity Risk and Funding management (continued)

Maturity Analysis of Financial Liabilities (continued)

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:

RSD thousandda

	Up to 14 days	15 days to 1 months	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2014.
ASSETS							
Cash and cash equivalents	15,906,407	-	-	-	-	-	15,906,407
Financial assets held for trading	1,779,779	-	583,632	1,469,544	2,244,214	-	6,077,169
Financial assets available for sale	72,056	-	-	1,352,245	692,042	455,281	2,571,624
Financial assets held to maturity	803,492	-	531,147	1,506,627	4,593,743	-	7,435,009
Loans and receivables form banks and other financial institutions	3,796,580	-	156	118	101,901	-	3,898,755
Loans and receivables from customers	1,909,144	94,336	992,240	8,246,867	24,488,408	24,212,460	59,943,455
Investments in subsidiaries	-	-	-	-	-	93,560	93,560
Intangible assets	-	-	-	-	-	389,351	389,351
Property, plant and equipment	-	-	-	-	-	704,054	704,054
Investment property	-	-	-	-	-	13,827	13,827
Current tax assets	2,673	-	-	-	-	-	2,673
Deferred tax assets	-	-	210,513	-	-	-	210,513
Other assets	184,129	25,425	267,683	2,466	21,462	4,959	506,124
Total assets	**24,454,260**	**119,761**	**2,585,371**	**12,577,867**	**32,141,770**	**25,873,492**	**97,752,521**
EQUITY AND LIABILITIES							
Financial liabilities held for trading	27,282	-	-	-	-	-	27,282
Deposits and other liabilities to banks and other financial organisations and central bank	4,344,097	1,500	652,582	1,151,006	3,572,991	8,711,219	18,433,395
Deposits and other liabilities to other customers	26,663,875	2,549,691	5,605,109	16,814,039	9,883,096	86,875	61,602,685
Subordinated liabilities	548	-	-	248,828	-	1,814,375	2,063,751
Provisions	-	-	543,788	-	-	-	543,788
Other liabilities	358,843	56,182	-	616	-	7,160	422,801
Total liabilities	**31,394,645**	**2,607,373**	**6,801,479**	**18,214,489**	**13,456,087**	**10,619,629**	**83,093,702**
Total equity	**-**	**-**	**-**	**-**	**-**	14,658,819	**14,658,819**
Total liabilities and equity	**31,394,645**	**2,607,373**	**6,801,479**	**18,214,489**	**13,456,087**	**25,278,448**	**97,752,521**
Maturity mismatch at:							
31 December 2014	**(6,940,385)**	**(2,487,612)**	**(4,216,108)**	**(5,636,622)**	**18,685,683**	**595,044**	
31 December 2013	**12,576,966**	**(3,219,461)**	**(185,713)**	**(8,383,057)**	**9,892,124**	**(10,680,859)**	

35. RISK MANAGEMENT (continued)

35.5. Market Risk

Market risk is the risk that from changes in the value of balance sheet and off-balance sheet items arising from movements in market prices will have a negative effects on the financial result and equity.

The Bank's operations are, among others, exposed to market risks, including currency risk, price risk on debt and equity securities and commodity risk.

The general price risk on debt securities is the risk of debit securities price changes due to changes in the general level of interest rates.

To calculate the capital requirements of the general price risk, the Bank applies the maturity method.

Maturity method is based on the deployment of all net positions in debt securities in the class and zone maturity by remaining period to maturity and coupon (interest) rate, according to a statutory table in the Decision on the capital adequacy.

Capital requirements for market risks arising from items of trading Book Bank calculate using the methodology and guidelines set forth by the Decision on the capital adequacy of banks.

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.

Additionally, the Market risk and liquidity risk department monitors market risk through defined limits, risk from introduction of new products and complex transactions.

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.

35. RISK MANAGEMENT (continued)

35.5. 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 2014. 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

Category	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total non interest bearing	Total
Cash	-	-	-	-	-	2,396,258	**2,396,258**
Correspondent accounts	-	-	-	-	-	2,937,246	**2,937,246**
Obligatory reserve	4,927,665	-	-	-	-	7,512,463	**12,440,128**
Securities	9,754,788	499,237	2,096,563	507,334	2,258,582	-	**15,116,504**
Loans to banks	-	1,209,583	-	-	-	-	**1,209,583**
Loans to customers	36,754,177	3,884,898	4,131,467	1,568,235	11,602,103	-	**57,940,880**
Other assets	-	-	-	-	-	5,711,922	**5,711,922**
Total balance asset	**51,436,630**	**5,593,718**	**6,228,030**	**2,075,569**	**13,860,685**	**18,557,889**	**97,752,521**
FX Swap	-	-	-	-	-	-	-
Total assets	**51,436,630**	**5,593,718**	**6,228,030**	**2,075,569**	**13,860,685**	**18,557,889**	**97,752,521**
Due to banks	-	-	-	-	-	-	-
Due to FI	2,903,895	7,585,466	7,013,029	1,584,925	1,608,232	-	**20,695,547**
On sight deposits	3,956,819	3,202,070	4,803,105	3,484,324	9,542,441	-	**24,988,759**
Term deposits i	4,799,822	6,033,541	6,381,452	11,490,967	6,595,974	-	**35,301,756**
Issuance of bonds	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	2,107,640	**2,107,640**
Equity	-	-	-	-	-	14,658,818	**14,658,818**
Total balance liabilities	**11,660,537**	**16,821,077**	**18,197,586**	**16,560,216**	**17,746,647**	**16,766,459**	**97,752,521**
FX Swap	-	-	-	-	-	-	-
Total liabilities and equity	**11,660,537**	**16,821,077**	**18,197,586**	**16,560,216**	**17,746,647**	**16,766,459**	**97,752,521**
Net exposure to interest rate risk as at 31.12.2014.	**39,776,093**	**(11,227,359)**	**(11,969,556)**	**(14,484,647)**	**(3,885,962)**	**1,791,430**	-
Net exposure to interest rate risk as at 31.12.2013.	**36,279,035**	**(9,390,203)**	**(20,867,211)**	**(11,680,984)**	**3,565,866**	**2,093,497**	-

35. RISK MANAGEMENT (continued)

35.5.1 *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 2014 and 31 December 2013.

RSD thousand

Currency	Change in percentage	Income statement sensitivity 2014	Change in percentage	Income statement sensitivity 2013
Increase of percentage:				
RSD	1%	95,052	1%	120,050
EUR	1%	146,226	1%	63,309
Decrease of percentage:				
RSD	1%	(95,046)	1%	(120,051)
EUR	1%	(11,201)	1%	(19,923)

35.5.2. 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.

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.

35. RISK MANAGEMENT (continued)

35.5.2 *Foreign Exchange Risk (continued)*

During 2014, 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 to foreign currency risk as at 31 December 2014 and 31 December 2013 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 (depreciation in %) 2014.	Effect to the income statement before taxation 2014	Changes in the exchange rate (depreciation u %) 2013.	Effect to the income statement before taxation 2013.
EUR	2%	5,549	2%	1,066
CHF	2%	(238)	2%	(190)
USD	2%	(66)	2%	253

35. RISK MANAGEMENT (continued)

35.5. Market Risk (continued)

35.5.2. Foreign Risk (continued)

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2014. The table includes assets and liabilities at their carrying amounts.

2014							*RSD thousand*
	EUR	**USD**	**CHF**	**Other currencies**	**Total in foreign currencies**	**Total in RSd**	**Total**
Assets							
Cash and cash equivalents	8,606,156	50,484	56,204	36,440	**8,749,284**	7,157,123	**15,906,407**
Financial assets held for trading	5,009,636	-	-	-	**5,009,636**	1,067,533	**6,077,169**
Financial assets available for sale	944,914	32,260	-	-	**977,174**	1,594,450	**2,571,624**
Financial assets held to maturity	889,377	-	-	-	**889,377**	6,545,632	**7,435,009**
Loans and receivables to banks and other financial institutions	2,467,633	1,056,647	72,192	300,684	**3,897,156**	1,599	**3,898,755**
Loans and receivables	41,254,726	563,926	1,842,715	-	**43,661,367**	16,282,088	**59,943,455**
Investments in subsidiaries	-	-	-	-	**-**	93,560	**93,560**
Intangible assets	-	-	-	-	**-**	389,351	**389,351**
Properties, plant and equipment	-	-	-	-	**-**	704,054	**704,054**
Investment property	-	-	-	-	**-**	13,827	**13,827**
Current tax asset	-	-	-	-	**-**	2,673	**2,673**
Deferred tax asset	-	-	-	-	**-**	210,513	**210,513**
Other assets	68,720	1,582	5	-	**70,307**	435,817	**506,124**
Total assets	**59,241,162**	**1,704,899**	**1,971,116**	**337,124**	**63,254,301**	**34,498,220**	**97,752,521**
Liabilities							
Financial liabilities held for trading	-	-	-	-	**-**	27,282	**27,282**
Deposits and other liabilities to banks, other financial organizations and central bank	14,896,674	3,477	1,260	7,737	**14,909,148**	3,524,247	**18,433,395**
Deposits and other liabilities to other customers	40,004,103	1,740,576	1,978,479	313,634	**44,036,792**	17,565,893	**61,602,685**
Debt issued and other borrowed funds	-	-	-	-	**-**	-	**-**
subordinated liabilities	2,063,751	-	-	-	**2,063,751**	-	**2,063,751**
Provisions	-	-	-	-	**-**	543,788	**543,788**
Other liabilities	25,519	405	-	4	**25,928**	396,873	**422,801**
Total liabilities	**56,990,047**	**1,744,458**	**1,979,739**	**321,375**	**61,035,619**	**22,058,083**	**83,093,702**
Total equity	**-**	**-**	**-**	**-**	**-**	**14,658,819**	**14,658,819**
Total liabilities and equity	**56,990,047**	**1,744,458**	**1,979,739**	**321,375**	**61,035,619**	**36,716,902**	**97,752,521**
Net foreign currency position as at:							
- 31 December 2014	**2,251,115**	**(39,559)**	**-8,623**	**15,749**	**2,218,682**		
- 31 December 2013	**(81,301)**	**175,239**	**(9,464)**	**4,268**	**88,742**		

35. RISK MANAGEMENT (continued)

35.6. 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 2014, 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 32(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.

35.7. 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 2014, 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.

35. RISK MANAGEMENT (continued)

35.8. 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.

35.9. 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.

The Bank has established a comprehensive system of managing operational risk through the identification and recording, evaluation and monitoring of operational risks in all material products, activities, processes and systems. Operational risk management is the responsibility of all employees of the Bank.

Committee for Operational Risk Management of the Bank, in addition to an independent department for operational risk management and other control functions, actively contributes to the improvement of operational risk management function.

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 defined and regularly reviewed and updated internal acts which regulate the management area the Bank's exposure to operational risk, taking into account the compliance with the applicable regulatory framework and Group standards.

Other activities of the Bank reduces the chance of operational risks are business continuity management (BCM), continuous improvement of internal control mechanisms, information security, training of all employees of the Bank, ongoing monitoring and reporting on the occurrence of operational risk, ie, assessment of operational risk exposures that may arise from the use qualitative assessment methods (such as, self-assessment, key risk indicators, scenario analysis, etc.). The Bank is insured from the usual risks and specific banking risks through the Program of insurance from operational risks. The usual risks include damages to property, burglary, theft (valuable property) and general responsibility. Specific risks include the Bank's internal and external frauds, technological risks and civil 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 December 2011.

35. RISK MANAGEMENT (continued)

35.10. 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 and 92/2013) and the Decision on capital adequacy ("Official Gazette of the Republic of Serbia", no. 46/2011, 6/2013 and 51/2014).

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.

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.

35. RISK MANAGEMENT (continued)

35.10. Capital Management (continued)

The table below summarizes the structure of the Bank's capital as at 31 December 2014 and 31 December 2013, as well as the capital adequacy ratio:

In RSD thousand

	31.12.2014.	31.12.2013.
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	3,091,086	2,534,108
Retained earnings from previous years	1,071,176	573,970
Intangibles	(389,351)	(411,865)
Unrealized losses on securities available for sale	(2,234)	(1,469)
Reserves from profit for estimated losses on balance sheet assets and off-balance sheet items	(2,589,425)	(1,545,544)
	11,345,727	**11,313,675**
Supplementary capital		
Part of the revaluation reserve bank	60,863	33,890
Subordinated liabilities	1,330,541	2,096,968
	1,391,404	**2,130,858**
Deduction from capital		
Direct or indirect investments in banks and other financial sector entities in the amount exceeding 10% of the capital of these banks, or other persons	93,560	-
The amount by which are exceeded the qualified participation in entities which are not in the financial sector	-	3,866
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
	93,560	**1,549,410**
Total (1):	**12,643,571**	**11,895,123**
Risk-weighted balance and off-balance assets		
Capital requirement for credit risk, counterparty risk and settlement / delivery on the basis of free delivery	6,400,158	5,968,042
Capital requirement for price risk	69,860	43,797
Capital requirement for foreign exchange risk	35,367	-
Capital requirement for operational risk	899,944	800,205
Capital adequacy ratio (1/2 x 100)	**20.49**	**20.95**

35. RISK MANAGEMENT (continued)

35.11. 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.

35. RISK MANAGEMENT (continued)

35.11. Fair value of the financial assets and liabilities

The following table shows fair value of financial instruments designated at fair value in financial statements:

	2014. Level 1	Level 2	Level 3	*RSD thousand* Total	2013. Level 1	Level 2	Level 3	*RSD thousand* Total
FINANCIAL ASSETS	**304,947**	**8,343,846**		**8,648,793**	**24,316**	**3,378,604**		**3,402,920**
Financial assets held for trading	**304,491**	**5,772,678**	**-**	**6,077,169**	-	**1,697,099**	-	**1,697,099**
Treasury bills of the Republic of Serbia	304,491	1,498,709	-	**1,803,200**	-	569,071	-	**569,071**
Quoted bonds	-	4,230,317	-	**4,230,317**	-	1,128,028	-	**1,128,028**
Other investments	-	43,652	-	**43,652**	-	-	-	**-**
Financial assets available for sale	**456**	**2,571,168**	**-**	**2,571,624**	**24,316**	**1,681,505**	-	**1,705,821**
Treasury bills of the Republic of Serbia	-	2,499,566	-	**2,499,566**	-	1,642,361	-	**1,642,361**
Quoted shares	456	33,159	-	**33,615**	24,316	685	-	**25,001**
Unquoted shares	-	38,443	-	**38,443**	-	38,459	-	**38,459**

	2014. Level1	Level2	Level3	*RSD thousand* Total	2013. Level1	Level2	Level3	*RSD thousand* Total
FINANCIAL LIABILITIES	-	27,282	-	27,282	-	-	-	-
Financial liabilities recorded at fair value through profit or loss	-	27,282	-	**27,282**	-	-	-	**-**

35. RISK MANAGEMENT (continued)

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

The following table displays carrying and fair value of financial instruments that are not recognized at fair value in the financial statements. This table does not include the fair value of non-financial assets and non-financial liabilities.

In RSD thousand

	2014		2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS				
Securities held to maturity	6,509,844	6,601,540	5,711,842	5,792,688
Loans and receivables to banks	3,898,755	3,992,013	13,417,006	13,757,911
Loans and receivables to customers	60,868,620	61,377,294	57,339,373	57,438,880

In RSD thousand

	2014		2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL LIABILITIES				
Deposits from banks	18,433,395	18,256,041	13,729,205	13,309,454
Deposits from customers	61,602,685	61,009,985	64,904,207	62,919,851

Fair values for those financial instruments which are not recognized at fair value in the financial statements are determined by application of Group standard – QRM, which is based on the method of discounting.

In 2014 there were no reclassification within categories of financial assets.

36. 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:

		U RSD thousand
	2014	**2013**
Up to 1 year	114,386	111,182
From 1 to 5 years	101,441	206,538
	215,827	**317,720**

(b) Litigation

The final outcome of the legal proceedings still in progress is uncertain. As disclosed in Note 30 to the financial statements, as at 31 December 2014 the Bank recognized a provision of RSD 90,525 thousand (31 December 2013: RSD 70,320 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.

37. SEGMENT REPORTING

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.

38. ADDITIONAL CASH FLOW INFORMATION

	31.12.2014	31.12.2013
Cash	2,432,583	2,075,200
Gyro account	5,961,360	3,354,490
Loans to banks	2,023,808	2,407,444
Balance as at	**10,417,751**	**7,837,134**

Obligatory reserves with the National Bank of Serbia are not available for day-to-day operations and therefore are not part of cash and cash equivalents (Note 16).

39. 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 2014 and 31 December 2013 into Serbian Dinars (RSD) were as follows:

		RSD thousand
	2014	**2013**
EUR	120,9583	114,6421
USD	99,4641	83,1282
CHF	100,5472	93,5472

40. SUBSEQUENT EVENTS

At 31 December 2014 the Bank is owned by EGB Ceps Holding GmbH (74%) and Steiermärkische Bank und Sparkassen AG Graz (26%) whereby both entities are members of Erste Group Bank AG.

In order to simplify the structure of Erste Group Bank AG ("Erste Group"), the initiative has been undertaken to transfer the ownership on shares of European banks from EGB CEPS to Erste Group. Accordingly, Erste Group would become a direct shareholder of the Bank with 74% ownership in the share capital. The Financial Market Authority ("FMA") and National Bank of Austria provided consent on those changes.

In the forthcoming period, the Bank will submit an application to the National Bank of Serbia for approval of the above mentioned changes in ownership structure.

Novi Sad, 31 March 2015

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

Stevan Čomić Head of Accounting and Controlling Department	Frank Michael Beitz Member of the Executive Board	Slavko Carić President of the Executive Board