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PIB 100058593

TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS

KOMERCIJALNA BANKA A.D. BEOGRAD

We have audited the accompanying consolidated financial statements of Komercijalna banka a.d. Beograd ("the Bank"), which comprise the consolidated balance sheet as at 31 December 2011, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and true and objective presentation of these consolidated financial statements in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Banks Law and other relevant by-laws issued by National Bank of Serbia and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, the applicable Decision on External Audit of Banks and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and true and objective presentation of consolidated 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 consolidated 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 consolidated financial statements present truly and objectively, in all material respects, the consolidated financial position of the Bank as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Banks Law and other relevant by-laws issued by National Bank of Serbia.

Other

Consolidated financial statements of the Bank as at and for the period ended 31 December 2010 were audited by another auditor whose report dated 20 April 2011 expressed an unqualified opinion on those statements.

Belgrade, 11 April 2012 KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

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

Belgrade, 11 April 2012 KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

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

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of RSD	Note	2011	2010
Operating income and expenses			
Interest income	3.1, 4.a.	19,371,849	16,719,023
Interest expenses	3.1, 4.b.	(8,440,940)	(8,346,180)
Net interest income		10,930,909	8,372,843
Fee and commission income	3.2, 5.a.	5,342,375	4,698,709
Fee and commission expenses	3.2, 5.b.	(673,655)	(604,138)
Net fee and commission income		4,668,720	4,094,571
Net (losses) / gains on the sale of securities at fair value through income statement	3.3, 6	(19,109)	11,539
Net gains on the securities available for sale	3.3, 7	1,254	53,720
Net gain from sale of other investment	8	1,812	3,701
Net foreign currency exchange loss	3.4, 9.	(147,380)	(7,116,836)
Dividends and other income from equity Investments	3.3, 10.	7,997	2,951
Other operating income	11	195,988	305,659
Net loss on impairment and other provisions	3.15; 3.16, 12	(1,488,299)	(1,581,301)
Salaries, benefits and other personal expenses	13, 52	(4,370,602)	(4,096,908)
Depreciation expenses	3.5, 14.	(758,925)	(685,548)
Other operating expenses	15	(4,910,127)	(4,705,861)
Gains on valuation assets and liabilities	3.8, 16	13,181,843	14,577,985
Losses on valuation assets and liabilities	3.8, 17.	(13,306,091)	(6,064,772)
Operating profit		3,987,990	3,171,743
Result for the year before tax		3,987,990	3,171,743
Income tax	3.12.1, 18.	(440,351)	(168,977)
Gain on increase in deferred tax assets and decrease in deferred tax liabilities	3.12.1, 19.	11,691	16,780
Loss on decrease in deferred tax assets and increase in deferred tax liability	3.12.1, 20.	(23,942)	(131,467)
Profit for the year		3,535,388	2,888,079
Non-controling interest in net profit		1	1
Net profit belonging to owners of parent bank		3,535,387	2,888,079
Basic earnings per share (in Dinars)	42	399	285
Deluted earnings per share (in Dinars)	42	257	187

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2011

In thousands of RSD	Note	2011	2010
A S S E T S			
Cash and cash equivalents	3.10, 21	19,245,682	23,254,940
Revocable deposits and loans	22	59,038,570	48,441,007
Interest ,fees and commission receivables, change in fair value of derivates and other receivables	12, 23	1,320,367	1,398,588
Loans and advances	3.8, 3.15, 12, 24	169,380,487	163,214,267
Securities (excluding own shares)	3.9.1 - 2, 12, 25	27,150,573	18,446,365
Equity investments	3.9.3, 12, 26	342,755	345,178
Other investments	12, 27	2,206,812	2,344,815
Intangible assets	3.5.1, 28	605,494	524,937
Fixed asset and investment property	3.5.2 - 3, 29	7,872,205	7,185,855
Non-current assets held for sale and discontinued operations	3.6.2, 30	222,029	738,605
Other assets	12, 32	5,294,124	6,308,926
Total assets		292,679,098	272,203,483
L I A B I L I T I E S			
Transaction deposits	3.13, 33	36,844,907	34,315,752
Other deposits	3.13, 34	183,078,009	178,311,621
Borrowings	35	2,255,677	1,357,132
Interest, fees and commissions payable and chance in fair value of derivatives	36	206,901	252,507
Provisions	3.15, 3.16, 37	2,188,093	919,779
Tax liabilities	38	45,021	16,465
Liabilities related to profit	39	184,440	80,907
Deferred tax liabilities	3.12.1, 20, 40	17,361	5,787
Other liabilities	41	21,814,667	14,207,899
Total liabilities		246,635,076	229,467,849
Share capital	3.14, 42	28,462,607	28,462,607
Reserves from profit	43	12,261,615	9,868,217
Revaluation reserves	44	689,620	663,008
Unrealized losses on securities available for sale	45	63,940	15,882
Profit	46	3,830,588	2,967,526
Cumulative gains on foreign operations translation		863,532	790,158
Total equity		46,044,022	42,735,634
Total liabilities and equity		292,679,098	272,203,483
Non-controlling interest	1,53	56	56

OFF-BALANCE SHEET ITEMS		186,996,187	146,839,016
Funds managed on behalf of third parties	3.11, 47	4,367,427	4,264,921
Contingent liabilities	48. a	38,500,501	28,790,550
Derivatives	49	261,602	1,054,982
Other off-balance sheet items	50	143,866,657	112,728,563

Belgrade, 11 April 2012

Komercijalna banka a.d., Beograd

Person responsible for financial reporting

Legal representativ

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of RSD	2011	2010
Operating activities		
Interest receipts	18,862,432	16,032,653
Fees and commission receipts	5,363,259	4,701,903
Receipts from other operating income	312,403	215,559
Receipts from dividends and profit sharing	7,997	2,951
Cash inflows from operating activities	24,546,091	20,953,066
Interest payments	(8,117,891)	(7,470,154)
Fees and commission payments	(670,677)	(618,633)
Payments of gross salaries and fringe benefits and other personal expenses	(4,333,642)	(4,097,538)
Payments of taxes, contributions and other expenses charged to income	(819,968)	(837,645)
Cash payments for other operating expenses	(4,034,051)	(3,906,176)
Cash outflows from operating activities	(17,976,229)	(16,930,146)
Net cash inflows from operating activities before increases/(decreases) in advances and deposits	6,569,862	4,022,920
Increase in deposit from banks and customers	8,039,250	31,280,228
Decrease in loans and increase in deposits taken	8,039,250	31,280,228
Increase in loans and advances to banks and customers	16,776,080	30,756,987
Increase in financial assets at fair value through profit and loss, held for trading and short-term securities held to maturity	956,265	17,301,630
Increase in loans and decrease in deposits taken	17,732,345	48,058,617
Net cash outflows from operating activities before income tax	(3,123,233)	(12,755,469)
Income tax paid	(338,663)	(7,461)
Dividends paid	(289,042)	(171,086)
Net cash outflow from operating activities	(3,750,938)	(12,934,016)
Cash flow from investing activities		
Cash inflow from the long-term securities investments	22,157	4,436
Cash inflow from sale of intangible and fixed assets	12,969	2,562
Net inflow from investing activities	35,126	6,998
Cash outflow from the long-term securities investments	7,312,777	199,470
Cash outflow from sale of equity investments	1,846	101
Cash outflow from sale of intangible and fixed assets	833,914	623,509
Net outflow from investing activities	8,148,537	823,080
Net cash inflow/(outflow) from investing activities	(8,113,411)	(816,082)

In thousands of RSD	2011	2010
Cash flow from financing activities		
Cash inflow from increase in equity	-	11,400,020
Net cash inflow from subordinated debt	5,232,045	-
Net cash inflow from loans received	2,680,312	3,093,943
Net inflow from financing activities	7,912,357	14,493,963
Net outflow from financing activities	-	-
Net cash inflow from financing activities	7,912,357	14,493,963
NET CASH (OUTFLOWS) / INFLOWS	(3,951,992)	743,865
CASH AT THE BEGINNING OF THE YEAR	23,254,940	29,634,911
FOREIGN EXCHANGE GAINS	1,573,086	7,876,552
FOREIGN EXCHANGE LOSSES	1,630,352	15,000,388
Cash and cash equivalents at end of the period	19,245,682	23,254,940

T R A N S L A T I O N

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of RSD	Share capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Profit	Unrealized losses on securities	Cumulative gains on foreign operations translation	Total
Balance as at 1 January 2010	9,082,869	7,979714	7,824,358	717,441	2,147,597	23,324	677,425	28,406,080
Increase during the year	4,798,195	6,601,829	2.404,727	46,441	3,236,569	3,497	788,076	17,872,340
Decrease during the year	-	-	360,868	100,874	2,416,640	10,939	675,343	3,542,786
Balance as at 31 December 2010	13,881,064	14,581,543	9,868,217	663,008	2,967,526	15,882	790,158	42,735,634
Balance as at 1 January 2011	13,881,064	14,581,543	9,868,217	663,008	2,967,526	15,882	790,158	42,735,634
Increase during the year	-	-	2,427,413	82,249	4,152,158	49,855	867,794	7,479,759
Decrease during the year	-	-	34,015	55,637	3,289,096	1,797	794,420	4,171,371
Balance as at 31 December 2011	13,881,064	14,581,543	12,261,615	689,620	3,830,588	63,940	863,532	46,044,022

NOTES

TO THE

CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE YEAR 2011

Belgrade, April 2012

1. THE BANK'S ESTABLISHMENT AND BUSINESS ACTIVITIES

Komercijalna banka AD Beograd (hereinafter: the Parent Bank) was originally established on 1 December 1970, and was subsequently reorganized and transformed into a shareholding company on 6 May 1992.

At December 31, 2011, the Parent Bank's most significant shareholders (ordinary shares), are presented as follows:

1. Republic of Serbia
2. EBRD, London and
3. ARTIO INT. EQUITY FUND, New York

Detailed view of the share capital structure is provided in note 42.

The Parent Bank has control over three subsidiaries, with following equity participations:

- 100% - Komercijalna banka AD Budva, Montenegro

- 100% - Kombank INVEST AD , Serbia

- 99.998% - Komercijalna Banka AD Banja Luka, Bosnia and Herzegovina

The minority interest in Komercijalna banka AD Banja Luka of 0.002% is held by the Export Credit and Insurance Agency of the Republic of Serbia.

The consolidated financial statements comprise financial statements prepared by Komercijalna banka AD Beograd as the parent bank, Komercijalna banka AD Budva, Komercijalna banka AD Banja Luka, and the Investment Fund Management Company Kombank INVEST AD Beograd (hereinafter: the Group).

Komercijalna banka AD Budva was founded in November 2002 as an affiliate of Komercijalna banka AD Beograd and was registered in the central register of the Commercial Court in Podgorica on 6 March 2003.

Komercijalna banka AD Banja Luka was founded in September 2006 and on 15 September 2006 was registered in the court register of the Fundamental Court in Banja Luka.

Kombank INVEST AD Serbia was founded in December 2007 and registered on 5 February 2008.

The Group's activities include credit, deposit and guarantee issuance activities and payment operations performed in the country and abroad in compliance with the Law on Banks, as well as investments fund management activities. The Group is obliged to operate in compliance with the principles of liquidity, security and profitability.

As at 31 December 2011 the Group consists of the Central Office and headquarters located in Belgrade at the street address 14 Svetog Save, headquarters of Komercijalna banka AD Budva in the city of Budva, headquarters of Komercijalna banka AD Banja Luka in the city of Banja Luka, headquarters of the Investment Fund Management Company Kombank INVEST AD Beograd in the city of Belgrade, 40 branches, 233 sub-branches located throughout the Republic of Serbia, Montenegro and Bosnia and Herzegovina and 13 counters located throughout the Republic of Serbia.

During 2011 the Parent Bank has conducted closing of offices in Frankfurt, Federal Republic of Germany.

As at 31 December 2011 the Group had 3,282 employees (31 December 2010: 3,343 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Statements of compliance

In 2011 the Group members kept their business records and prepared their stand alone financial statements in accordance with local statutory regulations, and other legislation based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as in compliance with regulations prescribed by respective central banks. Stand alone financial statements have been reviewed by an external auditor who issued an unqualified opinion, in accordance with local statutory regulations.

Stand alone financial statements of subsidiary banks were adjusted for financial statement presentation based on accounting regulations effective in the Republic of Serbia for the purpose of preparing the consolidated financial statements.

The Parent Bank keeps records and prepares consolidated financial statements in accordance with the Law on Accounting and Auditing (Official Gazette of RS 46/2006, 111/2009), the Law on Banks (Official Gazette of RS 107/2005, 91/2010), and other relevant bylaws issued by the National Bank of Serbia, and other regulations effective in the Republic of Serbia.

In accordance with the Law on Accounting and Auditing, legal entities and entrepreneurs incorporated in the Republic of Serbia prepare and present their financial statements in accordance with statutory, professional and internal regulations, where professional regulations relate to the applicable Framework for Financial Statements Preparation and Presentation ("The Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and interpretations which constitute their integral part, and IAS and IFRS that are in effect, excluding the basis for conclusions, illustrative examples, guidelines, comments, opposing opinions, developed examples and other supplementary materials.

The amendments to existing IASs and translations of newly-issued IFRSs, as well as related interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee up to 1 January 2009, have been officially adopted pursuant to the Ministry of Finance Decision no. 401-00-1380/2010-16, and published in the Official Gazette of the Republic of Serbia 77/2010. Amendments to existing or newly-issued IFRS and standards interpretations, after this date, have not been translated and published, and therefore have not been applied in the preparation of the accompanying financial statements.

The accompanying consolidated financial statements have been presented in the format prescribed under the Regulation on Form and Content of Items in Financial Statements Forms for Banks (Official Gazette of RS no. 74/08, 3/09, 12/09 and 5/10). Such statements represent the complete set of financial statements whose form and content are not compliant with those specified in the revised IAS 1 – Presentation of Financial Statements, whose application is mandatory for financial periods starting on and after 1 January 2009.

2.2. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following items:

- financial instruments at fair value through profit and loss which are measured at fair value;
- financial instruments available for sale which are measured at fair value;
- derivatives which are measured at fair value and
- buildings which are measured at revalued value.

2.3. Going concern concept

The consolidated financial statements are prepared in accordance with the going concern concept, which assumes that the Group will continue in operation for the foreseeable future.

2.4. Functional and reporting currency

The consolidated financial statements are presented in thousands of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

Functional currencies, EUR for the financial statements of Komercijalna banka AD Budva and BAM for the financial statements of Komercijalna banka AD Banja Luka, are converted into the presentation currency, which is the functional currency of the Parent Bank – dinar (RSD), using officially released foreign currency exchange rates in the Republic of Serbia.

2.5. Use of estimates

The presentation of consolidated financial statements requires the management of the Group to make best possible estimates and reasonable assumptions which affect reported amounts of assets and liabilities, as well as to disclose of potential receivables and liabilities on the day of preparation of consolidated financial statements and income and expenses during the reporting period.

These estimations and assumptions are based on previous experience and information available on the day of preparation of consolidated financial statements, which seem realistic and reasonable under the given circumstances. Based on such information assumptions are made of the value of assets and liabilities which cannot be determined using other information. Actual values of assets and liabilities can differ from amounts determined in this way.

Estimations, including assumptions based on which estimates are made, are continuously reviewed. If, after a review, it is determined that a change occurred in the estimated value of assets and liabilities, determined effects are recognised in the financial statements in the period when the change in estimate occurred, if the change in estimate only affects the given reporting period, or in the period in which the change in estimate occurred and in subsequent reporting periods, if the change in estimate affects current and future reporting periods.

Information is provided in Note 3.15 on areas in which estimation levels are highest and that can have the most significant effect on amounts recognised in the Group's consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS

The consolidated financial statements are financial statements of the Group, in which are consolidated financial statements of Komercilalna banka AD Beograd, as the Parent Bank, and following subsidiaries and associated entities:

- Komercijalna banka a.d. Budva, Montenegro, which is 100% owed by the Parent Bank,
- The Investment Fund Management Company KomBank INVEST AD Beograd, which is 100% owed by the Parent Bank, and
- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina, which is 99.998% owed by the Parent Bank.

The income statement and cash flow statement were reclassified using the average exchange rate in the Republic of Serbia for 2011 in the amount of RSD 101.9653 for one EURO and RSD 52.1340 for one BAM, while the remaining financial statements (balance sheet, statement of changes in equity and statistical annexes) were reclassified using closing exchange rates as at balance sheet date of RSD 104.6409 for one EURO and RSD 53.5020 for one BAM.

3.1. Interest income and expense

Interest income and expenses, including the penalty interest and other income and expenses arising on the interest-bearing assets and liabilities, are recognized in the income statement on an accruals basis. Interest is calculated in accordance with the terms defined in the agreements with lenders and borrowers.

Income from loan approval commission is recorded as deferred income, and is recognized under interest income of the period using the effective interest rate method (EIR), i.e. effective loan return.

Interest income also includes income arising on risk hedging instruments, mostly by linking payments to the dinar exchange rate with respect to EUR, other foreign currency or retail price index. Income arising on risk hedging instruments is calculated at the end of each month during the repayment period, as well as at the date of payment.

3.2. Fee and commission income/expenses

Fee and commission income and expenses are recognized in the income statement on accruals basis.

Fee and commission income and expenses for banking services are recognized upon maturity, or when they are realized. They are recognized in the income statement when incurred or due for payment. Fee and commission income for guarantees and others contingent liabilities are accrued over their contractual period and are recognized in the income statement in proportion to elapsed time.

3.3. Income and expenses from securities

All realized or unrealized gains and losses arising on changes in market value of securities held for trading are charged to income or expenses in the income statement.

Gains and losses arising on changes in amortized value of securities held to maturity are credited to income or charged to expenses.

Unrealized gains and losses arising on changes in value of securities available for sale are recorded within the equity, credited or debited against revaluation reserves. The amount of created revaluation reserves are transferred to the income statement as the gains and losses on the basis of securities investments in the moment of selling or permanent reduction in value of these securities.

Gains and losses on foreign currency clause and exchange rates changes applied to securities available for sale as well as income from interest on securities available for sale are recognized in the income statement.

Dividends received in respect of investments in shares of other legal entities are recognized as income from dividends at the moment of their collection.

Impairment for assessed risk values of all types of securities is recognized through the income statement.

3.4. Foreign currency translation

Transactions in foreign currencies are translated into dinars using the foreign exchange mid rate set by the inter-banking foreign currency market, ruling at the date of the transaction.

Assets and liabilities denominated in foreign currencies as at balance sheet date are translated into dinars at the foreign exchange mid rate set by the inter-banking foreign currency market, ruling as at that date.

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

Commitments and contingent liabilities and commitments denominated in foreign currency are translated into dinars by applying the foreign exchange mid rate set by the inter-banking foreign currency market, ruling as at the balance sheet date.

3.5. Property and equipment, investment property and intangible assets

3.5.1. Intangible assets

Intangible assets are measured at cost or purchase price. After initial recognition, intangible assets are reported at cost reduced for amortisation and impairments.

The amortisation of intangible assets commences at the beginning of the month following the month in which the intangible asset is available for use.

The amortisation base is cost less residual value. If the residual value is not materially significant, it does not affect the depreciation base.

Amortization is calculated on a straight-line basis on the cost of intangible assets by applying an annual rate ranging from 14.29% to 33.34%.

3.5.2. Fixed assets

/i/ Recognition and measurement

Fixed assets, except real estate, are stated at cost decreased for accumulated depreciation and accumulated impairment losses. From January 1, 2005 the Group has applied the revaluation method for property held by the Group members. Based on the adopted market valuation of property held by the Parent Bank, the value of all property increased in 2005 according to a Decision adopted by the Board of Directors.

Fixed assets are initially stated at cost or at purchase value.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

After initial recognition, fixed assets are reported at cost, buildings are reported at revalued amount.

/ii/ Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if there is a probability that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

/iii/ Depreciation

Depreciation is calculated on a straight-line basis to the cost or revalued amount of non-current assets by applying the following annual rates in order to write them off over their useful lives:

Annual rates of amortization:

Buildings and investment property	2.50%
Computer equipment	25%
Furniture and other equipment	6.7%-25%
Leasehold improvements	4.25%-86.20%

3.5.3. Investment property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is initially measured at cost or purchase price without expenditures that are directly attributable to acquisition.

After initial recognition, investment property is reported at cost.

Amortization is calculated on a straight-line basis to the cost of investment property by applying an annual rate of 2.5%.

3.6. Inventories

3.6.1. Inventories

Inventories are stated at the lower of cost and net realisable value.

Inventories include assets acquired through collection of receivables.

3.6.2. Non-current assets held for sale

Non-current assets held for sale represent non-current assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset is classified as an asset available for sale if it meets the following conditions:

- the asset (or group of assets) is available for sale in its present condition,
- there is a sales plan for the sale of fixed assets and activities have been initiated for realising the sales plan,
- there is an active market for these types of assets and the asset is actively present on the market,
- the sale is very probable and there is an expectation that the sale will be realised within one year as of the date when the asset is classified as available for sale.

A non-current asset held for sale is initially measured at the lower of the carrying amount and fair value, reduced for costs to sell. If the carrying amount is lower than fair value reduced for costs to sell, the amount at which the asset is measured remains unchanged, and if it is higher, the current carrying amount is reduced up to the amount of fair value for costs to sell, with recognition of impairment losses for the asset, if any. As of the moment that an asset is recognised as available for sale, all associated depreciation for accounting purposes is discontinued.

When the purpose of a non-current asset held for sale is changed or when the fixed assets are not sold in the planned period, the asset is no longer classified as held for sale. In that case, the non-current asset is measured at the lower of the:

- Carrying amount on the date when classified as held for sale, reduced for accumulated depreciation and any impairments that would have been recognised, if the asset had not been classifies as held for sale, or
- its recoverable amount on the date when the intention of selling was abandoned.

3.7. Financial instruments

/i/ Classification

The Group classifies its financial assets into the following categories: financial assets at fair value whose effects of changes in fair value are reported in the income statement, loans and receivables, financial assets available for sale and assets held to maturity. The classification depends on the purpose for which the financial assets have been acquired. Management classifies financial placements at the moment of initial recognition.

/ii/ Recognition

The purchase and sale of financial assets or liabilities is recorded in accordance with appropriate accounting treatment on transaction date.

/iii/ Measurement

Financial instruments are initially measured at market value which includes transaction costs for all financial assets or liabilities, except for those that are valued at fair value through profit and loss. Financial assets at fair value through profit and loss are recognised at fair value, with transaction costs charged to operating expenses in the income statement.

Financial assets available for sale and financial assets at fair value through profit and loss after initial recognition are reported at fair value. Loans and receivables, as well as financial assets held to maturity, are measured at amortised cost using the effective interest rate method.

After initial recognition, financial liabilities are reported at amortised cost using the effective interest rate method, except for financial liabilities at fair value though profit and loss.

/iv/ Derecognition

A Group member derecognises a financial asset when the right to cash receipts associated with such asset expire or when they are transferred to a third party. Any rights associated with transferred financial assets, created or retained by the Group, are recognised as a separate asset or liability.

A Group member derecognises liabilities when a liability is settled, cancelled or transferred to a third party.

/v/ Measurement at amortised cost

The amortised cost of a financial asset or liability is the amount at which the asset or liability can be initially measured, reduced for principal repayment, and increased or decreased for accumulated amortisation using the effective interest rate method applied to the difference between the initial value and nominal value as at the date of maturity, reduced for any impairment.

/vi/ Measurement at fair value

The fair value of financial instruments is the amount at which an asset can be exchanged or a liability settled, between informed and willing parties in an independent transaction.

The fair value is determined using available market information on reporting date, as well as other valuation models used by a member of the Group.

The fair value of individual financial instruments reported at nominal value approximates their carrying amount. Such instruments include cash, as well as receivables and liabilities with no date of maturity, or contractual fixed interest rate. Other receivables and liabilities are carried at present value of discounted future cash flows using current interest rates. Management believes that as the result of the nature of the Group's operations and its business policies, there are no significant differences between the carrying amount and fair value of financial assets and liabilities.

The fair value of irrevocable loans and off-balance sheet items is equal to their carrying amount.

/vii/ Impairment

The Group's financial assets are reviewed at balance date to determine whether there is objective evidence of impairment. If there is evidence of impairment, the Group will determine the amount collectible from the placement. For proper and efficient management of credit risk, the Group prescribed in its internal regulations specific policies and procedures for the identification of bad assets and management of such assets.

The management of a Group's member evaluates the recoverability of receivables, and allowances for impairment based on individual risk assessment of receivables. Doubtful receivables are considered to be all receivables that are overdue. Each member of the Group estimates the recoverable amount of receivables and loans, considering regularity of repayment, the financial situation of the debtor and the quality of collateral, as well as contractual cash flows and historical losses.

For the estimated amount of impairment the each member of the Group forms a provision that is charged to period expenses. If later on the management concludes that there was a change in circumstances and that the impairment no longer exists, the previous amount of impairment provision is reversed and debited to income. A reversal of a provision cannot result in higher book value than the one that would have been without the provision for impairment.

3.8. Loans

Loans are stated at the amount of principal outstanding, less allowance for impairment, which is based on evaluation of specifically-identified exposures and losses that are inherent in the Group's loan portfolio. The management of the Group members applies the internally adopted methodology in its risk assessment, based on fully application of IAS 39, as disclosed in Note 3.15.

Loans, which are disbursed in dinars and index- linked to the foreign exchange rates of EUR or other foreign currencies or to the changes in the retail price index, are revalorized in accordance with the provisions stated under the individual loan agreements. A difference between the nominal value and the revalorized value of the outstanding principle is recognized under receivables for loans. The effects of such revaluation are recorded as gains and losses on the valuation of financial assets.

3.9. Financial assets

3.9.1. Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets that are classified as held for trading. Financial assets at fair value through profit or loss are those that the Group acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also classified as held for trading unless they are designated as hedging instruments. Funds in this category are classified as current assets. Financial assets at fair value through profit or loss include bonds of Republic of Serbia and shares of corporate entities and shares of banks acquired for the purpose of selling.

3.9.2. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial instruments with fixed and determinable payment schedules and a fixed date of maturity that members of the Group have the intention and ability to hold to maturity. These financial assets are comprised of corporate bonds and Montenegro Government Treasury bills.

In the event that a Group member decides to sell a significant portion of its financial assets held to maturity, the entire category will be reclassified as available for sale. Financial assets held to maturity are classified as long-term assets, except when maturities are shorter than 12 months as of balance sheet date, when they are classified as short-term assets.

Financial assets held to maturity are initially recorded at cost, and as at balance sheet date they are reported at amortised cost or present value of future cash flows calculated using the effective interest rate built into the instrument.

3.9.3. Equity Investments and financial assets Available-for-Sale

Financial assets available for sale are non-derivative financial assets which are designated as available for sale and are not classified as loans and receivables, financial assets held to maturity or financial assets at fair value through profit and loss. Financial assets available for sale are placements for which there is an intention to hold them for an indefinite period of time, which can be sold for liquidity requirements or due to changes in interest rates, exchange rates or market prices. Financial assets available for sale for which an active market does not exist, and which have fixed maturity date are carried at amortized value by applying the effective interest rate Financial assets available for sale include treasury bills and bonds of the Republic of Serbia and Republic of Srpska, shares of banks and shares or stakes of corporate entities.

Financial assets available for sale are initially measured at cost and as at balance sheet date are measured at market value, if it is known. Changes in market value are disclosed under equity, credited or debited to revaluation reserves, until such time as such securities are sold, when revaluation reserves are transferred to income.

For equity investments there is intention to hold them for an indefinite period of time. Such investments can be sold, depending on liquidity needs or in the event of changes in market prices. Equity investments, for which there is no active market and market value, are measured at cost less any provisions.

3.10. Cash and cash equivalents

For purposes of the Statement of Cash Flows, “Cash and cash equivalents” include cash and balances on the current accounts held with the other banks, as well as cheques in the course of collection.

3.11. Funds managed on behalf of third parties

Assets for business operations conducted on behalf of third parties that are managed by the members of the Group with commission are not included in the Group's balance sheet, but in the off-balance sheet items.

3.12. Taxes and contributions

3.12.1. Corporate income tax

Current income tax represents the amount calculated in accordance with the defined tax rate. The taxable base includes the profit before tax stated in the statutory income statement in accordance with IAS/IFRS, adjusted for permanent differences between defined and effective tax rate.

The Parent Bank is unable to perform tax consolidation based on regulations effective in the Republic of Serbia.

The annual corporate income tax of the Group's members is payable at the prescribed rate on the tax base reported in the annual income tax return (Note 18).

The tax rates for 2011 are:

Serbia	10%
Montenegro	9%
Bosnia and Herzegovina	10%

3.12.2. Taxes and contributions not dependant on results

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

3.13. Deposits

Deposits are reported in the amount of deposited funds which can be increased for accrued interest, which depends on the terms of contract between the depositor and the Group members. Group members contracted deposit interest rates depending on the deposited amount.

Foreign currency deposits are reported in dinars at the spot exchange rate ruling on balance sheet date.

In the balance sheet deposits are presented as transaction and other deposits.

3.14. Equity

The Group's equity consists of the founder's share, shares of subsequent issues, retained earnings, revaluation reserves, accumulated result, and current period result less unrealized losses arising from securities available for sale.

The Group's equity is formed from the funds invested by the Parent Bank's founders and minority shareholder Komercijlna banka AD Banja Luka in monetary form. The founder cannot withdraw funds invested in the Group's equity.

3.15. Significant Accounting Estimates and assumptions

The management makes estimates and assumptions that influence the assets and liabilities amounts in the following financial year. It is rare for estimated values to be the same as actual results. Estimates and assumptions that carry the risk of a material adjustment to the carrying values of assets and liabilities in the next financial year are shown below.

/i/ Allowances for Impairment

Every member of the Group reviews credit portfolio monthly for the purpose of assessing the amount for impairment and provisions needed. In determining whether losses on the basis of investment impairment should be recognized in income statement, members of the Group asses if there is information/proof that indicate existence of measurable reduction of assessed future cash flows on the portfolio level, before it is possible to identify such losses on the individual investment level. Information that can indicate losses on the basis on investments include: transgression and delay of reconciling obligations, market and economic conditions on the local level which cause delay of obligations reconciliation and etc. Management's estimates of impairment in financial placements within the portfolio using the estimated future cash flows are based on real historical loses, that are realized on financial assets with similar risk and similar causes of impairment. The methodology and assumptions underlying the process of defining the amounts and periods of cash inflows, based on placements, are reviewed on an ongoing basis in order to reduce the difference between estimated and actual losses to the minimum.

Impairment assessment process is conducted on a case basis, for each materially significant loan and on the portfolio level for less significant loans. The amount of impairment is individually assessed as the difference between the carrying amount and the present value of expected future cash flows, determined through discounting the loans at the effective interest rate.

The impairment of less significant loans is assessed on a portfolio basis for each credit rating group separately, given their similar characteristics with respect to credit risk in the amount of percentage of migration of adequate credit rating group into the V credit rating group, as adjusted for the percentage of collected loans previously classified into the V credit rating group.

If the individual assessment of a materially significant loan shows that there is no objective evidence of loan impairment, the impairment of the loan in calculated as a percentage applied to the respective credit rating group.

The methodology and assumptions underlying the process of defining the amounts and periods of cash inflows, based on placements, are reviewed on an ongoing basis in order to reduce the difference between estimated and actual losses to the minimum. The amounts of inflows expected from a loan are assessed based on evidence of the borrower's planned income, and in case these are assessed as insufficient, the Bank assessed the cash flow that could be realized by activating the related collateral. The number of days in default against certain receivables from debtors is assessed by taking into consideration of all relevant evidence about the timeline of earning the planned income by the debtor, as well as historical data about the delays in payment of that particular debtor.

/ii/ Fair value

The process of determining the fair value of financial assets and liabilities for which market price does not exist, requires the use of different models and techniques. For financial instruments that have less trading volume and whose market prices are therefore less transparent, the determination of fair value is more subjective and requires a higher degree of use of assessment depending on the liquidity of the instrument, concentration risk, market uncertainties, assumptions about the price and other factors affecting the specific instrument.

3.16. Employee benefits

In accordance with regulatory requirements, Group members are obligated to pay contributions to tax authorities and to various state social security funds that guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally prescribed rates. Group members are also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the applicable government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

The Group does not have its own defined benefit plans or share-based remuneration options and there are no identified liabilities thereof as of December 31, 2011.

The Group allocated provisions in 2011 in accordance with IAS 19 as a pro rata share of increases in long-term liabilities for retirement benefits and increase in liabilities for unused vacation days. For the calculation of provisions thereof, the Group has engaged a licensed actuary.

3.17. Segment information

The Group performs most of its operations in the Republic of Serbia.

The balance sheet assets of the Parent Bank amount to 92.25% of the consolidated balance sheet assets (in 2010, it was 91.98%).

The balance sheet assets of Komercijalna banka AD Budva amount to 3.24% of the consolidated balance sheet assets (in 2010, it was 3.30%), the balance sheet assets of Komercijalna banka AD Banja Luka amount to 4.48% of the consolidated balance sheet assets (in 2010, it was 4.67%) and the balance sheet assets of KomBank INVEST amount to 0.03% of the consolidated balance sheet assets (in 2010, it was 0.04%).

In the consolidation process, all related party transactions between Group members from balance sheet statement have been eliminated in the amount of RSD 5,690,480 thousand (in 2010, it was RSD 5,507,074 thousand). From income statement, income from related party transactions was eliminated in the amount of RSD 165,859 thousand (in 2010, it was RSD 138,667 thousand) and expenses were eliminated in the amount of RSD 46,767 thousand (in 2010, it was RSD 368,793 thousand) – Note54.

4. INTEREST INCOME AND EXPENSE

a) Interest Income

In thousands of RSD	31 December 2011	2010
Dinar loans approved to:		
- financial and insurance sector	749,096	634,511
- enterprises	8,448,934	7,986,012
- entrepreneurs	205,600	203,491
- public sector	258,982	56,921
- citizens	4,160,892	3,739,266
- other customers	1,032	334
Dinar deposits with:		
- financial and insurance sector	261,588	417,266
Securities in dinars of:		
- enterprises	15,396	14,108
- public sector	1,853,230	915,412
Other placements in dinars:		
- enterprises	138,324	540
- entrepreneurs	27	236
- citizens	729,820	506,738
Total in dinars	16,822,921	14,474,835
Foreign currency loans approved to:		
- financial and insurance sector	-	2
- public companies	60,383	25,827
- enterprises	1,428,797	1,277,317
- entrepreneurs	959	187
- public sector	3,641	2,643
- citizens	316,796	343,596
- other foreign entities	373,537	502,084
- registered farmers	73	39
Foreign currency deposits approved to:		
- financial and insurance sector	10,414	8,023
- citizens (on the basis of approved limits)	1,028	2,936
- foreign entities	76,170	42,799
Securities in foreign currency:		
- public sector	248,610	3,023
Other placements in foreign currency:		
- financial and insurance sector	25,798	33,494
- foreign entities	2,722	2,218
Total in foreign currency	2,548,928	2,244,188
Total	19,371,849	16,719,023

The estimated effect of interest that was not accrued and stated in the Group's income statement for the year 2011, totals RSD 122,556 thousand and is associated with the interest charged to loans and placements subject to legal disputes or for which interest accrual has been suspended.

b) Interest Expense

In thousands of RSD	31 December 2011	31 December 2010
Dinar loans from:		
- financial and insurance sector	10,156	8,483
Dinar deposits from:		
- financial and insurance sector	421,375	256,937
- public companies	254,114	240,564
- enterprises	605,946	431,876
- entrepreneurs	9,633	8,736
- public sector	826,015	575,752
- citizens	114,751	136,194
- foreign entities	274	219
Other liabilities from:		
- enterprises	28	-
- citizens	27,064	-
Total in dinars	2,269,356	1,658,761
Foreign currency loans from:		
- financial and insurance sector	91,316	58,074
- public sector	2,240	11,448
- foreign entities	229,899	106,554
Foreign currency deposits from:		
- financial and insurance sector	79,188	98,939
- public companies	122,157	175,333
- enterprises	569,871	860,003
- entrepreneurs	48	80
- public sector	24,574	61,333
- citizens	5,035,019	5,305,686
- foreign entities	5,421	6,243
- other customers	11,599	2,739
Other foreign currency liabilities from:		
- financial and insurance sector	210	987
- foreign entities	42	-
Total in foreign currency	6,171,584	6,687,419
Total	8,440,940	8,346,180

5. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

In thousands of RSD	31 December 2011	2010
In dinars from:		
- financial and insurance sector	231,005	155,500
- public companies	38,233	20,290
- enterprises	1,959,159	1,653,254
- entrepreneurs	505,073	471,568
- public sector	1,612	2,474
- citizens	2,146,471	1,898,202
- foreign entities	68,489	57,547
- registered farmers	11	15
- other customers	433	46
Total in dinars	4,950,486	4,258,896
In foreign currency from:		
- financial and insurance sector	11,626	9,485
- public companies	832	671
- enterprises	174,052	203,589
- public sector	2,758	1,995
- citizens	139,306	162,117
- foreign entities	55,241	53,949
- other customers	8,074	8,007
Total in foreign currency	391,889	439,813
Total	5,342,375	4,698,709

b) Fee and Commission Expenses

In thousands of RSD	31 December 2011	2010
In dinars, charged by:		
- financial and insurance sector	281,993	267,766
- enterprises	180,907	131,332
- citizens	22	-
- foreign entities	16,773	14,495
- other customers	124	-
Total in dinars	479,819	413,593
In foreign currency, charged by:		
- financial and insurance sector	26,612	45,098
- foreign entities	154,315	126,724
- other customers	12,909	18,723
Total in foreign currency	193,836	190,545
Total	673,655	604,138

6. NET GAINS / LOSSES ON THE SALE OF SECURITIES AT FAIR VALUE THROUGH INCOME STATEMENT

In thousands of RSD	31 December 2011	2010
Gains on sale of securities at fair value	20,598	11,554
Losses on sale of securities at fair value	(39,707)	(15)
Net gains/losses on sale of securities at fair value trough income statement	(19,109)	11,539

7. NET GAINS ON SECURITIES AVAILABLE FOR SALE

In thousands of RSD	31 December 2011	2010
Gains on sale of securities available for sale	1,254	53,720
Net gains on sale of securities available for sale	1,254	53,720

8. NET GAINS/LOSSES FROM SALE OF OTHER INVESTMENTS

In thousands of RSD	31 December 2011	2010
Gains on sale of other placements	1,950	4,321
Losses on sale of other placements	(138)	(620)
Net gains on sales of other investments	1,812	3,701

9. NET FOREIGN CURRENCY EXCHANGE GAINS/LOSSES

In thousands of RSD	31 December 2011	2010
Foreign exchange gains	1,443,798	7,646,293
Foreign exchange losses	(1,591,178)	(14,763,129)
	(147,380)	(7,116,836)

Foreign exchange gains and losses comprise gains and losses arising from transactions performed in other than local currency during the year, and gains and losses arising from the adjustment of foreign currency denominated balance sheet items to the official foreign exchange rates over the year at each month end.

The accrual of foreign exchange gains and losses is performed and stated at gross principle (negative and positive foreign exchange gains and losses) during the business year.

10. DIVIDENDS AND OTHER INCOME FROM EQUITY INVESTMENTS

In thousands of RSD	31 December 2011	2010
Income from dividends and other income from equity investments	7,997	2,951

11. OTHER OPERATING INCOME

In thousands of RSD	31 December 2011	2010
Other operating income	144,582	121,206
Income from collected written-off receivables	580	139,118
Income from disposal of fixed and intangible assets	12,970	2,562
Income from decrease of liabilities	2,831	2,294
Surpluses	32	66
Other	34,993	40,413
	195,988	305,659

12. NET LOSS ON IMPAIRMENT AND OTHER PROVISIONS

a) Expenses	31 December 2011	2010
In thousands of RSD		
Expenses from impairment of balance sheet items		
- loans to clients	7,116,808	11,527,623
- interest and fee and commission receivables	749,325	1,431,171
- securities held to maturity	7,554	331
- other assets	72,174	59,987
Provisions for off-balance sheet items	497,160	293,052
Provisions for litigations	1,124,856	12,917
Provision for retirement benefits	51,702	7,193
Provision for interest suspension	19,730	-
	9,639,309	13,332,274

b) Incomes	31 December 2011	2010
In thousands of RSD		
Income from release of impairment of balance sheet items		
- loans to clients	6,858,910	10,388,878
- interest and fee and commission receivables	687,785	970,372
- securities held to maturity	3,254	406
- equity investments and other securities available for sale	1,568	-
- other assets	47,545	37.516
Income from release of provision for off-balance sheet items	392,108	327,534
Income from release of unused provisions for liabilities	-	24,500
Income from release of unused provisions	-	152
Income from suspended interest collected	159,840	1,615
	8,151,010	11,750,973
Net expenses (a-b)	(1,488,299)	(1,581,301)

By the end of January 2012 some materially significant receivables of impaired placements, that would had influenced the decision to reverse allowances for impairment according to IAS 10, were not realised.

MOVEMENTS IN THE BALANCE OF ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

	Cash and cash equiv.	Interest and fees receivables	Loans and Deposits	Securities	Equity investments	Other placements	Other assets	Off-balance items	Total
Balance as at 1 January 2011	-	1,789,589	11,150,444	262	371,757	2,858,037	151,936	414,031	16,736,056
Changed during the year	-	749,325	6,864,409	7,554	-	252,399	72,174	497,160	8,443,021
Release during the year	-	(687,785)	(6,602,922)	(3,254)	(1,568)	(255,988)	(47,545)	(392,108)	(7,991,170)
Exchange rate differences	-	13,148	203,683	49	-	(9,570)	(314)	170	207,166
Direct write-offs	-	(83,460)	(261,075)	-	-	(44,788)	(13,058)	-	(402,381)
Other	-	(39,352)	25,755	-	-	(3)	3,716	-	(9,884)
Balance as at 31	-	1,741,465	11,380,294	4,611	370,189	2,800,087	166,909	519,253	16,982,808

December
2011

13. PAYROLL EXPENSES, REMUNERATION AND OTHER PERSONAL EXPENSES

In thousands of RSD	31 December 2011	2010
Payroll expenses	2,403,774	2,279,642
Remuneration expenses	595,088	530,533
Taxes and contributions on salaries and fringe benefits	458,094	423,654
Contribution expenses and remuneration	774,627	715,770
Remuneration expenses for temporary and occasional operations	54,052	88,674
Other personal expenses	84,967	58,635
	4,370,602	4,096,908

14. DEPRECIATION EXPENSES

In thousands of RSD	31 December 2011	2010
Depreciation expense	758,925	685,548

15. OPERATING AND OTHER EXPENSES

In thousands of RSD	31 December 2011	2010
Costs of material	481,013	371,705
Costs of production services	1,995,265	1,974,708
Non-material costs (without taxes and contributions)	1,524,094	1,427,099
Tax expenses	97,513	85,887
Contribution expenses	740,749	737,149
Other expenses	46,079	74,294
Write-offs of irrecoverable debts	103	3,409
Losses on sale of fixed and intangible assets	436	4,511
Impairment and write-offs of fixed and intangible assets	3,716	12,570
Shortfall and damages	-	26
Other expenses	21,159	14,503
	4,910,127	4,705,861

Liabilities for operating lease of business premises used by the Group are recognized as rent expenses on a monthly basis.

As at 31 December, commitments (excluding VAT) for operating leases of 241 business premises with the total area of 38,886.14 sqm amount to:

- up to one year	504,973
- from one to five years	1,404,045
-over five years	489,535
Total	2,398,553

16. GAINS ON VALUATION OF ASSETS AND LIABILITIES

In thousands of RSD	31 December 2011	31 December 2010
Gains on valuation of loans and advances	11,511,613	13,927,347
Gains on valuation of securities	16,232	29,082
Gains on valuation of liabilities	1,653,998	621,556
Total	13,181,843	14,577,985

17. LOSSES ON VALUATION OF ASSETS AND LIABILITIES

In thousands of RSD	31 December 2011	31 December 2010
Losses on valuation of loans and advances and receivables	11,656,158	3,868,758
Losses on valuation of securities	191,158	11,123
Losses on valuation of liabilities	1,458,141	2,129,387
Losses on valuations of fixed assets, investment property and intangible assets	-	9,955
Losses on valuation of derivatives	634	45,549
Total	13,306,091	6,064,772
Net gains/losses on valuation of assets and liabilities	(124,248)	8,513,213

Gains/losses arising from change in value of loan investments include contractual FX clause effects.

Gains/losses from change in value of securities contain effects of adjusting securities to their market value.

Gains/losses arising from change in value of liabilities include effects of contractual FX clause applied to clients' deposits.

Calculation of change in value of assets and liabilities is conducted at the end of each month during the business year as well as on the day of transaction.

18. INCOME TAX

Each Group member determines its income taxes based on local tax regulations. Taxes are not subject to consolidation and are presented separately in the Notes.

Komercijalna banka AD Beograd

A. COMPONENTS OF INCOME TAX

	31 December	
In thousands of RSD	2011	2010
Income tax for the period	(426,027)	(157,343)
Gain on increase in deferred tax assets and decrease in deferred tax liabilities	11,578	16,697
Loss on decrease in deferred tax assets	(23,937)	(131,264)
	(438,386)	(271,910)

B. NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF THE ACCOUNTING RESULTS MULTIPLIED BY THE APPLICABLE TAX RATE

	31 December	
In thousands of RSD	2011	2010
Profit/Loss before tax	3,952,066	2,791,964
Income tax at the statutory tax rate of 10%	395,207	279.196
Tax effects of non-deductible expenses	115,976	11,774
The tax effects of net capital losses	146	(415)
Tax effects of differences in the depreciation charges	12,874	15,140
Tax effect of transfer pricing	223	5,720
Tax effect of income adjustments	4,917	3,270
Tax credits used in the current year	(103,316)	(157,343)
Correction of tax effects	12,359	114,568
TAX EFFECTS IN THE INCOME STATEMENT	(438,386)	(271,910)

C. EFFECTIVE INCOME TAX RATE	11.09	9.73

Income tax payments in advance for 2011 in the amount of RSD 293,342 thousand were made on a monthly basis in accordance with the Income Tax Law. To settle current income tax, the Bank used the whole amount of advances payments, and the rest of the RSD 132,685 thousand will be paid until the submission of the tax balance.

Komercijalna banka AD Budva

A. COMPONENTS OF INCOME TAX

In thousands of RSD	31 December 2011	2010
Income tax for the period	(7,744)	(11,634)
Gain on increase in deferred tax assets and decrease in deferred tax liabilities	113	-
Loss on decrease in deferred tax assets	-	(199)
	(7,631)	(11,833)

B. NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF THE ACCOUNTING RESULTS MULTIPLIED BY THE APPLICABLE TAX RATE

In thousands of RSD	31 December 2011	2010
Profit/Loss before tax	112,287	115,347
Income tax at the statutory tax rate of 9%	10,106	10,381
Tax effects of non-deductible expenses	305	1,452
The tax effects of net capital losses	-	-
Tax effects of differences in the depreciation charges	(174)	-
Tax effect of transfer pricing	150	-
Tax effect of income adjustments	-	-
Tax credits used in the current year	(2,643)	-
Correction of tax effects	(113)	-
TAX EFFECTS IN THE INCOME STATEMENT	(7,631)	(11,833)

C. EFFECTIVE INCOME TAX RATE	6.80	10.25

The Tax Administration decided not to allow the possibility of using tax credit for current income tax payment, so the Bank additionally paid the amount of RSD 2,643 thousand from the accumulated gains in mart 2012. With this payment the effective tax rate for 2011 amounts 9.15%.

Komercijalna banka AD Banja Luka

A. COMPONENTS OF INCOME TAX

In thousands of RSD	31 December 2011	2010
Income tax for the period	(6,385)	-
Receivables for prepaid income tax	-	25,543
	(6,385)	25,543

B. NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF THE ACCOUNTING RESULTS MULTIPLIED BY THE APPLICABLE TAX RATE

In thousands of RSD	31 December 2011	2010
Profit/Loss before tax	75,408	27,638
Income tax at the statutory tax rate of 10%	7,541	2,764
The tax effects of net capital losses	(21)	-
Tax effect of expenses adjustments	(1,135)	(66,940)
TAX EFFECTS IN THE INCOME STATEMENT	(6,385)	-
C. EFFECTIVE INCOME TAX RATE	8.47	0.00

KomBank INVEST AD Beograd

A. COMPONENTS OF INCOME TAX

In thousands of RSD	31 December 2011	2010
Income tax for the period	(195)	-
Gain on increase in deferred tax assets and decrease in deferred tax liabilities	-	-
Loss on increase in deferred tax liabilities and decrease in deferred tax assets	(5)	-
	(200)	-

B. NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF THE ACCOUNTING RESULTS MULTIPLIED BY THE APPLICABLE TAX RATE

In thousands of RSD	31 December 2011	2010
Profit/Loss before tax	255	(3,722)
Income tax at the statutory tax rate of 10%	25	-
Tax effects of non-deductible expenses	1	-
The tax effects of net capital gains	(212)	-
Tax effects of differences in the depreciation charges	71	-
Tax effect of transfer pricing	-	-
Tax effect of loss in tax balance sheet	115	-
Tax effect of required basis for capital gain according to tax rules	195	-
Correction of tax effects	5	3
TAX EFFECTS IN THE INCOME STATEMENT	(200)	(3)
C. EFFECTIVE INCOME TAX RATE	78.43	0.00

The Tax administration, on the basis of capital gains, subsequently determined tax for 2010 in the amount of RSD 339 thousand, which was settled in 2011 by reducing accumulated gains from previous years.

19. GAIN ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES

In thousands of RSD	31 December 2011	2010
Increase in deferred tax assets and decrease in deferred tax liabilities	11,691	16,780
	11,691	16,780

Calculation of deferred tax liabilities at a statutory tax rate on temporary differences on the value of fixed assets as at 31 December 2011 required a reduction of liabilities in the amount of RSD 6,717 thousand.

Tax assets related to increased provisions for employee benefits (IAS 19) and unused vacations amount to 4,874 thousand dinars.

Tax assets resulting from impairment of property amount to 100 thousand dinars.

20. LOSS ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITIES

	31 December	
In thousands of RSD	2011	2010
Decrease in deferred tax assets and increase in deferred tax liabilities	23,942	131,467
	23,942	131,467

The decrease in deferred tax assets by the direct settlement of current income taxes using the portion of tax credit allowed for capital investments made in prior years totals RSD 19,773 thousand, while the decrease based on the adjustment of tax credit from previous years allowed for the disposal of fixed assets totals RSD 65 thousand dinars.

The decrease in deferred tax assets resulting from a reversal of provision for impairment of property amounts to RSD 4,099 thousand.

The calculation of deferred tax liabilities to the temporary differences in the value of fixed assets as at 31 December 2011 required an increase in liabilities in the amount of RSD 5 thousand.

21. CASH AND CASH EQUIVALENTS

	31 December	
In thousands of RSD	2011	2010
In dinars		
Gyro account	9,992,491	11,733,730
Cash in hand	1,731,557	1,665,393
total	11,724,048	13,399,123
In foreign currency		
Foreign exchange accounts	5,507,847	7,784,266
Cash in hand in foreign currency	1,810,345	1,817,114
Cash equivalents in foreign currency - Cheques in the course of collection	32,753	23,791
Other cash and cash equivalents	170,590	230,547
total	7,521,535	9,855,718
Gold and other precious metals	99	99
Total	19,245,682	23,254,940

The obligatory reserves with NBS represent a minimum required dinar reserve which is calculated and deposited in accordance with the Decision on Obligatory Reserves of Banks with the National Bank of Serbia.

The calculation of obligatory reserve in dinars is performed once a month – on the 17th day of the month based on the average balance of dinar deposits as found in the prior calendar month. Obligatory reserve in dinars is allocated by the Parent Bank in dinars at its gyro account and these funds may be used for liquidity purposes. The Parent Bank is obligated to maintain the average monthly balance on its gyro account in the amount of obligatory reserve in dinars where, in order to realize the daily balance of allocated obligatory reserve, the daily balance found on the gyro account may be below or above the calculated obligatory reserve in dinars.

The NBS pays interest on average obligatory reserves in dinars at an interest rate of 2.5% p.a. During 2011, the Parent Bank maintained the average monthly balances in the amount of obligatory reserve in dinars, i.e. obligatory reserves in dinars were not used at any time.

22. REVOCABLE DEPOSITS AND LOANS

In thousands of RSD	31 December 2011	31 December 2010
In dinars		
Loans from repo transactions	11,500,000	200,000
	11,500,000	200,000
In foreign currency		
Obligatory reserve at NBS	44,913,755	44,733,951
Revocable deposits and Obligatory reserve with the Central Bank of Montenegro and Bosnia and Herzegovina	2,624,815	3,507,056
	47,538,570	48,241,007
TOTAL	59,038,570	48,441,007

Komercijalna banka AD Beograd

The Bank calculates the obligatory reserve in foreign currency on the 17th day of the month based on the average balance of foreign currency deposits registered in the preceding calendar month. Obligatory reserve in foreign currency is allocated onto a special account held with the National Bank of Serbia and these assets may be drawn as necessary. The Bank is under obligation to maintain the average monthly balance of allocated foreign currency obligatory reserve in the amount of calculated foreign currency obligatory reserve, where, for the purposes of realizing average daily balance of allocated obligatory reserve, the daily balance on the account of required reserve may be below or above the calculated foreign currency obligatory reserve.

The obligatory reserve in foreign currency is non-interest bearing.

During 2011, based on the Decision on Obligatory Reserves of Banks with the National Bank of Serbia, the Bank allocated a certain portion of its foreign currency reserve in dinars at its gyro account and the amount of it is determined based on reference foreign currency obligatory reserve. Also, the Bank decreased foreign currency obligatory reserve in dinars by 25% of the increase in long-term housing loans insured with the National Mortgage Insurance Corporation.

Komercijalna banka AD Budva

The obligatory reserve with Central Bank of Montenegro represents reserve of funds calculated in accordance with the Decision on Obligatory Reserve for Banks to Be Held with the Central Bank of Montenegro.

According to the new Decision on Obligatory Reserve (which is applied from the first reporting period in October 2011), the obligatory reserve is calculated by applying the rate of 9.5% on the base consisting of demand deposits and deposits with maturity up to 1 year and by applying the rate of 8.5% on the base containing deposits with maturity over 1 year. The rate of 9.5% is also applied to deposits with maturity over 1 year which have option clause of termination of deposit within the period less than 365 days.

The amount of 50% of reserve can be used for maintaining daily liquidity of the Bank, which has not been used.

The amount of 25% of reserve can be held in form of treasury bills issued by Montenegro.

To the amount of 25% of allocated funds, the Central Bank of Montenegro pays interest at the rate of 1% per annum.

Komercijalna banka AD Banja Luka

The obligatory reserve with Central Bank of Bosnia and Herzegovina represents reserve of funds calculated in accordance with the Decision on Obligatory Reserve at Central Bank of Bosnia and Herzegovina. The obligatory reserve rate applied to deposits and borrowed funds with maturity less than 1 year was decreased from 14% to 10% from 1 August 2011, while the obligatory reserve rate applied to deposits and borrowed funds with maturity over one year remained at 7%.

From 1 August 2011, the method of calculation of interest paid to banks on funds held with Central Bank of Bosnia and Herzegovina was changed and interest rate applied to the amount of required obligatory reserve is calculated as 70% of the rate determined as the weighted average interest rates realised on deposits with maturity to one month by the Central Bank of Bosnia and Herzegovina, while interest rate applied on the funds above the required amount of obligatory reserve is calculates as 90% of the rate determined as the weighted average interest rates realised on deposits with maturity to one month by the Central Bank of Bosnia and Herzegovina.

Average annual interest rate for obligatory reserve was 0.58%.

The Bank did not use its obligatory reserves in 2011.

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

In thousands of RSD	31 December 2011	31 December 2010
Interest and fees receivables in dinars		
- interest	1,947,476	2,088,080
- fees	117,265	149,286
Receivables from sales in dinars	80	3.123
Other receivables in dinars - rent	354,738	347,154
Allowance for impairment in dinars	(1,360,913)	(1,447,748)
	1,058,646	1,139,895
Interest and fees receivables in foreign currency		
- interest	571,548	574,684
- fees	17,943	18,407
Receivables from sales in foreign currency	44,028	-
Other receivables	8,754	7,443
Allowance for impairment in foreign currency	(380,552)	(341,841)
	261,721	258,693
TOTAL	1,320,367	1,398,588

24. LOANS AND ADVANCES

In thousands of RSD	31 December 2011	31 December 2010
Loans in dinars		
Overdrfts	5,221,887	3,660,268
Consumer loans	4,630,134	5,361,637
Loans for operating assets	30,415,847	25,308,849
Export loans	9,514,560	8,124,450
Investment loans	33,597,472	26,715,739
Morgage loans	25,893,496	24,221,737
Other loans	32,526,702	36,004,472
Allowance for impairment in dinars	(7,912,752)	(7,739,283)
	133,887,346	121,657,869
Loans in foreign currency		
Payments for goods and services import	6,191,620	6,097,570
Property loans	2,426,473	2,346,458
Overnight loans	8,255,053	749,825
Other loans in foreign currency	21,451,236	21,365,113
Allowance for impairment in foreign currency	(3,253,615)	(3,201,430)
	35,070,767	27,357,536

Special purpose and other deposits in foreign currency		
Other deposits in foreign currency	636,301	14,408,593
Allowance for impairment foreign currency	(213,927)	(209,731)
	422,374	14,198,862
	169,380,487	163,214,267

During 2011, short-term loans in dinars and foreign currency were granted for the period from one month to one year at interest rates ranging from 0.17% to 1.80% per month.

Long-term loans in dinars and foreign currency were granted for a period of maximum 30 years at interest rates ranging from 3.00% to 22.50% per annum.

Risks and Uncertainties

The management of the Group members recorded provisions for all estimated risks as of the date of issuing the financial statements. The receivables from the Group's loan portfolio were classified based on the most recent available information on debtor's financial situation, and the expected course of their respective restructuring processes. In the event that such debt recovery efforts prove to be unsuccessful, the respective receivables are primarily collateralized by real estate, industrial land, buildings and equipment. In the case that the debt recovery actions undertaken by the Group's management are unsuccessful, additional amounts of allowances for impairment and provisions for contingent liabilities would be required in the forthcoming reporting periods.

25. SECURITIES (EXCLUDING OWN SHARES)

In thousands of RSD	31 December 2011	2010
In dinars		
Securities at fair value trough income statement		
- shares of banks in dinars	728	1,312
- shares of corporate entities in dinars	7,825	13,527
Securities available for sale		
- shares of banks in dinars	79	3,493
- corporate bonds (Tigar)	83,318	102,165
- Republic of Serbia commercial bills	16,895,150	17,927,384
Securities held to maturity		
- corporate bonds (B92)	78,476	110,773
- Republic of Serbia commercial bills	90,565	94,469
Allowance for Impairment on securities in dinars	(4,611)	(262)
	17,151,530	18,252,861
In foreign currency		
Securities at fair value trough income statement		
- Republic of Serbia bonds	145,246	109,105
Securities available for sale		
- Republic of Serbia bonds and commercial bills and Republic of Srpska commercial bills	9,644,515	-
Securities held to maturity		
- treasury bills of the Republic of Montenegro Government	209,282	84,399
	9,999,043	193,504
TOTAL	27,150,573	18,446,365

Trading securities

As at December 31, 2011, the market value of trading securities portfolio totalled RSD 153,799 thousand (December 31, 2010: RSD 123,944 thousand) out of which dinar denominated trading securities account for RSD 8,553 thousand and foreign currency denominated trading securities total RSD 145,246 thousand.

Individually, the biggest investments are: in Republic of Serbia bonds in the amount of RSD 145,246 thousand, and shares of corporate entities: Veterinarski zavod AD in the amount of RSD 1,846 thousand, Metalac AD in the amount of RSD 1,453 thousand, Galenika Fitofa AD in the amount of RSD 1,359 thousand, Messer Tehnogas AD in the amount of RSD 834 thousand, Sojaprotein AD in the amount of RSD 715 thousand and Energoprojekt holding AD in the amount of RSD 710 thousand.

Securities available for sale

As at December 31, 2011, investments in securities available for sale have the following structure:

in dinars:

Republic of Serbia commercial bills RSD 16,895,149 thousand, Tigar bonds RSD 83,318 thousand and Aik bank AD RSD 79 thousand.

in foreign currency:

Republic of Serbia commercial bills RSD 4,479,837 thousand, long term Republic of Serbia bonds RSD 4,899,000 thousand and Republic of Srpska commercial bills RSD 265,678 thousand.

Securities held to maturity

As at December 31, 2011, investments in securities held to maturity have the following structure:

Treasury bills of the Republic of Montenegro Government RSD 209,282 thousand, Republic of Serbia commercial bills RSD 90,565 and B92 corporate bonds RSD 78,476 thousand.

26. EQUITY INVESTMENTS

In thousands of RSD	31 December 2011	31 December 2010
Equity investments in banks and financial organizations	117,998	151,799
Equity investments in companies and other legal entities	405,008	439,262
Equity investments in foreign entities	189,938	125,874
Impairment	(370,189)	(371,757)
	342,755	345,178

Equity investments in banks and financial institutions relate to: Euroaxis bank, Moscow in the amount of RSD 78,387 thousand, AIK banka a.d., Niš in the amount of RSD 35,956 thousand, Jubmes banka a.d., Beograd in the amount of RSD 1,781 thousand and Union banka a.d., Beograd in the amount of RSD 1,874 thousand.

Equity investments in enterprises mainly refer to the following business entities: 14. oktobar a.d, Kruševac amounting to RSD 324,874 thousand, RTV Politika d.o.o., Beograd amounting to RSD 37,634 thousand, Dunav osiguranje a.d., Beograd amounting to RSD 25,578 thousand and Politika a.d.,Beograd amounting to RSD 8,631 thousand.

Equity investments in foreign entities refer to the company VISA Inc, USA totalling RSD 153,599 thousand, Master card, USA totalling RSD 36,279 thousand and Montenegroberza, Podgorica totalling RSD 60 thousand.

The allowance for impairment of other equity investments of RSD 370,189 thousand relates to the impairment of 100% of cost of these equity investments that do not have a market value out of which, an amount of RSD 324,874 thousand relates to 14. Oktobar a.d., Kruševac and an amount of RSD 37,634 thousand is associated with RTV Politika d.o.o., Beograd.

27. OTHER INVESTMENTS

In thousands of RSD	31 December 2011	2010
Other investments in dinars		
Bought placements - factoring	361,776	127,159
Investments on accepts, guarantees and paid guaranties	1,020,978	910,701
Other placements	455,849	815,751
Allowance for impairment in dinars	(745,367)	(777,647)
	1,093,236	1,075,964
Other investments in foreign currency		
Investments on accepts, guarantees and paid guaranties	263,290	563,473
Secured letters of credit and other pledges	598,528	541,599
Other placements in foreign currency	2,306,478	2,244,169
Allowance for impairment in foreign currency	(2,054,720)	(2,080,390)
	1,113,576	1,268,851
TOTAL	2,206,812	2,344,815

Placements in RSD mostly relate to par values of discounted bills of exchange in the amount of RSD 356,778 thousand, while other placements in foreign currency mostly relate to receivables from Jugobanka AD Beograd in bankruptcy in the amount of RSD 1,293,061 thousand, which are fully provisioned.

28. INTANGIBLE ASSETS

Intangible assets

In thousands of RSD	31 December 2011	2010
Licences and software	1,029,431	830,224
Intangible assets in progress	72.699	-
Accumulated amortisation	(496,636)	(305,287)
	605,494	524,937

Changes in intangible assets

In thousands of RSD

	Licenses and software	Advances for intangible assets	Other intangible assets in progress	TOTAL
Cost				
Balance as at 31 December 2010	830,224	-	-	830,224
Correction of opening balance – transfer to other receivables and fixed property	-	-	-	-
Modified opening balance	830,224	-	-	830,224
Purchases	18,666	-	255.438	274,104
Revaluation	-	-	-	-
Transfers from/to	182,739	-	(182,739)	-
Disposals	(1,194)	-	-	(1,194)
Foreign exchange differences	(1,004)		-	(1,004)
Balance as at 31 December 2011	1,029,431	-	72,699	1,102,130
Accumulated amortisation				
Balance as at 31 December 2010	305,287	-	-	305,287
Correction of opening balance – transfer to other receivables and fixed property	-	-	-	-
Modified opening balance	305,287	-	-	305,287
Amortisation for the period	192,129	-	-	192,129
Revaluation	-	-	-	-
Disposals	(836)	-	-	(836)
Foreign exchange differences	56		-	56
Balance as at 31 December 2011	496,636	-	-	496,636
Net carrying amount :				
31 December 2011	532,795	-	72,699	605,494
31 December 2010	524,937	-	-	524,937

29. FIXED ASSETS AND INVESTMENT PROPERTY

Changes in fixed assets and investment properties

In thousands of RSD

	Real Estate	Equipment	Investments in progress	Investment properties	TOTAL
Cost					
Balance as at 31 December 2010	5,734,741	2,759,666	72,868	1,328,148	9,895,423
Adjusted opening balance – leasehold improvements	-	-	-	-	-
Modified opening balance	5,734,741	2,759,666	72,868	1,328,148	9,895,423
Purchases	4,734	54,494	1,285,316	-	1,344,544
Revaluation	-	-	-	-	-
Transfers from/to	194,836	494,870	(1,313,195)	556,711	(66,778)
Disposals	(25,541)	(165,006)	-	-	(190,547)
Other	-	-	-	-	-
Foreign exchange differences	(1,825)	(3,296)	(184)	-	(5,305)
Balance as at 31 December 2011.	5,906,945	3,140,728	44,805	1,884,859	10,977,337
Accumulated depreciation					
Balance as at 31 December 2010.	784,627	1,794,416	-	130,525	2,709,568
Adjusted opening balance – leasehold improvements	-	-	-	-	-
Modified opening balance	784,627	1,794,416	-	130,525	2,709,568
Depreciation for the period	149,405	382,927	-	34,464	566,796
Revaluation	-	-		-	-
Disposals	(6,660)	(162,531)	-	-	(169,191)
Transfers from/to	14,195	-	-	(15,813)	(1,618)
Other	-	286	-	-	286
Foreign exchange differences	(145)	(564)	-		(709)
Balance as at 31 December 2011.	941,422	2,014,534	-	149,176	3,105,132
Net carrying amount:					
31 December 2011	4,965,523	1,126,194	44,805	1,735,683	7,872,205
31 December 2010	4,950,114	965,250	72,868	1,197,623	7,185,855

As of December 31, 2011, the Parent Bank stated investment property in the amount of RSD 1,735,683 thousand comprised of leased buildings.

On the base of concluded long-term lease contracts in 2011, the Parent Bank transferred two buildings (Beograd, Omladinskih brigada 19 i Niš, TPC Kalča) with the net carrying amount of RSD 700,886 thousand to investment property.

By activating in 2011 a portion of investment property in Makedonska 29 for own use, the Parent Bank transferred this property to own fixed assets (commercial property) in the total amount of RSD 144,175 thousand.

The net gain of these changes in the cost of investment properties amounts to RSD 556,711 thousand.

As at 31 December 2011, net gain on investment property amounts to RSD 60,447 thousand:

in thousands of RSD

Property	Area in m2	Total Expenses	Total Rental Income	Net Profit
Beograd, Makedonska 29	7,168.91	27,130	76,595	49,465
Kruševac, Balkanska 8	55.72	62	-	(62)
Niš, TPC Kalča	85.00	619	3,631	3,012
Beograd, Omladinskih brig. 19	15,218.00	11,571	19,603	8,032

During December 2011, the technical division of the Parent Bank carried out a valuation of investment properties, basing on carrying amounts reported in the books.

As at 31 December 2011, the fair value of investment property is valued in the amount of EUR 18,913,098.50 (RSD 1,979,084 thousand) which is 14% greater than present value and does not represent significant deviation from the carrying amount.

Estimated value of investment property:

Property	Area in m2	Present value in 000 RSD	Appraised value in EUR	Appraised value in 000 RSD	Change in value in 000 RSD
Beograd, Makedonska 29	7,168.91	1,044,554	11,111,810.50	1,162,750	118,196
Kruševac, Balkanska 8	55.72	2,305	22,288.00	2,332	27
Niš, TPC Kalča	85.00	36,915	170,000.00	17,789	(19,126)
Beograd, Omlad. brig. 19	15,218.00	651,909	7,609,000.00	796,213	144,304
TOTAL		1,735,683	18,913,098.50	1,979,084	243,401

The Group has not pledged as collateral any of its property as at 31 December 2011.

As a result of incomplete land register books, the Parent Bank's property stated in the amount of RSD 1,711,056 thousand has not been duly recorded in the land registry as at 31 December 2011. The Parent Bank's management is undertaking actions to obtain appropriate property registration documents.

As at 1 January 2005, the Parent Bank recognized revaluation effects (based on a valuation performed by an independent and certified appraiser) for property owned by the Parent Bank. In the future, revaluation model will be applied for measurement of property in cases when it is assessed that the value of real-estate property has significantly changed (above 15%).

Based on the opinion of the expert teams of the Group members, it has been determined that there is no need for independent property valuation for the year 2011.

The management of the Group believes that the net book value of property and equipment as at 31 December 2011 was stated at its market value.

Based on yearly stock count, the Group disposed and derecognized useless fixed assets (equipment) and software in the net book value of RSD 2,692 thousand.

TRANSLATION

30. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In thousands of RSD	31 December 2011	2010
Non-current assets held for sale	222,029	738,605
	222,029	738,605

Non-current assets held for sale - Komercijalna banka AD Beograd

The Bank is in the process of selling 11 properties deemed as unnecessary for further business.

The Bank's management intends to sell all assets that have not been sold in the past year.

Non-current assets held for sale: in thousands of RSD

Property	Area m2	Value
Braničevo, commercial property	21.08	410
Jasika, commercial property	-	768
Požarevac, M.Pijade 2, commercial property	790.82	33,389
Požarevac, M.Pijade 2, commercial property	880.86	27,346
Ražanj, garage	-	47
Beograd, Toše Jovanovića 7, commercial property	24.05	2,110
Vrbas, M. Tita 49, commercial property	145.56	5,275
Kruševac, Balkanska 8, commercial property	271.22	11,760
Varvarin, M. Marinovića, commercial property	207.00	8,144
Beograd, V. Stepe 110 -112, commercial property	88.44	7,260
Svrljig, ugao D. Trifunca i Hadžićeve, commercial property	128.00	4,531
TOTAL		101,040

Non-current assets held for sale - Komercijalna banka AD Banja Luka

The account of non-current assets held for sale amounting to RSD 120,988 thousand consist of:

- properties that are acquired in a court enforcement proceedings for collection of receivables from credit borrower "Prohema" doo Brcko, with the carrying amount of RSD 117,631 thousand (2,846 m² office space and land 7,114 m²) and
- equipment (machine) that was assigned by the credit borrower Šipad "10 Avgust" AD Vlasenica in the bankruptcy proceedings for the settlement of claims, the carrying amount of RSD 3,357 thousand.

31. DEFERRED TAX ASSETS

In thousands of RSD	31 December 2011	2010
Deferred tax assets	-	-

Deferred tax assets relate to loans for investments and temporary differences arising on long-term provisions in accordance with IAS 19.

In accordance with IAS 12 „Income tax", section 71, deferred tax assets and liabilities are presented in net amount (net tax liabilities, note 40.).

32. OTHER ASSETS

In thousands of RSD	December 31 2011.	2010.
Other receivables in dinars		
Receivables for advance payments for current assets	38,606	28,663
Receivables arising from advance payments for non-current investments	1,264	-
Receivables from employees	1,725	3,484
Receivables for prepaid taxes and contributions	5,516	6,627
Receivables for overpaid profit tax	25,038	25,543
Other receivables from operations	207,755	2,372,315
Temporary accounts	156,648	135,025
Receivables in settlement	1,518,535	1,233,118
Allowance for impairment	(40,864)	(29,897)
	1,914,223	3,774,878
Other receivables in foreign currency		
Receivables from employees	635	644
Other receivables from operations	110,765	105,585
Temporary accounts	26,693	1,379
Receivables in settlement	884,974	314,381
Allowance for impairment	(118,303)	(117,227)
	904,764	304,762
Prepayments in dinars		
Deferred receivables for accrued interest	286,056	173,855
Deferred receivables for other accrued income	52	72
Deferred expenses for liabilities carried at amortized cost using effective interest rate	82,002	20,527
Other deferred expenses	63,085	46,107
Other prepayments and deferred expenses	1,905	1,806
	433,100	242,367

Prepayments and deferred expenses in foreign currency		
Deferred receivables for accrued interest	53,187	91,753
Deferred expenses for liabilities carried at amortized cost using effective interest rate	1,692	1,917
Other deferred expenses	21,383	19,625
Other prepayments and deferred expenses	1,599	601
	77,861	113,896
Inventories		
Materials	18,480	17,799
Equipment and inventory	1,183	6,929
Assets acquired by a way of collecting receivables	1,952,255	1,858,048
Inventory in use	116,630	94,484
Impairment of assets acquired through collection of receivables	(7,742)	(4,812)
Accumulated depreciation of for inventory	(116,630)	(99,425)
	1,964,176	1,873,023
TOTAL	5,294,124	6,308,926

TRANSLATION

Assets acquired through collection of receivables – Komercijalna banka AD Beograd

Tangibles acquired through collection of receivables in the amount of RSD 998,442 (present value) thousand relate to:

Tangibles acquired in last 12 months.

Description	Area in m²	Value in 000 RSD	Date of acquisition
Buče forest, IV class	974.00	13,532	27/05/2011
Prijevor, forest, IV class	1,995.00	11,087	27/05/2011
Mur, Novi Pazar, forest and cultivated land	3,396.00	4,379	07/04/2011
Residential building, Galathea	925.00	423,845	21/11/2011
Total		452,843	

Tangibles acquired in prior periods

Description	Area in m²	Value in 000 RSD.	Date of acquisition
Business premises in Novi Pazar, Kej skopskih žrtava 44	82.95	4,343	27/09/2007
Gnjilica, 7th class agricultural land	2,638.00	216	11/06/2008
Hotel Prezident, Čačak, Bulevar oslobođenja no number	2,278.92	127,035	21/01/2009
Residential building, Čačak ul. Ratka Mitrovića 6	114.6	3,706	12/05/2009
Equipment, Valjevo (machines for cutting and tailoring fabrics)		1,205	07/09/2009
Dairy equipment, Novi Pazar		288	24/07/2008
Porch, VI classes	1 ha 24 acres	337	26/11/2010
Lisina, grass fields, VII and VIII classes cultivated land VIII class and a forest of IV class	29,783.00	1,604	21/12/2010
Tivat, Mrčevac – residential building, ancillary building, building under construction and a garage	277	5,512	23/12/2010
Buče forest, IV class	8,292.00	547	26/11/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.1	87	24,386	24/12/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.2	170	47,639	24/12/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.3	173	48,480	24/12/2010
NBGD, Milentija Popovića 5b, apartment I S2 no.5	171	47,919	24/12/2010
NBGD, Milentija Popovića 5b, apartment II S2 no.7	90	25,227	24/12/2010
NBGD, Milentija Popovića 5b, apartment II S2 no.9	175	49,040	24/12/2010
NBGD, Milentija Popovića 5b, apartment IV S1 no. 15	198	55,484	24/12/2010
NBGD, Milentija Popovića 5b, commercial property L4S2	153	55,880	24/12/2010
NBGD, Milentija Popovića 5b, commercial property L3S2	128	46,751	24/12/2010
Total		545,599	
TOTAL (present value)		998,442	

Tangibles acquired through collection of receivables within a year totalled RSD 452,843 thousand as of December 31, 2011 and referred to buildings and land (forest) securitizing the Bank's receivables from customers based on loans approved.

For the aforementioned properties, the Bank holds ownership titles that are not registered in the land registry. The Bank's management is undertaking actions to sell such property.

During 2011, the Bank sold 9 tangibles acquired through collection of receivables in the amount of RSD 442,877 thousand (cost of the sold tangibles amount to RSD 435,964 thousand)

The Bank sold 2 tangibles received through collection of receivables in the amount of RSD 85,260 thousand during February 2012 (cost of the sold tangibles amount to RSD 80,710 thousand)

In accordance with NBS regulations for Tangibles acquired through collection of receivables the Bank is under obligation to dispose of them or to deploy them for its own use within twelve months of the date of acquisition. In the event that the prescribed deadline is exceeded the Bank must make a provision of 100%.

Based on the fair value assessment of tangibles acquired through collection of receivables during 2010, their value was decreased by RSD 4,812 thousand.

Based on the fair value assessment of tangibles acquired through collection of receivables during 2011, their value did not decrease.

Assets acquired through collection of receivables – Komercijalna banka AD Budva

Tangibles acquired in last 12 months.

Description	Area in m²	Value in 000 RSD	Date of acquisition
Hunters house - residential building (228 m²) and land (1,364 m²)	1,592	9,034	31/10/2011
Nikaljević Predrag – land	3,632	4,886	30/11/2011
Sambba Tours Doo –building and hotel (661m²) and land (264m²)	925	67,353	31/12/2011
Total		81,273	

Tangibles acquired in the process of debt collection in the prior periods

Description	Area in m²	Value in 000 RSD	Date of acquisition
Danilovgrad- buildings 402 m2 and land	13,099	3.160	09/10/2007
Podgorica- commercial property 995 m2 and land	170	118.366	31/12/2008
Sutomore- residential building	1,158	88.866	31/01/2009
Kotor Pobrđe - land	30,975	60.877	28/02/2009
Budva- land	709	23.671	31/03/2009
Kovači i Lastva- land	3,720	29.483	30/06/2009
Reževići- residential building 139 m2	139	35.005	30/06/2009
Podgorica - land	375	14,672	31/08/2009
Podgorica- buildings 1,291 m2 and land	11,651	20,039	31/10/2009
Ćurilac- buildings 1,127 m2 and land	17,376	27,258	30/11/2009
Dajbabe – commercial property 3,155 m2 and land	8,879	88,304	28/12/2009
Sutomore – land	432	29,558	03/12/2009
Tološi- residential buildings 760 m2 and land	195	54,152	07/12/2009
Petrovac- residential buildings 401 m2 and land	811	62,941	17/12/2009
Reževići- land	547	29,449	17/12/2009
Podgorica- commercial property	594	136,589	27/01/2010
Cetinje-garage 30 m2 and land	374	1,324	25/05/2010
Tološi- residential building	61	27,615	31/07/2010
Vranovići- land	3,131	2,467	01/08/2010
Budva- residential building	50	11,002	17/08/2010
Total		864,798	
TOTAL (present value)		946,071	

The Decision of the Central Bank of Montenegro on Minimum Criteria for Banks' Investments in Property and Fixed Assets prescribes that the amount of investments in property and fixed Assets exceeding 40% of the bank's own assets are treated as a deductible in calculating total own funds of the bank. Investments in property do not include assets acquired in lieu of debt settlement in the process of debt restructuring, in bankruptcy procedures, liquidation process nor in the process of debtor’s reorganization in accordance with bankruptcy legislation or in the foreclosure process performed in place of receivable collection, within 3 years from the property acquisition.

Based on the assessment of the market value of tangibles acquired through collection of receivables as of December 31, 2011, the value of one tangible was impaired in the amount of RSD 2,930 thousand.

33. TRANSACTION DEPOSITS

In thousands of RSD	31 December 2011	2010
in dinars		
- sector of finances and insurance	687,409	1,780,108
- public companies	1,715,030	2,733,929
- enterprises	8,531,260	7,424,469
- entrepreneurs	1,778,231	1,624,141
- public sector	38,392	57,742
- retail sector	5,183,533	4,162,166
- foreign entities	644,129	160,937
- registered agricultural producers	1,056,626	474,888
- other customers	1,374,545	1,371,300
	21,009,155	19,789,680
In foreign currency		
- sector of finances and insurance	1,162,172	1,992,215
- public companies	710,710	312,071
- enterprises	7,300,892	7,226,971
- entrepreneurs	200,538	203,800
- public sector	1,810,304	446,350
- retail sector	3,202,436	2,818,127
- foreign entities	1,140,054	1,181,048
- registered agricultural producers	2,443	-
- other customers	306,203	345,490
	15,835,752	14,526,072
	36,844,907	34,315,752

Demand deposits in dinars mostly represent balances of transaction deposits of enterprises and other legal entities. Based on the Parent Bank's Decision on Interest Rates for the year 2011, these deposits are interest-bearing. Depending on the level of average monthly balance on transaction accounts of customers, interest rate ranges from 0.5% to 2% per annum.

Demand deposits of enterprises and non-residents denominated in foreign currency are non-interest bearing at Parent Bank except for specific business arrangements. At Komercijlana banka AD Budva, aforementioned deposits are non-interest-bearing. On the other hand, at Komercijalna banka AD Banja Luka, aforementioned deposits are interest-bearing with interest rate varying from 0% to 4% per annum.

Dinar a vista savings deposits placed by retail customers were deposited at an interest rate of 0.15% per annum. Foreign currency a vista savings deposits of retail customers were deposited at an interest rate from 0.15% up to 0.25% per annum for EUR and for other currencies at 0.1% per annum.

34. OTHER DEPOSITS

In thousands of RSD	31 December 2011	2010
Deposits in dinars		
Savings deposits	1,856,593	1,178,300
Deposits as guaranties for loans	415,857	371,298
Deposits with defined purpose	610,292	847,464
Other deposits		
- sector of finances and insurance	3,309,558	1,021,082
- public companies	1,415,659	1,590,304
- enterprises	18,093,217	17,658,194
- entrepreneurs	36,621	26,500
- public sector	208,521	49,390
- retail sector	12,078	6,246
- foreign entities	1,000	1,000
- other customers	3,798,044	5,514,148
	29,757,440	28,263,926
Deposits in foreign currency		
Callable deposits	48,152	355,429
Savings deposits	131,593,488	122,155,201
Deposits as guaranties for loans	2,782,834	2,976,967
Deposits with defined purpose	1,428,795	2,114,505
Other deposits		
- sector of finances and insurance	6,302,344	8,117,481
- public companies	3,970,754	5,276,642
- enterprises	4,979,721	5,474,465
- entrepreneurs	27,579	9,557
- public sector	141,503	1,252,639
- retail sector	403,701	341,788
- foreign entities	11,159	33,455
- other customers	1,630,539	1,939,566
	153,320,569	150,047,695
TOTAL	183,078,009	178,311,621

Corporate deposits

In 2011 short-term deposits of companies in dinars are deposited with interest rates ranging from: key policy interest rate minus 2.75 p.p. to key policy interest rate minus 0.5 p.p. per annum, depending on the maturity date.

Foreign currency short-term deposits of enterprises are deposited at interest rates ranging from 0.25% to 6% per annum.

Long-term deposits of enterprises in dinars are deposited at interest rates ranging from key policy interest rate per annum, and deposits in foreign currency are deposited at interest rates ranging from 2.20%-4.5% per annum.

Short-term deposits of enterprises indexed in EUR are deposited at interest rates ranging from 1.5%-3.5% per annum.

Long-term deposits of enterprises indexed in EUR, are deposited at interest rates of 3.5% per annum.

Foreign currency long-term deposits of enterprises are deposited at interest rates ranging from 3.8% to 6.2% per annum.

Retail deposits

Short-term retail deposits in dinars are deposited at interest rates ranging from 7% to 10% per annum, and in foreign currency from 0.1% to 5.3% per annum.

Long-term retail deposits in dinars are deposited at interest rates ranging from 10.5% to 11.0% per annum, and in foreign currency from 0.4% to 6.3% per annum.

35. BORROWINGS

	31 December	
In thousands of RSD	2011	2010
Borrowings in dinars		
Overnight loans	301,368	13,680
Borrowings	1,092	2,183
Other financial liabilities	10,214	4,200
	312,674	20,063
Borrowings in foreign currency		
Borrowings	651,047	432,139
Other financial liabilities in foreign currency	1,291,956	904,930
	1,943,003	1.337.069
TOTAL	2,255,677	1,357,132

36. INTEREST, FEES AND COMMISSIONS PAYABLE AND CHANGE IN FAIR VALUE OF DERIVATIVES

	31 December	
In thousands of RSD	2011	2010
Interest and fees in dinars		
Interest liabilities	184,668	174,978
Fee and commission liabilities	6,691	7,160
Liabilities of change in fair value of derivatives	634	-
	191,993	182,138
Interest, fees and commissions payable and change in fair value of derivatives in foreign currency		
Interest liabilities	14,908	24,820
Liabilities of change in fair value of derivatives	-	45,549
	14,908	70,369
TOTAL	206,901	252,507

37. PROVISIONS

In thousands of RSD	31 December 2011	2010
Provision for litigation	1,357,599	243,662
Provisions for employee benefits (IAS 19)	311,241	262,086
Provision for contingent liabilities (off-balance sheet assets)	519,253	414,031
TOTAL	2,188,093	919,779

Changes in provision

In thousands of RSD	31 December 2011	2010
Provision for litigation		
Opening balance	243,662	255,215
Provisions	(10,900)	-
Cancellation of provisions	1,124,837	(11,553)
Closing balance	1,357,599	243,662
Provision for severance pay and unused vacations		
Opening balance	262,086	253,290
Cancellation of provisions	49,155	8,796
Closing balance	311,241	262,086
Provision for contingent liabilities		
Opening balance	414,031	448,303
Cancellation of provisions	105,222	(34,272)
Closing balance	519,253	414,031

Based on the claim filed by the company Takovo with the Supreme Cassation Court, the Parent Bank made additional provisions in the amount of RSD 1,124,857 thousand, which was collected in cash based on the previous binding court decision (Note 48.b.).

38. TAX LIABILITIES

In thousands of RSD	31 December 2011	2010
VAT liabilities	16,549	6,845
Liabilities for other taxes and contributions	28,472	9,620
	45,021	16,465

39. LIABILITIES RELATED TO PROFIT

In thousands of RSD	31 December 2011	2010
Liabilities related to profit	15,067	16,535
Liabilities for income tax	169,373	64,372
	184,440	80,907

40. DEFERRED TAX LIABILITIES

In thousands of RSD	31 December 2011	2010
Deferred tax assets	(31,789)	-
Deferred tax liabilities	49,150	5,787
	17,361	5,787

41. OTHER LIABILITIES

In thousands of RSD	31 December 2011	2010
Other liabilities in dinars		
Trade payables	226,881	157,333
Received advances	373,166	538,376
Financial lease liabilities	-	2,155
Other liabilities from operations	144,717	864,084
Liabilities in settlement	155,406	60,817
Temporary accounts	(139,086)	(97,810)
	761,084	1,524,955
Liabilities for net salaries	26,741	-
Liabilities for taxes on salaries and fringe benefits	4,437	-
Liabilities for contributions on salaries and fringe benefits	5,821	1
Liabilities for temporary service contracts	43	101
Other liabilities to employees	7,135	5,224
	44,177	5,326
Accrued interest liabilities	46,469	40,834
Accrued liabilities for other accounted expenditures	14,825	11,317
Deferred interest income	144,227	97,627
Deferred income stated at depreciation value using effective interest rate	728,255	731,564
Other deferred income	94,720	101,222
Other accruals	520,125	697,499
	1,548,621	1,680,063

Other liabilities in foreign currency

Trade payables	36,086	27,746
Received advances	24,724	23,749
Liabilities on behalf of third parties - credit lines	10,204,893	7,716,561
Other liabilities	109	103
Liabilities in settlement	999,123	537,331
Temporary accounts	14,878	47,911
	11,279,813	8,353,401
Subordinated liabilities in foreign currency	5,232,045	-
	5,232,045	-
Accrued interest liabilities	2,652,865	2,267,791
Other accrued liabilities	116,706	123,472
Accrued interest income in foreign currency	2,817	-
Accrued income for receivables disposed at amortized value	40,420	42,422
Other accrued income	46,474	51,986
Other accruals	89,645	158,483
	2,948,927	2,644,154
TOTAL	21,814,667	14,207,899

Liabilities on the basis of received advances in dinars mostly relate to advances received from the Development Fund for subsidizing interest rates for loans to individuals, legal entities and entrepreneurs in the amount of RSD 218,377 thousand, advances received from the Ministry of Agriculture, Forestry and Water Management in the amount of RSD 22 thousand and advances received from the Ministry of Environment, Mining and Spatial Planning for subsidizing interest rates for loans for residential construction in the amount of RSD 152,605 thousand.

Within the accrued interest income in dinars, an amount of RSD 60,380 thousand represent a pre-charged interest rate subsidized by Ministry of Economy and Regional Development for housing loans that are insured by the National Mortgage Insurance Corporation.

Foreign currency liabilities on behalf of third parties mostly relate to following credit lines:

- Loan from European Investment Bank, granted to Republic of Serbia for financing SME projects, as well as for financing infrastructural projects of small and medium municipalities, in the amount of RSD 2,591,542 thousand.
- Loan from the Government of Republic of Italy, granted to Republic of Serbia for financing SME project in the amount of RSD 1,273,033 thousand.
- Loan from European Agency for Reconstruction, granted to Republic of Serbia in the amount of RSD 89,562 thousand.
- Loan from EFSE (European Fund for Southeast Europe) in the amount of RSD 3,886,662 thousand, based on credit line granted in approximate amount of EUR 37.17 million.
- Loan from EBRD in the amount of RSD 1,718,242 thousand, based on credit line granted in approximate amount of CHF 20 million.

- Loan from Italian and German banks for financing imported goods in total amount of RSD 10,398 thousand.
- Loan from European Investment Bank granted to Republic of Montenegro for investment projects financing in the amount RSD 627,845 thousand

In accordance with the newly issued NBS regulation of capital requirements and the implementation of Basel II, the Parent Bank strengthened its equity base by taking a subordinated loan from IFC.

Subordinated loan in the amount of RSD 5,232,045 thousand is primarily intended for:

- strengthening additional capital – regulatory requirement and a positive impact on the capital structure
- improving the profitability and credit activity and prices, and
- optimization of the liabilities and maturity – ensuring adequate long-term sources and reducing liquidity risk.

42. SHARE CAPITAL

	31 December	
In thousands of RSD	2011	2010
Share capital	13,881,064	13,881,064
Share premium	14,581,543	14,581,543
	28,462,607	28,462,607

Komercijalna banka AD Beograd

The Parent Bank's share capital is formed from initial shareholder contributions and subsequent issues of new shares. Shareholders hold the rights to manage the Bank, as well as to participate in profit distribution.

Based on the Decision by the Securities Commission dated 17 March 2011 the Bank converted shares with nominal value of 10,000.00 dinars into shares with a nominal value of 1,000.00 dinars.

The share conversion was carried out for the purpose of increasing liquidity of securities, as well as for making them more accessible to a greater number of small investors.

After conversion share capital consists of 13,881,010 shares with nominal value per share of RSD 1 thousand and with following breakdown:

- 8,709,310 ordinary shares

- 4,798,190 convertible priority shares and

- 373,510 priority shares.

The structure of the Bank's shareholders, according to their common shares, at December 31, 2011 was the following:

Shareholders	Common share number	% interest
Republic of Serbia	3,709,890	42.60
EBRD, LONDON	2,177,730	25.00
ARTIO INT. EQUITY FUND, New York	415,050	4.77
Jugobanka a.d. Beograd in bankruptcy	321,600	3.69
Evropa osiguranje AD Beograd in bankruptcy	249,420	2.86
INVEJ DOO, Beograd	230,000	2.64
Kompanija Dunav, Beograd	171,380	1.97
Other	1,434,240	16.47
	8,709,310	100.00

The structure of the Bank's shareholders, according to their convertible priority shares, at December 31, 2011 was the following:

Shareholders	Common share number	% interest
EBRD London	1,932,110	40.27
IFC CAPITALIZATION FUND LP	1,706,810	35,57
DEG-DEUTSCHE INVESTITIONS	772,850	16,11
SWEDFUND INTERNATIONAL AKTIEBO	386,420	8,05
	4,798,190	100,00

The structure of the Bank's shareholders, according to their priority shares, at December 31, 2011 was the following:

Shareholders	Common share number	% interest
Jugobanka in bankruptcy	1,809	4.84
Pavlović Jovica	85,140	22.80
Other shareholders	286,561	72.36
	373,510	100.00

During 2011 preferential dividends for earlier period were paid out in the amount of RSD 37,380 thousand.

The basic earnings per share:

- RSD 399 or 39.9 % for a common share par value in 2011,

- RSD 285 or 28.5% for a common share par value in 2010.

Diluted earnings per share:

- RSD 257 or 25.7% for a common share par value in 2011,

- RSD187 or 18.74 % for a common share par value in 2010.

43. RESERVES FROM PROFIT

In thousand of RSD	31. December 2011.	2010.
Reserves from profit	-	201,463
Other reserves	199,825	36,351
Special reserve from profit for estimated losses	12,023,542	9,591,293
Reserves for common banking risks	38,248	39,110
	12,261,615	9,868,217

In thousands of RSD	31. December 2011.	2010.
Movements in reserves from profit		
Opening balance	9,868,217	7,824,358
Additions:		
- from distribution of profit	2,427,413	1,999,873
- IFRS 39 and IFRS 37 and NBS regulations effects	(28,873)	(12,641)
F/X gain/loss	(5,142)	56,627
Closing balance	12,261,615	9,868,217

44. REVALUATION RESERVES

In thousands of RSD	31 December 2011	2010
Revaluation reserves on change in value of properties	498,980	514,031
Revaluation reserves on change in value of securities	190,640	148,977
	689,620	663,008

In thousands of RSD	31 December 2011	2010
Movements in revaluation reserves		
Opening balance	663,008	717,441
Increase/decrease during the year	26,612	(54,433)
Closing balance	689,620	663,008

Revaluation reserves relate to gains arising on increase in value of property based on the appraisal made by an independent appraiser and gains on securities available for sale.

45. UNREALIZED LOSSES ON SECURITIES AVAILABLE FOR SALE

In thousands of RSD	31 December 2011	2010
Unrealized losses based on securities available for sale	(63,940)	(15,882)
	(63,940)	(15,882)

46. PROFIT

In thousands of RSD	31 December 2011	2010
Retained earnings		
Retained earnings from previous years	295,200	79,447
Current year retained earnings	3,535,388	2,888,079
	3,830,588	2,967,526
Net profit for the year		
- net profit from business activities	3,987,990	3,171,743
- tax expense of period and tax effects	(452,602)	(283,664)
	3,535,388	2,888,079

In accordance with NBS regulations gains on the disposal of revalued fixed assets in 2011 were recognized as Parent Bank's retained earnings of previous years in the total amount of RSD 10,038 thousand.

In 2011, based on the Assembly's decision of Komercijalna banka AD Beograd the distribution of stated cumulative retained earnings was executed as follows:

- dividends for priority shares for 2010.	37,575	In thousands of RSD
- Bank's reserves	2,400,000	"
- bonuses from profit for management and other Bank employees	250,000	"

In 2011, based on the Decision of the Shareholders' Assembly of Komercijalna banka AD Banja Luka, undistributed profit in the amount of RSD 27,413 thousand were allocated into the Bank's reserves.

In 2011, there was no undistributed profit allocation in Komercijalna banka AD Budva.

47. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

In thousands of RSD	31 December 2011	2010
Funds managed on behalf of third parties	4,367,427	4,264,921

Funds managed on behalf of third parties primarily relate to funds from commission loans of the Republic of Serbia, the City of Belgrade and funds received from foreign donors for micro loans.

48. CONTINGENT LIABILITIES

a) Guarantees and other sureties, sureties for liabilities, assets given as collateral, irrevocable and other contingent liabilities

In thousands of RSD	31 December 2011	2010
In dinars		
Guarantees and other sureties	10,529,088	9,572,430
Property pledged for liabilities	5,000,000	-
Irrevocable contingent liabilities for unused loans and deposits	7.033.612	5,121,319
Other irrevocable contingent liabilities	8,523,875	7,154,095
total in dinars	31,086,575	21,847,844
In foreign currency		
Guarantees and other sureties	6,056,290	6,200,744
Irrevocable contingent liabilities for unused loans and deposits	1,138,151	658,700
Other irrevocable contingent liabilities	219,485	83,262
total in foreign currency	7,413,926	6,942,706
TOTAL	38,500,501	28,790,550

For mentioned guarantees and contingent liabilities the Group made provision against potential losses in accordance with IAS 37 (Note 37.) in the amount of:

In thousands of RSD

- Parent Bank	502,017
- KB Budva	14,631
- KB Banja Luka	2,605

There were no liabilities arising on foreign currency term transactions as at 31 December 2011 and 31 December 2010.

b) Litigations

Komercijalna banka AD Beograd

As of December 31, 2011, contingent liabilities for litigations against the Bank amount to RSD 1,444,490 thousand (number of cases 83). Management of the Bank does not expect materially significant losses in the near future arising from these litigations. Based on a single litigation in 2011 involving the company Takovo an additional provision was made in the amount of RSD 1,124,857 thousand. For this litigation the Bank received a court ruling and realised collection in this respect, but after the appeal filed by the company Takovo, the decision of the Supreme Cassation Court is awaited. The Bank made total provisions for litigations and claims in the amount of RSD 1,357,278 thousand.

Besides this, the Bank is involved in litigations and claims against third parties with the most significant amount being RSD 13,905,652 thousand (number of cases 174 – with most significant individual values). Management of the Bank expects positive outcomes for the majority of cases.

Komercijalna banka AD Budva

As of December 31, 2011, contingent liabilities for litigations against the Bank amount to RSD 2,721 thousand (number of cases 6). The Bank does not expect materially significant losses in the near future arising from these litigations. The management of the Bank estimated that there were no grounds for the establishment of provisions for litigations and claims.

Besides this, the Bank is involved in 136 court cases against third parties, for the loan collection, in the amount of RSD 495,025 thousand. The Bank management expects positive outcomes for the majority of cases.

Komercijalna banka AD Banja Luka

As of December 31, 2011, contingent liabilities for litigations against the Bank amount to RSD 12,882 thousand (number of cases 8). Bank management does not expect materially significant losses in the near future arising from these court cases. The Bank made provisions for litigations and claims in the amount of RSD 321 thousand.

Besides this, the Bank is involved in 143 court cases against third parties, for the loan collection, in the amount of RSD 217,554 thousand. The Bank management expects positive outcomes for the majority of cases.

49. DERIVATIVES

In thousands of RSD	31 December 2011	2010
Receivables from derivatives	261,602	1,054,982
	261,602	1,054,982

As of December 31, 2011 the Parent Bank has agreed swap transactions with Bank UBS AG Zurich in the amount of EUR 2.5 million.

50. OTHER OFF-BALANCE SHEET ITEMS

In thousands of RSD	31 December 2011	2010
Receivables for suspended interest		
- in dinars	796,922	657,675
- in foreign currency	580,505	261,424
Other off-balance sheet items	142,489,230	111,809,464
	143,866,657	112,728,563

During the 2011, the Group had a net increase of suspended interest in the amount of RSD 458,328 thousand, which consist of:

a) increase of RSD 677,052 thousand has following structure :
   - newly suspended interest in the amount of RSD 230,919 thousand;
   - resuming the accrual of interest previously suspended in the amount of RSD 446,132 thousand

b) decrease of RSD 218,724 thousand has following structure:
   - write-off in the amount of RSD 58,617 thousand,
   - collection in the amount of RSD 159,840 thousand,
   - exchange rate differences in the amount of RSD 267 thousand.

Other off-balance sheet items also include custody operations for the Group's clients, repo placements in Government securities and Republic of Serbia bonds. With respect to these items the Group is not exposed to credit risk.

51. CAPITAL ADEQUACY AND COMPLIANCE WITH STATUTORY REGULATIONS

Capital adequacy

The capital adequacy ratio of the Group, according to the methodology of the National Bank of Serbia, as at December 31, 2011 totalled 18.27%.

The Group is bound to reconcile the scope of its business operations with the Law on Banks. As of December 31, 2011, all ratios were reconciled with the prescribed ratios.

The Parent Bank is required to maintain a minimum capital adequacy ratio of 12%, as established by the National Bank of Serbia and in accordance with the Basel Convention. As at December 31, 2011, The Parent bank's capital adequacy ratio, calculated on the basis of financial statements drawn up by the management of the Bank, is 17.25% applying well-known decisions of the National Bank of Serbia in 2011.

The Parent Bank is also required to maintain certain ratios pertaining to the volume of its activities and composition of risk assets in compliance with the Law on Banks and with National Bank of Serbia requirements. As at 31 December 2011 and as at 31 December 2010 all ratios pertaining to the volume of its activities and composition of risk assets were within their prescribed limits.

Komercijalna banka AD Budva is bound to maintain a minimum capital solvency ratio of 10% as determined by the Central Bank of Montenegro. The solvency ratio as of December 31, 2011, calculated as the portion of the amount of risk-weighted capital and total risk-weighted assets, totalled 43.29% according to the methodology prescribed by the Central Bank of Montenegro.

Komercijalna banka AD Banja Luka is obliged to maintain a minimum capital adequacy ratio of 12% as determined by the the Republic of Srpska Banking Agency. As at December 31, 2011, the capital adequacy ratio totalled 30.7%.

TRANSLATION

52. RELATED PARTY TRANSACTIONS

Gross and net remunerations to the Management of the Group and to the members of the Board of Directors, Supervisory Board and Audit Committee in 2011 and 2010 were as follows:

In thousands of RSD	31 December 2011	2010
Gross remunerations		
Management	108,834	121,632
Net remunerations		
Management	82,927	95,786
Gross remunerations		
Board of Directors, Supervisory Board and Audit Committee	44,983	29,919
Net remunerations		
Board of Directors, Supervisory Board and Audit Committee	27,354	23,409

53. SEGMENT REPORT

A. BALANCE SHEET as at 31 December 2011 — In thousands of RSD

	Komercijalna banka AD Beograd	Komercijalna banka AD Budva	Komercijalna banka AD Banja Luka	KomBank INVEST AD Beograd	TOTAL
ASSETS					
Cash and cash equivalents	17,224,994	1,565,664	455,024	-	19,245,682
Revocable deposits and loans	55,260,711	359,701	3,418,158	-	59,038,570
Interest, fees and commission receivables, change in fair value of derivatives and other receivables	1,187,573	53,988	78,672	134	1,320,367
Loans and advances	155,719,207	5,615,791	8,045,489	-	169,380,487
Securities (excluding own shares)	25,637,972	627,845	790,794	93,962	27,150,573
Equity investments	342,695	60	-	-	342,755
Other investments	2,187,533	14,276	1,980	3,023	2,206,812
Intangible assets	555,415	14,911	33,418	1,750	605,494
Fixed assets and investment property	7,530,271	232,372	109,517	45	7,872,205
Non-current asset held for sale and discontinued operations	101,040	-	120,989	-	222,029
Other assets	4,256,437	972,045	65,374	268	5,294,124
Loss over capital	-	-	-	-	-
Equity investments in related parties (capital method)	-	-	-	-	-
Total assets	270,003,848	9,456,653	13,119,415	99,182	292,679,098
LIABILITIES AND EQUITY					
Transaction deposits	31,267,674	1,451,004	4,126,229	-	36,844,907
Other deposits	174,650,040	3,481,909	4,946,060	-	183,078,009
Borrowings	1,603,761	146,607	505,309	-	2,255,677
Interest, fees and commissions payable and change in fair value of	205,036	426	1,439	-	206,901

derivatives					
Provisions	2,135,436	35,943	16,363	351	2,188,093
Tax liabilities	39,737	4,510	752	22	45,021
Liabilities related to profit	172,197	7,744	4,499	-	184,440
Deferred tax liabilities	17,036	254	-	71	17,361
Other liabilities	20,916,626	757,546	139,527	968	21,814,667
Total liabilities	231,007,543	5,885,943	9,740,178	1,412	246,635,076
EQUITY					
Equity	28,462,553	-	54	-	28,462,607
Reserves from profit	11,635,440	525,006	101,169	-	12,261,615
Revaluation reserves	689,620	-	-	-	689,620
Unrealized losses on securities available for sale	63,940	-	-	-	63,940
Profit	3,412,639	374,510	68,991	13	3,830,588
Loss up to the level of capital	-	-	-	25,565	-
Cumulative gains on foreign operations translation	873,678	-	31	41	863,532
Cumulative losses on foreign operations translation	-	10,218	-	-	-
TOTAL EQUITY	45,009,990	889,298	170,245	(25,511)	46,044,022
TOTAL EQUITY AND LIABILITIES	276,017,533	6,775,241	9,910,423	(24,099)	292,679,098
Minority interests	-	-	56	-	56
OFF-BALANCE SHEET ITEMS	182,687,576	1,164,538	3,144,073	-	186,996,187
Funds managed on behalf of third parties	4,332,764	34,663	-	-	4,367,427
Contingent liabilities	35,378,521	768,718	2,353,262	-	38,500,501
Derivatives	261,602	-	-	-	261,602
Other off-balance sheet items	142,714,689	361,157	790,811	-	143,866,657

B. INCOME STATEMENT

For the year ending at 31 December 2011

In thousands of RSD

	Komercijalna banka AD Beograd	Komercijalna banka AD Budva	Komercijalna banka AD Banja Luka	KomBank INVEST AD Beograd	TOTAL
Interest income	18,034,988	638,512	686,851	11,498	19,371,849
Interest expense	8,139,305	115,365	186,270	-	8,440,940
Net interest income	9,895,683	523,147	500,581	11,498	10,930,909
Fee and commission income	5,050,287	132,345	156,912	2,831	5,342,375
Fee and commission expense	627,418	16,823	28,151	1,263	673,655
Net fee and commission income	4,422,869	115,522	128,761	1,568	4,668,720
Net gains on sale of securities at fair value through income statement	-	-	-	1	-
Net losses on sale of securities at fair value through income statement	19,110	-	-	-	19,109
Net gains on sale of securities available for sale	1,254	-	-	-	1,254

TRANSLATION

Net gains on sale of other investments	-	-	-	1,812	1,812
Foreign exchange gains	-	5,311	4,113	261	-
Foreign exchange losses	157,065	-	-	-	147,380
Dividend and equity investment income	7,997	-	-	-	7,997
Other operating income	191,207	2,484	2,246	51	195,988
Net loss on impairment and other provisions	1,335,461	111,315	41,498	25	1,488,299
Payroll expenses, fees and other personal expenses	3,925,085	189,769	244,758	10,990	4,370,602
Depreciation expense	672,099	33,147	52,496	1,183	758,925
Other operating expenses	4,420,906	223,366	260,879	4,976	4,910,127
Gains on valuation of assets and liabilities	13,180,925	-	-	918	13,181,84 3
Losses on valuation of assets and liabilities	13,305,595	-	-	496	13,306,09 1
Operating profit	3,864,614	88,867	36,070	-	3,987,990
Operating loss	-	-	-	1,561	-
Income tax	426,027	7,744	6,385	195	440,351
Gains on increase in deferred tax assets and decrease in deferred tax liabilities	11,578	113	-	-	11,691
Losses on decrease in deferred tax assets and increase in deferred tax liabilities	23,937	-	-	5	23,942
PROFIT	3,426,228	81,236	29,685	-	3,535,388
LOSS	-	-	-	1,761	-
Minority interests	-	-	1	-	1

54. CONSOLIDATED POSITIONS OF RELATED PARTIES

Balance sheet

In thousand of RSD

Aggregate unconsolidated balance sheet	Balance sheet consolidation amount	Consolidated balance sheet
298,369,578	5,690,480	292,679,098
cash / liabilities	193,774	
loans and advances / liabilities	15,818	
stakes / equity	5,480,888	

Income statement

In thousand of RSD

Aggregate unconsolidated profit in Income statement (before tax)	Income statement consolidation amount		Consolidated profit (before tax)
	Income	Expenses	
4,107,082	165,859	46,767	3,987,990
interest	44,981	44,981	
fees and commissions	1,786	1,786	
foreign exchange differences	119,092		

55. SUBSEQUENT EVENTS

Unreconciled account balances

Based on the analysis of the regular annual balance reconciliation performed on 31 December 2011, it has been determined that the Group has unreconciled account balances in the amount of RSD 2,377 thousand. Unreconciled account balances for 15 customers in most cases relate to customers that dispute either the amount or calculation method of interest and fees and commissions.

Unpaid preferred dividends

Unpaid preferred dividends of the Parent Bank to be paid in 2012 amounted to:

- for the year 2011 - RSD 40,264 thousand (10.78 % to par value of preferred shares).

56. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of balance sheet items denominated in foreign currencies as of December 31, 2011 and 2010, were as follows:

	Official exchange rate of NBS		Average exchange rate of NBS	
	2011	2010	2011	2010
USD	80.8662	79.2802		
EUR	104.6409	105.4982	101.9653	102.8993
CHF	85.9121	84.4458		
BAM	53.5020	53.9404	52.1340	52.6116

57. RISK MANAGEMENT

The banking Group has recognized that the process of risk management is a key element of business management, because exposure to risks is associated with all business activities, as an integral part of banking operations, which are managed through the identification, measurement, mitigation, monitoring, control, setting of risk limits, and reporting in accordance with strategies and policies.

Establishing a comprehensive and reliable system of risk management at banking Group level that includes: risk management strategies, policies and procedures, appropriate organizational structure, effective and efficient process of managing the risks the Group is exposed to, an adequate system of internal controls, an adequate information system and appropriate process of internal assessment of capital adequacy.

Risk profile for risk-taking by the banking Group is defined on the basis of capacity to cover the risk that the Bank is or may be exposed to. Risk-taking is core to the banking business and has great importance for the continuing profitability of the entire banking Group.

Adhering to Risk management strategy and Capital management strategy the banking Group has set the following objectives within the system of risk management: minimizing adverse effects on the financial result and equity with respect to the defined framework of acceptable risk levels, maintaining the required level of capital adequacy, as well as development of the banking Group's activities in line with business opportunities and market development in order to achieve a competitive advantage.

The banking Group has significantly improved risk management system with successful implementation of Basel II, both at the level of parent Bank and at the level of member banks of the banking Group.

Risk management system

The risk management system at the level of the banking Group is governed by the following internal enactments:

- Risk Management strategy and Capital Management strategy,
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks;
- Other.

Risk management strategies are defined as:

- long term goals, established by business policy and banking Group's strategy, as well as affinity toward those risks that are in line with those goals;
- main principles for risk assessment and risk management;
- main principles of internal capital adequacy assessment process;
- overview and definitions of all the risks that the banking Group is or may be exposed to;

The banking Group specified the basic principles of risk management for meeting its long-term objectives:

- organizing of operation of a separate organizational unit for risk management;
- functional and organizational separation of risk management activities from usual business activities of the banking Group;
- comprehensive system risk management;
- the effectiveness of risk management;
- cyclicality of risk management;
- development of risk management as a strategic issue;
- risk management as part of business culture.

Risk management policies for individual risks more precisely define following:

- manner of organizing risk management processes in the banking Group and clear division between employees' responsibilities in all stages of that process;
- manner of assessment of the banking Group's risk profile and the methodology for identification, measuring and assessment of individual types of risks;
- measures for mitigation of individual types of risk and rules for their implementation;
- manner and methodology for implementing internal capital adequacy assessment process;
- principles of functioning of the system of internal controls;
- framework and frequency of stress testing, as well as procedure in the cases of negative unfavourable results of stress tests.

Procedures for managing individual risks define in greater detail the process of risk management as well as jurisdiction and responsibilities of all of the banking Group's departments within the risk management system.

The system of risk management of the banking Group comprise of more individual methodologies, prescribed methods and approaches.

Competencies

The Board of Directors is authorized and responsible for establishing a uniform risk management system and for monitoring such system in the parent Bank and at Group level, adopting policies and procedures for risk management and capital management strategy. The Board of Directors is responsible for establishing a system of internal controls, supervision of the Executive Board and the implementation process of internal capital adequacy assessment process.

The Executive Board is authorized and responsible for the process of implementation of risk management strategy and policies, adoption and analyze of risk management procedures, that define the process of identification, measurement, mitigation, monitoring and control and reporting of risks to which the banking Group is exposed to. The executive Board reports to the Board of Directors on the effectiveness of defined risk management procedures.

The Audit Committee is authorized and responsible for continued monitoring of application of risk management policies and procedures, and for implementing the internal control system in the parent Bank and at Group level. The Audit Committee at least monthly reports to The Board of Directors on its activities, irregularities, and proposes how they will be removed.

The Asset Liability Management Committee is authorized and responsible for monitoring the banking Group's risk exposure resulting from the structure of its receivables, payables and off-balance sheet items, and proposes measures for managing interest and liquidity risks. Each member of the Group has its own Asset Liability Management Committee.

The Credit Committee decides on loan requests in accordance with the Bank's internal acts, it analyzes the Bank's exposure to credit, interest and currency risk, it analyzes the credit portfolio and implements results of internal audit under the Committee's jurisdiction, and also suggests adequate measures to the Executive Board. Each member of the Group has its own Credit Committee which makes decisions within its competencies and limits.

The Receivables Collections Committee is authorized and responsible for managing risk-weighted placements; it makes decisions on the write-off of risk-weighted loans up to set limits of authorization and recommends write-off of loans to the Executive Board and Board of Directors through its limits of authorization. The Credit Committees of Group members make decisions on risk risk-weighted placements.

The Risk Management Organizational Unit of the parent Bank defines and recommends to the Board of Directors to adopt strategy and polices for risk management; it also defines and suggests adoption of procedures and methodologies for risk management to the Executive Board. It is also responsible for identifying, measuring, mitigating, monitoring, controlling and reporting about risks that the Bank is exposed to through its operations, as well as for model development and methodology of all phases of risk management process and reporting to responsible departments of the banking Group.

The Asset Management Division of the parent Bank is involved in managing assets and liquidity, and assets and liabilities at Group level, as well as managing liquidity risk, interest rate risk and foreign currency risk.

The Internal Audit Division is charged with and responsible for continued supervision of risk management policies and procedures at Group level and for testing adequacy of procedures and Group compliance with them. Internal Audit reports its findings and recommendations to the Audit Board and the Board of Directors.

Members of the banking Group have organisational parts for risk management, asset management and internal audit.

Risk management process

The banking Group regularly measure or evaluates the risks identified in its operations. The measurement involves use of qualitative and quantitative measurement methods that allow detection of changes in risk profile and assessment of new risks.

For all risks that are identified, the Bank determines their significance based on a comprehensive assessment of the risks inherent in individual operations, products, activities and processes of the banking Group.

Mitigating of risk involves diversification, transfer, reduction and / or avoidance of risk, and the banking Group implements it in accordance with its risk profile and risk appetite.

Risk monitoring and control is based on limits that are set by the banking Group. They in turn depend on the business strategy and the business environment, as well as on the level of risk that the banking Group is ready to accept.

Risk management reports are regularly submitted to: Board of Directors, Executive Board, Audit Committee, The Asset Liability Management Committee and Credit Committee, and reports contain all the information necessary to assess risk and draw conclusions about risks. Group members report monthly to the risk management organisational unit of the parent Bank.

Types of risk

The banking Group is particularly exposed to the following business risks: credit and related risks, liquidity risk, market risk, operational risk, investment risks, risk related to the country of origin of the entity to which the bank is exposed (country risk), and all other risks that may arise during the normal course of business.

57.1. CREDIT RISK

Credit risk represents the risk of negative effects on the Group’s financial result and capital arising from the customer’s inability to settle its matured liabilities toward members of the Group. The Group’s credit risk is conditioned by the credit rating of its debtors, their discipline in settling liabilities towards members of the Group as well as the quality of collaterals obtained against exposures.

As part of credit risk members of the Group monitor the following risks:

- Default risk – the risk of loss that may arise if a debtor fails to settle liabilities toward members of the Group;
- Downgrade risk – the risk of loss that may arise if a risk level of a debtor is downgraded (deterioration in the customer credit rating);
- Risk of change in the fair value of assets – the risk of loss that may arise on assets items that are recorded in the banking book in the event of a decline in their market value compared to the price at which assets were acquired;
- Concentration Risk – is a risk that is the direct or indirect outcome of the Group's exposures to same or similar risk factor such as: exposure to one or group of related legal entities, economy sectors, geographical regions, types of products and activities, instruments for credit protection, financial instruments, products...
- Risk of exposure – is a risk that can be an outcome based on Group's exposure to one legal entity, group of related legal entities or legal entities connected to the Group;
- Country risk relates to the borrower's country of origin and represents the probability of negative effects on the Group's financial result and equity due to the inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin;

Besides these risks, Group members also monitor risk associated with the following risks:

- Residual risk – risk that techniques used to alleviate credit risk will be less effective than expected, i.e. risk that their use could be insufficient to minimise the risks to which the Group is exposed.
- Risk of reduced value of receivables is the risk of possible creation of negative effects on financial results and Bank capital due to reduced value of repurchased receivables during cash or non cash obligations of prior creditor toward debtor.
- Risk of settlement/ delivery is a risk of possible negative effect on financial results and Group capital based on unpaid transactions or failure of counterparties to settle obligations of free delivery transactions on contracted date of settlement/ delivery.
- Counterparty risk is the risk of possible negative effects on financial result and Group equity due to failure of other counterparty to settle transactional obligations through cash payment for a specific transaction.

In accordance with the scope, type and complexity of performed operations, the Group has organized the process of managing credit risk and clearly delimits responsibilities of employees in all phases of the process. The organizational model of credit risk management system of all members of the Group ensures adequate communication, information exchange and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of functions of independent risk management and support activities, on the one hand, and the activity of underwriting and segregation of duties, responsibility and accountability. Members of the Group have established an adequate information system that includes full coverage of persons involved in the credit risk management system.

The aim of consolidated credit risk management is to minimize the negative effects of credit risk on the financial result and equity, based on the balance sheet and off balance sheet investments and operations based on the contracting parties for positions carried in the banking book and trading book.

Acceptable level of credit risk of the Group is in accordance with a defined risk management strategy and depends on the structure of the portfolio, allowing the Group to limit the negative effects on its financial results and to minimize the capital requirements for credit risk, settlement and delivery and counterparty risk in order to maintain capital adequacy at an acceptable level. Members of the Group grant loans to customers (corporate and individuals) which are estimated to be creditworthy. On the other hand, members of the Group do not invest in high-risk investments, such as investments in highly profitable projects with high risk, in projects of high-risk investment funds, and the like.

The basic principles of credit risk management are:

- managing credit risk inherent in the entire portfolio, as well as the risk of individual loans;
- maintaining the level of credit risk, which minimizes the negative impact on financial results and capital;
- ranking of investments according to risk ;
- business operations in accordance with good banking practice for granting loans;
- ensuring adequate controls to manage credit risk.

For the purpose of credit risk management, all members of the Group operate with clients of good credit rating and acquire adequate instruments to secure payments. Members of the Group estimate creditworthiness of each client at the moment of request submission and run constant and supplementary monitoring of a debtor, investments and collateral, so that they can take adequate steps in order to collect their receivables.

The identification of credit risk involves analysis of all indicators, that lead to the emergence and increasing exposure to credit risk. Members of the Group determine the causes of current credit exposure in a comprehensive and timely manner and assess the causes of exposure to credit risk on the basis of incurred and projected changes in the market, as well as from the introduction of new products and business activities.

All members of the Group perform quantitative and / or qualitative measurement and evaluation of the identified credit risk. The process of measuring credit risk is based on two parallel approaches:

- regulatory approach (compliance with local regulatory requirements of countries of Group members);
- internal approach (clearly defined internal rating system that ensures uniform reporting of risks the Group is exposed to).

An approach based on internally developed methodology presumes that the Group managed its portfolio structure in such a way that it assesses objectively the need to loan impairments in compliance with International Accounting Standards (IAS 39 and IAS 37), International Financial Reporting Standards and internal methodology.

The rating system is not only an instrument for shaping individual decisions and assessing the risk level of individual investments, but it is also a basis for portfolio analysis, providing support in defining limits and approval of loans, as well as support in the process of impairment assessment and provision for losses on off-balance sheet positions in order to rank level of risk investments and present the real value of the receivables. The internal rating system is subject to regular review and improvement.

For adequate and efficient management of risks to which they are exposed in their operations, the parent Bank and Group members also comply with regulations issued by their Central Banks, which requires the classification of each placement based on specified framework and calculation of reserves for estimation of credit risk.

Prior to approval of loans the Bank assesses the creditworthiness of borrowers as a primary source of repayment of loans, based on internally defined criteria and the collateral offered as a secondary source of payment. Based on the identified and measured level of credit risk (the assessment of financial condition and creditworthiness of borrowers, as well as values and legal security of credit protection and other relevant factors) and an independent opinion on risk, the relevant committees and bodies of the Group, in accordance with a defined system, make the decision on approval of a placement.

In making decisions on approval of a placement the “four eyes principle” is observed, which ensures that there is always a side which recommends and a side which approves a particular placement.

In order to maintain credit risk at an acceptable level, the Group defined the procedure for minimising risk which includes:

- defining limits of exposure;
- diversification of investments;
- taking of collateral;
- residual risk.

Exposure limits per individual debtors are always based on estimates of a debtor's creditworthiness, where exposure limits at portfolio level are focused on limiting portfolio exposure concentrations. All members of the Group continually control credit risk movements within a defined risk profile. In the event internal limits are exceeded, Group members submit explanations with proposed measures and activity plans, and the parent Bank reports to the Executive Board about the particular exceeding of limits. Group members are required to report to the parent Bank in the event of occurrence of extraordinary circumstances in operations that could result from adverse trends on local markets, political-economic crises, etc.

Continuing control and monitoring of exposure risk at Group portfolio level within regulatory limits of the parent Bank is carried out by the parent Bank. If limits are exceeded, the parent Bank determines the causes, reports and recommends measures of protection against exposure risk to the parent Bank's Executive Board.

Measures to protect against credit risk could be short term and long term. Basic techniques for mitigating risks are reduction, diversification, transferring and avoiding, through which losses are minimised.

Through its credit risk monitoring procedure the Group defined rules in relation to responsibility, continuity and reporting on adopted measures for credit risk reduction.

Monitoring investment quality at the level of an individual debtor is based above all on securing updated data about the financial standing and credit rating of debtor and market values of securities, while monitoring of credit risk at the level of the portfolio is conducted trough identification of changes at the level of a group of clients of predetermined level of risk, investments, collateral, for the purpose of establishing management of financial position and asset quality. Members of the Group also ensure continuous monitoring and checking of adequate methods of investment ranking in risk categories, based on the level of collectability.

Credit risk control involves the process of continuous business adjusting to set limits on a daily and monthly basis and to conditions where exposure to credit risk is at the upper limit of the defined risk profile, or during the introduction of new products and business activities.

For the purpose of protecting against counterparty default risk the following steps for managing collections are carried out:

- Reprogramming or reconstructing
- Out of court settlement
- Confiscation goods or properties in the process of the Bank's receivables collection
- Sale of receivables
- Signing a contract with a third party
- Going to court and taking other measures.

For Clients with specific operational problems reprogramming and restructuring of loans is approved. In case that such measures for regulating placements, through forced collection and court procedure, do not provide expected results, the process of writing off of the remaining receivables is initiated.

Beside credit exposure, the Group has off-balance sheet exposures (different types of payable and performance guarantees, sureties, letters of credit) based on which the Group has contingent liabilities for making payments to third parties. For off-balance sheet exposures the Group uses the same control processes and procedures that are used for credit risk.

Credit risk reporting includes internal and external systems of reporting, which is conducted on a monthly basis according to predefined schedule and in accordance with a defined reporting system:

- Group members report to the parent Bank on a monthly basis;
- the parent Bank reports on a consolidation basis, at half year and at year end.

57.1.1. Total exposure to credit risk

The greatest credit risk for the Group occurs from actual borrowing arrangements, but the Group is also exposed to the risk of off-balance sheet positions that is caused by contingent liabilities or undertaken commitments.

Total exposure to credit risk is presented in the gross amount, before the effect of risk reduction based on impairment. In respect to prior period, adjustments are made in the report in accordance with new regulations, with parallel corrections of previous period data, for the purpose of comparison of amounts, relating to assets that are classified and that are not classified.

Gross overview of assets

In thousands of RSD

	Assets subject to classification		Other assets		Total	
	2011	2010	2011	2010	2011	2010
Assets	189,957,368	185,535,088	63,488,377	52,221,946	253,445,745	237,757,034
Revocable deposits and loans	-	-	59,038,570	48,441,007	59,038,570	48,441,007
Interest ,fees and commission receivables, change in fair value of derivates and other receivables	2,994,947	3,141,445	66,885	46,732	3,061,832	3,188,177
Loans and advances	178,725,118	173,035,193	2,035,663	1,329,518	180,760,781	174,364,711
Other investments	4,602,424	4,885,898	404,475	316,954	5,006,899	5,202,852
Other assets	3,634,879	4,472,552	1,942,784	2,087,735	5,577,663	6,560,287
Other assets	5,788,150	8,109,612	41,325,660	34,308,890	47,113,810	42,418,502
Cash and cash equivalents	4,983,227	7,239,854	14,262,455	16,015,086	19,245,682	23,254,940
Securities	170,426	231,270	26,984,758	18,215,357	27,155,184	18,446,627
Equity investments	634,497	638,488	78,447	78,447	712,944	716,935
Off-balance sheet items	32,823,106	28,639,307	5,677,395	151,243	38,500,501	28,790,550
Payment guarantees	8,855,859	9,740,766	-	-	8,855,859	9,740,766
Performance bonds	6,937,876	4,759,664	484	2,389	6,938,360	4,762,053
Acceptances and sureties	77,853	216,889	-	-	77,853	216,889
Irrevocable letters of credit	713,306	1,051,309	-	-	713,306	1,051,309
Irrevocable commitments	16,029,004	12,787,417	591,541	51,980	16,620,545	12,839,397
Other	209,208	83,262	5,085,370	96,874	5,294,578	180,136

57.1.2. Downgrade Risk

The quality of the Group's assets is measured by the level of exposure to individual risk categories according to internal rating system criteria. The internal rating system focuses on quantitative and qualitative parameters for assigning customer ratings. The rating scale consists of 5 risk categories that are subdivided into 17 subcategories. The rating scale is used in a uniform method for assigning ratings which ensures that customers with the same rating have the same credit characteristics and the same probability of default, in part or in full, over the period of one year. The basic parameters of credit risk used in determining a risk subcategory are calculated and monitored on a monthly basis.

A low level of risk implies doing business with customers with a high credit rating (risk categories 1 and 2), increased level of risk implies doing business with customers with operating difficulties that could have a negative impact on the settlement of liabilities (risk category 3), and a high level of risk characterizes customers with negative operating results and poor credit rating (risk categories 4 and 5).

The Group guards against downgrade risk through continual monitoring of customers' business operations and by identifying changes that could arise through: deterioration of a borrower's financial standing, delays in repayment and changes in the business environment, as well as securing of appropriate collaterals.

Overview of exposure per risk categories based on Internal Rating System criteria

	2011		2010	
In thousand RSD	Gross	Net	Gross	Net
Rating 1	72,479,393	72,312,720	72,055,382	71,777,354
Rating 2	63,530,350	63,039,307	56,956,865	56,739,155
Rating 3	29,229,274	28,585,775	31,983,982	31,432,366
Rating 4	1,922,611	1,837,118	4,209,092	3,887,939
Rating 5	22,795,740	8,093,693	20,329,767	5,748,268
Total	189,957,368	173,868,613	185,535,088	169,585,082

57.1.3. Risk of Change in the Value of Assets

Allowance for impairment of placements is intended to ensure reasonable, cautious and timely registering of losses on loan impairment, as well as to intervene in respect of contingent liabilities with a view to protect the Bank in the period when the loss occurs and is definitely confirmed (realized), due to inability to collect contracted amounts or through outflow of assets to settle contingent liabilities.

Allowance for impairment of placements and provisions for off-balance sheet items are made when there is justification and objective evidence of impairment arising as the result of events that occurred after initial recognition, that have a negative effect on future cash flows associated with a loan.

Key elements in assessing impairment of placements are as follows: overdue payments on principal or interest, does the loan beneficiary have cash flow difficulties, has credit rating deteriorated or has a change occurred in initial terms of contract, etc.

Allowance for impairment of placements is based on estimates of expected future cash flows from client business, or realization of collateral, if there is a significant probability that the credit will be paid from these funds.

Overview of impairment per risk categories:

In thousands of RSD

	Allowance for impairment of balance sheet assets		Provision for losses on off-balance sheet items	
	2011	2010	2011	2010
Rating 1	166,673	278,028	10,697	-
Rating 2	491,043	217,710	90,738	2,449
Rating 3	643,499	551,616	83,975	12,861
Rating 4	85,493	321,153	216	22,365
Rating 5	14,702,047	14,581,499	333,627	376,356
Total	16,088,755	15,950,006	519,253	414,031

Assessment of Allowance for Impairment of Receivables

The Group assesses allowance for impairment of placements on an individual and on a group basis.

Individual Assessment

The Group assesses impairment of each individually significant placement and considers the financial position of the loan beneficiary, sustainability of his business plan, his ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. In the event of new information coming to light that significantly alters the customer's creditworthiness, value of collateral and likelihood that liabilities toward the Group will be settled, ad hoc assessment of loan impairment is performed.

Group Assessment

Impairment is assessed on a group basis for placements that are not individually significant, and for individually significant placements and advances, when there is no objective evidence of individual impairment. The internal model of group impairment consists of calculations of expected losses by specified risk categories based on debtor default. Group assessment is performed monthly by groups that are determined based on internal methodology. In 2011 the Group improved its methodology for computing provisions by making group assessment based on migration of categories of risk in default status by types of client or product, with resulting migration percentages adjusted for collected receivables.

Impairment of placements is based on assessment of expected future cash flows from doing business with a customer, as well as from collateral realization, if it is assessed that loans can be realistically settled from such assets.

Impairment of loans decreases the value of loans and is recognized as an expense in the income statement.

Assessment of Provisions for Off-Balance Sheet Items

Assessment of provisions for off-balance sheet items (contingent liabilities) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities.

In assessing provisions for contingent losses on off-balance sheet items, funds obtained by activating collaterals are recognized if it is completely certain that cash outflows for contingent liabilities will be settled from collaterals.

Overview of individual and group assessment of impairment of receivables — In thousands of RSD

	Loans and advances		Equity investments	
	2011	2010	2011	2010
I. Individual Allowance for Impairment				
Rating 1	-	-	296,569	178,378
Rating 2	11,793,199	429,254	37,816	149,985
Rating 3	11,982,977	2,304,957	10,283	20,295
Rating 4	700,389	2,679,124	3,676	3,676
Rating 5	18,602,430	16,757,309	364,600	364,600
Loans and receivables, gross	43,078,995	22,170,644	712,944	716,934
Allowance for Impairment	(12,027,474)	(12,178,560)	(370,188)	(371,757)
Carrying amount	31,051,521	9,992,084	342,756	345,177
II. Group Allowance for Impairment				
Rating 1	55,146,552	42,185,780	-	-
Rating 2	49,077,085	50,562,395	-	-
Rating 3	16,709,551	28,837,129	-	-
Rating 4	1,222,222	1,456,527	-	-
Rating 5	4,193,310	3,506,602	-	-
Loans and receivables, gross	126,348,720	126,548,433	-	-
Allowance for Impairment	(4,061,281)	(3,771,446)	-	-
Carrying amount	122,287,439	122,776,987	-	-
III. Overdue but unimpaired:				
Rating 1	109,237	170,955	-	-
Rating 2	18,216	51,597	-	-
Rating 3	7,477	7,551	-	-
Rating 4	-	10,664	-	-
Rating 5	-	40,496	-	-
Loans and receivables, gross	134,930	281,263	-	-
Overdue but unimpaired comprise:				
0-30	113,457	191,322	-	-
31-60	13,996	29,900	-	-
61-90	7,477	7,803	-	-
91-180	-	11,742	-	-
over 180	-	40,496	-	-
Carrying amount	134,930	281,263	-	-
IV. Nor overdue nor impaired:				
Rating 1	17,223,604	29,698,647	-	-
Rating 2	2,641,850	5,913,619	-	-
Rating 3	529,269	834,345	-	-
Rating 4	-	62,777	-	-
Rating 5	-	25,360	-	-
Carrying amount	20,394,723	36,534,748	-	-
Total gross carrying amount	189,957,368	185,535,088	712,944	716,934
Total allowance for impairment	(16,088,755)	(15,950,006)	370,188	371,757
Total net carrying amount	173,873,650	169,585,080	342,756	345,177
Total unclassified assets	63,488,377	52,203,461		
Total	253,445,745	237,738,549		
Reprogramming / restructured loans	24,792,075	24,835,611		

Individual allowance for impairment

In thousands of RSD

	Loans and advances				Equity investments			
	2011		2010		2011		2010	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Rating 1	-	-	-	-	296,569	292,651	178,378	178,360
Rating 2	11,793,199	11,611,097	429,254	300,127	37,816	37,798	149,985	144,498
Rating 3	11,982,977	11,826,186	2,304,957	2,195,323	10,283	8,631	20,295	18,643
Rating 4	700,389	627,558	2,679,124	2,517,001	3,676	3,676	3,676	3,676
Rating 5	18,602,430	6,986,680	16,757,309	4,979,633	364,600	-	364,600	-
Total	43,078,995	31,051,521	22,170,644	9,992,084	712,944	342,756	716,934	345,177

57.1.4. Concentration Risk

The Group controls concentration risk by limiting and monitoring exposures to particular groups, above all by customer and placement types, industrial sectors, geographical areas and borrower's country of origin.

Overview of Credit Risk Exposure per Regions:

In thousands of RSD

	2011		2010	
	Gross	Net	Gross	Net
Serbia	161,065,272	145,947,276	151,717,357	136,413,047
Montenegro	6,109,048	5,684,054	5,807,046	5,478,646
B&H	7,691,252	7,320,408	7,727,800	7,393,798
European Union	12,689,471	12,689,420	15,915,991	15,907,032
USA and Canada	710,096	496,170	221,409	221,409
Other	1,692,229	1,731,285	4,145,485	4,171,150
Total	189,957,368	173,868,613	185,535,088	169,585,082

Overview of Credit Risk Exposure per Industrial Sectors:

In thousands of RSD

	2011		2010	
	Gross	Net	Gross	Net
Sector of Finance and Insurance	5,179,687	4,996,400	5,522,272	5,357,607
Sector of corporate clients and public companies	102,907,380	92,335,851	102,088,540	91,619,456
Agriculture	4,984,999	4,654,266	3,984,687	3,628,837
Processing Industries	36,401,550	30,359,208	37,131,359	30,503,994
Electricity	359,237	358,117	2,662,926	2,662,175
Construction	10,099,656	9,500,671	9,929,152	9,388,596
Wholesale and Retail	36,081,266	33,938,519	35,229,362	33,598,276
Service Industries	10,587,111	9,338,911	8,247,653	7,116,740
Real-estate Related Activities	4,393,561	4,186,159	4,903,401	4,720,838
Entrepreneurial Sector	1,966,268	1,705,354	1,777,911	1,501,821
Public Sector	2,095,992	2,062,761	1,791,951	1,752,752
Retail Sector	51,653,826	49,325,025	48,552,039	46,304,885
Foreign Customer Sector	19,177,813	18,897,217	20,225,738	19,943,437
Sector of other customers	6,976,402	4,546,005	5,576,637	3,105,124
Total	189,957,368	173,868,613	185,535,088	169,585,082

Depending on general economic trends and trends in individual industrial sectors, the Group diversifies its investments in industrial sectors that are resistant to the effects of negative trends in the economy.

Overview of Credit Risk Exposure per Customer Type: In thousands of RSD

	2011		2010	
	Gross	Net	Gross	Net
Corporate Customers	120,060,887	108,898,174	113,600,657	102,491,125
Large clients	67,223,436	62,692,794	67,793,306	63,693,539
Medium sized clients	20,201,970	18,269,065	18,394,197	16,686,169
Small clients	16,486,944	12,540,276	16,563,029	13,228,924
Other	16,148,537	15,396,039	10,850,125	8,882,493
Banks	12,603,444	10,985,975	17,687,026	16,069,241
Retail	57,293,037	53,984,464	54,247,405	51,024,716
Private individuals	47,819,186	45,835,227	45,361,052	43,522,465
Farmers	3,834,640	3,489,798	3,190,987	2,782,420
Micro clients	3,672,943	2,954,085	3,917,455	3,218,010
Entrepreneurs	1,966,268	1,705,354	1,777,911	1,501,821
Total	189,957,368	173,868,613	185,535,088	169,585,082

57.1.5. Off-Balance Sheet Items

In addition to credit exposures, the Group also has off-balance sheet exposures (various types of callable and performance guarantees, letters of credit) that pose contingent liabilities for the Group to make payments to third parties.

Provision for losses on off-balance sheet items In thousands of RSD

	2011		2010	
	Gross	Net	Gross	Net
Provision for off-balance sheet items				
Rating 1	22,547,520	22,536,823	15,837,997	15,837,997
Rating 2	5,626,648	5,535,910	6,706,077	6,703,628
Rating 3	4,156,737	4,072,762	5,296,524	5,283,663
Rating 4	152,154	151,938	346,513	324,148
Rating 5	340,047	6,420	452,196	75,840
Loans and receivables (1-5)	32,823,106	32,303,853	28,639,307	28,225,276

57.1.6. Measures of credit risk protection (collateral)

For the purpose of guarding against credit risk exposure, beside regular monitoring of a client's business, the Group also acquires collaterals which it uses to secure receivables and to minimize credit risk. Depending on the assessment of ability to settle contractual liabilities, the level of coverage of a placement is defined such that in case of client default, activated collateral can be used realistically to settle a receivable. The quantity and type of collateral depends on the assessed credit risk.

As a standard type of loan security members of the Group receive contractual authorizations for account withdrawals and bills of exchange, while additional collateral is contracted, depending on credit risk assessment:

- For commercial loans – pledge over movable and non movable assets, deposits, banks', corporate and state guarantees, warranties, securities pledges.
- For retail loans – mortgages, deposits, warranty of co-debtor, insurance of National Corporation for Insuring House Mortgages with the parent Bank.

Valuation of real-estate property or pledges over immovable property is based on valuation performed by a certified appraiser, with a view to reducing the potential risk of unrealistic valuation to a minimum. Immovable assets, goods, equipment and other property which is pledged must be insured by an insurance company that is acceptable for the Group and insurance policies must name members of the Group as beneficiary.

The Group monitors the market value of collateral and in case of need, it can demand additional collateral in accordance with contract.

The Group's policy is that it can cash in collateral and use the proceeds for debt reduction. Property acquired by cashing in collateral is not used for business operations by the Group.

Fair value of collateral

In thousands of RSD

	Loans and advances	
	2011	2010
I. Individual Allowance for Impairment		
Mortgages	63,768,780	48,576,768
Deposits	86,565	162,043
Guarantees	637,778	95,981
Pledged securities	8,193,981	1,017,260
Pledged property	13,182,179	5,806,848
Other	7,714,150	2,544,113
Total	93,583,433	58,203,013
II. Group Allowance for Impairment		
Mortgages	184,932,784	150,039,428
Deposits	2,888,039	2,788,408
Guarantees	14,857,447	10,689,585
Pledged securities	29,321,105	62,076,671
Pledged property	22,593,601	28,706,802
Other	46,087,112	54,403,127
Total	300,680,088	308,704,021
III. Overdue but unimpaired		
Mortgages	5,505,185	23,591,400
Deposits	112,528	894,258
Guarantees	1,249	630,799
Pledged securities	495,893	211,928
Pledged property	228,576	3,170,776
Other	991,913	2,649,862
Total	7,335,344	31,149,023

IV. Nor overdue nor impaired		
Mortgages	5,242,082	5,187,307
Deposits	407,531	327,855
Guarantees	19,888	389
Pledged securities	14,970	1,601
Pledged property	657,913	1,082,232
Other	1,319,821	2,307,668
Total	7,662,205	8,907,052
Total fair value	409,261,070	406,963,109

Structure of assets acquired by a way of collecting receivables at 31 December 2011:

Assets acquired by a way of collecting receivables:

In thousands of RSD

	2011	2010
Residential buildings	904,694	908,941
Commercial buildings	652,365	584,869
Land and forest	393,703	362,745
Equipment	1,493	1,493
Total	1,952,255	1,858,048
Provisions	7,742	4,812
Fair value	1,944,513	1,853,236

57.2. Liquidity risk

The Group operates in accordance with the basic principles of liquidity, maintaining a sufficient level of funds to cover liabilities incurred in the short term, and also respects the principle of solvency, establishing the optimal financial leverage (relationship between liabilities and equity) and forming a sufficient level of liquidity reserves, which do not compromise the achievement of the planned level of return on equity.

Liquidity risk represents the risk of negative effects on the Group's financial result and capital resulting from the Group's inability to settle its matured liabilities. Liquidity risk includes the risk associated with sources of funds and liquidity market risk.

The problem of liquidity with respect to sources of funds, relates to the structure of liabilities, and is expressed through inadequate financial leverage, significant participation of unstable sources or short-term sources and their concentrations. On the other hand, liquidity risk is reflected in deficit reserves and difficulty or impossibility of obtaining liquid assets at reasonable market prices.

The Group has established an appropriate organizational structure, where there is a difference between the process of underwriting the liquidity risk and its management processes. The Liquidity Committee and the Asset and Liability Management Committee are responsible for managing liquidity risk within their competencies, along with other boards/committees whose decisions can impact the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

- Diversifies sources of assets in respect to their currencies and maturities;
- forms a sufficient level of liquidity reserves;
- manages monetary funds;
- monitors future cash flows and liquidity levels;
- manages market sources;
- limits the primary sources of credit risk that have the most impact on liquidity risk;
- defines and periodically tests Plans for Liquidity Management in Crisis Situations.

The liquidity management process comprises identification, measurement, minimizing, monitoring and liquidity risk reporting.

In identifying liquidity risks the Bank identifies in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure, as well as liquidity risk exposure resulting from new business products and activities.

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

- GAP analysis;
- Ratio analysis;
- Stress test.

Minimizing liquidity risk consists of keeping this risk at a level that is acceptable to the Group’s risk profile. With a view to successful liquidity risk management, the Bank continually controls movements in the liquidity ratio in order to ensure timely undertaking of measures for maintaining liquidity risk within set internal and external limits.

Control and monitoring of liquidity risk includes the process of monitoring compliance with internally established limits, and monitoring of defined measures for reducing the Group's exposure to liquidity risk. Risk control involves the control of liquidity at all levels of liquidity risk management, and independent control systems implemented by organizational units responsible for internal audit and monitoring of compliance operations.

Liquidity risk reporting consists of an internal and external system of reporting and is performed on a daily basis or according to a set schedule.

The Group’s liquidity level are reconciled daily with the legally prescribed liquidity ratio. The legally prescribed maximums and minimums for this ratio are as follows: 0.8 - when calculated for the working day; minimum 0.9 for longer than three consecutive days, and minimum 1 - when calculated as the average of all working days in a month.

The legally prescribed liquidity ratio at Group level:

	2011	2010
As of December 31	2,33	2,50

During 2011, the liquidity ratio was significantly above prescribed limits.

The Group sets internal limits, based on the internal reporting on liquidity GAP comprising all balance sheet items.

Reconciliation with internally defined limits of liquidity as of the last days was as follows:

	Limits	2011.	2010.
GAP up to 1 month/Total assets	Max (10%)	9.67%	7.81%
Cumulative GAP up to 3 months / Total assets	Max (20%)	(6.47%)	(3.16%)
Loans and advances to customers/Liabilities to customers	Max 90%	76.23%	76.27%

Maturity structure of monetary assets and monetary liabilities as of December 31, 2011:

	Up to 1 month	From 1 - 3 month	From 3 - 12 month	From 1 - 5 years	Over 5 years	Total
Monetary assets						
Cash and cash equivalents	19,245,682	-	-	-	-	19,245,682
Revocable deposits and loans	22,935,983	6,564,107	29,538,480	-	-	59,038,570
Interest ,fees and commission receivables, change in fair value of derivates and other receivables	1,320,367	-	-	-	-	1,320,367
Loans and advances	23,335,178	12,480,427	41,730,033	53,381,919	38,452,930	169,380,487
Securities	1,276,017	2,885,876	11,380,597	10,804,737	803,346	27,150,573
Equity investments	-	-	-	-	342,755	342,755
Other investments	1,744,646	421,575	40,591	-	-	2,206,812
Other assets	2,906,802	1,141	10,495	137,284	-	3,055,722
	72,764,675	22,353,126	82,700,196	64,323,940	39,599,031	281,740,968
Monetary equity and liabilities						
Transaction deposits	36,844,907	-	-	-	-	36,844,907
Other deposits	49,542,313	46,639,355	68,333,247	18,123,548	439,546	183,078,009
Borrowings	1,594,671	16,273	66,027	325,777	252,929	2,255,677
Interest, fees and commissions payable and chance in fair value of derivatives	206,901	-	-	-	-	206,901
Other liabilities	6,362,771	353,366	796,650	6,337,088	7,225,732	21,075,607
	94,551,563	47,008,994	69,195,924	24,786,413	7,918,207	243,461,101
Liquidity gap						
As of December 31, 2011	(21,786,888)	(24,655,868)	13,504,272	39,537,527	31,680,824	38,279,867
As of December 31, 2010	17,557,449	(28,588,418)	(13,526,007)	35,712,511	26,564,759	37,720,294

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

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

57.3. Market Risk

Market risk represents the possibility of occurrence of negative effects on the Group's financial result and equity due to changes in market variables and comprises interest rate risk, currency risk and other market risks. The Group is exposed to market risks arising on items in the trading book and banking book.
The Group is exposed to interest rate risk, currency risk, risk of fluctuations in securities prices, counterparty risk and settlement risk on trading book items. The trading book includes balance sheet and off-balance sheet assets and liabilities items related to financial instruments that are held for trading or for hedging other financial instruments kept in that book and which are not subject to limitations on trading, and which are not subject to hedging limitations.

57.3.1. Interest Rate Risk

Interest rate risk represents the probability of negative effects on the Group's financial result and equity due to interest rate fluctuations.

The Group manages the following types of interest rate risk:
- Reprising risk of temporal discrepancy between maturity and new price determination (repricing risk);
- Yield curve risk – risk to which the Bank is exposed due to changes in the yield curve;
- Basis risk – risk to which the Bank is exposed due to different referential interest rates for interest rate sensitive positions with similar maturity or repricing characteristics;
- Optionality risk – risk to which the Bank is exposed due to contractual terms that are interest rate sensitive (loans that can be settled before maturity, deposits with withdrawals prior to maturity etc.)

The basic objective of interest rate risk management is maintaining an acceptable level of interest rate risk exposure by conducting adequate policy in respect to maturity mismatch of the period passing before reestablishment of interest rates, by reconciling adequate sources with placements according to the type of interest rate and maturity, as well as by projecting movements in the yield curve on the foreign and domestic market. Primarily, the Group manages the margin of internal yield through the price of loans and deposits focusing on interest rate margin.

The Group considers separately the effects of interest rates and structure of interest bearing assets and liabilities from the perspective of maturity, repricing and currency structure, and manages their effect on the economic value of capital.

The process of interest rate risk management consists of identification, measurement, minimizing, monitoring and interest rate risk reporting.

Identification of interest rate risk consists of determining the causes and factors that lead to the occurrence of interest rate risk, which includes determining interest rate risk exposure, as well as interest rate risk exposure arising from new business products and activities.

Measurement and assessment of interest rate risk in the Group is done through quantitative and/or qualitative assessment of identified interest rate risk by using the following techniques:
- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of capital;
- Stress test.

TRANSLATION

Reduction of interest risk refers to the process of defining the system of limited exposure of the Group to interest rate risk and taking steps and implementing measures for reduction of interest rate risk. Control and observing of interest rate risk consists of the process of monitoring compliance with an established system of limits, as well as monitoring defined measures for reduction of interest rate risk of the Group. Control of interest rate risk refers to control on all management levels, as well as independent system of control implemented by organizational sectors authorized for internal audit and observation of compliance in operations.

Interest rate risk reporting consists of an internal system of reporting to competent boards/committees and the Group's interest rate risk management bodies .

The Group determines the risk profile and propensity to interest rate risk by defining internal limits based on internal reports on interest rate GAP encompassing all balance sheet items.

The compliance with internally defined interest rate risk limits at the last days was as follows:

	Limits	2011	2010
Relative GAP	Max 15%	(5.36%)	(7.64%)
Mismatch ratio	0.75 – 1.25	0.94	0.91

The exposure to interest rate risk can be reviewed through the Report on Interest Rate GAP in monetary assets and liabilities as follows:

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2011:

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Interest bearing portion	Non-interest bearing portion	Total
Monetary assets								
Cash and cash equivalents	9,341,852	-	-	-	-	9,341,852	9,903,830	19,245,682
Revocable deposits and loans	15,060,404	-	-	-	-	15,060,404	43,978,166	59,038,570
Interest, fee and commission receivables	-	-	-	-	-	-	1,320,367	1,320,367
Loans and deposits	58,173,984	17,705,414	37,383,007	33,488,488	22,629,594	169,380,487	-	169,380,487
Securities	1,627,284	2,794,948	10,904,879	10,058,739	786,434	26,172,284	978,289	27,150,573
Equity investments	-	-					342,755	342,755
Other investments	1,125,744	427,840	41,681	-	-	1,595,265	611,547	2,206,812
Other assets	-	-	-	-	-	-	3,055,722	3,055,722
Total	85,329,268	20,928,202	48,329,567	43,547,227	23,416,028	221,550,292	60,190,676	281,740,968
Monetary equity and liabilities								
Transaction deposits	36,844,907	-	-	-	-	36,844,907	-	36,844,907
Other deposits	47,761,473	41,612,088	75,111,237	17,823,411	430,916	182,739,125	338,884	183,078,009
Borrowings	1,609,693	488,294	-	98,873	57,948	2,254,808	869	2,255,677
Interest, fees and commissions payable and chance in fair value of derivatives	-	-	-	-	-	-	206,901	206,901
Other liabilities	169,834	2,978,363	10,705,934	859,280	95,682	14,809,093	6,266,514	21,075,607
Total	86,385,907	45,078,745	85,817,171	18,781,564	584,546	236,647,933	6,813,168	243,461,101
Interest rate GAP								
At December 31, 2011	(1,056,639)	(24,150,543)	(37,487,604)	24,765,663	22,831,482	(15,097,641)	53,377,508	38,279,867
At December 31, 2010	(17,092,340)	(25,416,672)	(28,708,736)	28,029,892	22,385,001	(20,802,855)	58,523,148	37,720,293

57.3.2. Currency Risk

The Group is exposed to Currency risk that represents the possibility of negative effects on the Group's financial result and equity due to fluctuations in exchange rates between currencies, fluctuations in the domestic currency with respect to foreign currencies or changes in the value of gold and other precious metals. All items in the banking book and the trading book that are denominated in a foreign currency and gold, including dinar items indexed to an FX clause are exposed to currency risk.

The basic objectives of the Group's currency risk management policy is to maximise returns at specified risk levels, to minimise negative effects on financial performance, to maintain required capital adequacy levels and to develop the Group's activities in accordance with opportunities and market development, all with the purpose of achieving a competitive advantage. In order to minimize the currency risk exposure, the Bank diversifies the currency structure of its portfolio and currency structure of liabilities, reconciling open positions in certain currencies pursuant to the principles of maturity transformation.

The Group has established an appropriate organizational structure, where there is a difference between the process of underwriting the currency risk and its management processes.

The process of currency risk management entails identifying, measuring, minimizing, monitoring and currency risk reporting.

In indentifying currency risks, the Group identifies in a comprehensive and timely manner the causes that lead to emergence of currency risk and includes the determination of current currency risk exposure, as well as currency risk exposure resulting from new business products and activities, by items that are recorded in the banking book and the trading book.

Measurement and assessment of currency risk in the Group is done through quantitative and/or qualitative assessment of identified currency risk by using the following techniques:

- GAP analysis and ratio of currency risk;
- VaR;
- Stress test;
- Backtesting.

Relieving foreign currency risk entails maintenance of risk at an acceptable level for the Group's risk profile through the establishment of a transparent system of limits and defining measures used to hedge against foreign currency risk.

Control and monitoring of foreign deposits risk consists of observation and supervision of compliance with internally and externally defined limits, as well as monitoring of already defined and implemented measures. Continuous monitoring and control of foreign deposits risk ensures timely taking of measures for the purpose of maintaining foreign deposits risk within defined limits. Control of foreign deposit means control of all management levels, as well as an independent system of control that is implemented by organizational departments responsible for internal audit and following compliance in between operations.

The Group determines its risk profit and propensity for risk by specifying regulatory and internal exposure limits.

The Group coordinates its operations with the prescribed regulatory indicator of foreign exchange risk, which represents the ratio between the total open foreign exchange position and the position of gold in relation to regulatory capital. The Group must maintain a net foreign currency position below 20% of equity.

An overview of the total currency risk balance and legally defined currency risk ratio as at December 31 of the current and previous years is provided below:

	2011	2010
Total currency risk balance	6,229,554	7,626,391
Currency risk ratio	18.86%	19.93%
Legally-defined limit	20%	20%

The Bank is waiting for National Bank of Serbia's opinion on calculation of the Group's total open currency position.

Summary of Monetary Assets and monetary Liabilities per Currencies as of December 31, 2011

	EUR	USD	CHF	Other	Total	FX clause	RSD	Total
Cash and cash equivalents	5,189,288	1,233,313	347,392	751,541	7,521,534	-	11,724,148	19,245,682
Revocable deposits and loans	37,647,595	6,472,817	-	3,418,158	47,538,570	-	11,500,000	59,038,570
Interest ,fees and commission receivables, change in fair value of derivates and other receivables	182,921	128	-	78,672	261,721	44,875	1,013,771	1,320,367
Loans and advances	26,693,065	529,388	-	1,143,081	28,365,534	113,099,667	27,915,286	169,380,487
Securities	8,930,017	803,347	-	265,678	9,999,042	156,987	16,994,544	27,150,573
Equity investments	60	-	-	-	60	-	342,695	342,755
Other investments	513,068	598,527	-	1,980	1,113,575	115,865	977,372	2,206,812
Other assets	141,616	761,941	602	54,042	958,201	-	2,097,521	3,055,722
Total	79,297,630	10,399,461	347,994	5,713,152	95,758,237	113,417,394	72,565,337	281,740,968
Transaction deposits	10,593,416	1,021,827	407,730	1,844,226	13,867,199	1,968,169	21,009,539	36,844,907
Other deposits	136,019,248	9,227,471	3,942,541	1,021,293	150,210,553	16,455,376	16,412,080	183,078,009
Borrowings	1,397,728	23,579	14,724	2,532	1,438,563	504,440	312,674	2,255,677
Interest, fee and commission liabilities and change in value of derivatives liabilities	3,499	9,792	45	1,571	14,907	-	191,994	206,901
Other liabilities	17,366,152	111,302	1,778,473	82,723	19,338,650	-	1,736,957	21,075,607
Total	165,380,043	10,393,971	6,143,513	2,952,345	184,869,872	18,927,985	39,663,244	243,461,101
Net currency position								
as of December 31, 2011	(86,082,413)	5,490	(5,795,519)	2,760,807	(89,111,635)	94,489,409	32,902,093	38,279,867
as of December 31, 2010	(74,754,091)	137,122	(4,161,411)	2,570,940	(76,207,440)	85,128,963	28,756,460	37,677,983

57.4. OPERATIONAL RISK

Operational risk represents the possibility of negative effects on the Group's financial result and equity due to employee errors, inadequate procedures and processes in the Group, inadequate management of information and other systems in the Group, as well as occurrence of unforeseen external events.

Operational risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the workplace, customer receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors, process management.

The Group monitors operational risk events according to the following business lines: corporate financing, trade and sales, retail business, corporate banking, retail banking, payments and calculations, agency services and asset management services.

The process of operational risk management represents an integral part of the Group's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting system.

The Group monitors operating risk events daily and manages operating risks. The Group appoints employees who are in charge of operational risk with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational part of the Group which is responsible for risk management monitors and reports operational risks to the Group's Board of Directors, the Group's Executive Board and the Audit Committee.

Measurement and assessment of operational risk at the Group is done through quantitative and/or qualitative assessment of identified operational risk. The Group measures operational risk exposure through event records and self-assessment. The Group measures operational risk exposure through its record of events and self-assessments. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement.

The Group cannot eliminate all operational risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The principal measure against operational risk is control, which includes effective segregation of duties, application of the "four eyes principle", consistent application of internal procedures, training of employees and special supervision by internal audit.

The Group takes measures in order to relieve operational risks and ensure a proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information systems and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Group's business processes.

With the objective of smooth and continued operation of all significant systems and processes in the Group, and to limit losses that could be incurred in extraordinary circumstances, the Group adopted the Business Continuity Plan. In order to restore the recovery of information technology systems in the event of termination, the Group has adopted a plan of recovery of activities in disaster circumstance.

57.5. THE BANK'S INVESTMENT RISK

The Group's investment risk relates to the risk of investing in other entities and capital expenditures. The Group's investments in a non-financial sector entity cannot exceed 10% of the Group's equity, while its investment in a non-financial sector entity and in the Group's fixed assets cannot exceed 60% of the Group's equity, but this restriction does not apply to the acquisition of shares for purpose of trading within six months term from the date of acquisition.

57.6. EXPOSURE RISK

Risk exposure relates to risk exposure of individual Group members and of the Group toward:
- a single party
- a group of related parties
- a party that is related to the Group.

Large exposures of the Group to a single entity or group of related parties is exposure amounting to at least 10% of the Group's capital.

In its operations, the Group takes into account compliance with statutory limits of exposure:
- Exposure toward one legal entity or group of related entities cannot exceed 25% of the Group's equity.
- Exposure toward a legal entity related with the Group cannot exceed 5% of the Group's equity; total exposure toward legal entities related with the Group cannot exceed 20% the Group's equity.
- Sum of all large exposures of the Group cannot exceed 400% the Group's equity

The Group calculates exposure toward one legal entity or group of related parties relates to:
- trading book positions through which the Group calculates equity request for price risk,
- trading book positions based on which the Group is exposed to counterparty risk to a contract,
- the gross sum of accounting values of all other balance positions and off-balance sheet items that are addressed to those legal entities but, reduced for the amount of corrected values in balance of assets and provisions for losses for off-balance sheet assets, and as well the amount of required provisions for estimated losses.

During estimations of exposure limitations toward one legal entity or group of related parties, the Bank is reduces exposure toward:

- Countries or Central Banks, autonomous regions, entities under local government, international Banks for development, international organizations and public administrative bodies, as well exposure to securing their letter of credits in accordance with the Methodology for Calculating Credit Risk Capital Requirements – regulatory approach;
- Cash securities and cash equivalents deposited with members of the Group;
- Based on unused amount of credit line and other off-balance sheet items based on which low risk payments cannot be realized;
- Equity deductions.

57.7. COUNTRY RISK

Country risk is a risk that is referring to the country of legal entity's origin to which the Group is exposed, that is possibility of risk developed by negative effects on financial results and Group's equity due to the inability of members of the Group to collect receivables from their debtors because of political and economic consequences or social conditions in debtor's country of origin. Country risk includes the following risks:

- Political-economical risk, which means possibility of realizing losses due to the inability of the members of the Group to collect receivables because of limitations imposed by official state documents and other official bodies of the debtor's country of origin, as well as general and systemic conditions in such country;

- Risk of transfer, which relates to the probability of realized losses due to the inability to collect receivables presented in currency that is not the official currency of debtor's country of origin, and is caused by limitations in payment obligations toward creditors from other countries in specific currency that is predetermined by official state documents and other official bodies debtor's country of origin.

The Group controls country risk at the level of individual payments and at portfolio level. In order to measure and control the level of exposure to the risk of a country where it operates, the Group assigns an internal rating category of the debtor's country of origin, based on the rating assigned by internationally recognized rating agencies, and by determining exposure limits as a percentage of the Group's equity in regard to category of internal country's rating. The Group measures and controls the level of exposure to the portfolio risk of a country by grouping receivables based on risk level of the debtor's country of origin.

In order to adequately control the risk of a country, the Group has to define limits of exposure categorized individually by the debtor's country of origin, and in case of evidenced exposure categorized by geographical region, risk assessment is also implemented on regional bases.

57.8. EQUITY MANAGEMENT

In accordance with regulatory requirements, Basel II standards have been implemented during 2011 by applying a standard approach to calculating capital requirements. Changes in the legislative framework in respect of capital adequacy and risk control affected capital levels and the Group's capital ratios.

Through its strategy the banking Group controls equity, secures a level stability and internal equity structure which offers adequate support to gradual increase in placements, future funding and its utilization at Group level, dividend policy, as well as changes in regulatory requirements.

The equity management plan, as part of the system of equity management, contains:

- Strategic goals and schedules for their realization;
- Ways of organizing processes for internal equity management;
- Planning adequate levels of internal equity;
- Ways of reaching and maintaining adequate levels of internal equity;
- A business plan in case of unforeseen situations.

The Group continually implements processes of internal assessments of capital adequacy based on the nature, size and complexity of business operations, and in accordance with risk management strategy, policies for managing individual risks and capital management strategy.

The internal process of assessment of capital adequacy, as a documented and continuous process, meets the following requirements:

- It is based on risk identification and measurement ,
- It offers comprehensive assessment and risk monitoring to which the banking Group is or could be exposed;
- It secures adequate internal equity in accordance with the banking Group's risk profile;
- It is included in Bank management and decision making;
- It is subject to constant analysis, monitoring and review.

The phases in the internal process of the Group's capital adequacy assessment contain:

- identification of materially significant risks, in accordance with qualitative and quantitative criteria defined by methodology for materially significant risk identification;
- calculating the amount of required internal equity for individual risks, in accordance with methodology for measuring and assessing risk for the purpose of implementing internal assessment of capital adequacy;
- identification of total internal capital;
- comparison of calculated amounts in accordance with regulatory legislations and required amount of internal equity;

The Group operates based on the regulatory limit set by the National Bank of Serbia for minimal capital adequacy in the amount of 12%.

Operations of individual Group members are regulated by the regulatory bodies in the countries in which they operate in respect of minimum capital requirements and capital adequacy, as well as regulations at Group level.

The National Bank of Serbia prescribes that the capital adequacy ratio consists of the ratio between the banking Group's equity and the aggregate sum of the credit risk weighted assets, open currency position and operating risk exposure.

Credit risk weighted assets of the banking Group are calculated based on prescribed risk weightings for each assets class. Operating risk exposure is calculated by multiplying the reciprocal value of the regulatory capital adequacy ratio and operating risk capital requirement, computed as the three-year average of the product of the exposure indicator for all lines of business and the prescribed capital requirements rate for each line of business. The currency risk capital requirement at banking Group level is the sum of individual capital requirements for this risk for each member of the banking Group, for which the sumo of the net open currency position and the absolute value of the open position in gold exceeds 2% of their equity.

The banking Group's equity represents the sum of basic capital and additional capital reduced for deductible items.

Capital adequacy ratio	In thousands of RSD	
	2011	2010
Basic capital	43,190,509	39,269,697
Additional capital	5,852,703	1,475,848
Deductible items	(16,004,691)	(2,488,518)
Capital	33,038,521	38,257,027
Weight of assets on credit risk	164,932,865	196,623,027
Operating risk exposure	15,506,533	-
Currency risk exposure	436,125	7,626,391
Capital adequacy ratio	18,27%	18,78%

Basic goals for capital management are:

- Securing continuous business operations in unlimited time line in foreseeable future;
- Maintaining optimal capital structure;
- Minimizing capital expense;
- Securing risk protection;
- Enabling growth, trough expanding the range of its operations, that is Group development by implementing new software and methodological solutions;
- Preserving client's trust and financial potential of members of the Group.

TRANSLATION

57.9. MACROECONOMIC ENVIRONMENT AND GROUP OPERATIONS IN 2011

The negative effects of a slowdown in growth and the economic crisis in the world and in the Euro zone in 2011 contributed to economic trends in the Republic of Serbia and in countries of Group members, and contributed to a reduction in economic growth, increase in the budget deficit, reduction in demand for export products, reduction in foreign direct investments, increase in the unemployment rate, a high level of illiquidity of the economy and the retail sector, weakening of creditworthiness of both retail and corporate sectors, which was reflected in the banking sector.

During 2011 the government of countries of all Group members instituted measures for alleviating the negative effects of the world economic crisis through programs of economic support, increase in consumer purchasing power, limitation of public spending, incentives for investments, increase in credit activities of banks through credit subsidies.

Central banks undertook similar measures for the purpose of alleviating the effects of the economic crisis on the financial sector, measures for maintaining and strengthening financial system stability, loan reprogramming, with the objective of reducing credit risk pressure to which Group members are exposed.

Group management undertook all necessary measures and will continue to do so in the future, with a view to securing sustainable growth, business continuity, strengthening of market position of Group members, maintaining the quality of the credit portfolio while ensuring an adequate level of profitability for the Group, minimising risk exposure, maintaining required capital adequacy, in line with complex operating conditions.