KOMERCIJALNA BANKA A.D., BEOGRAD

Consolidated Financial Statements
Year Ended December 31, 2012
and Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

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Translation of the Independent Auditors' Report Issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Komercijalna banka a.d., Beograd

We have audited the accompanying consolidated financial statements of Komercijalna banka A.D., Beograd (the "Parent Bank"), which comprise the consolidated balance sheet as of December 31, 2012 and the related consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year than ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks, as well as for internal control relevant to 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 International Standards on Auditing and the Law on Accounting and Auditing of the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 of the Parent Bank for the year ended December 31, 2012 have been prepared, in all material respects, in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

Other Matter

The consolidated financial statements of the Parent Bank as of and for the year ended December 31, 2011 were audited by another auditor whose report dated April 11, 2012 expressed an unqualified opinion.

Belgrade, April 9, 2013

Deloitte d.o.o. BEOGRAD IV

Miroslav Tončić
Certified Auditor

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2012
(Thousands of RSD)

	Note	2012	2011
Interest income	5a	21,721,618	19,371,849
Interest expense	5b	(9,588,179)	(8,440,940)
Net interest income		12,133,439	10,930,909
Fee and commission income	6a	5,671,372	5,342,375
Fee and commission expense	6b	(841,098)	(673,655)
Net fee and commission income		4,830,274	4,668,720
Net gains/(losses) on the sale of securities carried at fair value through profit and loss	7	890	(19,109)
Net gains on the sale of securities available for sale	8	83,895	1,254
Net gains on the sale of other investments	9	2,124	1,812
Net foreign exchange losses	10	(8,027,572)	(147,380)
Dividend and other income from equity investments	11	2,251	7,997
Other operating income	12	252,106	195,988
Other operating expenses	16	(5,488,704)	(4,910,127)
Net impairment losses and provisions	13	(1,946,369)	(1,488,299)
Net gains/(losses) on the valuation of assets and liabilities	17/18	8,133,806	(124,248)
Staff costs	14	(4,708,699)	(4,370,602)
Depreciation and amortization	15	(842,991)	(758,925)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES		4,424,450	3,987,990
Income taxes	19	(499,462)	(440,351)
Deferred income tax benefit/ (expense)	21	21,331	(12,251)
NET PROFIT		3,946,319	3,535,388
Net profit/(loss) attributable to non-controlling interests of related parties		1	1
Net profit attributable to the owners of the parent entity		3,946,318	3,535,387
Earnings per share, in RSD		469	399
Diluted earnings per share, in RSD		290	257

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of the Bank as at April 9, 2013.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Savo Petrović
Finance and Accounting
Executive Director

Ivica Smolić
President
of the Executive Board

CONSOLIDATED BALANCE SHEET
As of December 31, 2012
(Thousands of RSD)

	Note	2012	2011
ASSETS			
Cash and cash equivalents	22	42,052,826	19,245,682
Revocable deposits and loans	23	45,826,369	59,038,570
Receivables arising from interest, fee and commission, trade and other receivables	24	1,744,180	1,320,367
Loans and deposits to customers	25	194,416,122	169,380,487
Securities	26	42,216,159	27,150,573
Equity investments (interests)	27	436,210	342,755
Other investments	28	3,230,128	2,206,812
Intangible assets	29	644,837	605,494
Property, equipment and investment property	30	7,871,320	7,872,205
Non-current assets held for sale and assets of discontinued operations	31	78,763	222,029
Deferred tax assets	32	4,896	-
Other assets	33	4,648,711	5,294,124
Total assets		343,170,521	292,679,098
LIABILITIES AND EQUITY			
Transaction deposits	34	45,840,849	36,844,907
Other deposits	35	204,644,393	183,078,009
Borrowings	36	1,411,962	2,255,677
Interest, fee and commission payables	37	191,129	206,901
Provisions	38	2,406,634	2,188,093
Taxes payable	39	24,571	45,021
Tax and dividend payables	40	105,081	184,440
Deferred tax liabilities	32	948	17,361
Other liabilities	41	26,471,804	21,814,667
Total liabilities		281,097,371	246,635,076
Share capital and share premium	42	40,034,550	28,462,551
Reserves from profit for estimated losses	43	15,149,322	12,261,615
Revaluation reserves	44	867,774	689,620
Unrealized losses	45	(7,016)	(63,940)
Retained earnings	46	4,640,004	3,830,588
Translation reserves		1,388,454	863,532
Equity attributable to the owner		62,073,088	46,043,966
Non-controlling interests		62	56
Total equity		62,073,150	46,044,022
Total liabilities and equity		343,170,521	292,679,098
OFF-BALANCE SHEET ITEMS		207,913,711	186,996,187

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2012
(Thousands of RSD)

	Share Capital	Share Premium	Reserves from Profit for Estimated Losses	Revaluation Reserves	Translation reserves	Unrealized Losses	Retained Earnings	Equity Attributable to the Owner	Non-Controlling Interests	Total Equity
Balance at January 1, 2011	13,881,008	14,581,543	9,868,217	663,008	790,157	(15,882)	2,967,526	42,735,577	56	42,735,633
Transfer of 2010 retained earnings portion to reserves retained from profit	-	-	2,398,540	-	-	-	(2,398,540)	-	-	-
Increase	-	-	-	-	73,375	-	-	73,375	-	73,375
Gains on realized reserves	-	-	-	(15,051)	-	-	15,051	-	-	-
Adjustment based on the effects of underused tax assets and tax depreciation for 2010	-	-	-	-	-	-	1,428	1,428	-	1,428
Decrease based on the change in the fair value of securities available for sale	-	-	-	(40,039)	-	-	-	(40,039)	-	(40,039)
Increase based on the change in the fair value of equity investments and securities available for sale	-	-	-	82,249	-	-	-	82,249	-	82,249
Net losses on the sale of securities available for sale	-	-	-	(547)	-	-	-	(547)	-	(547)
Net losses on the change in the fair value of equity investments and securities available for sale	-	-	-	-	-	(48,058)	-	(48,058)	-	(48,058)
Payment of dividends for priority shares	-	-		-	-	-	(37,575)	(37,575)	-	(37,575)
Employee share in profit	-	-	-	-	-	-	(250,000)	(250,000)	-	(250,000)
Profit for the year	-	-	-	-	-	-	3,535,387	3,535,387	1	3,535,388
Foreign exchange losses	-	-	(5,142)	-	-	- -	(2,352)	(7,494)	-	(7,494)
Other	-	-	-	-	-	-	(337)	(337)	(1)	(338)
Balance at December 31, 2011	13,881,008	14,581,543	12,261,615	689,620	863,532	(63,940)	3,830,588	46,043,966	56	46,044,022
Capital increase	3,310,456	8,261,541	-	-	-	-	-	11,571,997	6	11,572,003
Transfer of 2011 retained earnings portion to reserves retained from profit	-	-	2,833,388	-	-	-	(2,833,388)	-	-	-
Net increase in foreign exchange gains based on equity investments	-	-	-	-	524,922	-	-	524,922	-	524,922
Gains on realized reserves	-	-	-	(10,037)	-	-	10,037	-	-	-
Decrease based on the change in the fair value of equity investments and securities available for sale	-	-	-	188,191	-	(12,856)	-	175,335	-	175,335
Adjustment based on the fair value of equity investments (Note 45)	-	-	-	-	-	76,783	-	76,783	-	76,783
Net losses on the change in the fair value of securities available for sale	-	-	-	-	-	(7,003)	-	(7,003)	-	(7,003)
Payment of dividends for priority shares	-	-		-	-	-	(40,264)	(40,264)	-	(40,264)
Employee share in profit	-	-	-	-	-	-	(308,000)	(308,000)	-	(308,000)
Profit for the year	-	-	-	-	-	-	3,946,318	3,946,318	1	3,946,319
Foreign exchange gains	-	-	54,319		-	-	37,589	91,908	-	91,908
Other	2	-	-	-	-	-	(2,876)	(2,874)	(1)	(2,875)
Balance at December 31, 2012	17,191,466	22,843,084	15,149,322	867,774	1,388,454	(7,016)	4,640,004	62,073,088	62	62,073,150

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
Year Ended December 31, 2012
(Thousands of RSD)

	2012	2011
Cash inflows from operating activities	25,803,366	24,546,091
Interest receipts	19,889,011	18,862,432
Fee and commission receipts	5,647,142	5,363,259
Receipts of other operating income	264,962	312,403
Receipts from dividends and profit distribution	2,251	7,997
Cash outflows from operating activities	(20,434,685)	(17,976,229)
Interest paid	(9,327,920)	(8,117,891)
Fees and commissions paid	(835,896)	(670,677)
Payments to, and on behalf of employees	(4,637,706)	(4,333,642)
Taxes, contributions and other duties paid	(930,565)	(819,968)
Payments of other operating expenses	(4,702,598)	(4,034,051)
Net cash generated by operating activities prior to increases or decreases in advances and deposits	5,368,681	6,569,862
Net decrease in loans and advances to banks and customers	(2,657,364)	(16,776,080)
Net increase in deposits due to banks and customers	26,561,747	8,039,250
Net increase/(decrease) in securities carried at fair value through profit and loss, trading investments and short-term securities held to maturity	1,418,080	(956,265)
Income taxes paid	(665,335)	(338,663)
Dividends paid and employee share in profit	(278,218)	(289,042)
Net cash generated by/(used in) operating activities	29,747,591	(3,750,938)
Outflows for purchases of equity investments (interests)	(751)	(1,846)
Outflows for purchases of securities	(15,046,728)	(7,290,620)
Outflows for purchases of intangible assets, property and equipment	(692,350)	(820,945)
Net cash used in investing activities	(15,739,829)	(8,113,411)
Inflows arising from capital increase	11,571,997	-
Inflows from borrowings	4,613,183	2,680,312
Inflows from subordinated debt	453,870	5,232,045
Net cash generated by financing activities	16,639,050	7,912,357
Net increase/(decrease) in cash and cash equivalents	30,646,812	(3,951,992)
Cash and cash equivalents, beginning of year	19,245,682	23,254,940
Foreign exchange losses on translation of cash	(7,839,668)	(57,266)
Cash and cash equivalents, end of year	42,052,826	19,245,682

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

1. BANKING GROUP'S ESTABLISHMENT AND ACTIVITY

Komercijalna banka a.d., Beograd (hereinafter the "Parent Bank"), was established as at December 1, 1970 and transformed into a shareholding company as of May 6, 1992.

At December 31, 2012, the Bank's most significant holders controlling shares are the following:

1. Republic of Serbia
2. EBRD, London.

A more detailed overview of the Bank's share capital structure is provided in Note 42.

The Bank has three subsidiaries with the following equity interests:

- 100% - Komercijalna banka a.d. Budva, Montenegro
- 100% - Investment Fund Management Company KomBank Invest a.d., Beograd, Serbia
- 99.998 % - Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina

Minority owner (non-controlling interest) of Komercijalna banka a.d. Banja Luka with 0.002% equity interest is the Exports Insurance and Financing Agency of the Republic of Serbia.

The consolidated financial statements and notes to the consolidated financial statements represent information of the Parent Bank, of Komercijalna banka a.d. Budva, Montenegro, Komercijalna banka a.d. Banja Luka and Investment Fund Management Company KomBank Invest a.d., Beograd (jointly the "Group").

Komercijalna banka a.d. Budva was established as an affiliate of Komercijalna banka a.d, Beograd in November 2002 and entered into the Central Register maintained by the Commercial Court of Podgorica at March 6, 2003.

Komercijalna banka a.d. Banja Luka was established in September 2006 and registered with the court register under the relevant decision of the Basic Court in Banja Luka at September 15, 2006.

Was founded in December 2007 and registered at February 5, 2008.

The Group's activities include credit activities, deposit and guarantee activities and payment transfer operations in the country and abroad in accordance with the Law on Banks, as well as investment fund managing activities. The Group is obligated to operate based upon principles of liquidity, solvency and profitability.

As of December 31, 2012, the Group was comprised of the Central Office in Belgrade at the address of No.14, Svetog Save St., head office of Komercijalna banka a.d. Budva in Budva, head office of Komercijalna banka a.d. Banja Luka in Banja Luka, head office of Investment Fund Management Company KomBank Invest a.d., Beograd in Belgrade, 40 branch offices and 250 sub-branches in the territories of Serbia, Montenegro and Bosnia and Herzegovina

As of December 31, 2012, the Group had 3,254 employees (December 31, 2011: 3,282 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Statement of Compliance

In 2012, the Group members maintained their books of account and prepared stand-alone financial statements in accordance with the local legislation, other regulations based on the International Accounting Standards, (IAS) and International Financial Reporting Standards (IFRS) as well as pursuant to the regulations of the competent central banks and regulatory bodies. The Stand-alone financial statements were audited by external independent auditors whose reports expressed unqualified opinions thereof, based on the effective local regulations.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Statement of Compliance (Continued)

For preparation of consolidated financial statements, stand-alone financial statements of the subsidiaries were adjusted to the financial statement presentation in accordance with the accounting regulations of the Republic of Serbia.

2.2. Basis of Preparation and Presentation of Financial Statements

The Parent Bank maintains accounting records and prepares financial statements in compliance with the effective law on Accounting and Auditing of the Republic of Serbia (Official Gazette of the Republic of Serbia nos. 46 /2006, 111/2009 and 99/2011), Law on Banks (Official Gazette of the Republic of Serbia nos.107/2005 and. 91/2010) and other relevant bylaws of the National Bank of Serbia and other effective regulations of the Republic of Serbia.

Pursuant to the effective Law on Accounting and Auditing legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the prevailing legislation and professional rules which include: the Framework for the Preparation and Presentation of Financial Statements (the “Framework”), International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as the related interpretations representing an integral part of these standards which were in effect as at December 31, 2002.

The amendments to IAS, as well as the newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”), in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (“Ministry”) and published in the Official Gazette of the Republic of Serbia number 77 of October 25, 2010.

However, until the preparation date of the accompanying consolidated financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated. In addition, the accompanying consolidated financial statements are presented in the format prescribed under the “Guidelines on the Prescribed Form and Content of the Financial Statements of Banks and Other Financial Institutions” (Official Gazette of the Republic of Serbia nos. 74/2008, 3/2009 and 5/2010). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, “Presentation of Financial Statements,” and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Standards and interpretations in issue but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.3 and 2.4.

The consolidated financial statements were prepared at historical cost principle except for the following items:

- financial instruments carried 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
- building properties.

The Group’s consolidated financial statements were prepared on a going concern assumption entailing the Group’s continuation of operations in the foreseeable future.

The Group’s consolidated financial statements are stated 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 from the financial statements of Komercijalna banka a.d., Budva and BAM from the financial statements of Komercijalna banka a.d., Banja Luka - have been translated into the reporting currency, i.e. the Republic of Serbia.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.3. Standards and Interpretations in Issue, but not yet Translated and Adopted

As of the consolidated financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Serbia:

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);

- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);

- Amendments to IAS 38 “Intangible Assets” (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);

- Amendments to IFRS 2 “Share-Based Payment”: Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments IFRIC 9 “Reassessment of Embedded Derivatives” effective for annual periods beginning on or after July 1, 2009 and IAS 39 “Financial Instruments: Recognition and Measurement” – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);

- IFRIC 18 “Transfers of Assets from Customers” (effective for annual periods beginning on or after July 1, 2009);

- “Conceptual Framework for Financial Reporting 2010” being an amendments to “Framework for the Preparation and Presentation of Financial Statements” (effective for transfer of assets from customers received on or after September 2010);

- „Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);

- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);

- Amendments to various standards and interpretations “Improvements to IFRSs” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.3. Standards and Interpretations in Issue, but not yet Translated and Adopted (Continued)

- Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction" – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010).
- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012).

2.4. Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these consolidated financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2015);
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures (effective for annual periods beginning on or after January 1, 2015);
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance" (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.4. Standards and Interpretations in Issue not yet in Effect (Continued)

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Annual improvements 2009-2011 cycle issued in May 2012 (effective for annual periods beginning on or after January 1, 2013);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after January 1, 2013).
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Exemption from Consolidation of Subsidiaries under IFRS 10 'Consolidated Financial Statements' (effective for annual periods beginning on or after January 1, 2014).

2.5. Comparative Information

Comparative information includes the Bank's consolidated financial statements as of and for the year ended December 31, 2011, which were audited by another auditor.

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

The accompanying consolidated financial statements represent the financial statements of the Group where the stand-alone financial statements of the Parent Bank and the following subsidiaries and related parties are consolidated:

- Komercijalna banka a.d. Budva, Montenegro, which is fully owned by the Parent Bank;
- Investment Fund Management Company KomBank Invest a.d., Beograd, which is fully owned by the Parent Bank; and
- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina, where the Parent Bank owns 99.998% of the equity.

The consolidated income statement and consolidated cash flow statement have been reclassified at the average exchange rate in the Republic of Serbia for the year 2012 of RSD 113.0415 for EUR 1 and RSD 57.7972 for BAM 1, while the other consolidated financial statements (balance sheet, statement of changes in equity and statistical annex) were reclassified by applying the closing exchange rate effective as of the balance sheet date of RSD 113.7183 for EUR 1, i.e. RSD 58.1432 for BAM 1.

3.1. Interest and Commission Income and Expenses

Interest income and expenses, including penalty interest and other income and other expenses arising from interest-bearing assets and interest-bearing liabilities, are recognized in the income statement on an accrual basis and pursuant to the contractual terms agreed upon by and between the Group members and their clients.

Income from loan origination fees and commissions is deferred and recognized as interest income within the income statement by applying the effective interest method, i.e. as the effective return on loans issued.

Interest income also includes income from hedging financial instruments, mostly based on indexing repayment annuities to the RSD/EUR exchange rate or another currency exchange rate, or consumer price index and is calculated at each month-end over the repayment period and as at the repayment annuity maturity date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.2. Fee and Commission Income and Expenses

Fee and commission income and expenses are recognized as per "matching principle."

Fee and commission income and expenses from banking services are determined upon maturity for collection, i.e. when realized. Such income and expenses are recognized within the income statement upon occurrence, i.e. upon maturity for collection. Fees and commissions charged for guarantees and other contingent liabilities are deferred and recognized as income proportionately over their maturity periods.

3.3. Income and Expenses from Securities

All realized gains and losses arising from movements in the market value of trading securities are recognized within the consolidated income statement.

Gains and losses arising from changes in amortized cost of securities held to maturity are recognized as income and expenses.

Unrealized gains and losses incurred upon the change in the market value of investments available for sale are recognized under revaluation reserves within equity. When such assets are sold or permanently impaired, respective portions of the previously formed revaluation reserves are stated in the consolidated income statement as gains or losses on the sale of securities.

Gains/losses based on the contractually agreed currency clause and changes in exchange rates of securities available for sale as well as interest income from securities available for sale are included in the consolidated income statement.

Dividend income from investments in shares issued by other legal entities is included in divided income upon dividend collection.

Impairment allowances for estimated risk effects on all types of securities are recognized in the consolidated income statement.

3.4. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official middle exchange rates as determined in the interbank currency market and effective at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into dinars by applying the official middle exchange rates as determined in the interbank currency market and prevailing at the consolidated balance sheet date.

Net foreign exchange positive or negative effects arising upon the translation of transactions, and the consolidated balance sheet assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains or losses.

Commitments and contingent liabilities denominated in foreign currencies are translated into dinars by applying the official middle exchange rates as determined in the interbank currency market and prevailing at the consolidated balance sheet date.

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.5. Property, Investment Property, Equipment and Intangible Assets

3.5.1. Intangible Assets

Intangible assets are recognized at cost or cost price. Subsequent to the initial recognition, intangible assets are stated at cost less accumulated amortization and impairment losses.

Calculation of amortization of intangible assets commences in the month following the one in which a relevant intangible assets was placed into use or became available for use.

Amortization of intangible assets is charged to the base comprised of cost net of residual value. If the residual value of an asset is immaterial, it is not taken into consideration upon calculation of amortization, i.e. it does not reduce the amortization base.

Intangible assets are amortized on straight-line basis using the annual amortization rates ranging from from14.29% to 33.34%.

3.5.2. Property and Equipment

Recognition and Measurement

Fixed assets other than property are measured at cost less accumulated depreciation and impairment losses. As from January 2005, the Group had adopted revaluation method for properties in the ownership of the Group members. Based on the market value appraisal adopted by the Parent Bank's Board of Directors, revaluation was performed and value of property was increased in 2005.

Items of fixed assets are initially measured at cost or purchase price.

Cost includes all expenses directly attributable to acquisition of assets. Purchased software necessary for the functioning of equipment is capitalized as part of such equipment.

In instances that parts of a single asset have different useful life durations, they are carried as separate items (major components) of equipment.

Following initial recognition, the Group applies cost model for subsequent measurement of equipment. Following initial recognition, the Group applies revaluation model for subsequent measurement of property.

Subsequent Expenditure

Cost of spare part replacement is recognized at carrying value if it is probable that the future economic benefits associated with the respective spare part will flow to the Group and if the spare part purchase price can be measured reliably. Spare parts and servicing equipment are recorded within the consolidated income statement when used up.

Depreciation

Depreciation is calculated on a straight-line basis to the cost or revalued amount of property and equipment by applying the following annual rates in order to write the cost or revalued amount less residual value of those assets down in equal annual amounts over their useful lives.

Annual depreciation rates applied are as follows:

Buildings	2.5%
Computer equipment	25%
Furniture and motor vehicles	10%-15.5%
Leasehold improvements and other	4.25%-86.2%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.5. Property, Investment Property, Equipment and Intangible Assets (Continued)

3.5.3. Investment Property

The Group's investment property is property held to earn rental income and/or for capital appreciation or both.

An item of investment property is initially measured at cost or purchase price.

Transaction costs are not included in the initial measurement.

After initial recognition, the Group applies cost method for subsequent measurement of investment property.

Depreciation of investment property is provided on a straight-line basis to the cost of investment property by applying the annual depreciation rate of 2.5%.

3.6. Inventories

3.6.1. Inventories

Inventories are stated at the lower of cost and net realizable value. The Group includes in inventories assets acquired in lieu of collection of matured receivables arising from loans.

3.6.2. Non-Current Assets Held for Sale

Non-current assets held for sale are assets whose carrying amounts can primarily be recovered through sales and not through further utilization.

A non-current asset is classified as non-current asset held for sale if the following criteria are met:

- An asset (or a group of assets) is available for immediate sale in the condition as is;
- There is an adopted plan for sales of non-current assets and activities have already commenced to achieve the sales plan;
- There is an active market for such assets and the relevant asset is actively present on the market;
- The likelihood of prospective sales is high, i.e. it is expected that the sales will be realized within a year from the date of classification of the relevant item as a non-current asset held for sale.

Non-current assets held for sale are initially measured at the lower of the net book value (carrying amount) and the market value (fair value) net of costs to sell. From the initial classification of such assets as non-current assets held for sale, the Group ceases to depreciate those assets.

In case of changes to the sales plan, a non-current asset ceases to be classified as a non-current asset held for sale and is measured at the lower of the following two amounts:

- Carrying amount of the relevant asset prior to its classification as a non-current asset held for sale allowing for the accumulated depreciation and impairment that would be recognized had the relevant asset not been classified as a non-current asset held for sale; and
- Recoverable amount as at the date of subsequent decision not to sell the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.7. Financial Instruments

Classification

The Bank classifies its financial assets into the following categories: financial assets carried at fair value through profit and loss, loans and receivables, financial assets available for sale and financial assets held to maturity. Classification depends on the intended purpose for which the financial assets were acquired.

A Group member's management classifies financial investments upon initial recognition.

Recognition

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Measurement

Financial instruments are initially measured at fair value, which includes transaction costs in all financial assets or liabilities except for those carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognized at fair value whereas the transaction costs are charged to the operating expenses within the consolidated income statement.

Available-for-sale financial and assets carried at fair value through profit and loss are subsequently stated at fair value. Loans and receivables as well as financial assets held to maturity are measured at amortized cost by applying the effective interest method.

Subsequent to initial recognition, financial liabilities are stated at amortized cost using the effective interest method, except financial liabilities carried at fair value through profit and loss.

Derecognition

Financial assets cease to be recognized when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. Any right to ceded financial assets, created or retained by a Group member is recognized as a separate financial asset or liability.

Financial liabilities cease to be recognized when a Group member fulfills the obligations, or when the contractual repayment obligation has either been cancelled, ceded or has expired.

Amortized Cost Measurement

Amortized cost of a financial asset or a liability is the amount at which an asset or a liability is initially measured decreased by principal repayments made and increased or decreased by accumulated amortization by applying the effective interest method on the difference between the initial value and the nominal value at the instrument's maturity date, less any impairment.

Fair Value Measurement

Fair value of financial instruments is an amount for which an asset can be exchanged or a liability settles between informed and willing parties in an arm's length transaction.

Fair value is determined by applying the market information available at the reporting date and other valuation models used by a Group member.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.7. Financial Instruments (Continued)

Fair Value Measurement (Continued)

Fair values of certain financial instruments stated at nominal values approximate their respective carrying values. Such instruments include cash and receivables and liabilities without contractually defined maturities or fixed interest rates. Other receivables and liabilities are reduced to the net present value b discounting the expected future cash flows by using current interest rates. In the opinion of the management, due to the nature of the Group's operations and its generally adopted policies, there are no significant differences between the carrying value and fair value of the financial assets and liabilities.

Fair value of irrevocable loans and off-balance sheet items is equal to their carrying amounts.

Impairment

As at the balance sheet date the Bank reviews financial assets in order to determine whether there is indication of impairment. If there is objective evidence of impairment, the recoverable amount of the investment is determined. For the purpose of adequate and efficient credit risk management, the Group has adopted internal bylaws prescribing special policies and procedures for identifying and managing bad assets.

A Group member's management assesses recoverability of receivables, i.e. allowance for impairment of investments based on individual assessment of risk-weighted receivables. Risk-weighted receivables are all past-due receivables. The Bank assesses the collectible amount of receivables and investments taking into consideration regularity in repayment, financial situation of the debtors and quality of collaterals securitizing the repayment as well as the contractually defined cash flows and historical credit losses.

A Group member charges allowance for the assessed impairment to the expenses of the period in which the impairment occurred. If in a subsequent period, the management determines that conditions have changed and the impairment no longer exists or decreases, the previously formed allowance for impairment is reversed to income in profit and loss. Reversal of impairment allowance cannot result in the carrying amount of the relevant asset in excess of what the carrying amount of the asset would have been had the impairment not been recognized.

3.8. Loans

Loans originated by the Group members are stated within the balance sheet at the amount of principal outstanding, less allowance for impairment, which is based on the assessment of specifically-identified exposures and losses that are inherent in the Bank's loan portfolio. The management applies the internally adopted methodology in the evaluation thereof based on the fully adopted and implemented IAS 39, as disclosed in Note 4.

Loans that are disbursed in dinars and index-linked to the dinar-EUR exchange rates, other currency exchange rates or to the consumer price index are revalued in accordance with the specific individual loan agreements in question. The difference between the nominal value of the principal outstanding and the revalued amount is stated within receivables from loans and advances to customers. The effects of such revaluation are included under gains and losses on the valuation of assets and liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.9. Financial Assets

3.9.1. Financial Assets Carried At Fair Value through Consolidated Profit and Loss

Financial assets carried at fair value through consolidated profit and loss are financial assets held for trading. A financial asset is classified into this category if acquired primarily for sale in the near term. Derivatives are also classified as assets held for trading except for those derivatives designated as risk hedging instruments against risks. Assets within this category are classified as current assets. Financial assets carried at fair value through consolidated profit and loss include old foreign currency savings bonds issued by the Republic of Serbia and bank and corporate shares acquired for trading.

3.9.2. Financial Assets Held to Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group members have the positive intention and ability to hold to maturity. This category of securities includes commercial papers issued by legal entities and treasury bills issued by the Ministries of Finance with the Governments of the Republic of Montenegro and the Republic of Serbia.

If a Group member decides to sell a substantial portion of the financial assets held to maturity, the entire category is reclassified to assets available for sale. Financial assets held to maturity are classified as non-current assets unless their maturities are due in less than 12 months after the balance sheet date, in which case such assets are classified as current assets.

Financial assets held to maturity are initially recognized at cost. As at the balance sheet date, such instruments are stated at amortized cost, i.e. the present value of the future cash flows determined by applying the effective interest rate inherent in the instrument.

3.9.3. Equity Investments and Other Financial Assets Available for Sale

Financial assets available for sale are non-derivative financial assets that are designated as available for sale or not classified as loans and receivables, financial assets held to maturity and financial assets carried at fair value through consolidated profit and loss. Available-for-sale financial assets represent financial instruments intended to be held over an indefinite time period which may be sold for liquidity purposes, due to the movements in interest rates, exchange rates or prices of capital. Securities available-for-sale with fixed maturities for which an active market and quoted prices do not exist are measured at amortized cost using the effective interest method. Financial assets available for sale comprise commercial notes and bonds issued by the Republic of Serbia, shares of other banks and shares of and equity investments in other legal entities.

Available-for-sale assets are initially measured cost and stated at market value if known as the balance sheet date. Unrealized gains and losses incurred upon the change in the market value are either credited or charged to revaluation reserves within consolidated equity until this financial asset is sold, collected or disposed of, when revaluation reserves are transferred to income or expenses.

In instances of decrease in value of financial assets available for sale due to objective evidence of impairment (long-term and continuous decrease in fair value over a period longer than 12 months, or decrease in value of more than 30% of the assets' cost), accumulated losses recognized within equity is derecognized from equity and recognized as impairment loss within expenses, although such financial assets do not cease to be recognized (IAS 39.59, IAS 39.67 and IAS 39.68).

For equity investments the Group has intention to hold such assets over an indefinite time. Equity investments may be sold for liquidity purposes or due to the movements in market prices. Equity investments for which there is no active market are measured at cost.

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.9. Financial Assets (Continued)

3.10. Cash and Cash Equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash on hand, balances on the accounts held with other banks and cheques in collection.

3.11. Managed Funds

The Group members manage funds on behalf of, and for the account of third parties, and charge fees for these services. These items are not included in the Group's consolidated balance sheet but presented within consolidated off-balance sheet items.

3.12. Taxes and Contributions

3.12.1. Income Taxes

Income tax represents an amount arrived at by applying the legally prescribed tax rate to the amount of consolidated profit before taxation stated in accordance with IAS/IFRS as adjusted for effects of permanent differences that reduce the prescribed tax rate to the effective tax rate.

Current income tax is payable at the legally prescribed rate of 10% on the tax base determined within the tax balance and reported in the annual corporate income tax return. The taxable base stated in the income tax return includes the consolidated profit, as adjusted for differences that are specifically defined under statutory tax rules of the republic of Serbia, less any prescribed tax credits. The income tax rate of 15% is to be applied after January 1, 2013.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, current period tax losses stated in tax return may be used to reduce or eliminate taxes to be paid in future periods but only for duration of no longer than five ensuing years. Tax losses incurred prior to January 1, 2010 are available for carryforward for duration of ten ensuing years.

Deferred taxes are determined by applying the method that enables consideration of temporary differences between the carrying amounts of assets and liabilities presented in the financial statements and the amounts of the assets and liabilities for tax purposes.

Pursuant to the effective regulations in the Republic of Serbia, the Parent Bank cannot perform tax consolidation. The final amounts of taxes payable are determined by the Group members by applying the tax rate to the taxable base determined according to the respective local tax regulations and disclosed in separate notes to their statutory stand-alone annual financial statements (Note 19).

The tax rates applied in the year 2012 are as follows:

Serbia	10%
Montenegro	9%
Bosnia and Herzegovina	10%

3.12.2. Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, value added tax, taxes and contributions to salaries charged to employer and various other taxes and duties paid pursuant to effective republic and local tax regulations. These taxes and contributions are included within other operating expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.13. Deposits

Deposits are stated at the amounts of placed funds which may be increased by the interest accrued, depending on the contractual terms agreed between the depositors and a Group member. The Group members agreed on interest rates depending on the amount of funds deposited.

Foreign currency deposits are stated in RSD at the official middle exchange rates prevailing as at the balance sheet date.

Deposits are presented as transaction and other deposits within the consolidated balance sheet.

3.14. Consolidated Equity

The Group's equity is comprised of the share capital and share premium, reserves from profit for estimated losses, revaluation reserves, retained earnings and the profit for the year less unrealized losses on the securities available for sale.

The Group's core capital was formed from the monetary contributions of the Parent Bank's founder and a minority owner of Komercijalna banka a.d., Banja Luka. A founder cannot withdraw assets contributed to the Group's core capital.

3.15. Employee Benefits

In accordance with regulatory requirements, the 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. The 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.

Since December 2012, the Parent Bank has agreed on voluntary health insurance for all members of the Bank's Executive Board. Pursuant to the effective regulations of the Republic of Serbia, such benefits are treated as salaries.

In 2012, the Group reversed provisions in accordance with IAS 19 based on the decrease in long-term liabilities for employee retirement benefits and increase in liabilities for unused annual leaves – vacations. The Group hired a certified actuary to perform evaluation and calculation of provisions for the aforesaid purpose.

The Group does not have defined benefit plans or share-based remuneration options and there were no identified liabilities thereof as of December 31, 2012.

3.16. Segment Information

The Parent Bank monitors and discloses information on its operating segments – lines of business (Note 56). The major portion of the Group's business operations is conducted in the territory of the Republic of Serbia. Subsidiaries are immaterial for the Parent Bank's stand-alone financial statements.

The Parent Bank's total balance sheet assets accounted for 92.87% of the total consolidated balance sheet assets (2011: 92.25%).

The total balance sheet assets of Komercijalna banka a.d., Budva accounted for 3.05% of the total consolidated balance sheet assets (2011: 3.24%), the total balance sheet assets of Komercijalna banka a.d., Banja Luka - 4.05% (2011: 4.48%) and those of KomBank Invest- 0.03% of the total consolidated balance sheet assets (2011: 0.03%).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.16. Segment Information (Continued)

Upon consolidation, all inter-company transaction balances were eliminated from the balance sheet in the amount of RSD 5,997,181 thousand (2011: RSD 5,690,480 thousand). From the income statements income totaling RSD 4,857 thousand (2011: RSD 165,859 thousand was eliminated, as well as expenses amounting to RSD 6,055 thousand (2011: RSD 46,767 thousand) – Note 53.

Concentrations of investments per borrower and industry sector are presented within Note 54 – Risk Management.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

Key Accounting Estimates and Assumptions

The management makes estimates and assumptions that influence the amounts of assets and liabilities of the forthcoming financial year. The estimated values often differ from the actually achieved results. What follows are the key assumptions in respect of the future events and other sources of estimations, uncertainties as of the balance sheet date which represent risk from material adjustments to the amounts of balance sheet items in the following fiscal year.

Impairment Allowance

The Group reviews receivables and other investments in order to determine impairment allowance and provisions on a monthly basis. In determining whether the impairment losses on receivables and investments should be recognized in the income statement, Group members assess whether there is information/evidence indicative of the existence of a measurable decrease in the estimated future cash flows on a portfolio level before such losses can be identified at an individual level. Information indicating impairment losses include: irregularity and default in liability settlement, local market and economic conditions which cause delays in payment, etc. Management's estimates of impairment of receivables and other investments using the estimated future cash flows are based on actual historical losses incurred on financial assets with similar risk exposure and similar impairment causes. The methodology and assumptions underlying the process of defining the amounts and periods of cash inflows from investments are reviewed on an ongoing basis in order to minimize the difference between the estimated and actual losses.

Impairment assessment is performed on an individual level for each materially significant loan and on a portfolio level for materially less significant loans. The amount of impairment is individually assessed as the difference between the carrying amount and the present value of the expected future cash flows determined by discounting the relevant loan at the effective interest rate thereof.

Impairment of materially less significant loans is assessed on a portfolio basis for each credit rating group separately, given their similar characteristics in respect of credit risk in the percentage of migration of the relevant credit rating group into the V credit rating group as adjusted for the percentage of collected loans previously classified into V credit rating group.

If individual impairment assessment of a materially significant loan reveals no objective evidence of loan impairment, the impairment thereof is calculated as the percentage of impairment of the whole credit rating group the loan belongs to.

The amounts of inflows expected from a loan are assessed based on evidence of the debtor's planned earnings. In case these are determined as insufficient, a Group member assesses the cash flow from collateral foreclosure. The number of days in default against certain receivables from debtors is determined by considering all relevant evidence about the timeline of debtors' planned earnings inflow as well as historical default of those debtors.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES (Continued)

Key Accounting Estimates and Assumptions (Continued)

Fair Value

The fair value of financial instruments for which an active market does not exist is determined by applying different valuation methods and techniques. For financial instruments with less trading volume, whose market prices are therefore less transparent, determination of fair value is more subjective and requires a higher degree of assessment utilization depending on the instrument liquidity, risk concentration, market uncertainties, assumptions about the prices and other factors affecting the particular financial instrument.

Provisions for Litigations

The Group assesses the probability of adverse outcome of the ongoing litigations as well as the amounts probable or reasonable loss estimates. Reasonable estimates encompass management's judgment after considering information including notifications, settlement, legal department estimates, available facts, potentially responsible party identification and their possible contribution to the resolution of suits as well as historical experience. Provision for litigation is formed/recognized when the Group has a present obligation it will be required to settle and when a reliable estimate can be made of the amount of the obligation through thorough analysis. The required amount of provision can change in the future due to new events or new information obtained.

Matters that either represent commitments or fail to meet the criteria for provisioning are disclosed except in the instance that there is a remote probability that economic benefits will flow out of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated.

5. INTEREST INCOME AND EXPENSES

a) Interest Income

	Year Ended December 31, 2012	2011
Interest income in RSD		
From loans		
- financial and insurance sector	396,740	749,096
- corporate customers	8,647,012	8,448,934
- entrepreneurs	222,550	205,600
- public sector	487,996	258,982
- retail customers	4,686,282	4,160,892
- other customers	1,674	1,032
From deposits		
- financial and insurance sector	476,353	261,588
From securities		
- financial and insurance sector	116,704	-
- corporate clients	12,214	15,396
- public sector	2,013,818	1,853,230
From other investments		
- corporate clients	108,804	138,324
- entrepreneurs	29	27
- retail customers	923,684	729,820
	18,093,860	16,822,921
Interest income in foreign currencies		
From loans		
- public enterprises	81,201	60,383
- corporate customers	1,809,309	1,428,797
- entrepreneurs	1,289	959
- public sector	39,783	3,641
- retail customers	336,977	316,796
- foreign entities	430,891	373,537
- registered agricultural producers	167	73
From deposits		
- financial and insurance sector	2,016	10,414
- retail customers (based on approved limits)	-	1,028
- foreign entities	13,830	76,170
From securities		
- public sector	900,167	248,610
From other investments		
- financial and insurance sector	11,528	25,798
- foreign entities	600	2,722
	3,627,758	2,548,928
	21,721,618	19,371,849

Within total interest income, deferred interest income on loans totaled RSD 593,994 thousand. Loan origination fee income represents 2.73% of the total recognized interest income.

Fees that are collected in advance comprising deferred income totaling RSD 923,746 thousand are presented within other liabilities within the balance sheet.

The estimated effect of interest that was not accrued and stated within the Group's income statement for the year 2012 amounted to RSD 140,880 thousand and is associated with suspended interest on loans and investments subject to litigation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated.

5. INTEREST INCOME AND EXPENSES (Continued)

b) Interest Expenses

	Year Ended December 31, 2012	2011
Interest expenses in RSD		
From loans		
- financial and insurance sector	69,643	10,156
From deposits		
- financial and insurance sector	559,846	421,375
- public enterprises	173,423	254,114
- corporate customers	497,862	605,946
- entrepreneurs	12,885	9,633
- public sector	871,631	826,015
- retail customers	128,794	114,751
- foreign entities	308	274
Based on other liabilities		
- corporate customers	119	28
- retail customers	2,290	27,064
	2,316,801	2,269,356
Interest expenses in foreign currencies		
From loans		
- financial and insurance sector	95,707	91,316
- public sector	3,380	2,240
- foreign entities	654,288	229,899
From deposits		
- financial and insurance sector	72,844	79,188
- public enterprises	116,580	122,157
- corporate customers	643,143	569,871
- entrepreneurs	101	48
- public sector	6,816	24,574
- retail customers	5,668,981	5,035,019
- foreign entities	4,320	5,421
- other customers	5,032	11,599
Based on other liabilities		
- financial and insurance sector	176	210
- foreign entities	10	42
	7,271,378	6,171,584
TOTAL	9,588,179	8,440,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated.

6. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

	Year Ended December 31, 2012	2011
Fees and commissions in RSD		
- financial and insurance sector	198,572	231,005
- public enterprises	41,840	38,233
- corporate customers	2,067,445	1,959,159
- entrepreneurs	561,649	505,073
- public sector	1,254	1,612
- retail customers	2,176,768	2,146,471
- foreign entities	124,853	68,489
- registered agricultural producers	-	11
- other customers	-	433
	5,172,381	4,950,486
Fees and commissions in foreign currencies		
- financial and insurance sector	15,555	11,626
- public enterprises	1,206	832
- corporate customers	209,677	174,052
- public sector	2,871	2,758
- retail customers	161,928	139,306
- foreign entities	98,369	55,241
- other customers	9,385	8,074
	498,991	391,889
	5,671,372	5,342,375

b) Fee and Commission Expenses

	Year Ended December 31, 2012	2011
Fees and commissions in RSD		
- financial and insurance sector	324,449	281,993
- corporate customers	246,617	180,907
- retail customers	-	22
- foreign entities	13,229	16,773
- other customers	555	124
	584,850	479,819
Fees and commissions in foreign currencies		
- financial and insurance sector	29,965	26,612
- foreign entities	202,518	154,315
- other customers	23,765	12,909
	256,248	193,836
	841,098	673,655

All amounts expressed in thousands of RSD, unless otherwise stated.

7. NET GAINS / (LOSSES) ON THE SALE OF SECURITIES CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS

	Year Ended December 31, 2012	2011
Gains on the sale of securities carried at fair value through profit and loss	2,777	20,598
Losses on the sale of securities carried at fair value through profit and loss	(1,887)	(39,707)
Net gains/(losses) on the sale of securities carried at fair value through profit and loss	890	(19,109)

8. NET GAINS ON THE SALE OF SECURITIES AVAILABLE FOR SALE

	Year Ended December 31, 2012	2011
Gains on the sale of securities available for sale	83,947	1,254
Losses on the sale of securities available for sale	(52)	-
Net gains on the sale of securities available for sale	83,895	1,254

9. NET GAINS ON THE SALE OF OTHER INVESTMENTS

	Year Ended December 31, 2012	2011
Gains on the sale of other investments	2,164	1,950
Losses on the sale of other investments	(40)	(138)
Net gains on the sale of other investments	2,124	1,812

10. FOREIGN EXCHANGE (LOSSES)/GAINS, NET

	Year Ended December 31, 2012	2011
Foreign exchange gains	6,087,360	1,443,798
Foreign exchange losses	(14,114,932)	(1,591,178)
	(8,027,572)	(147,380)

Foreign exchange gains and losses comprise positive and negative effects of foreign exchange translation of transactions performed in foreign currencies during the year and translation effects of balance sheet items into dinars at official exchange rates at each month-end.

Calculation of foreign exchange gains and losses is conducted and stated at gross principle (foreign exchange gains and losses) during the financial year.

11. INCOME FROM DIVIDENDS AND EQUITY INVESTMENTS

	Year Ended December 31, 2012	2011
Income from dividends and equity investments	2,251	7,997
	2,251	7,997

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12. OTHER OPERATING INCOME

	Year Ended December 31, 2012	2011
Other income from operations	159,169	144,582
Collected receivables previously written off	506	580
Gains on the sale of property, equipment and intangible assets	38,650	12,970
Write-off of liabilities	3,314	2,831
Surpluses	2,556	32
Other income	47,911	34,993
	252,106	195,988

The most significant amount within other operating income represents rental income from lease of property for usage as business premises of RSD 101,435 thousand.

13. IMPAIRMENT GAINS/(LOSSES) AND PROVISIONS, NET

a) Charged to Expenses/Income

	Year Ended December 31, 2012	2011
Impairment losses per balance sheet items		
- loans and advances to customers	7,189,091	7,116,808
- interest and fee receivables	405,143	749,325
- securities held to maturity	6,909	7,554
- equity investments and other securities available for sale	76,783	-
- other assets	195,142	72,174
Impairment losses per off-balance sheet items	545,478	497,160
Provisions for l for liabilities arising from litigations	220,967	1,124,856
Provisions for retirement benefits	65,113	51,702
Suspended interest	117,482	19,730
	8,822,108	9,639,309
Reversal of impairment of balance sheet items		
- loans and advances to customers	5,812,419	6,858,910
- interest and fee receivables	308,614	687,785
- securities held to maturity	7,073	3,254
- equity investments and other securities available for sale	-	1,568
- other assets	54,580	47,545
Reversal of provisions for losses per off-balance sheet items	545,018	392,108
Reversal of unused provisions for liabilities arising from litigations	18,249	-
Reversal of unused other provisions for employee benefits	52,989	-
Collected interest previously suspended	76,797	159,840
	6,875,739	8,151,010
Losses, net (a-b)	(1,946,369)	(1,488,299)

Up to the end of January 2013, the Group did not perform materially significant collection of impaired investments that would affect the reversal of allowance for impairment in accordance with IAS 10.

All amounts expressed in thousands of RSD, unless otherwise stated.

13. IMPAIRMENT GAINS/(LOSSES) AND PROVISIONS, NET (Continued)

a) Charged to Expenses/Income

MOVEMENTS ON THE ACCOUNTS OF IMPAIRMENT ALLOWANCE AND PROVISONS

	Interest and Fee Receivables	Loans and Deposits	Securities	Equity Investments	Other investments	Other Assets	Off-Balance Sheet Items	Total
Balance, January 1, 2012	1,741,465	11,380,294	4,611	370,189	2,800,087	166,909	519,253	16,982,808
Charge for the year	405,143	6,823,845	6,909	76,783	365,246	195,142	545,478	8,418,546
Decrease/release	(308,614)	(5,709,482)	(7,073)	-	(102,937)	(54,580)	(545,018)	(6,727,704)
Foreign exchange gains	36,939	508,485	224	-	171,913	10,567	1,525	729,653
Write-offs	(29,280)	(63,412)	-	-	(31,516)	(438)	-	(124,646)
Other changes	(138,483)	2,002	-	(18)	(2,322)	(3,893)	1	(142,713)
Balance, December 31, 2012	1,707,170	12,941,732	4,671	446,954	3,200,471	313,707	521,239	19,135,944

b) Special Reserve for Estimated Losses

Based on the categorization of investments in accordance with the requirements set forth by the regulatory bodies, as of December 31, 2012, the Group member banks estimated reserves for estimated losses based on the aggregate credit risk exposure.

In accordance with the local regulations of the regulatory bodies on classification of balance sheet assets and off-balance sheet items, the difference between provisions against potential losses calculated in line with the aforementioned regulations and amount of impairment value adjustments for balance sheet items and provisions for off-balance sheet items calculated in line with the internally adopted methodology represents the amount of required provisions against potential losses and is recorded on a separate account; the aforesaid methodology is to be applied in Montenegro as from January 1, 2013 (Note 55).

		Year Ended December 31, 2012	2011
	Calculation of provisions		
a)	Special reserve for estimated losses per		
	- balance sheet assets	29,535,247	29,995,075
	- off-balance sheet items	782,289	1,269,589
	Total a)	30,317,536	31,264,664
b)	Impairment allowance and provisions calculated in line with the internally adopted methodology (IAS 39)		
	- impairment allowance for balance sheet assets	17,204,665	15,662,680
	- provisions against losses per off-balance sheet items	497,632	502,017
	Total b)	17,702,297	16,164,697
c)	Difference between the amounts of calculated impairment allowance and provisions		
	- balance sheet assets	12,330,582	14,332,395
	- off-balance sheet items	284,657	767,572
	Total c (a - b)	12,615,239	15,099,967
d)	Reserves retained from earnings for estimated losses per balance sheet assets and off-balance sheet items created in prior years		
	- balance sheet assets	14,077,046	10,927,046
	- off-balance sheet items	708,394	708,394
	Total d)	14,785,440	11,635,440
e)	Total required special reserve for estimated losses according to the NBS methodology		
	- balance sheet assets	13,089,033	14,332,395
	- off-balance sheet items	368,107	767,572
	Total	13,457,140	15,099,967

All amounts expressed in thousands of RSD, unless otherwise stated.

13. IMPAIRMENT GAINS/(LOSSES) AND PROVISIONS, NET (Continued)

b) Special Reserve for Estimated Losses (Continued)

Parent Bank

Pursuant to the regulations of the National Bank of Serbia, in addition to the impairment allowances, the Parent Bank was obligated to create additional reserves from profit for risk-weighted assets in the total amount of RSD 12,330,582 thousand. The Parent Bank formed reserves for estimated losses per balance sheet assets from prior year profits amounting to RSD 14,077,046 thousand as of December 31, 2012.

Pursuant to the regulations of the National Bank of Serbia, the Parent Bank was obligated to set aside reserves from profit for guarantees and contingent liabilities the total amount of RSD 284,657 thousand. The Parent Bank set aside the amount of RSD 708,394 thousand for this purpose from prior year profits.

Komercijalna banka a.d. Budva

Pursuant to the regulations of the Central Bank of Montenegro, as of December 31, 2012, Komercijalna banka a.d., Budva stated reserves for risk-weighted assets and provisions for guarantees and contingent liabilities under expenses within the income statement in the full amount according to the Central Bank's criteria.

Komercijalna banka a.d., Budva was not obligated to form reserves from profit for estimated losses.

Komercijalna banka a.d. Banja Luka

Pursuant to the regulations of the Banking Agency of the Republic of Srpska, as of December 31, 2012, Komercijalna banka a.d., Banja Luka had reserves retained from prior year profits in the amounts of RSD 178,586 thousand for risk-weighted assets and RSD 6,369 thousand for guarantees and contingent liabilities.

As of December 31, 2012, Komercijalna banka a.d., Banja Luka was obligated to form reserves from profits in the amount of RSD 504,850 thousand, whereof RSD 504,203 thousand account for risk-weighted assets and RSD 647 thousand for guarantees and contingent liabilities.

14. STAFF COSTS

	Year Ended December 31, 2012	2011
Net salaries	2,712,618	2,403,774
Compensations and benefits	520,654	595,088
Taxes on salaries and benefits	493,775	458,094
Contributions to salaries and benefits	831,514	774,627
Temporary and seasonal employees	65,170	54,052
Other staff costs	84,968	84,967
	4,708,699	4,370,602

15. DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2012	2011
Depreciation and amortization	842,991	758,925
	842,991	758,925

16. OPERATING AND OTHER EXPENSES

	Year Ended December 31, 2012	2011
Cost of materials	558,659	481,013
Production service costs	2,187,516	1,995,265
Non-material costs (without taxes and contributions)	1,701,227	1,524,094
Taxes	98,183	97,513
Contributions	825,771	740,749
Other costs	40,827	46,079
Write-off of irrecoverable receivables	227	103
Losses on the sale of property, equipment and intangible assets	105	436
Losses on disposal of property, equipment and intangible assets	2,269	3,716
Shortages and damages	7,600	-
Other expenses	66,320	21,159
	5,488,704	4,910,127

Within production service costs, rental costs for 2012 amounted to RSD 771,720 thousand. Rental costs mostly refer to the operating lease of business premises in the amount of RSD 560,233 thousand.

As of December 31, 2012, commitments per operating lease contracts for business premises for future periods, excluding value added tax, for 237 business premises with the total area of 38,261.68 m² totaled (in thousands of RSD):

- within a year	537,991
- from one to five years	1,525,109
- over five years	344,575
	2,407,675

The Group members recognize liabilities per operating lease of business premises as regular rental costs on a monthly basis.

17. GAINS ON VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31, 2012	2011
Gains on the valuation of investments and receivables:	17,179,893	11,511,613
Gains on the valuation of securities	42,071	16,232
Gains on the valuation of liabilities	767,535	1,653,998
Gains on the valuation of property, equipment, investment property and intangible assets	173	-
	17,989,672	13,181,843

All amounts expressed in thousands of RSD, unless otherwise stated.

18. LOSSES ON VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31, 2012	2011
Losses on the valuation of investments and receivables:	7,792,526	11,656,158
Losses on the valuation of securities	14,954	191,158
Losses on the valuation of liabilities	2,040,489	1,458,141
Losses on the valuation of property, equipment, investment property and intangible assets	7,897	-
Losses on the valuation of derivatives	-	634
	9,855,866	13,306,091
Net gains/(losses) on the valuation of assets and liabilities	8,133,806	(124,248)

Gains/losses on the valuation of assets include the calculated effect of currency clause protection against the currency risk.

Gains/losses on the valuation of securities include the effects of reduction of securities to their market value.

Gains/losses on the valuation of liabilities include the calculated effect of currency clause protection against the currency risk for deposits received from customers.

The Group members calculate effects of valuation at each month-end during the year and at each transaction date.

19. INCOME TAXES

Each group member determines income taxes payable pursuant to the local regulations. The taxes payable determined are not subject to consolidation; these amounts are disclosed separately instead.

Parent Bank

a) Components of income taxes

	Year Ended December 31, 2012	2011
Current income tax expense	(472,448)	(426,027)
Income from creation of deferred tax assets and reversal of deferred tax liabilities	32,885	11,578
Losses from reversal of deferred tax assets	(10,953)	(23,937)
	(450,516)	(438,386)

b) Numerical reconciliation between tax expense stated in the income statement and the product of the accounting results multiplied by the applicable tax rate

	Year Ended December 31, 2012	2011
Profit before taxation	4,572,662	3,952,066
Income tax at the statutory tax rate of 10%	457,266	395,207
Tax effects of the expenses not recognized within the tax balance	42,334	115,976
Tax effects of the net capital gains/losses	(1,261)	146
Tax effects of the difference between the tax-purpose and accounting depreciation and amortization	21,364	12,874
Tax effects of the transfer prices	445	223
Tax effects of income reconciliation	(1,820)	4,917
Tax credit used in the current year	(45,880)	(103,316)
Tax effect adjustments (used and new ones)	(21,932)	12,359
TAX EFFECTS STATED WITHIN THE INCOME STATEMENT	(450,516)	(438,386)
c) Effective tax rate	9.85	11.09

All amounts expressed in thousands of RSD, unless otherwise stated.

19. INCOME TAXES (Continued)

Parent Bank (Continued)

The Parent Bank made income tax advance payments in the amount of RSD 529,343 thousand in 2012 as monthly tax liabilities stipulated by the Income Tax Law. For settlement of the current income tax expense, the Parent Bank used RSD 472,448 thousand of the aforesaid advance tax payments made, whereas the remaining RSD 56,895 thousand will be used as a portion of the tax advance payment for the forthcoming period.

Komercijalna banka a.d., Budva

a) Components of income taxes

	Year Ended December 31, 2012	2011
Current income tax expense	(12,038)	(7,744)
Income from creation of deferred tax assets and reversal of deferred tax liabilities	-	113
Losses from reversal of deferred tax assets	(236)	-
	(12,274)	(7,631)

b) Numerical reconciliation between tax expense stated in the income statement and the product of the accounting results multiplied by the applicable tax rate

	Year Ended December 31, 2012	2011
Profit before taxation	122,360	112,287
Income tax at the statutory tax rate of 9%	11,012	10,106
Tax effects of the expenses not recognized within the tax balance	1,027	305
Tax effects of the difference between the tax-purpose and accounting depreciation and amortization	(2)	(174)
Tax effects of the transfer prices	-	150
Tax credit used in the current year	-	(2,643)
Tax effect adjustments (used and new ones)	236	(113)
TAX EFFECTS STATED WITHIN THE INCOME STATEMENT	(12,274)	(7,631)
c) Effective tax rate	10.02	6.80

Pursuant to the opinion of the competent Tax Administration on non-recognition of the possibility to use a tax credit to settle current income tax expense, the subsidiary bank made additional payment of RSD 2,643 thousand from retained earnings in March 2012. This additional payment adjusted the effective tax rate for the year 2011 to 9.15%.

Komercijalna banka a.d., Banja Luka

a) Components of income taxes

	Year Ended December 31, 2012	2011
Current income tax expense	(14,764)	(6,385)
	(14,764)	(6,385)

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19. INCOME TAXES (Continued)

Komercijalna banka a.d., Banja Luka (Continued)

b) Numerical reconciliation between tax expense stated in the income statement and the product of the accounting results multiplied by the applicable tax rate

	Year Ended December 31, 2012	2011
Profit before taxation	75,817	75,408
Income tax at the statutory tax rate of 10%	7,582	7,541
Reconciliation of foreign exchange gains, interest income from deposits and net capital losses	(1,304)	(21)
Tax effects of expense reconciliation	8,487	(1,135)
TAX EFFECTS STATED WITHIN THE INCOME STATEMENT	(14,764)	(6,385)
c) Effective tax rate	19.47	8.47

KomBank Invest a.d., Beograd

a) Components of income taxes

	Year Ended December 31, 2012	2011
Current income tax expense	(212)	(195)
Income from creation of deferred tax assets and reversal of deferred tax liabilities	47	-
Losses from creation of deferred tax liabilities and reversal of deferred tax assets	(412)	(5)
	(577)	(200)

b) Numerical reconciliation between tax expense stated in the income statement and the product of the accounting results multiplied by the applicable tax rate

	Year Ended December 31, 2012	2011
Profit before taxation	1,330	255
Income tax at the statutory tax rate of 10%	133	25
Tax effects of the expenses not recognized within the tax balance	28	1
Tax effects of the net capital gains	(212)	(212)
Tax effects of the difference between the tax-purpose and accounting depreciation and amortization	76	71
Tax effects of the transfer prices	-	-
Tax effects of loss in the tax balance	(25)	115
Tax effect of the mandatory base from the capital gain as per tax regulations	212	195
Tax effect adjustments (used and new ones)	365	5
TAX EFFECTS STATED WITHIN THE INCOME STATEMENT	(577)	(200)
c) Effective tax rate	43.38	78.43

All amounts expressed in thousands of RSD, unless otherwise stated.

20. INCOME FROM CREATION OF DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES

	Year Ended December 31, 2012	2011
Income from creation of deferred tax assets and decrease in deferred tax liabilities	33,549	11,691
	33,549	11,691

The aggregate effect of the change in deferred tax assets totaled RSD 33,549 thousand:

a) Change of income tax rate in the Republic of Serbia from 10% to 155 starting from 2013, based on which determined tax assets and/or tax liabilities will be realized during the forthcoming years had direct impact on the increase in deferred tax assets by 50% as compared to the calculation applied in 2011. The aggregate effect of the change in deferred tax assets amounting to RSD 32,885 thousand is comprised of the gains from the change of income tax rate in the amount of RSD 14,935 thousand and effect of creating new deferred tax assets by applying the tax rate of 15% in the amount of RSD 17,950 thousand for the Parent Bank.

b) Created new deferred tax assets based on increase in provisions for employee benefits (IAS 19) totaled RSD 47 thousand for KomBank Invest and RSD 617 thousand for Komercijalna banka a.d., Budva.

Komercijalna bank a.d., Banja Luka cannot create and present deferred taxes pursuant to the local tax regulations.

Gains from the tax rate change of RSD 14,935 thousand and the effect of creating new deferred tax assets by applying the tax rate of 15% of RSD 17,950 thousand for the Parent Bank is presented in the table below:

	Effect of the Tax Rate Change	New Provision Charge
Provisions for retirement benefits and unused annual leaves	13,807	65
Temporarily unrecognized expenses arising from impairment of assets	1,078	17,924
Temporarily unrecognized expenses arising from calculated public duties not paid	50	(39)
	14,935	17,950

All amounts expressed in thousands of RSD, unless otherwise stated.

21. LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND CREATION OF DEFERRED TAX LIABILITIES

	December 31, 2012	December 31, 2011
Losses on decrease in deferred tax assets and creation of deferred tax liabilities	12,218	23,942
	12,218	23,942

The total effect of change in deferred tax liabilities amounted to RSD 12,218 thousand and included the following:

a) Increase in deferred tax liabilities on the temporary difference in the carrying amounts of the fixed assets due to the increase in the income tax rate by RSD 23,453 thousand, i.e. by 50%. As of December 31, 2012, the calculation of deferred tax liabilities on this ground required decrease in liabilities of RSD 12,600 thousand, incurring net loss of RSD 10,853 thousand for the Parent Bank;

b) Increase in deferred tax liabilities on the temporary difference in the carrying amounts of the fixed assets by RSD 412 thousand for KomBank Invest and RSD 853 thousand for Komercijalna banka a.d., Budva;

c) Loss from reversal of deferred tax assets based on public duties calculated in the previous period yet paid in the current period in the amount of RSD 100 thousand for the Parent Bank.

Losses on decrease in deferred tax assets and creation of deferred tax liabilities of the parent bank are presented in the table below:

	December 31, 2012	December 31, 2011
Losses on decrease in deferred tax assets and creation of deferred tax liabilities – change in the statutory tax rate from 10% to 15%	23,453	-
Decrease in loss from based on the decrease of deferred tax liabilities	(12,500)	23,937
	10,953	23,937

The total effect of change in deferred tax liabilities amounted to RSD 10,953 thousand and included the following:

a) Increase in deferred tax liabilities on the temporary difference in the carrying amounts of the fixed assets due to the increase in the income tax rate by RSD 23,453 thousand, i.e. by 50%. As of December 31, 2012, the calculation of deferred tax liabilities on this ground required decrease in liabilities of RSD 12,600 thousand, incurring net loss of RSD 10,853 thousand; and

b) Loss from reversal of deferred tax assets based on public duties calculated in the previous period yet paid in the current period in the amount of RSD 100 thousand.

	Effect of the Tax Rate Change	Decrease in Liabilities
Temporary difference in the value of fixed assets	23,453	(12,600)
Temporary unrecognized expenses based on calculated public duties not paid	-	100
	23,453	(12,500)

All amounts expressed in thousands of RSD, unless otherwise stated.

21. LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND CREATION OF DEFERRED TAX LIABILITIES (Continued)

MOVEMENTS ON THE ACCOUNTS OF DEFERRED TAX ASSETS AND LIABILITIES OF THE PARENT BANK

	Deferred Tax Assets	Deferred Tax Liabilities	Net Tax Effects
Opening balance at January 1, 2012	29,871	(46,907)	(17,036)
Loss on the creation of deferred tax liabilities (temporary difference between the tax-purpose and accounting values of the fixed assets) - change in the statutory tax rate from 10% to 15%	-	(23,453)	(23,453)
Decrease in loss from the reversal of deferred tax liabilities (temporary difference between the tax-purpose and accounting values of the fixed assets)	-	12,600	12,600
Income from creation of deferred tax assets (long-term provisions as per IAS 19) - change in the statutory tax rate from 10% to 15%	13,807	-	13,807
Income from creation of deferred tax assets (long-term provisions as per IAS 19) – new provision charge	65	-	65
Income from creation of deferred tax assets (calculated public duties not paid) - change in the statutory tax rate from 10% to 15%	50	-	50
Loss on the creation of deferred tax liabilities (calculated public duties not paid)	(139)	-	(139)
Income from creation of deferred tax assets (based on impairment of assets) - change in the statutory tax rate from 10% to 15%	1,078	-	1,078
Income from creation of deferred tax assets (based on impairment of assets)	17,924	-	17,924
Balance at December 31, 2012	62,656	(57,760)	4,896

i) Deferred tax assets – based on long-term provisions for retirement benefits and unused annual leaves (vacations), temporarily unrecognized expenses based on impairment of assets temporarily unrecognized expenses based on public duties not paid

	2012		2011		
	Amount of Provisions	Deferred Tax Assets at 15% Rate	Amount of Provisions	Deferred Tax Assets at 10% Rate	Loss/ Gain on the Reversal of Deferred Tax Assets
Long-term provisions as per IAS 19	276,571	41,486	276,141	27,615	13,871
Tax assets based on calculation of public duties payable - reversal	-	-	1,000	100	(100)
Tax assets based on calculation of public duties payable - creation	73	11	-	-	11
Tax assets based on impairment of assets	141,059	21,159	21,561	2,156	19,003
Total		62,656		29,871	32,785

All amounts expressed in thousands of RSD, unless otherwise stated.

21. LOSSES ON DECREASE IN DEFERRED TAX ASSETS AND CREATION OF DEFERRED TAX LIABILITIES (Continued)

ii) Deferred tax liabilities - difference between the tax-purpose and accounting carrying amounts of the fixed assets

	2012		2011		
	Fixed Asset Value	Deferred Tax Liabilities at 15% Rate	Fixed Asset Value	Deferred Tax Liabilities at 10% Rate	Loss/ Gain on the Reversal of Deferred Tax Liabilities
Tax-purpose amounts as per tax regulations	7,523,460	-	7,494,561	-	-
Carrying amounts	7,908,521	-	7,963,622	-	-
Difference	385,061	57,760	469,061	46,906	(10,853)
Netted deferred tax assets / (liabilities) within the balance sheet		4,896		(17,035)	

22. CASH AND CASH EQUIVALENTS

	December 31, 2012	December 31, 2011
In RSD		
Gyro account	21,884,424	9,992,491
Cash on hand	2,616,937	1,731,557
	24,501,361	11,724,048
In foreign currencies		
Foreign currency accounts	15,151,740	5,507,847
Cash on hand	2,181,438	1,810,345
Foreign currency cash equivalents – cheques in the course of collection	21,272	32,753
Other cash and cash equivalents	196,916	170,590
	17,551,366	7,521,535
Gold and other precious metals	99	99
Total	42,052,826	19,245,682

The Parent Bank's required reserve represent the minimum deposits set aside in accordance with the National bank of Serbia's BS "Decision on Required Reserves of Banks."

The calculation of required 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. Required 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 required reserve in dinars where, in order to realize the daily balance of allocated required reserve, the daily balance found on the gyro account may be below or above the calculated required reserve in dinars.

Interest rate the National Bank of Serbia applied to allocated resources found on the regular account used for required reserves in 2012 totaled 2.5% annually. In 2012, the Parent Bank maintained the average monthly balance in the amount of required reserve in dinars, i.e. required reserves in dinars were not used at any time during the accounting cycles.

All amounts expressed in thousands of RSD, unless otherwise stated.

23. REVOCABLE LOANS AND DEPOSITS

	December 31, 2012	December 31, 2011
In RSD		
Loans based on repo transactions	4,000,000	11,500,000
	4,000,000	11,500,000
In foreign currencies		
Required reserve in foreign currency held with NBS	40,280,692	44,913,755
Revocable deposits and required reserves held with the central banks of Montenegro and Bosnia and Herzegovina	1,545,677	2,624,815
	41,826,369	47,538,570
	45,826,369	59,038,570

Parent Bank

The Parent Bank calculates required 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. Required 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 Parent Bank is under obligation to maintain the average monthly balance of allocated foreign currency required reserve in the amount of calculated foreign currency required reserve, where, for the purposes of realizing average daily balance of allocated required reserve, the daily balance on the account of required reserve may be below or above the calculated foreign currency required reserve.

Foreign currency required reserve does not accrue interest.

During 2012, based on the Decision on Required Reserves of Banks with the National Bank of Serbia, the Parent Bank allocated a certain portion of its foreign currency reserve in dinars to its gyro account.

Komercijalna banka a.d., Budva

The Bank's obligatory reserve as of December 31, 2012 represents the minimum of deposits allocated in accordance with the regulations of the Central Bank of Montenegro under Decision on the Obligatory Reserve of banks Held with the Central Bank of Montenegro (Official Gazette of Montenegro, no. 35/11 and 22/12). Accordingly, the Bank calculates the obligatory reserve for demand deposits and time deposits.

Obligatory reserve held with the Central Bank of Montenegro relates to the obligatory reserve formed by applying the rate of 9.5% to the portion of the reserve base comprised of demand deposits and those with maturities of up to a year, i.e. 365 days, and by applying the rate of 8.5% to the portion of the reserve base comprised of deposits with maturities of over a year, i.e. over 365 days. The rate of 9.5% is also applied to deposits with maturities of over a year with contractually agreed early withdrawal option (in less than 365 days).

A portion of up to 50% of the obligatory reserve is included in the available assets as an amount the Bank is allowed to use for maintaining its daily liquidity.

The Bank may set aside and maintain up to 35% of the obligatory reserve in the form of Treasury bills issued by the state of Montenegro.

On a monthly basis, the Central Bank of Montenegro pays the bank a fee of 1% p.a. on the portion comprised of 15% of the allocated funds.

The Bank made no use of the obligatory reserve funds in 2012.

All amounts expressed in thousands of RSD, unless otherwise stated.

23. REVOCABLE LOANS AND DEPOSITS (Continued)

Komercijalna banka a.d., Banja Luka

The obligatory reserve held with the Central Bank of Bosnia and Herzegovina represents the minimum amount of reserves calculated in accordance with the Decision on the Obligatory Reserve Held with the Central Bank of Bosnia and Herzegovina. As from February 1, 2011, the obligatory reserve rate applied to deposits and loan funds with maturities of up to a year was reduced from 14% to 10%, whereas the obligatory reserve rate applied to deposits and loan funds with maturities of over a year remained unchanged at 7%.

Since August 1, 2011, the Central Bank of Bosnia and Herzegovina has calculated and charged banks fees for the obligatory reserve funds held with the Central Bank as follows: the fee for the amount of obligatory reserves equals 70% whereas the fee for the amounts in excess of the obligatory reserves equals 90% of the rate determined based on the weighted interest rate average the Central Bank of Bosnia and Herzegovina applied on the deposits placed up to a month in the same period.

- The average annual interest rate applied to the obligatory reserve funds is 0.03%.
- The Bank made no use of the obligatory reserve funds in 2012.

24. RECEIVABLES ARISING FROM INTEREST, FEES AND COMMISSION, TRADE, FAIR VALUE ADJUSTMENTS OF DERIVATIVES AND OTHER RECEIVABLES

	December 31, 2012	December 31, 2011
Interest and fee receivables in RSD		
- interest	2,232,991	1,947,476
- fees	142,440	117,265
Receivables from trade in RSD	177	80
Other receivables in RSD - rentals	363,100	354,738
Less: Allowance for impairment in RSD	(1,284,149)	(1,360,913)
	1,454,559	1,058,646
Interest and fee receivables in foreign currencies		
- interest	693,550	571,548
- fees	19,092	17,943
Receivables from trade in foreign currencies	-	44,028
Other receivables	-	8,754
Less: Allowance for impairment in foreign currencies	(423,021)	(380,552)
	289,621	261,721
	1,744,180	1,320,367

All amounts expressed in thousands of RSD, unless otherwise stated.

25. LOANS AND DEPOSITS TO CUSTOMERS

	December 31, 2012	December 31, 2011
RSD loans to customers		
Transaction accounts	5,615,020	5,221,887
Consumer loans	1,903,601	4,630,134
Working capital loans	48,392,968	30,415,847
Export loans	3,076,278	9,514,560
Investment loans	33,486,818	33,597,472
Housing loans	30,109,265	25,893,496
Other loans	44,625,186	32,526,702
Less: Allowance for impairment of RSD loans	(8,638,581)	(7,912,752)
	158,570,555	133,887,346
Foreign currency loans to customers		
Loans for the payment of goods imported and services received from aboard	5,112,910	6,191,620
Loans for real estate purchases	2,653,137	2,426,473
Overnight loans	2,170,276	8,255,053
Other loans	29,805,210	21,451,236
Less: Allowance for impairment of foreign currency loans	(4,075,176)	(3,253,615)
	35,666,357	35,070,767
Other and earmarked foreign currency deposits		
Other foreign currency deposits	407,185	636,301
Less: Allowance for impairment of foreign currency deposits	(227,975)	(213,927)
	179,210	422,374
	194,416,122	169,380,487

In the third quarter of 2013, at the request of the National Bank of Serbia, due to the requirements of harmonization of the financial statement structure throughout the country's banking sector, loans to retail customers based on payment cards were reclassified from consumer loans to other loans.

	December 31, 2012	December 31, 2011
Loans to retail customers based on payment cards	2,105,785	2,077,942

The foretasted amount for the year 2012 is included in other loans, whereas the amount for the year 2011 was included in consumer loans.

- During 2012, loans maturing up to one year in dinars and in foreign currency were approved for the period from one month to one year at interest rates ranging from 0.17% to 1.8% per month.
- Loans with over one year maturities denominated in dinars and in foreign currency were approved for a period of maximum 30 years at annual interest rates ranging from 2.5% to 22.5%.
- Concentration of the aggregate loans approved to customers is presented in Note 54.

Risks and Uncertainties

The Group members' management recorded provisions for all estimated or known credit risks as of the date of issuing the financial statements. The Group members' loan portfolio contains a number of customers that are involved in the privatization and/or restructuring processes, which are expected to result either partial or complete settlement of the Group members' receivables. The receivables from such customers were classified based on most recent available information on their financial situation, and the expected course of their respective restructuring processes. The Group members' receivables are mostly collateralized by mortgages assigned over property held by debtors, as well as pledges on movables. In the event that such attempts of collection prove to be unsuccessful. In the case that the debt recovery actions undertaken by the Group members' management are unsuccessful, additional amounts of allowances for impairment and provisions for contingent liabilities would be required in the forthcoming reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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All amounts expressed in thousands of RSD, unless otherwise stated.

26. SECURTIES (EXCLUDING TREASURY SHARES)

	December 31, 2012	December 31, 2011
In RSD		
Securities carried at fair value through profit and loss		
- shares of banks in RSD	708	728
- corporate shares	5,703	7,825
Securities available for sale		
- shares of banks in RSD	75	79
- corporate bonds (Tigar a.d., Pirot)	67,904	83,318
- bonds of banks	1,566,640	-
- Republic of Serbia Treasury bills	17,221,078	16,895,150
- bonds of local self-government	56,089	-
Securities held to maturity		
- corporate bonds (RDP B92 a.d., Beograd)	51,167	78,476
- Republic of Serbia bonds	101,123	90,565
Less: Allowance for impairment of securities in RSD	(4,671)	(4,611)
	19,065,816	17,151,530
In foreign currencies		
Securities carried at fair value through profit and loss		
- Republic of Serbia bonds	206,492	145,246
Securities available for sale		
- Republic of Serbia bonds and Treasury bills	22,830,133	9,644,515
Securities held to maturity		
- Montenegro Government Treasury bills	113,718	209,282
	23,150,343	9,999,043
	42,216,159	27,150,573

Securities Carried at Fair Value through Profit and Loss

As of December 31, 2012, the market value of trading securities portfolio totaled RSD 212,903 thousand (December 31, 2011: RSD 150,403 thousand), whereof dinar denominated trading securities account for RSD 6,411 thousand and the foreign currency denominated trading securities amounted to RSD 206,492 thousand.

The largest investments were made into the Republic of Serbia old savings bonds, in the amount of RSD 206,492 thousand and in shares of the following companies: Galenika Fitofa a.d., Beograd in the amount of RSD 1,868 thousand; Metalac a.d., Gornji Milanovac in the amount of RSD 1,575 thousand; Sojaprotein a.d., Bečej in the amount of RSD 931 thousand; and Messer Tehnogas a.d., Beograd in the amount of RSD 689 thousand.

Securities Available for Sale

As of December 31, 2012, the structure of investments made in securities available for sale was as follows:

In RSD:

Republic of Serbia Treasury bills in the amount of RSD 14,047,771 thousand; Republic of Serbia bonds in the amount of RSD 3,173,307 thousand; bonds from the City of Pančevo budget in the amount of RSD 56,089 thousand; bonds of the company Tigar a.d., Pirot in the amount of RSD 67,904 thousand; and bonds of the following banks: Societe Generale banka a.d., Beograd in the amount of RSD 1,055,102 thousand; Erste banka a.d., Beograd in the amount of RSD 511,538 thousand and AIK banka a.d., Niš in the amount of RSD 75 thousand.

In foreign currencies:

Republic of Serbia commercial notes in the amount of RSD 15,616,743 thousand, long-term Government of the Republic of Serbia bonds in the amount of RSD 6,625,946 thousand and Republic of Serbia old savings bonds in the amount of RSD 587,444 thousand..

All amounts expressed in thousands of RSD, unless otherwise stated.

26. SECURTIES (EXCLUDING TREASURY SHARES) (Continued)

Securities Held to Maturity

As of December 31, 2012, the structure of investments made in securities held to maturity was as follows: RSD 113,718 thousand account for the Treasury bills of the Government of Montenegro; RSD 101,123 thousand relates to the bonds of the Republic of Serbia; and RSD 51,167 thousand relates to the bonds of the company RDP B92 a.d., Beograd.

27. EQUITY INVESTMENTS (INTERESTS)

	December 31, 2012	December 31, 2011
Equity investments in banks and financial organizations	136,236	117,998
Equity investments in corporate and other legal entities	451,430	405,008
Equity investments in foreign entities domiciled abroad	295,498	189,938
Less: Allowance for impairment	(446,954)	(370,189)
	436,210	342,755

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 54,014 thousand, Jubmes banka a.d., Beograd in the amount of RSD 1,961 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 in the amount of RSD 37,634 thousand, Dunav osiguranje a.d., Beograd amounting to RSD 46,124 thousand and Politika a.d., Beograd amounting to RSD 34,526 thousand.

Equity investments in foreign entities are associated with the company VISA Inc, USA totaling RSD 244,375 thousand, Master card, USA totaling RSD 51,058 thousand and Montenegroberza, Podgorica totaling RSD 65 thousand

The allowance for impairment of other equity investments of RSD 446,954 thousand relates to the full (100%) impairment of cost for those equity investments that do not have a market value out of which the largest amounts refer to the following entities: 14. Oktobar a.d., Kruševac in the amount of RSD 324,874 thousand; RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand; Politika a.d., Beograd in the amount of RSD 28,484 thousand; Dunav osiguranje a.d., Beograd in the amount of 28,828 thousand and AIK banka a.d., Niš in the amount of RSD 19,287 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. OTHER INVESTMENTS

	December 31, 2012	December 31, 2011
Other investments in RSD		
Purchased investments – factoring	103,282	361,776
Placements for acceptances, bills of guarantees and payments made upon guarantees called	1,445,695	1,020,978
Other investments	380,005	455,849
Less: Allowance for impairment	(968,074)	(745,367)
	960,908	1,093,236
Other investments in foreign currencies		
Placements for acceptances, bills of guarantees and payments made upon guarantees called	310,040	263,290
Covered letters of credit and other sureties	1,662,270	598,528
Other investments	2,529,307	2,306,478
Less: Allowance for impairment	(2,232,397)	(2,054,720)
	2,269,220	1,113,576
	3,230,128	2,206,812

Placements for acceptances, bills of guarantees and payments made upon guarantees called of RSD 1,445,695 thousand mostly refer to the payments made upon guarantees called in the amount of RSD 1,074,363 thousand.

Covered letters of credit and other sureties of RSD 1,662,270 thousand are mostly associated with counter guarantee issued at the request of the customer Sunoko d.o.o., Novi Sad in favor of Commerzbank AG, Frankfurt am Main for the ultimate guarantee beneficiary Pfeifer & Langen Kommanditgesellschaft in the amount of RSD 653,580 thousand, as well as payment by letter of credit through Commerzbank Brussels on behalf of the customer Sojaprotein a.d., Bečej to the company Vyncke NV Harelbeke in the amount of RSD 337,258 thousand.

Within other investments denominate din dinars, the largest portion refers to the nominal value of discounted bills of exchange totaling RSD 285,028 thousand, whereas out of other investments denominated in foreign currencies the largest portion of RSD 1,400,503 thousand accounts for receivables due Jugobanka a.d., Beograd in bankruptcy, which was fully provided for.

29. INTANGIBLE ASSETS

	December 31, 2012	December 31, 2011
Licenses and software	1,336,323	1,029,431
Intangible assets under construction	52,831	72,699
Less: Accumulated amortization	(744,317)	(496,636)
	644,837	605,494

All amounts expressed in thousands of RSD, unless otherwise stated.

29. INTANGIBLE ASSETS (Continued)

Movements on the account of intangible assets:

	Licenses and Software	Intangible Assets under Construction	Total
Cost			
Balance at December 31, 2011	1,029,431	72,699	1,102,130
Additions	5,341	269,500	274,841
Transfers	289,368	(289,368)	-
Foreign exchange gains	12,183	-	12,183
Balance at December 31, 2012	1,336,323	52,831	1,389,154
Accumulated amortization			
Balance at December 31, 2011	496,636	-	496,636
Charge for the year	239,532	-	239,532
Foreign exchange gains	8,149	-	8,149
Balance at December 31, 2012	744,317	-	744,317
Net Book Value:			
at December 31, 2012	592,006	52,831	644,837
at December 31, 2011	532,795	72,699	605,494

30. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

Movements on the account of property, equipment and intangible assets:

	Property	Equipment	Construction in Progress	Investment Property	Total
Cost					
Balance, December 31, 2011	5,906,945	3,140,728	44,805	1,884,859	10,977,337
Additions	1,120	4,265	466,249	127,836	599,470
Transfers	107,342	326,633	(456,832)	22,857	-
Disposal and retirement	(13,503)	(218,594)	-	-	(232,097)
Other	(8,184)	(3,390)	-	-	(11,574)
Foreign exchange gains	19,735	38,908	627	-	59,270
Balance, December 31, 2012	6,013,455	3,288,550	54,849	2,035,552	11,392,406
Accumulated Depreciation					
Balance, December 31, 2011	941,422	2,014,534	-	149,176	3,105,132
Charge for the year	149,546	420,248	-	33,665	603,459
Disposal and retirement	(3,440)	(211,639)	-	-	(215,079)
Transfers	745	-	-	(745)	-
Other	(146)	(2,268)	-	-	(2,414)
Foreign exchange gains	4,448	25,540	-	-	29,988
Balance, December 31, 2012	1,092,575	2,246,415	-	182,096	3,521,086
Net Book Value:					
at December 31, 2012	4,920,880	1,042,135	54,849	1,853,456	7,871,320
at December 31, 2011	4,965,523	1,126,194	44,805	1,735,683	7,872,205

All amounts expressed in thousands of RSD, unless otherwise stated.

30. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

a) Investment Property

Parent Bank

As of December 31, 2012, the Parent Bank stated investment property in the amount of RSD 1,726,233 thousand comprised of leased buildings.

In 2012, based on long-term lease contracts entered into, the Parent Bank transferred properties (in Niš, Vrtište and Gornje Polje) totaling RSD 25,864 thousand to investment property.

By activating a part of investment property located at No. 29, Makedonska St., Belgrade for its own purposes, the Bank performed transfer to its own property and equipment (business premises) in the total amount of RSD 3,007 thousand. Net effect of the aforedescribed reclassifications was increase in investment property by RSD 22,857 thousand.

As of December 31, 2012, net rental income earned totaled RSD 50,603 thousand:

Building	Area in m2	Total Expenses	Total Rental Income	Net Profit
Belgrade, Makedonska 29	7,168.91	(32,986)	73,055	40,069
Niš, Vrtište new D building	1,816.00	(176)	851	675
Niš, TPC Kalča	85.00	(802)	5,155	4,353
Belgrade, Omladinskih brigada 19	15,218.00	(14,219)	19,725	5,506
		(48,183)	98,786	50,603

In December 2012, the Parent Bank’s expert team performed valuation of investment property.

The appraised fair value of investment property as of December 31, 2012 totaled EUR 17,397 thousand (equivalent to RSD 1,978,302 thousand), which is by 14.6% in excess of the carrying amount of investment property and does not represent significant departure of the fair value from the carrying amount.

The appraised value of investment property:

Building	Area in m2	Carrying Amount in RSD ‘000	Appraised Fair Value In EUR’000	Appraised Fair Value In RSD ‘000	Variance In RSD ‘000
Beograd, Makedonska 29	7,168,91	1,023,887	9,170	1,042,785	18,898
Niš, Vrtište new D building	1,816,00	25,788	364	41,346	15,558
Niš, TPC Kalča	85,00	36,260	193	21,965	(14,295)
Belgrade, Omladinskih brigada 19	15,218,00	640,298	7,670	872,205	231,907
		1,726,233	17,397	1,978,301	252,068

All amounts expressed in thousands of RSD, unless otherwise stated.

30. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

a) Investment Property (Continued)

Komercijalna banka a.d., Banja Luka

Based on long-term lease contract entered into in September 2012, the Bank transferred non-current assets held for sale to investment property in the total amount of RSD 127,219 thousand, comprised of the following:

Commercial yard with the area of 1,603m², customs zone business premises – raw materials warehouse with the area of 873m², commercial yard with the area of 1,739m², production plant with the area of 1,024m², commercial yard with the area of 1,009m², commercial building with the area of 949 m² and category 3 pasture with the area of 2,763 m².

In 2012 the Bank performed no appraisal of its investment property.

As of December 31, 2012, net rental income earned totaled RSD 145 thousand:

Building	Area in m2	Total Expenses	Total Rental Income	Net Profit
Bescarinska zona bb; Zona rada i industrije Brčko (Prohema d.o.o.): Three commercial buildings (2,846 m²) and land (7,114 m²)	9,960	(774)	919	145
	9,960	(774)	919	145

b) Property

The Group has no buildings assigned under mortgage as collateral for the repayment of borrowings.

As a result of incomplete land registers, as at December 31, 2012, the Parent Bank did not have proof of ownership for 25 buildings stated in the net book value of RSD 1,408,317 thousand. The Parent Bank's management has taken all actions necessary to obtain the appropriate property titles for these buildings.

As at January 1, 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 2012, as well as in prior years, the Parent Bank's expert team performed valuation of property in the Parent Bank's ownership in accordance with the internally adopted bylaws.

Irrespective of the fact that the appraised fair value of property does not significantly depart from the carrying amount thereof, the Bank intends to have an independent appraiser perform valuation of property in accordance with the requirements of the relevant IAS in the forthcoming year.

All amounts expressed in thousands of RSD, unless otherwise stated.

30. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

b) Property (Continued)

The appraised value of the Parent Bank's property:

Building	Area in m2	Carrying Amount in RSD '000*	Appraised Fair Value In EUR'000	Appraised Fair Value In RSD '000	Variance In RSD '000
Beograd, Makedonska 29	10,916	2,003,225	16,450	1,870,707	(132,518)
Beograd, Kralja Petra 19	5,358	584,185	6,266	712,538	128,353
Beograd, Svetog Save 14	3,715	487,070	5,214	592,898	105,828
Beograd, Svetogorska 42-44	3,333	366,268	4,703	534,765	168,497
Šabac, Jevremova 2	1,210	138,544	975	110,917	(27,627)
Kruševac, Trg fontana 1	2,959	95,033	1,039	118,209	23,176
Other property (71 buildings)	-	883,347	6,656	756,930	(126,417)
		4,557,672	41,303	4,696,964	139,292

** The total carrying amount does not include leasehold improvements amounting to RSD 176,019 thousand.*

The appraised fair value of property as of December 31, 2012 totaled EUR 41,303 thousand (equivalent to RSD 4,696,964 thousand), which is by 3.06% in excess of the carrying amount of investment property and does not represent significant departure of the fair value from the carrying amount.

Based on the internal property valuation performed in 2012, positive effects on revaluation reserves within equity are expected in 2013.

The Bank's management believes that the net book value of property and equipment as at December 31, 2012 was stated at its market value.

Based on the annual inventory count, useless fixed assets (equipment) with the net book value of RSD 1,907 thousand were disposed of and derecognized.

31. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

	December 31, 2012	December 31, 2011
Non-current assets held for sale	78,763	222,029
	78,763	222,029

The Parent Bank is in the process of selling property assessed as unnecessary for further business operations. The bank's management is taking all the necessary measures in order to realize sales of the assets held for sale. In the course of 2012, two buildings were sold: business premises in Belgrade and in Kruševac.

The Parent Bank's management intends to sell all assets that remained unsold in the past year.

Based on the assessment of the fair value of non-current assets held for sale performed by an expert team, the Parent Bank decreased the value of buildings in its books of account in the amount of RSD 4,097 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

31. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS (Continued)

Non-current assets held for sale:

Building	Area in m2	Carrying Amount
Braničevo, business premises	21,08	480
Jasika, business premises	75,87	611
Požarevac, M.Pijade 2, business premises	790,82	31,839
Požarevac, M.Pijade 2, business premises	880,86	26,345
Ražanj, garage	15,00	26
Belgrade, Toše Jovanovića 7, business premises	24,05	2,213
Vrbas, M. Tita 49, business premises	145,56	4,688
Varvarin, M. Marinovića, business premises	207,00	8,144
Svrljig, ugao D. Trifunca i Hadžićeve, business premises	128,00	4,417
		78,763

32. DEFERRED TAX ASSETS

	December 31, 2012	December 31, 2011
Deferred tax assets	(4,896)	(31,789)
Deferred tax liabilities	948	49,150
	(3,948)	17,361

Deferred tax assets relate to the tax credits based on the taxable temporary differences in the amounts of long-term provisions as per IAS 19, impairment of assets and calculated public duties not paid.

In line with paragraph 71 of IAS 12 ”Income Taxes,” the Parent Bank stated deferred tax assets and deferred tax liabilities at net principle.

All amounts expressed in thousands of RSD, unless otherwise stated.

33. OTHER ASSETS

	December 31, 2012	December 31, 2011
Other receivables in RSD		
Advances paid for current assets	28,985	38,606
Advances paid for permanent investments	51,479	1,264
Receivables from employees	1,381	1,725
Receivables for prepaid taxes ad contributions	3,164	5,516
Receivables for prepaid income taxes	12,784	25,038
Other receivables from operations	231,900	207,755
Suspense and temporary accounts	198,710	156,648
Receivables in settlement	547,695	1,518,535
Less: Allowance for impairment of other receivables	(53,938)	(40,864)
	1,022,160	1,914,223
Other receivables in foreign currencies		
Receivables from employees	197	635
Other receivables from operations	125,071	110,765
Suspense and temporary accounts	566	26,693
Receivables in settlement	232,155	884,974
Less: Allowance for impairment of other receivables	(132,978)	(118,303)
	225,011	904,764
Prepayments in RSD		
Deferred receivables for accrued interest	496,147	286,056
Deferred receivables for other accrued income	-	52
Deferred expenses for liabilities carried at amortized value by applying the effective interest rate	90,497	82,002
Deferred other expenses	191,237	63,085
Other prepayments	-	1,905
	777,881	433,100
Prepayments in foreign currencies		
Deferred receivables for accrued interest	158,009	53,187
Deferred expenses for liabilities carried at amortized value by applying the effective interest rate	1,611	1,692
Deferred other expenses	19,635	21,383
Other prepayments	749	1,599
	180,004	77,861
Inventories		
Inventories of materials	31,566	18,480
Inventories of tools and fixtures	1,384	1,183
Assets acquired in lieu of debt collection (Note 54.1)	2,537,496	1,952,255
Fixtures in use	137,239	116,630
Less: Allowance for impairment of assets acquired in lieu of debt collection	(126,791)	(7,742)
Less: Allowance for impairment of inventories	(137,239)	(116,630)
	2,443,655	1,964,176
	4,648,711	5,294,124

Out of the total amount of receivables in settlement of RSD 547,695 thousand the largest portion refers to the receivables due from insurance companies based on the mathematical reserve for collective life insurance of the employees and receivables from sales and purchase of foreign currencies in the interbank currency market in the amounts of RSD 430,572 thousand and RSD 113,590 thousand, respectively.

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33. OTHER ASSETS (Continued)

Assets Acquired in Lieu of Debt Collection

Parent Bank

Tangibles acquired in lieu of debt collection in the amount of RSD 1,334,522 pertain to the following:

Tangibles acquired in the past 12 months

Description	Area in m2	Value in RSD'000	Date of Acquisition
Mur, Novi Pazar, house and category 3 orchard	1,190.00	5,535	06/04/2012
I.C.P Kruševac, commercial building	12,836.00	49,982	08/06/2012
Soko Banja, cottage, production plant, family residential building	1,944.00	34,954	01/08/2012
Soko Banja, farming land (orchard, fields)	5,740,83 ares	35,335	01/08/2012
Beograd, Baje Pivljanina 83, commercial building	278,52	67,320	23/08/2012
Novi Pazar, Ejupa Kurtagića 13, house	139.90	4,755	24/07/2012
Majur, Tabanovačka, category 4 farming field	1,445 ha	1,630	10/08/2012
Majur, production plant with ancillary facilities	1,263	39,622	08/10/2012
Negotin, house with ancillary facilities	658.00	71,103	07/10/2012
Mladenovac, category 3 farming field	16,633	244	22/11/2012
Niš, business premises - stores	140	22,400	14/12/2012
Total I		332,880	

Tangibles acquired in prior periods

Description	Area in m2	Value in RSD'000	Date of Acquisition
Business premises in Novi Pazar, Kej skopskih žrtava 44	82.95	9,156	27/09/2006
Gnjilica, category 7 field	2,638.00	216	11/06/2008
The President Hotel, Čačak, Bulevar oslobođenja bb	2,278.92	127,035	21/01/2009
Residential building in Čačak, Ratka Mitrovića 6	195.00	3,706	12/05/2009
Cultivated land, category 4 grass field	1 ha 24 ares	337	26/11/2010
Tivat, Mrčevac – residential building, ancillary facilities in construction and garage	277	5,512	23/12/2010
Buče, category 4 forest	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.9	175	49,040	24/12/2010
NBGD, Milentija Popovića 5b, business premisesL4S2	153	55,880	24/12/2010
NBGD, Milentija Popovića 5b, business premises L3S2	128	46,751	24/12/2010
Mur, Novi Pazar, forest, field and orchard	33.96 ares	4,379	07/04/2011
Mur, Novi Pazar, forest, field and orchard	974.00	13,532	27/05/2011
Budva, category 4 forest	1,995.00	11,087	27/05/2011
Prijevor, category 4 forest	925.00	423,845	21/11/2011
Total II		919,447	

All amounts expressed in thousands of RSD, unless otherwise stated.

33. OTHER ASSETS (Continued)

Tangibles acquired in the past 12 months - Equipment

Description	Value in RSD'000	Date of Acquisition
I.C.P Kruševac, movables	45,243	08/06/2012
Soko Banja, Sineks Niš and Trebič sunce (movables)	34,701	01/08/2012
Majur, movables	378	08/10/2012
Svrljig, movables	38	13/11/2012
Retail customers – tractor with trailer	114	18/07/2012
Retail customers – movables	32	26/01/2012
Retail customers – movables	38	19/06/2012
Retail customers – movables	20	20/03/2012
Retail customers – movables	81	20/03/2012
Retail customers – movables	70	25/01/2012
Total III	80,715	

Tangibles acquired in prior periods –Equipment

Description	Value in RSD'000	Date of Acquisition
Novi Pazar, equipment	275	23/06/2008
Valjevo, equipment	1,205	07/09/2009
Total IV	1,480	
Total I + II+ III+ IV	1,334,522	

Tangibles acquired in lieu of debt collection within a year totaled RSD 413,595 thousand as of December 31, 2012 and referred to buildings and land (forest) securitizing the Bank's receivables from customers based on loans approved.

For the aforementioned properties, the Parent Bank holds ownership titles. The Parent Bank's management is undertaking actions to sell such property.

During 2012, the Parent Bank sold two buildings, land and equipment acquired though collection of receivables for the aggregate price of RSD 86,886 thousand (cost of the assets sold amounted to RSD 82,315 thousand).

During 2012, the Parent Bank depreciated material assets received as collection of receivables (three buildings: Galathea, the President Hotel and the one in Novi Pazar) based on the fair value appraisal performed by the Parent Bank's expert team in the amount of RSD 118,795 thousand.

In accordance with NBS regulations for material assets received as 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 full provision thereof.

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33. OTHER ASSETS (Continued)

Komercijalna banka a.d., Budva

Tangibles acquired in lieu of debt collection in the past 12 months:

Description	Area in m2	Value in RSD'000	Date of Acquisition
Rijeka Crnojevića – business premises (3,309m²) and land (43,436m²)	46,745	171,648	30/06/2012
Total I		171,648	

Tangibles acquired in lieu of debt collection in prior periods:

Description	Area in m2	Value in RSD'000	Date of Acquisition
Danilovgrad - buildings (190 m²) and land (13,205 m²)	13,395	3,434	9/10/2007
Podgorica – commercial buildings (995 m²) and land (170 m²)	1,165	128,635	31/12/2008
Sutomore – residential buildings	1,158	96,575	31/01/2009
Kotor Pobrđe - land	31,534	66,157	28/02/2009
Budva - forest	709	25,725	31/03/2009
Kovači and Lastva - land	5,810	32,040	30/06/2009
Reževići - residential buildings	139	38,042	30/06/2009
Podgorica - land	375	15,944	31/08/2009
Podgorica - buildings (1,291 m²) and land (11,683 m²)	12,974	21,778	31/10/2009
Danilovgrad – residential buildings (709m²), yard (500m²) and land (16,544m²)	17,753	29,622	30/11/2009
Sutomore - land	432	32,122	3/12/2009
Tološi – residential buildings (500m²) and yard (195m²)	695	58,849	7/12/2009
Petrovac - residential buildings (252m²), business premises (40m²) and land (811m²)	1,103	68,401	17/12/2009
Reževići - land	547	32,004	17/12/2009
Dajbabe – business premises (2,370m²) and land (8,879m²)	11,249	95,964	28/12/2009
Podgorica – business premises (97m²+ 497m²)	594	148,440	27/01/2010
Cetinje - garage (30 m²) and land (374 m²)	404	1,439	25/05/2010
Tološi - residential building (394m²) + land (61m²)	455	30,010	31/07/2010
Kotor – Vranovići – forests and pastures	3,131	2,681	1/08/2010
Budva – residential building	50	11,956	17/08/2010
Danilovgrad – Spuž – residential buildings (228 m²) and land 1,364 m²	1,592	9,818	31/10/2011
Kotor - land	3,632	5,310	30/11/2011
Podgorica – building and hotel (661m²) and land (264m²)	925	76,380	31/12/2011
Total II		1,031,326	
Total Komercijalna banka a.d., Budva (I+II)		1,202,974	

All amounts expressed in thousands of RSD, unless otherwise stated.

33. OTHER ASSETS (Continued)

The CBM Decision on the Minimum Standards for Bank Investments in Property and Fixed Assets stipulates that the amount of such investments in excess of 40% of a bank's own assets be treated as a deductible upon determining own assets. Investment in property does not include acquisition of property in lieu of debt collection in debt rescheduling process, in bankruptcy or liquidation procedures instigated over the bank's debtors, in debtor reorganization procedures in accordance with the regulations governing bankruptcy or in enforcement procedure for claim settlement, on condition that no more than two years have passed since the acquisition date.

Regulations of the Central Bank of Montenegro do not prescribe the period within which a bank is obligated to sell the assets acquired in lieu of debt collection. In 2012 Komercijalna banka a.d., Budva did not realize sales of assets acquired in lieu of debt collection.

34. TRANSACTION DEPOSITS

	December 31, 2012	December 31, 2011
In RSD		
- sector of finances and insurance	592,959	687,409
- public enterprises	2,952,311	1,715,030
- corporate customers	12,567,931	8,531,260
- entrepreneurs	1,818,444	1,778,231
- public sector	42,979	38,392
- retail customers	5,535,428	5,183,533
- foreign entities	157,576	644,129
- registered agricultural producers	1,265,464	1,056,626
- other customers	1,482,446	1,374,545
	26,415,538	21,009,155
In foreign currencies		
- sector of finances and insurance	873,448	1,162,172
- public enterprises	768,528	710,710
- corporate customers	9,962,377	7,300,892
- entrepreneurs	284,175	200,538
- public sector	1,916,275	1,810,304
- retail customers	3,947,213	3,202,436
- foreign entities	999,990	1,140,054
- registered agricultural producers	1,799	2,443
- other customers	671,506	306,203
	19,425,311	15,835,752
	45,840,849	36,844,907

Demand deposits in dinars represent balances of transaction deposits of enterprises and other legal entities. Based on the Parent Bank's Decision on Interest Rates for the year 2012, these deposits were interest-bearing. Depending on the level of average monthly balance on transaction accounts of customers, the interest rates ranged from 0.5% to 2% annually.

Demand deposits of enterprises and non-residents denominated in foreign currencies with the Parent Bank were non-interest bearing except for specific business arrangements. With Komercijalna banka a.d., Budva, such deposits accrued interest at the rates between 0% and 0.3% annually, and at the rates ranging from 0% to 3.11% annually with Komercijalna banka a.d., Banja Luka.

Dinar a vista savings deposits placed by retail customers were deposited at an interest rate of 0.15% annually. Foreign currency a vista savings deposits of retail customers were placed at an interest rate of 0.15% annually for EUR deposits, i.e. 0.1% annually for deposits in other currencies.

All amounts expressed in thousands of RSD, unless otherwise stated.

35. OTHER DEPOSITS

	December 31, 2012	December 31, 2011
Other deposits in RSD		
Savings deposits	1,828,785	1,856,593
Deposits for loans approved	344,192	415,857
Special-purpose (earmarked) deposits	3,629,670	610,292
Other deposits:		
- sector of finances and insurance	4,979,525	3,309,558
- public enterprises	811,095	1,415,659
- corporate customers	10,585,279	18,093,217
- entrepreneurs	56,650	36,621
- public sector	339,343	208,521
- retail customers	22,102	12,078
- foreign entities	7	1,000
- other customers	5,680,432	3,798,044
	28,277,080	29,757,440
Other deposits in foreign currencies		
Revocable deposits	105,344	48,152
Savings deposits	153,221,289	131,593,488
Deposits for loans approved	2,491,009	2,782,834
Special-purpose (earmarked) deposits	2,334,865	1,428,795
Other deposits:		
- sector of finances and insurance	6,141,883	6,302,344
- public enterprises	3,308,579	3,970,754
- corporate customers	7,155,460	4,979,721
- entrepreneurs	34,570	27,579
- public sector	35,282	141,503
- retail customers	236,057	403,701
- foreign entities	12,779	11,159
- other customers	1,290,196	1,630,539
	176,367,313	153,320,569
	204,644,393	183,078,009

Corporate Sector Deposits

In 2012, short-term dinar deposits of corporate customers were placed at annual interest rates ranging between the reference interest rate less 2.75% and the reference interest rate, depending on the maturity date.

Short-term foreign currency deposits of enterprises were placed at an interest rate ranging between 0.25% and 6% annually.

Long-term dinar deposits of enterprises were placed at an interest rate determined by the amount of reference interest rate of the National Bank of Serbia on an annual level increased by 0.5%.

Short-term corporate deposits denominated in EUR were placed at the interest rates ranging from 1% to 2.2% annually.

Long-term corporate deposits denominated in EUR were placed at the annual interest rate of 2.6 %.

Long-term corporate deposits denominated in foreign currencies were placed at interest rates ranging from 1.35% to 5.5% annually.

Retail Sector Deposits

Short-term retail deposits in dinars were placed at interest rates ranging from 7% do 10% annually, whereas those denominated in foreign currency accrue interest at rates ranging from 0.1% to 5.3% annually.

Long-term retail deposits in dinars were placed at interest rates ranging from 10.5 % to 11% annually, whereas those denominated in foreign currency accrue interest at rates ranging from 0.4% to 6.3% annually.

All amounts expressed in thousands of RSD, unless otherwise stated.

36. BORROWINGS

	December 31, 2012	December 31, 2011
Borrowings received in RSD		
Overnight loans	249,476	301,368
Loans received	-	1,092
Other financial liabilities	21,741	10,214
	271,217	312,674
Borrowings received in foreign currencies		
Borrowings	773,935	651,047
Other financial liabilities in foreign currencies	366,810	1,291,956
	1,140,745	1,943,003
	1,411,962	2,255,677

Borrowings totaling RSD 773,935 thousand mostly relate to the loan facility based on the investment by the Republic of Srpska Investment Development Bank in the amount of RSD 616,076 thousand. Interest rates on borrowings ranged from 1.2% to 4.7% annually.

Other financial liabilities in foreign currencies mostly refer to the payments not made based on the received proceeds from abroad in the amount of RSD 333,137 thousand.

37. INTEREST, FEE AND COMMISSION PAYABLES AND CHAGE IN THE VALUE OF DERIVATIVES

	December 31, 2012	December 31, 2011
Interest, fee and commission payables in RSD		
Interest payable	171,938	184,668
Fees and commissions payable	11,893	6,691
Liabilities arising from the change in the value of derivatives	-	634
	183,831	191,993
Interest, fee and commission payables in foreign currencies and change in the value of derivatives		
Interest payable	7,298	14,908
	7,298	14,908
	191,129	206,901

38. PROVISIONS

	December 31, 2012	December 31, 2011
Provisions against potential losses arising from litigation (Note 48b)	1,560,358	1,357,599
Provisions for employee benefits (IAS 19)	325,037	311,241
Provisions against potential losses per commitments and contingent liabilities (Note 48a)	521,239	519,253
	2,406,634	2,188,093

All amounts expressed in thousands of RSD, unless otherwise stated.

38. PROVISIONS (Continued)

Movements on accounts of provisions

	December 31, 2012	December 31, 2011
a) Provisions against potential losses arising from litigation		
Opening balance	1,357,599	243,662
Reversal of provisions	(18,249)	-
Release of provisions	-	(10,900)
Charge for the year	220,967	1,124,856
Other	41	(19)
Balance, end of year	1,560,358	1,357,599
b) Provisions for retirement benefits and unused annual leaves (vacations)		
Opening balance	311,241	262,086
Charge for the year	65,113	51,702
Reversal of provisions	(52,989)	-
Other	1,672	(2,547)
Balance, end of year	325,037	311,241
c) Provisions against potential losses per commitments and contingent liabilities		
Opening balance	519,253	414,031
Charge for the year	545,478	497,160
Reversal of provisions	(545,018)	(392,108)
Other	1,526	170
Balance, end of year	521,239	519,253

a) During 2012 the Parent Bank adjusted possible outflows per ongoing legal suits by charging additional provision of RSD 218,528 thousand and reversing provision of RSD 18,249 thousand based on reconciling RSD counter value of an expected outflow from a legal suit in USD. Provision charges for the same purpose were formed in 2012 in the amounts of RSD 1,696 thousand and RSD 1,105 thousand by Komercijalna Banka a.d., Budva and Komercijalna Banka a.d., Banja Luka, respectively.

b) The main actuarial assumptions used in calculation of retirement benefits were as follows:

Serbia

	December 31, 2012	December 31, 2011
Discount rate	11.25%	9%
Salary growth rate within the Bank	4%	5%
Employee turnover	5%	5%

The discount rate equaled the reference interest rate of the National Bank of Serbia as at the calculation date.

Montenegro

	December 31, 2012	December 31, 2011
Discount rate	8%	8%
Salary growth rate within the Bank	4%	4%
Employee turnover	5%	5%

The discount rate equaled the average interest rate applied to corporate long-term loans.

All amounts expressed in thousands of RSD, unless otherwise stated.

38. PROVISIONS (Continued)

Republic of Srpska

	December 31, 2012	December 31, 2011
Discount rate	8.5%	9%
Salary growth rate within the Bank	4%	4%
Employee turnover	5%	5%

The discount rate equaled the average interest rate applied to corporate long-term loans.

39. TAXES PAYABLE

	December 31, 2012	December 31, 2011
Value added tax payable	8,024	16,549
Other taxes and contributions payable	16,547	28,472
	24,571	45,021

40. TAX AND DIVIDEND PAYABLES

	December 31, 2012	December 31, 2011
Dividend payables	85,114	15,067
Current income tax payable	19,967	169,373
	105,081	184,440

All amounts expressed in thousands of RSD, unless otherwise stated.

41. OTHER LIABILITIES

	December 31, 2012	December 31, 2011
Liabilities denominated in RSD		
Accounts payable	227,149	226,881
Advances received	190,454	373,166
Other accounts payable	41,902	144,717
Liabilities in settlement	235,620	155,406
Suspense and temporary accounts	(292,991)	(139,086)
	402,134	761,084
Net salaries	88,187	26,741
Taxes on salaries and benefits	12,921	4,437
Contributions to salaries and benefits	6,659	5,821
Temporary and seasonal employees	-	43
Other liabilities to employees	7,293	7,135
	115,060	44,177
Liabilities for deferred interest accrued	45,711	46,469
Other accrued expenses	18,028	14,825
Deferred interest income	49,865	144,227
Deferred receivables at amortized cost calculated by applying effective interest rate	824,282	728,255
Deferred other income	93,237	94,720
Other accruals	526,665	520,125
	1,557,788	1,548,621
Other foreign currency liabilities		
Accounts payable	29,114	36,086
Advances received	29,186	24,724
Liabilities for consignment business – loan facilities	14,859,254	10,204,893
Other liabilities	973	109
Liabilities in settlement	589,885	999,123
Suspense and temporary accounts	15,829	14,878
	15,524,241	11,279,813
Subordinated foreign currency liabilities	5,685,915	5,232,045
	5,685,915	5,232,045
Liabilities for deferred interest accrued	2,974,114	2,652,865
Liabilities for deferred other accrued expenses	93,867	116,706
Liabilities for deferred interest accrued in foreign currencies	935	2,817
Deferred income for receivables stated at amortized cost	47,570	40,420
Deferred other income	52,490	46,474
Other accruals	17,690	89,645
	3,186,666	2,948,927
TOTAL	26,471,804	21,814,667

Liabilities arising from consignment operations in foreign currencies mostly refer to the following loan facilities:

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41. OTHER LIABILITIES (Continued)

Liabilities arising from consignment operations in foreign currencies mostly refer to the following loan facilities:

- Liabilities toward the Republic of Serbia based on a borrowing from the European Investment Bank for financing projects of SME, as well as financing infrastructural projects of municipalities of small and medium scope:

2012		2011	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
4,815,056	42,342	2,591,542	24,766

- Liabilities toward the Republic of Serbia based on the loans from the Republic of Italy for financing projects of SME:

2012		2011	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
1,199,385	10,547	1,273,033	12,166

- Liabilities toward the Republic of Serbia based on a loan obtained from the European Agency for Reconstruction and Development:

2012		2011	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
124,413	1,094	89,562	856

- Liabilities toward international financial organizations:

a) EFSE 1 and 2

2012		2011	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
3,574,004	31,429	3,886,662	37,143

b) GGF

2012		2011	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
2,615,521	23,000	-	-

- Liabilities toward the European Bank for Reconstruction and Development:

2012		2011	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
1,883,844	20,000	1,718,242	20,000

- Liabilities toward the European Investment Bank (Republic of Montenegro):

2012		2011	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
639,665	5,625	627,845	6,000

All amounts expressed in thousands of RSD, unless otherwise stated.

41. OTHER LIABILITIES (Continued)

Liabilities for deferred interest accrued in foreign currencies totaling RSD 2,868,054 thousand mostly refer to foreign currency retail savings deposits.

Deferred receivables at amortized cost calculated by applying effective interest rate of RSD 824,282 thousand represent future period income (Note 5a).

Liabilities arising from advances received in dinars totaling RSD190,454 thousand mostly relate to the advances received from the Republic of Serbia Development Fund for subsidizing interest rates applied to loans to corporate customers and entrepreneurs in the amount of RSD 71,961 thousand ad advances received from the Ministry of Environment and Spatial Planning for subsidized interest for residential construction loans in the amount of RSD 115,721 thousand.

Within deferred interest income in RSD totaling RSD 49,865 thousand, the most significant portions account for the following: RSD 15,713 thousand collected in advance based on interest subsidized by the Ministry of Economy and Regional Development for retail cash and consumer loans and RSD 29,711 thousand collected in advance based on interest subsidized by the Environment Protection Fund for loans approved to retail customers for energy efficiency improvement.

In accordance with the regulations of the National Bank of Serbia in respect of capital adequacy requirements and implementation of Basel II standard, the Bank strengthened its core capital by obtaining a subordinated loan from IFC in 2011.

The received subordinated loan amounted to RSD 5,685,915 thousand, i.e. EUR 50,000 thousand..

42. SHARE CAPITAL

	December 31, 2012	December 31, 2011
Share capital attributable to the majority owner	17,191,466	13,881,008
Share premiums	22,843,084	14,581,543
	40,034,550	28,462,551
Non-controlling interest	62	56
	40,034,612	28,462,607

Parent Bank

The Bank's share capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank as well as to shares in profit distribution.

Based on the Decision on the 26th share issue of preferred shares convertible into common shares by public offering without obligation to publish the prospectus to a qualified investor – the Republic of Serbia for the purpose of the core capital increase, the Bank issued shares in the total amount of RSD 11,571,997 thousand, i.e. 3,310,456 shares with the individual par value of RSD 1 thousand during 2012.

The new 26th share issue was realized as at October 30, 2012 by payment made by the Ministry of Finance and Economy of the Republic of Serbia in the amount of RSD 11,571,997 thousand; the Bank earned the share premium of RSD 8,261,541 thousand..

The Bank's share capital is comprised of 17,191,466 shares with the individual par value of RSD 1 thousand and of the following structure:

- 8,709,310 common shares;
- 8,108,646 referred convertible shares; and
- 373,510 preferred shares.

All amounts expressed in thousands of RSD, unless otherwise stated.

42. SHARE CAPITAL (Continued)

Parent Bank (Continued)

The structure of the Bank's shareholders in respect of common shares at December 31, 2012 was the following:

Shareholder	Share Count	% Interest
Republic of Serbia	3,709,890	42.60
EBRD, London	2,177,330	25.00
Jugobanka a.d., Beograd in bankruptcy	321,600	3.69
Artio International Equity Fund, New York	259,623	2.98
Evropa osiguranje a.d., Beograd in bankruptcy	249,420	2.86
Invej d.o.o., Beograd	230,000	2.64
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.97
Other (1,207 shareholders)	1,590,067	18.26
	8,709,310	100.00

The structure of the Bank's shareholders in respect of convertible preferred shares at December 31, 2012 was the following:

Shareholder	Share Count	% Interest
Republic of Serbia	3,310,456	40.83
EBRD, London	1,932,110	23.83
IFC Capitalization Fund LP	1,706,810	21.05
Deg Deutche Investitions	772,850	9.53
Swedfund International Aktiebo	386,420	4.76
	8,108,646	100.00

The structure of the Bank's shareholders in respect of preferred shares at December 31, 2012 was the following:

Shareholder	Share Count	% Interest
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Other (640 shareholders)	355,420	95.16
	373,510	100.00

During 2012, prior year dividends were paid on preferred shares in the amount of RSD 40,264 thousand.

The basic earnings per share totaled RSD 469 or 46.9 % for a common share par value in 2012, whereas in 2011 the basic earnings per share amounted to RSD 399 or 39.9 % for a common share par value.

Diluted earnings per share totaled RSD 290 or 29.04% for a common share par value in 2012 and RSD 257 or 25.7% for a common share par value in 2011.

All amounts expressed in thousands of RSD, unless otherwise stated.

42. SHARE CAPITAL (Continued)

Parent Bank (Continued)

	2012	2011
Profit for the year	4,084,795	3,473,416
Average weighted number of shares during the year	8,709,310	8,709,310
Basic earnings per share (in RSD)	469	399

	2012	2011
Profit for the year	4,084,795	3,473,416
Average weighted number of shares during the year	14,068,288	13,507,500
Diluted earnings per share (in RSD)	290	257

43. RESERVES RETAINED FROM PROFIT

	December 31, 2012	December 31, 2011
Other reserves	217,160	199,825
Special reserves retained from profit for estimated losses	14,932,162	12,023,542
General banking risk reserves	-	38,248
	15,149,322	12,261,615

	December 31, 2012	December 31, 2011
Changes in the reserves retained from profit		
Balance, beginning of year	12,261,615	9,868,217
Increase during the year:		
- from profit distribution	3,183,444	2,427,413
- effects of the application of IAS 39 and 37 and regulations of the National Bank of Serbia	(350,056)	(28,873)
Foreign exchange gains/(losses)	54,319	(5,142)
Balance, end of year	15,149,322	12,261,615

44. REVALUATION RESERVES

	December 31, 2012	December 31, 2011
Revaluation reserves based on valuation of property and equipment	488,942	498,980
Revaluation reserves based on fair value adjustment of securities	378,832	190,640
	867,774	689,620

	December 31, 2012	December 31, 2011
Movements on revaluation reserves		
Balance, beginning of the year	689,620	663,008
increase during the year	178,154	26,612
Balance, end of the year	867,774	689,620

Revaluation reserves are associated with the depreciation effect of the property valuation performed by an independent appraiser and gains on the fair value adjustment of securities available for sale.

All amounts expressed in thousands of RSD, unless otherwise stated.

45. UNRELAIZED LOSSES FROM THE FAIR VALUE ADJUSTMENT OF SECURITIES AVAILABLE FOR SALE

	December 31, 2012	December 31, 2011
Unrealized losses from the fair value adjustment of securities available for sale	(7,016)	(63,940)
	(7,016)	(63,940)

In the course of 2012 unrealized losses from the securities available for sale totaling RSD 76,783 thousand was transferred to the income statement given the existence of objective evidence of permanent impairment of those assets.

46. RETAINED EARNINGS

	December 31, 2012	December 31, 2011
Retained earnings		
Prior year profits	693,685	295,200
Profit for the year	3,946,319	3,535,388
	4,640,004	3,830,588
Profit for the year		
- profit from regular operations	4,424,450	3,987,990
- current income tax expense and tax effects	(478,131)	(452,602)
	3,946,319	3,535,388

Pursuant to the regulations of the National Bank of Serbia, gains on the realized revaluation reserves from property and equipment in 2012 were recognized within retained earnings from prior years in the total amount of RSD 10,038 thousand.

In 2012, pursuant the Decision enacted by the Parent Bank's Shareholder Assembly, accumulated retained earnings from 2011 was distributed as follows:

- 2011 dividends on preferred shares	40,264
- reserves	3,150,000
- bonuses and awards for the management members and other employees	308,000
	3,498,264

In 2012, pursuant the Decision enacted by the Shareholder Assembly of Komercijalna banka a.d., Banja Luka, retained earnings were distributed into reserves in the amount of RSD 75,010 thousand.

In 2012, Komercijalna banka a.d., Budva did not distribute retained earnings.

47. MANAGED FUNDS

	December 31, 2012	December 31, 2011
Funds managed on behalf and for the account of third parties	5,050,021	4,367,427
	5,050,021	4,367,427

Funds managed on behalf and for the account of third parties are mostly comprised of assets for consignment loans of the republic of Serbia, the largest portion of which, in the amount of RSD 3,123,934 thousand, relates to the long-term residential loans extended to retail customers. Other managed funds relate to consignment loans of the City of Belgrade and assets received from foreign grantors for micro loans.

All amounts expressed in thousands of RSD, unless otherwise stated.

48. COMMITMENTS

a) Guarantees issued and other sureties, collaterals, irrevocable commitments and other liabilities

	December 31, 2012	December 31, 2011
In RSD		
Guarantees issued and other sureties	10,519,984	10,529,088
Collaterals securing liability settlement	5,856,170	5,000,000
Irrevocable commitments for undrawn loans and advances	7,896,786	7,033,612
Other irrevocable commitments	9,072,681	8,523,875
	33,345,621	31,086,575
In foreign currencies		
Guarantees issued and other sureties	6,514,900	6,056,290
Irrevocable commitments for undrawn loans and advances	312,370	1,138,151
Other irrevocable commitments	3,523,052	219,485
	10,350,322	7,413,926
Total	43,695,943	38,500,501

Collaterals securing the settlement of liabilities of RSD 5,856,170 thousand relate to the treasury shares from the Parent Bank's portfolio pledged in favor of the National Bank of Serbia as a prerequisite for drawing a loan for liquidity purposes.

Other irrevocable commitments mostly refer to the following: unused portion of approved retail clients' current account overdrafts in the amount of RSD 4,929,929 thousand and unused portion of the approved limit amounts per credit cards in the amount of RSD 3,935,390 thousand.

Total estimated provision for potential losses on off-balance sheet items as in accordance with IAS 37 (Note 38) was formed in the following amounts:

Parent Bank	497,632
Komercijalna banka a.d., Budva	15,380
Komercijalna banka a.d., Banja Luka	8,227
	521,239

As of December 31, 2012 and 2011, there were no liabilities arising from forward foreign exchange operations.

b) Litigation

Parent Bank

As of December 31, 2012, contingent liabilities based on legal suits filed against the Parent Bank amounted to RSD 1,144,780 thousand (for 123 legal suits). The Parent Bank's management anticipates no materially significant losses thereof in the forthcoming period. Based on the lawsuit filed by the Company Takovo, the Parent Bank formed additional provision of RSD 1,124,857 thousand in 2011 given the fact that, after the Parent Bank had received the legally binding court verdict in its favor and realized collection thereof, the Company Takovo filed an appeal pending decision of the Supreme Cassation Court. Potential outflows of funds from the Parent Bank's accounts in the full amount may result from the review of the verdict and possible return of the case for redeliberation caused the Parent Bank to retain provision of RSD 1,124,857 thousand for this legal suit.

The total provisions of the Bank against litigation losses amounted to RSD 1,557,557 thousand, whereas the aggregate provisions at the Group level amounted to RSD 1,560,358 thousand (Note 38).

In addition, the Parent Bank is involved in lawsuits against third parties the most significant portion of which amounts to RSD 21,041,288 thousand (for 215 cases with the largest individual amounts). The Parent Bank's management anticipates favorable outcome of the most lawsuits.

All amounts expressed in thousands of RSD, unless otherwise stated.

48. COMMITMENTS (Continued)

Komercijalna banka a.d., Budva

As of December 31, 2012, contingent liabilities based on legal suits filed against the Bank amounted to RSD 14,336 thousand (for 43 legal suits). The Bank does not anticipate losses based on these lawsuits in the forthcoming period.

The Bank has formed provisions for legal suits in the amount of RSD 1,696 thousand.

In addition, the Bank is involved in 221 lawsuits against third parties for collection of loan repayment receivables in the amount of RSD 1,006,247 thousand. The Bank's management anticipates favorable outcome of the most lawsuits.

Komercijalna banka a.d., Banja Luka

As of December 31, 2012, contingent liabilities based on legal suits filed against the Bank amounted to RSD 14,586 thousand (for 9 legal suits). The Bank's management does not anticipate losses based on these lawsuits in the forthcoming period.

The Bank has formed provisions for legal suits in the amount of RSD 1,105 thousand.

In addition, the Bank is involved in 283 lawsuits against third parties for collection of loan repayment receivables in the amount of RSD 718,168 thousand. The Bank's management anticipates favorable outcome of the most lawsuits.

49. DERIVATIVES

	December 31, 2012	December 31, 2011
Receivables based on derivatives	-	261,602
	-	261,602

50. OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2012	December 31, 2011
Receivables for suspended interest		
- in dinars	1,636,802	796,922
- in foreign currencies	960,207	580,505
Other off-balance sheet assets	156,570,738	142,489,230
	159,167,747	143,866,657

In the course of 2012, the Bank had a net increase in suspended interest of RSD 1,219,582 thousand comprised of:

a) increase of RSD 1,266,704 with the following structure:

- newly-suspended interest of RSD 423,010 thousand;
- continued calculation of suspended interest of RSD 793,810thousand; and
- foreign exchange gains of RSD 49,884 thousand.

b) decrease of RSD 47,122 thousand, with the following structure:

- write-off of RSD 7,894 thousand; and
- collection of RSD 39,228 thousand.

Within other off-balance sheet assets, inter alia, the Group records custody operations performed for the Bank's clients, repo investments in the state-issued securities and old foreign currency savings bonds. The Group is not exposed to credit risk per these items.

All amounts expressed in thousands of RSD, unless otherwise stated.

51. CAPITAL ADEQUACY AND BUSINESS RATIOS IN CONFORMITY WITH THE LAW ON BANKS

Capital Adequacy

The Group's capital adequacy ratio calculated according to the methodology of the National Bank of Serbia equaled 22.40% as of December 31, 2012.

The Group is obligated to comply with the parameters defined by the Law on banks in respect of the scope of its business operations. As of December 31, 2012 and 2011, all the Group's ratios were reconciled with the prescribed parameters.

The Parent Bank is required to maintain the minimum capital adequacy ratio of 12%, as established by the National Bank of Serbia in accordance with the Basel Convention applied to banks. As of December 31, 2012, the Parent Bank's capital adequacy ratio, as calculated based on the financial statements prepared by the Bank's management by applying the NBS decisions effective for 2012, was 21.88%.

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 the NBS requirements. As of December 31, 2012 and 2011, all ratios pertaining to the volume of its activities and composition of risk-weighted assets were within their prescribed limits.

Komercijalna banka a.d., Budva is obligated to maintain the minimum capital adequacy ratio of 10% as defined by the Central Bank Of Montenegro. As of December 31, 2012, the Bank's capital adequacy ratio calculated as the percentage ratio of the total risk-weighted capital and total weighted own assets equaled 34.8% (December 31, 2011: 44%) according to the calculation methodology prescribed by the Central Bank of Montenegro. As of December 31, 2012 and 2011, all other ratios were within their prescribed limits.

Komercijalna banka a.d., Banja Luka is under obligation to maintain the minimum capital adequacy ratio of 12% as defined by the banking Agency of the Republic of Srpska. As of December 31, 2012, the Bank's capital adequacy ratio was 30.6% (December 31, 2011: 30.7%). As of December 31, 2012 and 2011, all other ratios were within their prescribed limits.

52. RELATED PARTY DISCLOSURES

Gross and net remunerations paid to the members of the Group members' Executive Boards, Boards of Directors and Audit Committees in 2012 were as follows:

	December 31, 2012	December 31, 2011
Gross remunerations		
Management	121,701	108,834
Net remunerations		
Management	92,487	82,927
Gross remunerations		
Supervisory Boards, Boards of Directors and Audit Committees	42,052	44,983
Net remunerations		
Supervisory Boards, Boards of Directors and Audit Committees	31,195	27,354

All amounts expressed in thousands of RSD, unless otherwise stated.

53. RELATED PARTY CONSOLIDATION

Balance Sheet

	Summary Unconsolidated Balance Sheet	Amount of Balance Sheet Consolidation	Consolidated Balance Sheet
	349,167,702	**5,997,181**	**343,170,521**
Cash/liabilities		501,353	
Investments/liabilities		14,940	
Permanent investments/equity		5,480,888	

Income Statement

	Summary Unconsolidated Income Statement Profit (before taxes)	Amount of Income Statement Consolidation		Consolidated Profit (before taxes)
		Income	Expenses	
	4,423,252	**4,857**	**6,055**	**4,424,450**
Interest		3,353	3,353	
Fees and commissions		1,504	1,504	
Foreign exchange gains			1,198	

54. RISK MANAGMENT

The Banking Group has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, monitoring, minimizing and setting of risk limits and through other types of control, including reporting in accordance with adopted strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, appropriate organizational structure, effective and efficient process of managing all risk it is exposed to, adequate system of internal controls adequate information system and process of internal capital adequacy assessment.

Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Group's tendency to assume risk in accordance with the adopted strategies and policies.

The basic objectives that the Group set for the risk manages system are the following: minimizing the negative effects on financial result and equity within acceptable risk levels, maintaining the required level of capital adequacy, developing the Group's activities in accordance with business opportunities and market development with a view to gain competitive advantage.

The Group implements Basel II standards and permanently monitors all the announcement and amendments to the effective regulations, analyses the risk levels and undertakes measures for timely reconciliation of its operations with newly enacted regulations in accordance with the risk level acceptable to the Group. Through the clearly defined process of introducing new products, the Group analyses the influence of all new services and products on the future risk exposures in order to optimize its revenues and losses based on the estimated risk as well as to minimize all potential adverse effects on the Group's financial result.

Risk Management System

The risk management system at the Banking Group level 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; and
- Other enactments.

54. RISK MANAGEMENT (Continued)

Risk Management System (Continued)

Risk Management Strategy sets out:

- Long-term objectives, defined by the Banking Group's business policy and strategy and its tendency to assume risk determined in accordance with those objectives;
- Basic principles of risk assumption and management;
- Basic principles of the process of internal assessment of the Group's capital adequacy; and
- Overview and definitions of all types of risk the Group is exposed to or may be exposed to.

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

- Organizing operation of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular operating activities of the Banking Group;
- Comprehensive risk management;
- Effective risk management;
- Cyclic risk management;
- Developing risk management as a strategic orientation; and
- Risk management as a part of corporate culture.

Policies for managing certain risk types define the following:

- Manner of organizing risk management processes within the Banking Group and clear division of personnel responsibilities in all stages of the process;
- Manner of assessing the Group's risk profile and methodology for identifying, measuring and assessing risks;
- Manners of risk monitoring and control and establishing the system of limits, i.e. types of limits the Banking Group uses as well as their structure;
- Measures for risk mitigation and rules for implementation thereof;
- Manner and methodology for implementing the process of internal assessment of the Banking Group's capital adequacy;
- Principles of the system of internal controls; functioning; and
- Framework and frequency for stress testing and procedure in instances of unfavorable test results.

Procedures for managing certain risk types define, in greater detail, the process of managing risks and competencies and responsibilities of all organizational units of the Parent Bank and Group members in the risk management system.

Individual methodologies further and in more detail prescribe methods and approaches used in the risk management system.

Competencies

The Board of Directors is authorized and responsible for establishing a uniform risk management system and for monitoring such systems for both the Parent Bank and the Group, adopting policies and procedures for risk management and capital management strategy, establishment of internal control system, supervision of the work of the Executive Board and execution of the process of internal capital adequacy assessment.

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Parent Bank and the Group are exposed to.

The Audit Committee is authorized and responsible for continued analysis and monitoring of the adequate implementation of the adopted risk management strategies and policies and internal control systems of the Parent Bank and the Group. At least monthly, the Audit Committee reports to the Board of Directors on its activities and identified irregularities and proposes how to eliminate them.

54. RISK MANAGEMENT (Continued)

Competencies (Continued)

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

The Credit Committee decides on loan approval requests within framework determined by the Parent Bank's enactments, analyses the Parent Bank's exposure credit, interest rate and currency risk, analyzes loan portfolio and proposes measures to be taken to the Executive Board. Each Group member has its *Credit Committee*, which makes decisions within the its scope of competence 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 Parent Bank's Executive Board and Board of Directors exceeding its limits of authorization. Group members' *Receivables Collections Committees make decisions on risk-weighted investments.*

The Risk Management Organizational Unit of the Parent Bank defines and proposes the risk management strategy and policies to the Board of Directors for adoption, defines and proposes risk management procedures and methodologies to the Executive Board for adoption, identifies, measures, mitigates, monitors, controls and reports on the risks the Parent Bank and the Group exposed to. It is also in charge of developing models and methodologies for all stages of risk management and reporting to the competent and the Group's bodies.

The Asset Management Division is responsible for managing assets and liquidity, the Banking Group's assets and liabilities, their overall financial structure, and is primarily responsible for the Group's liquidity risk, interest rate risk and foreign currency risk.

The Internal Audit Division is authorized and responsible for continued monitoring of implementation of risk management policies and procedures at the Group level, and tests the adequacy of procedures and the compliance of Group members thereto. Internal Audit reports its findings and recommendations to the Audit Committee and the Board of Directors.

The Compliance Control Division is obligated to identify and assess compliance risks at least annually and propose risk management plans, whereof it prepares a report and submits it to the Executive Board of each group member.

Banking Group members have organizational units responsible for risk management, asset management and internal audit.

Risk Management Process

The Banking Group regularly measures and evaluates risks identified in its operations. Measurement entails applying qualitative and quantitative measurement methods and models that enable detection of changes in risk profile and assessment of new risks. For all risks identified the Group determines their significance based on as comprehensive assessment of risks inherent in the Group's particular operations, products, activities and processes.

Risk alleviation or mitigation involves risk diversification, transfer, minimization and or avoidance; the Group performs risk mitigation in accordance with the Group's risk profile and risk appetite.

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

Risk management reports are regularly submitted to: the Board of Directors, Executive Board, Audit Committee, Asset Liability Management Committee and Credit Committee, and they contain all the information required for risk assessment and reaching of conclusions about the risks. Group members report the organizational unit of the Parent Bank in charge of risk management on a monthly basis.

54. RISK MANAGEMENT (Continued)

Types of Risk

In its business operations the Group is exposed to the following risks in particular: credit risk and related risks, liquidity risk, market risk and operational risk, investment risk, country risk and all other risks that may occur in the course of the Group's regular operations.

54.1. CREDIT RISK

Credit risk represents the risk of negative effects on the Group's financial result and capital arising from debtors' inability to settle the matured liabilities to the Group. The Group members monitor the following risks within the credit risk:

- **Default risk** - the risk of loss that may arise if a debtor fails to settle liabilities toward a Group member;
- **Downgrade risk** - the risk of loss that may arise if a risk level of a debtor is downgraded (deterioration of the customer credit rating);
- **Risk of change in the value of assets** - the risk of loss that may arise on assets in the event of a decline in their market value as compared to the price at which assets were acquired;
- **Concentration risk** – represents a risk that is a direct or indirect outcome of a Group member's exposures the same or similar risk factor or type, such as: exposure to a single entity or a group of related entities, industries, geographical regions, types of products and activities, collaterals, financial instruments;
- **Exposure risk** - is a risk that can arise from the Group's exposure to a single entity, group of related entities or the Group's related parties;
- **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.

In addition to the aforelisted risks, the Group members also monitor the following related risks:

- **Residual risk** – is a risk that credit risk mitigation techniques may be less efficient than expected, i.e. that their application is not sufficient to alleviate the risks the Group is exposed to;
- **Risk of reduced value of receivables** – is a risk of possible emergence of negative effects on the Group's financial results and capital due to reduced value of repurchased receivables for cash on non-cash liabilities of the previous creditor to the debtor;
- **Settlement/delivery risk** – is a risk of possible emergence of negative effects on the Group's financial results and capital due to counterparty default on free delivery transactions as of contractually defined settlement/delivery date;
- **Counterparty risk** – is a risk of possible emergence of negative effects on the Group's financial results and capital due to counterparty failure to settle its liabilities prior to the ultimate settlement of the transaction cash flows, i.e. settlement of cash payment.

According to the volume, type and complexity of its operations, the Group has organized the credit risk management process and clearly delineated employee responsibilities in all stages of the process. The organizational model of credit risk management system enables adequate communication, information exchange and collaboration at all organizational levels within the Group as well as clear operational and organizational separation of functions for independent risk management and supporting activities on one hand and the activities of risk assumption on the other, i.e. segregation of duties, competencies and responsibilities. The Group members have also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

The objective of credit risk management is to minimize adverse effects of the credit risk on the Group's financial result and equity based on balance sheet and off-balance sheet investments and operations with counterparties for items carried in the Grouping book.

The level of credit risk exposure acceptable to the Group is in line with the defined risk management strategy and depends on the Group's portfolio structure based on which negative effects on the Group's financial result is limited and capital requirements for credit risk, settlement/delivery and counterparty risk are minimized in order to maintain capital adequacy at an acceptable level. The Group members approve loans to (corporate and retail clients) which are estimated as creditworthy. On the other hand, the Group members do not make high-risk investments such as investments in highly profitable projects with significant risk levels.

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Group's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Group's financial result and capital;
- Investment rating according to risk;
- Operating in accordance with best banking practices of loan approval;
- Ensuring adequate credit risk management controls.

In its effort to manage credit risk the Group members seek to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Group members assess creditworthiness of each customer upon the submission of a loan application and regularly monitor their debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

Credit risk identification involves analysis of all indicators leading to the emergence and increase in credit risk exposure. The Group members determine the causes of the current credit risk exposure in a comprehensive and timely manner and assess such causes based on the incurred and projected changes in the market, as well as based on the introduction of new products and activities. Each Bank's credit risk depends on the debtor creditworthiness, its regularity in settling liabilities due to the Bank and collateral quality.

Each group member performs quantitative and/or qualitative measurement, i.e. assessment of the identified credit risk. The credit risk measurement process is based on two parallel approaches:

- Regulatory approach – in accordance with the regulations of the countries of domicile of the Group members;
- Internal approach – measuring risk level of individual loans and investments based on the internally adopted rating system for uniform presentation of the risks the Group is exposed to.

The approach based on the internally developed and adopted methods means that the Group manages the portfolio structure in such a manner that it objectively estimates the needs to impair investments in accordance with the requirements of the International Accounting Standards (IAS 39 and IAS 37) and internal methodology.

The rating system is not merely an instrument for forming individual decisions and assessing risk levels of individual investments; it is also a basis for portfolio analysis, support in loan approval and loan impairment procedure as well as in estimating provisions against losses per off-balance sheet items for the purpose of loan and investment ranking by risk level and stating realistic value of receivables.

In addition to the internal rating system, for adequate and efficient management of the risks they are exposed to, the Parent Bank and Group members adhere to the principles prescribed by the regulations of their respective central banks, which require classification of receivables and investments based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses.

Prior to loan approval, the Parent Bank and Group members assess the creditworthiness of the borrower based on internally defined criteria, such as a primary and offered collateral as a secondary source of collection/loan repayment. Based on the identified and measured credit risk level (assessed financial situation and credit worthiness of the borrower, value and legal security of the credit hedge and other relevant factors), and independent risk assessment, the competent bodies enact a loan approval decision in accordance with the defined decision making system.

In decision making related to areas of crediting, irrespective of the decision making level, the principle of double control, the so-called "four eyes principle," is observed which ensures that there is always a party that proposes and a party that approves a particular loan/investment.

Alleviating credit risk entails maintaining the risk at the level acceptable to the Bank's risk profile, i.e. maintaining acceptable level of the Bank's loan portfolio.

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

The basic techniques for credit risk mitigation are as follows:

- Exposure limits – concentration risk;
- Investment diversification; and
- Collaterals.

The exposure limits per individual debtor are based on the assessment of the debtor's credit-worthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. Each Group member continuously controls credit risk movements within a defined risk profile. In case of exceeding the internal limits, Group members submit explanations with proposed measures and activity plans, and the Parent bank reports to the Executive Board on such an excess. Group members are under obligation to report to the Parent Bank in on the occurrence of extraordinary circumstances in operating activities which may result from unfavorable local market trends, political and economic crises, etc.

Concentration risk includes: large exposure (exposure to a single entity or a group of related entities and the Group's related parties), group exposures with the same or similar risk factors such as industry sectors, types of products, geographical areas and the like, county risk and credit risk hedges.

The Parent Bank performs continuous control and monitoring of the exposure risk at the Group's portfolio level, within regulatory prescribed limits. In instances of exceeding the prescribed limits, the Parent Bank determines the causes thereof, informs the Executive Board thereof and proposes to the Executive Board protective measures against the exposure risk.

At the Group level, investment diversification is aimed at alleviating credit risk through reduction portfolio concentrations in certain segments of assets.

Monitoring investment quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality. The Group members also continuously monitor and check adequacy of the investment ranking process - categorization into risk groups according to recoverability.

In order to protect itself from changes in the market value of collaterals (mortgages, pledges, securities etc.), the Group adjusts the appraised collateral value for a defined percentage depending on the collateral type and location, which percentage is reviewed at least annually or more frequently as appropriate. necessary. In this way, the Group protects itself from potential losses arising from the impossibility of collection of receivables through security instrument activation.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, both on a daily and monthly bases, as well as under conditions of large credit exposure approaching the upper risk profile limit, i.e. upon introduction of new products and business activities.

As a hedge against counterparty default risk, the Group undertakes the following steps in respect to collection of due receivables:

- Rescheduling or restructuring;
- Out-of-court settlement;
- Seizure of goods or properties in order to collect receivables;
- Sale and/or assignment of receivables;
- Executing agreements with interested third parties; and
- Instigating court proceedings and other measures.

The Group reschedules and restructures receivables from customers experiencing certain difficulties in operations. If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Group initiates write-off of the remaining receivables.

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

Apart from credit risk exposure, the Group also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Group has contingent liabilities to make payments on behalf of 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 reporting systems executed on a monthly basis according to a preset schedule and in conformity with the defined reporting system:

- The Group members report to the Parent Bank on a monthly basis;
- The Parent Bank reports on a consolidation basis, semi-annually and annually

Total Credit Risk Exposure

The largest credit risk for the Group arises from actual loan arrangements; however, the Group is exposed to the credit risk based on off-balance sheet items, which is caused by commitments and contingent liabilities. The total exposure to credit risk is presented here in the gross amount before the effects of risk alleviation and asset impairment.

	Assets Subject to Classification		Other Assets		Total	
	2012	2011	2012	2011	2012	2011
Breakdown of Assets (gross)						
1. Assets	**215,368,250**	**189,957,368**	**52,797,579**	**63,488,377**	**268,165,829**	**253,445,745**
Revocable loans and deposits	-	-	45,826,369	59,038,570	45,826,369	59,038,570
Interest, fee and commission receivables and changes in the fair value of derivatives and other receivables	3,425,616	2,994,947	25,734	66,885	3,451,350	3,061,832
Loans and advances to customers	203,270,546	178,725,118	4,087,308	2,035,663	207,357,854	180,760,781
Other investments	5,968,706	4,602,424	461,893	404,475	6,430,599	5,006,899
Other assets	2,703,382	3,634,879	2,396,275	1,942,784	5,099,657	5,577,663
2. Other assets	**17,645,315**	**5,788,150**	**67,511,505**	**41,325,660**	**85,156,820**	**47,113,810**
Cash and cash equivalents	15,092,315	4,983,227	26,960,511	14,262,455	42,052,826	19,245,682
Securities	1,748,287	170,426	40,472,543	26,984,758	42,220,830	27,155,184
Equity investments	804,713	634,497	78,451	78,447	883,164	712,944
3. Off-balance sheet items	**35,122,511**	**32,823,106**	**8,573,432**	**5,677,395**	**43,695,943**	**38,500,501**
Payment guarantees	9,500,404	8,855,859	-	-	9,500,404	8,855,859
Performance bonds	6,880,493	6,937,876	438	484	6,880,931	6,938,360
Acceptances	51,331	77,853	-	-	51,331	77,853
Irrevocable letters of credit	602,218	713,306	-	-	602,218	713,306
Irrevocable commitments	17,146,449	16,029,004	3,658,440	591,541	20,804,889	16,620,545
Other	941,616	209,208	4,914,554	5,085,370	5,856,170	5,294,578

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

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

Total Credit Risk Exposure (Continued)

The Group guards against downgrade risk through continuous 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 by securing appropriate collaterals.

Overview of exposure per risk categories based on the Bank's internal rating system criteria

	2012		2011	
	Gross	Net	Gross	Net
Rating category 1	76,458,714	76,099,215	72,479,393	72,312,720
Rating category 2	77,118,653	76,648,298	63,530,350	63,039,307
Rating category 3	25,229,582	25,071,021	29,229,274	28,585,775
Rating category 4	6,915,485	6,219,739	1,922,611	1,837,118
Rating category 5	29,645,816	13,170,081	22,795,740	8,093,693
Total	215,368,250	197,208,354	189,957,368	173,868,613

Risk of Change in the Value of Assets

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

Key elements in assessing impairment of investments are as follows: overdue payments on principal or interest, cash flow difficulties on the part of the borrower, the borrower's credit rating deterioration or changes in the initial terms of contract etc.

Allowance for impairment is based on estimated future cash flows from the borrower's business or collateral foreclosure if it is assessed that a loan can be realistically settled from such assets.

Overview of impairment per risk categories:

	Impairment allowance of balance sheet assets		Provisions for losses on off-balance sheet items	
	2012	2011	2012	2011
Rating category 1	359,499	166,673	20,625	24,694
Rating category 2	470,355	491,043	69,824	96,014
Rating category 3	158,561	643,499	40,082	84,650
Rating category 4	695,746	85,493	59,604	362
Rating category 5	16,475,735	14,702,047	331,104	313,533
Total	18,159,896	16,088,755	521,239	519,253

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

The Group members assess allowance for impairment of receivables on an individual and on a collective basis.

Individual Assessment

The Group members assess impairment of each individually significant investment and consider the financial position of the loan beneficiary, sustainability of its business plan, its 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 a Group member will be settled, ad hoc assessment of loan impairment is performed.

Collective Assessment

Impairment is assessed on a collective basis for investments that are not individually significant and for individually significant loans and advances, when there is no objective evidence of individual impairment. Collective (group) assessment is performed monthly within groups that are determined based on internal methodology and internal rating system. Collective (group) impairment percentages are calculated based on migration of risk rating categories in default status per type of borrower or product. The obtained migration percentages are adjusted for collected receivables.

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

Assessment of Provisions for Losses on Off-Balance Sheet Items

Assessment of provisions for losses on 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.

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December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

Overview of Individual and Collective Impairment Allowance of Balance Sheet Assets

	Loans and Advances		Equity Investments	
	2012	**2011**	**2012**	**2011**
I. Individual impairment allowance				
Rating category 1	-	-	298,160	218,183
Rating category 2	8,448,551	11,793,199	102,100	37,755
Rating category 3	8,666,478	11,982,977	34,525	10,283
Rating category 4	3,770,869	700,389	5,328	3,676
Rating category 5	24,899,872	18,602,430	364,600	364,600
Loans and receivables, gross	**45,785,770**	**43,078,995**	**804,713**	**634,497**
Impairment allowance	(13,625,024)	(12,027,474)	(443,036)	(366,270)
Carrying amount	**32,160,746**	**31,051,521**	**361,677**	**268,227**
II. Collective impairment allowance				
Rating category 1	68,826,682	55,146,552	-	-
Rating category 2	50,485,320	49,077,085	-	-
Rating category 3	16,253,744	16,709,551	-	-
Rating category 4	3,144,616	1,222,222	-	-
Rating category 5	4,745,944	4,193,310	-	-
Loans and receivables, gross	**143,456,306**	**126,348,720**	**-**	**-**
Impairment allowance	(4,534,872)	(4,061,281)	**-**	**-**
Carrying amount	**138,921,434**	**122,287,439**	**-**	**-**
III. Receivables matured but not provided for				
Rating category 1	1,010,947	109,237	-	-
Rating category 2	5,809,256	18,216	-	-
Rating category 3	566	7,477	-	-
Rating category 4	-	-	-	-
Rating category 5	-	-	-	-
Loans and receivables, gross	**6,820,769**	**134,930**	**-**	**-**
Receivables matured but not provided for include:				
0-30 days past-due	6,792,379	113,457	-	-
31-60 days past-due	27,824	13,996	-	-
61-90 days past-due	566	7,477	-	-
91-180 days past-due	-	-	-	-
Over 180 days past-due	-	-	-	-
Carrying amount	**6,820,769**	**134,930**	**-**	**-**
IV. Receivables not matured and not provided for				
Rating category 1	6,621,085	17,223,604	-	-
Rating category 2	12,375,526	2,641,850	-	-
Rating category 3	308,794	529,269	-	-
Rating category 4	-	-	-	-
Rating category 5	-	-	-	-
Carrying amount	**19,305,405**	**20,394,723**	**-**	**-**
Total carrying amount, gross	**215,368,250**	**189,957,368**	**804,713**	**634,497**
Total impairment allowance	(18,159,896)	(16,088,755)	(443,036)	(366,270)
Total carrying amount, net	**197,208,354**	**173,868,613**	**361,677**	**268,227**
Total unclassified assets	**52,797,579**	**63,488,377**	**78,451**	**78,447**
Impairment allowance	(140,421)	(121,667)	(3,918)	(3,918)
Total unclassified assets, net	**52,657,158**	**63,366,710**	**74,533**	**74,529**
Total	**268,165,829**	**253,445,745**	**883,164**	**712,944**
Rescheduled / restructured loans	**29,847,195**	**29,593,672**		

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

Individually Impaired Investments

	Loans and Advances				Equity Investments			
	2012		2011		2012		2011	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Rating category 1	-	-	-	-	298,160	298,160	218,183	218,183
Rating category 2	8,448,551	8,367,896	11,793,199	11,611,097	102,100	53,800	37,755	37,737
Rating category 3	8,666,478	8,589,908	11,982,977	11,826,186	34,525	6,042	10,283	8,631
Rating category 4	3,770,869	3,200,317	700,389	627,558	5,328	3,675	3,676	3,676
Rating category 5	24,899,872	12,002,625	18,602,430	6,986,680	364,600	-	364,600	-
Total	45,785,770	32,160,746	43,078,995	31,051,521	804,713	361,677	634,497	268,227

Concentration Risk

The Bank controls concentration risk by establishing a system of limits to the exposures to certain groups, primarily according to borrower and product types, industry sectors, geographical regions and debtor countries of origin.

Breakdown of loans and advances per geographical region

	2012		2011	
	Gross	Net	Gross	Net
Serbia	190,675,434	174,241,038	161,065,272	145,947,276
Montenegro	7,647,522	6,724,387	6,109,048	5,684,054
Bosnia and Herzegovina	9,840,089	9,356,368	7,691,252	7,320,408
European Union	5,417,326	5,405,908	12,689,471	12,689,420
USA and Canada	817,117	589,142	710,096	496,170
Other	970,762	891,511	1,692,229	1,731,285
Total	215,368,250	197,208,354	189,957,368	173,868,613

Depending on general economic trends in certain industry sectors, the Group diversifies its investments in industrial sectors that are resistant to the impact of negative economic trends.

Breakdown of loans and advances per industry

	2012		2011	
	Gross	Net	Gross	Net
Financial and insurance sector	7,542,703	7,396,075	8,966,710	4,996,400
Public companies and enterprises	132,035,398	120,715,619	103,236,455	92,335,851
Agriculture	6,777,851	6,502,939	5,005,175	4,654,266
Processing industry	41,007,522	34,679,540	36,836,646	30,359,208
Electricity production	6,591,377	6,585,426	359,237	358,117
Construction industry	8,731,397	7,845,410	10,099,260	9,500,671
Wholesale and retail	44,405,949	41,949,966	36,081,056	33,938,519
Service industries	20,738,041	19,478,187	10,462,370	9,338,911
Real estate and related activities	3,783,261	3,674,151	4,392,710	4,186,159
Entrepreneurs	2,412,946	2,142,893	1,966,268	1,705,354
Public sector	2,738,635	2,704,260	2,095,992	2,062,761
Retail customers	57,094,704	54,482,783	51,633,644	49,325,025
Foreign entities	7,192,531	6,878,458	15,095,469	18,897,217
Other customers	6,351,333	2,888,266	6,962,831	4,546,005
Total	215,368,250	197,208,354	189,957,368	173,868,613

Depending on general economic trends in certain industry sectors, the Bank diversifies its investments in industrial sectors that are resistant to the impact of negative economic trends.

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

Concentration Risk (Continued)

Breakdown of loans and advances per customer type

	2012 Gross	2012 Net	2011 Gross	2011 Net
Corporate sector	143,090,089	130,631,053	120,060,887	108,898,174
Large customers	85,321,470	80,149,667	67,223,436	62,692,794
Small and medium-sized clients	38,943,182	32,529,589	36,688,914	30,809,341
Other	18,825,437	17,951,797	16,148,537	15,396,039
Banks	5,976,735	4,239,648	12,603,444	10,985,975
Retail sector	66,301,426	62,337,653	57,293,037	53,984,464
Private individuals	53,731,870	51,426,768	47,819,186	45,835,227
Agricultural producers	3,419,035	3,111,982	3,834,640	3,489,798
Micro businesses	9,150,521	7,798,903	5,639,211	4,659,439
Total	215,368,250	197,208,354	189,957,368	173,868,613

Off-Balance Sheet Items

In addition to credit exposure, the Group also has off-balance sheet exposures (guarantees, letters of credit...) based on which the Group has contingent liabilities to make payments on behalf of third parties. The Group uses control processes and procedures for off-balance sheet exposures identical to those used for credit risk.

	2012 Gross	2012 Net	2011 Gross	2011 Net
Rating category 1	15,964,731	15,944,106	15,360,136	15,335,442
Rating category 2	16,144,436	16,074,612	10,894,936	10,798,922
Rating category 3	1,858,604	1,818,522	5,850,012	5,765,362
Rating category 4	678,778	619,174	177,136	176,774
Rating category 5	475,962	144,858	540,886	227,353
Total	35,122,511	34,601,272	32,823,106	32,303,853

Credit Risk Hedges (Collateral)

For the purpose of protection against credit risk, in addition to regular monitoring of the customer business operations, the Group also acquires security instruments (collaterals) to secure the collection of receivables and minimize credit risk. Depending on the assessment of the ability to settle contractual liabilities, the level of loan coverage is defined so that in case of the debtor default, the Group could collect its receivables through collateral foreclosure. The quantity and type of collateral depends on the assessed credit risk.

As a standard type of loan security instrument, each Group member demands and receives from clients contractual authorizations for account withdrawals and bills of exchange, whereas, depending on the credit risk assessment and loan type, additional collaterals agreed upon include the following:

- for commercial loans – pledge over movable and immovable property (mortgages), deposits, banking, corporate and state-issued guarantees, sureties, pledge over securities;
- for retail loans – mortgages, deposits, co-sureties and insurance of the National Corporation for Housing Loans for the Parent Bank.

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

Off-Balance Sheet Items (Continued)

For valuation of property or pledges assigned over movable assets, the Group members hire certified appraisers in order to minimize potential risk of unrealistic valuation. Property, goods, equipment and other movables pledged must be insured by an insurance company acceptable to the Group members and insurance policies must be duly endorsed in favor of the Group members.

Each Group member monitors the market value of collaterals and if necessary, it can demand additional collateral pursuant to the loan/deposit agreement executed.

It is the Group's policy to ensure collection from collateral foreclosure and use the proceeds therefrom to reduce or repay debt.

Fair Value of Collaterals

	Loans and Advances	
	2012	**2011**
I. Individual allowance for impairment		
Mortgages	65,336,749	58,975,153
Deposits	60,548	55,919
Guarantees	1,609,385	483,035
Pledged securities	15,716,170	7,537,613
Pledged property	19,263,160	11,585,786
Other	16,785,877	5,855,098
Total	118,771,889	84,492,604
II. Collective allowance for impairment		
Mortgages	165,434,823	169,234,684
Deposits	1,994,985	1,793,086
Guarantees	11,066,906	11,252,929
Pledged securities	18,651,733	26,972,376
Pledged property	48,242,816	19,500,286
Other	44,868,606	34,823,756
Total	290,259,869	263,577,117
III. Loans and advances matured but not provided for		
Mortgages	1,815,242	5,368,775
Deposits	19,283	88,711
Guarantees	708	946
Pledged securities	1,178	456,170
Pledged property	162,991	209,301
Other	477,978	806,445
Total	2,477,380	6,930,348
IV. Loans and advances not matured and not provided for		
Mortgages	9,065,679	5,213,884
Deposits	519,132	392,421
Guarantees	-	19,839
Pledged securities	821	13,771
Pledged property	318,679	631,045
Other	1,425,414	1,114,003
Total	11,329,725	7,384,963
Total fair value	422,838,863	362,385,032

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.1. CREDIT RISK (Continued)

Credit Risk Hedges (Collaterals) (Continued)

Fair Value of Collaterals (Continued)

As of December 31, 2012, the Group had at its disposal the following properties acquired in lieu of collection of receivables:

Assets acquired in lieu of collection of loans	2012	2011
Residential buildings	432,680	479,524
Business premises	1,623,786	1,194,635
Land and forests	398,835	276,603
Equipment	82,195	1,493
Total (Note 33)	2,537,496	1,952,255
Accumulated depreciation	(126,790)	(7,742)
Fair value	2,410,706	1,944,513

54.2. 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, i.e. it observes the principle of solvency by establishing the optimal financial leverage and sufficient liquidity reserves which do not compromise realization of the projected return on equity.

Liquidity risk represents the Group's inability to settle its matured liabilities. Liquidity risk may be manifest as the risk related to sources of funds and market liquidity risk.

The problem of liquidity in respect of the sources of funds relates to the structure of liabilities and is expressed through potential significant share of unstable and short-term sources of funds or their concentration. On the other hand, liquidity risk is reflected in reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

The Group has established appropriate organizational structure, which allows for clear differentiation between the process of assuming and the process of managing liquidity risk. The Asset and Liability Management Committee and Liquidity Committee of the Parent Bank have the most significant role therein as well as other competent boards/committees of the Group members, whose decisions can impact the Group's and each Group member's exposure to this risk.

In order to minimize liquidity risk, the Bank:

- Diversifies sources of assets in respect to their currencies and maturities;
- Forms sufficient liquidity reserves;
- Manages monetary funds;
- Monitors future cash flows and liquidity levels on a daily basis;
- Manages market sources;
- Limits principal sources of credit risk with most significant impact on liquidity; and
- Defines and periodically tests Plans for Liquidity Management in Crisis Situations.

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

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.2. LIQUIDITY RISK (Continued)

In identifying liquidity risk, the Group identifies in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk determines current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

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

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

Minimizing liquidity risk consists of maintaining this risk at a level that is acceptable to the Group's risk profile through definition of the system of exposure limits including both internal and statutory limits and timely implementation of measures to mitigate the risk and operation within the set internal and external limits.

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

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

The Group's operations are reconciled daily with legally prescribed liquidity ratio and narrow liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During 2012, the Group's liquidity and narrow liquidity ratios were significantly in excess of the prescribed limits.

The operations of the Group and Group members are reconciled with legally prescribed liquidity ratios as follows: minimum 0.8 for one working day; minimum 0.9 for no longer than three consecutive working days and minimum 1 as the average liquidity ratio for all working days in a month. In addition, the Group and Group members maintain compliance with the legally prescribed narrow liquidity ratios, as follows: minimum 0.5 for one working day; minimum 0.6 for no longer than three consecutive working days and minimum 0.7 as the average liquidity ratio for all working days in a month.

Group's compliance with legally prescribed liquidity and narrow liquidity ratios:

	Liquidity Ratio		**Narrow Liquidity Ratio**	
	2012	**2011**	**2012**	**2011**
As of December 31	2.20	2.33	2.04	1.96
Average for the period	2.35	2.30	2.00	1.76
Maximum for the period	3.35	3.29	2.74	2.58
Minimum for the period	1.07	1.37	0.95	1.13

In addition to the aforesaid limits, the Group and Group members maintain compliance with the internally defined limits. Internal limits are based on the internal liquidity gap report which includes all balance sheet items.

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.2. LIQUIDITY RISK (Continued)

Compliance with internally defined limits of liquidity as of the last day was as follows:

	Limits	2012	2011
GAP up to 1 month/Total assets	Max (10%)	9.58%	9.67%
Cumulative GAP up to 3 months / Total assets	Max (20%)	(9.73%)	(6.47%)

Maturity structure of monetary assets and monetary liabilities as of December 31, 2012

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Monetary assets						
Cash and cash equivalents	42,052,826	-	-	-	-	42,052,826
Revocable deposits and loans	45,826,369	-	-	-	-	45,826,369
Interest, fee and commission receivables	1,744,180	-	-	-	-	1,744,180
Loans and advances to customers	24,263,365	13,446,306	51,931,856	66,222,978	38,551,617	194,416,122
Securities	7,861,152	3,070,639	14,247,453	16,926,835	110,080	42,216,159
Equity investments (interests)	-	-	-	-	436,210	436,210
Other investments	2,372,758	823,035	33,924	411	-	3,230,128
Other assets	1,580,904	5,199	4,737	208,045	-	1,798,885
	125,701,554	17,345,179	66,217,970	83,358,269	39,097,907	331,720,879
Monetary liabilities						
Transaction deposits	45,840,849	-	-	-	-	45,840,849
Other deposits	69,367,073	27,794,307	84,830,659	22,091,703	560,651	204,644,393
Borrowings	621,164	11,119	54,833	321,445	403,401	1,411,962
Interest, fee and commission payables	191,129	-	-	-	-	191,129
Other liabilities	5,293,805	390,564	1,420,202	16,437,639	2,316,517	25,858,727
	121,314,020	28,195,990	86,305,694	38,850,787	3,280,569	277,947,060
Liquidity gap						
As of December 31, 2012	4,387,534	(10,850,811)	(20,087,724)	44,507,482	35,817,338	53,773,819
As of December 31, 2011	(21,786,888)	(24,655,868)	13,504,272	39,537,527	31,680,824	38,279,867

The report on the maturity structure of monetary assets and liabilities includes monetary balance sheet items distributed according to maturities outstanding, i.e. the conservative assumption was used that all transaction and demand deposits will be withdrawn within one month.

The Group's management believes that adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof.

54. RISK MANAGEMENT (Continued)

54.3. 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 for all business operations and price risk for all items in the trading book.

The Group is exposed to interest rate risk, currency risk, risk of securities fluctuations, counterparty risk and risk of settlement related to trading book items. The trading book contains balance sheet and off-balance sheet assets and liabilities related to financial instruments held for sale or to hedge other financial instruments that are maintained in the trading book, for which there are no restrictions in respect of trading or hedging against risks.

Interest Rate Risk

Interest rate risk represents the probability of negative effects on the Group's financial result and equity through items of the banking general ledger due to adverse interest rate fluctuations.

The Group manages the following types of interest rate risk:

- Repricing risk of temporal mismatch between maturity and repricing;
- Yield curve risk – to which the Group is exposed due to changes in yield curve shape;
- Basic risk – to which the Group is exposed due to different reference interest rates for interest rate sensitive items with similar maturity or repricing characteristics; and
- Optionality risk – to which the Group is exposed due to contractually agreed optional terms – loans with an option of early repayment, deposits with an option of early withdrawal, etc.

Basic objective of interest rate risk management is maintaining the acceptable level of interest rate risk exposure from the aspect of the effect on the financial result, by conducting adequate policy of matching periods of interest rate repricing, matching adequate sources to investments per interest rate type and maturity, as well as projecting movements in the yield curve in both foreign and domestic markets. Primarily, the Group manages the internal yield margin through the prices of loans and deposits, focusing on the interest rate margin.

The Group particularly considers the effects of interest rate changes and changes in the structure of interest-bearing assets and liabilities from the perspective of maturity, interest rate repricing and currency structure and manages the effect thereof on the economic value of equity.

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

Identification of interest rate risk consists of comprehensive and timely identification of the causes and factors that lead to the occurrence of interest rate risk, which includes determining current 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 at the Group is performed through quantitative and/or qualitative assessment of identified interest rate risk by using the following techniques:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of equity; and
- Stress test.

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.3. MARKET RISK (Continued)

Interest Rate Risk (Continued)

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Group's risk profile. Alleviating interest rate risk refers to the process of defining the systems of limited exposure of the Group to the interest rate risk and implementing measures for interest rate risk mitigation. Control and monitoring of interest rate risk entails the process of monitoring compliance with the established system of limits as well as monitoring defined measures for reducing the Group members' exposure to the interest rate risk. Control of interest rate risk refers to control on all management levels as well as an independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

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

Internal limits are determined based on the internal report on the interest rate gap, which includes all the balance sheet items.

Compliance with internally defined interest rate risk limits at the last day was as follows:

	Limits	2012	2011
Relative GAP	Max (15%)	(2.81%)	(5.36%)
Mismatch ratio	0.75 – 1.25	0.96	0.94
Economic value of equity ratio	Max 20%	5.4	9.7%

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, 2012

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Monetary assets								
Cash and cash equivalents	20,101,046	-	-	-	-	20,101,046	21,951,780	42,052,826
Revocable loans and deposits	6,405,982	-	-	-	-	6,405,982	39,420,387	45,826,369
Interest, fee and commission receivables	-	-	-	-	-	-	1,744,180	1,744,180
Loans and advances to customers	62,044,925	23,100,789	52,320,479	37,359,598	19,574,798	194,400,589	15,533	194,416,122
Securities	7,953,442	5,901,066	13,704,999	12,491,898	-	40,051,405	2,164,754	42,216,159
Equity investments (interests)	-	-	-	-	-	-	436,210	436,210
Other investments	1,342,598	172,795	34,217	-	-	1,549,610	1,680,518	3,230,128
Other assets	29,499	-	2	-	-	29,501	1,769,384	1,798,885
	97,877,492	29,174,650	66,059,697	49,851,496	19,574,798	262,538,133	69,182,746	331,720,879
Monetary liabilities								
Transaction deposits	45,840,849	-	-	-	-	45,840,849	-	45,840,849
Other deposits	73,170,622	24,328,160	84,193,703	22,001,117	551,737	204,245,339	399,054	204,644,393
Borrowings	620,872	611,214	-	-	179,113	1,411,199	763	1,411,962
Interest, fee and commission payables	-	-	-	-	-	-	191,129	191,129
Other liabilities	2,342,380	319	519	6,398,634	6,263,748	15,005,600	10,853,127	25,858,727
	121,974,723	24,939,693	84,194,222	28,399,751	6,994,598	266,502,987	11,444,073	277,947,060
Interest rate GAP								
- at December 31, 2012	(24,097,231)	4,234,957	(18,134,525)	21,451,745	12,580,200	(3,964,854)	57,738,673	53,773,819
- 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

54. RISK MANAGEMENT (Continued)

54.3. MARKET RISK (Continued)

Interest Rate Risk (Continued)

Interest rate risk GAP report of monetary subbalance includes monetary balance items distributed according to the shorter of period of interest rate repricing and maturity outstanding. In accordance with the aforesaid, the conservative assumption is used that all transactions and demand deposits will be withdrawn within one month.

The Group's management believes that appropriate compliance of positions per interest rate type and interest rate repricing period constitutes a solid prerequisite for existence with required financial results achieved and maintenance of economic value of equity.

Currency Risk

Currency risk 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 foreign currency clause are exposed to currency risk.

The basic objectives of the Group's currency risk management policy are to maximize return at a certain risk level, to minimize the adverse effects on the financial result, to preserve the necessary level of capital adequacy and to develop the Group's activities according to the business opportunities and market development so as to achieve 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 appropriate organizational structure, which allows for clear differentiation between the process of assuming currency risk and the process of managing currency risk.

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

In identifying 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 performed through quantitative and/or qualitative assessment of identified currency risk by using the following techniques:

- GAP analysis and currency risk ratio;
- VaR analysis;
- Stress test;
- Back testing.

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 mitigate foreign currency risk.

Control and monitoring of the currency risk consists of observation and supervision of compliance with internally and externally defined limits as well as monitoring of defined and implemented measures. Continuous monitoring and control of foreign currency risk during the day ensures timely undertaking measures for the purpose of maintaining the currency risk within defined limits. Foreign currency risk control means control at all management levels as well as independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.3. MARKET RISK (Continued)

Currency Risk (Continued)

The Group determines the risk profile and risk appetite by defining regulatory and internal exposure limits.

The Group reconciles its business operations with the prescribed foreign currency risk ratio, which represents the ratio between the total net foreign currency balance and the balance of gold relative to the Group's regulatory capital. The Group is under obligation to maintain its net currency position up to 20% of its capital.

Overview of the total currency risk balance and legally defined currency risk ratio as at December 31

	2012	2011
Total currency risk balance	6,743,764	6229,554
Currency risk ratio	14.29%	18.86%
Legally-defined limit	20%	20%

Summary of Monetary Assets and Monetary Liabilities per Currencies as of December 31, 2012

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause	RSD Items	Total
Monetary assets								
Cash and cash equivalents	13,204,796	1,423,888	1,915,193	1,007,490	17,551,367	-	24,501,459	42,052,826
Revocable deposits and loans	32,045,738	7,466,619	-	2,314,012	41,826,369	-	4,000,000	45,826,369
Interest, fee and commission receivables	192,654	-	-	96,967	289,621	75,522	1,379,037	1,744,180
Loans and advances to customers	23,169,852	2,074,050	-	2,775,970	28,019,872	123,972,655	42,423,595	194,416,122
Securities	23,150,343	-	-	-	23,150,343	170,701	18,895,115	42,216,159
Equity investments	65	-	-	-	65	-	436,145	436,210
Other investments	1,596,354	671,422	-	1,444	2,269,220	-	960,908	3,230,128
Other assets	309,679	61,932	1	17,403	389,015	40,205	1,369,665	1,798,885
	93,669,481	11,697,911	1,915,194	6,213,286	113,495,872	124,259,083	93,965,924	331,720,879
Monetary liabilities								
Transaction deposits	13,683,148	1,116,510	610,238	1,799,460	17,209,356	2,215,375	26,416,118	45,840,849
Other deposits	156,571,178	10,451,426	5,463,383	1,193,639	173,679,626	12,816,039	18,148,728	204,644,393
Borrowings	455,751	51,990	13,093	3,836	524,670	637,329	249,963	1,411,962
Interest, fee and commission payables	5,302	285	-	1,711	7,298	3,185	180,646	191,129
Other liabilities	22,191,380	68,995	1,947,469	143,481	24,351,325	1,278	1,506,124	25,858,727
	192,906,759	11,689,206	8,034,183	3,142,127	215,772,275	15,673,206	46,501,579	277,947,060
Net currency position								
December 31, 2012	(99,237,278)	8,705	(6,118,989)	3,071,159	(102,276,403)	108,585,877	47,464,345	53,733,819
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

54. RISK MANAGEMENT (Continued)

54.4. OPERATIONAL RISK

Operational risk represents the possibility of negative effects on the Group's financial result and equity due to employee errors (intentional or accidental), 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 includes legal risk.

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 and process management.

The Group monitors operational risk events according to the following business lines: corporate financing, trade and sales, retail brokerage services, corporate Grouping, retail Grouping, payment transfers, agency services and asset management.

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 operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, 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, self-assessment and stress testing. 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. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several financial variables on the Group's exposure to operational risk.

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

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Group has established a system for monitoring the activities undertaken by the Group's organizational parts in order to reduce arising operational risks. The Group assess the risk of entrusting third parties with activities related to the Group's operations and based on the service contracts executed with such third parties which clearly define terms, rights, obligations and responsibilities of the contracting parties.

54. RISK MANAGEMENT (Continued)

54.4. OPERATIONAL RISK (Continued)

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 ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations, the Group adopted the Disaster Recovery Plan.

54.5. 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, whereby such investments entail investments through which the Group acquires equity interest or shares in a non-financial sector entity. The total Group's investment in non-financial sector entities and Group's own fixed assets cannot exceed 60% of the Group's equity, but this restriction does not apply to the acquisition of shares for further trading and sales thereof within six months from the acquisition date.

54.6. EXPOSURE RISK

Large exposures of the Group to a single entity or a group related entities, including Group's related parties, are exposures amounting to over 10% of the Group's capital.

In its operations, the Group takes care of the compliance with statutory exposure limits:

- The Group's exposure to a single party or group of related parties cannot exceed 25% of the Group's equity;
- The Group's exposure to a party that is related to the Group cannot exceed 5% of the Group's equity, while total exposure to the Group's related parties cannot exceed 20% of the Group's equity;
- The aggregate amount (sum) of the Group's large exposures cannot exceed 400% of the Group's equity.

The Group's exposure to a single party or group of related parties, as well as exposure to the Group's own related parties, were within the prescribed limits.

54.7. COUNTRY RISK

Country risk relates to the risk of the country of origin of the entity the Group is exposed to, i.e. the possibility of negative effects on the Group's financial result and equity due to inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin. Country risk includes the following risks:

- Political and economic risk relates to the likelihood of losses due to the inability to collect the Group's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;
- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

Management of country risk is made per individual loans and advances and at the Group's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Group's borrower's country of origin as defined by internationally recognized agencies, while measurement of portfolio exposure to country risk is based on setting limits to exposure in terms of a percentage of the Group's equity, depending on the internal country rating category. The Group measures and controls portfolio exposure to country risk by grouping receivables by level of risk of the borrower's country of origin.

For the purpose of adequate country risk control, the Group defines exposure limits by countries or regions.

All amounts expressed in thousands of RSD, unless otherwise stated.

54. RISK MANAGEMENT (Continued)

54.8. CAPITAL MANAGEMENT

The Banking Group manages capital on a continuous basis in order to:

- Ensure the business continuity in the unlimited period of foreseeable future;
- Preserve optimal equity structure;
- Minimize capital costs;
- Hedge risks;
- Ensure growth, by widening the range of its services i.e. the Banking Group's development of new software and methodology solutions;
- Preservation of customer trust in the Banking Group's financial potential.

The capital adequacy ratio represents the proportion the Banking Group's capital and sum of assets weighted by credit risk, open foreign currency positions and exposure to operational risk.

The Banking Group's regulatory capital represents the sum of the core capital and supplementary capital, reduced for deductible items. Risk-weighted balance sheet and off-balance sheet items are determined pursuant to risk weights prescribed for all types of assets. Exposure to operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line. The capital requirement for currency risk at the Banking Group level equals the sum of capital requirements for currency risk of all Banking Group members where the sum of the net open foreign currency balances and absolute open gold balances exceeds 2% of their respective capital balances.

Capital adequacy ratio

	2012	2011
Core capital	52,667,051	43,190,509
Supplementary capital	5,329,728	5,852,703
Deductible items	(10,799,045)	(16,004,691)
Capital	**47,197,734**	**33,038,521**
Credit risk-weighted assets	193,620,430	164,932,865
Operational risk exposure	16,716,267	15,506,533
Currency risk exposure	368,170	436,125
Capital adequacy ratio (min. 12%)	**22.40%**	**18.27%**

Through its capital management strategy and plan, the Banking Group controls and ensures maintenance of the level and structure of the internal capital, which adequately supports increase in loans and advances, future sources of funding and their utilizations at the Group level, dividend policy and changes in regulatory requirements.

As part of the system of capital management, the Capital Management Plan, includes the following:

- Strategic goals and schedule for realization thereof;
- Manner of organizing the process of available internal capital management;
- Procedures for planning adequate levels of available internal capital;
- Manner of reaching and maintaining adequate levels of available internal capital; and
- The Business Continuity Plan in case of unforeseen events.

54. RISK MANAGEMENT (Continued)

54.8. CAPITAL MANAGEMENT (Continued)

The Group continuously implements processes of internal assessment of capital adequacy in accordance with the nature, volume and complexity of its business operations and in compliance with the adopted risk management strategy, individual risk management policies and capital management strategy.

As a documented and continuous process, internal assessment of capital adequacy meets the following criteria:

- it is based on risk identification and measurement;
- it provides comprehensive assessment and monitoring of risks the Group is or may be exposed to;
- it provides adequate level of internally available capital according to the Banking Group's risk-weighted portfolio;
- it is included in the Banking Group's management system and decision making process; and
- it is subject to regular analysis, supervision and review.

Stages of the internal capital adequacy assessment include the following:

- determination of materially significant risks as per qualitative and quantitative criteria;
- calculation of the amounts of internal capital requirements;
- determination of the aggregate internal capital requirement;
- comparison of the following elements:
  - capital to available internal capital;
  - minimum prescribed capital requirements to internal capital requirements for individual risks; and
  - sum of the minimum capital requirements to the aggregate internal capital requirement.

55. EVENTS AFTER THE REPORTING PERIOD

Unreconciled outstanding item statements

Based on the analysis of the regular annual inventory count performed as of December 31, 2012, the Group has unreconciled outstanding item statements in the amount of RSD 918 thousand. Outstanding item statements unreconciled with 30 customers mostly relate to the clients which contest the amount or the manner of calculation of interest and fees.

Unrealized preferred dividends

Unrealized preferred dividends of the Parent Bank for disbursement in 2013 total:
- RSD 37,351 thousand from the year 2012 (10% of the individual par value of the preferred shares).

Adoption of IAS/IFRS in Montenegro as from January 1, 2013

Komercijalna banka a.d., Budva performed conversion of the opening balance as of January 1, 2013 to the new chart of accounts and stated the effects of balance sheet assets and liabilities valuation in accordance with IAS 39 and IAS 37 for the first time, pursuant to the regulations of the Central Bank of Montenegro – Decision on the Chart of Accounts for Banks and Decision on the Minimum Standards for Credit Risk Management in Banks (Official Gazette of Montenegro, no. 22/12).

After the balance sheet date, Komercijalna banka a.d., Budva acquired property in lieu of debt collection based on the loan approved to the company Di Bar d.o.o., Budva in the amount of RSD 316,137 thousand. Decision on final registration was enacted on October 3, 2012. Since the Bank received the certificate of decision finality, i.e. real estate folio, based on which definite title deed right in favor of the Bank was registered, on January 17, 2013, as of that date all criteria were fulfilled for recording Di Bar's property as acquired assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated.

56. SEGMENT REPORTING (Continued)

A. BALANCE SHEET
As of December 31, 2012

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank Invest a.d., Beograd	Total
ASSETS					
Cash and cash equivalents	40,508,719	1,042,787	501,320	-	42,052,826
Revocable deposits and loans	43,053,502	458,855	2,314,012	-	45,826,369
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	1,547,341	99,718	96,967	154	1,744,180
Loans and deposits to customers	177,106,865	6,623,881	10,685,376	-	194,416,122
Securities (excluding treasury shares)	41,347,719	767,317	-	101,123	42,216,159
Equity investments (interests)	436,145	65	-	-	436,210
Other investments	3,227,896	788	1,444	-	3,230,128
Intangible assets	600,438	13,895	29,925	579	644,837
Property, equipment and investment property	7,416,846	231,006	223,437	31	7,871,320
Non-current assets held for sale and assets of discontinued operations	78,763	-	-	-	78,763
Deferred tax assets	4,896	-	-	-	4,896
Other assets	3,372,293	1,232,868	43,475	75	4,648,711
Total assets	318,701,423	10,471,180	13,895,956	101,962	343,170,521
LIABILITIES AND EQUITY					
Transaction deposits	39,840,884	1,703,878	4,296,087	-	45,840,849
Other deposits	195,169,066	4,409,642	5,065,685	-	204,644,393
Borrowings	637,264	157,859	616,839	-	1,411,962
Interest, fee and commission payables and change in the value of derivatives	188,872	671	1,586	-	191,129
Provisions	2,331,760	45,397	29,162	315	2,406,634
Taxes payable	21,799	1,677	1,095	-	24,571
Tax and dividend payables	85,114	12,038	7,912	17	105,081
Deferred tax liabilities	-	512	-	436	948
Other liabilities	25,535,622	787,178	148,111	893	26,471,804
Total liabilities	263,810,381	7,118,852	10,166,477	1,661	281,097,371
EQUITY					
Share capital	40,034,550	-	62	-	40,034,612
Reserves retained from profit	14,785,440	178,926	184,956	-	15,149,322
Revaluation reserves	867,774	-	-	-	867,774
Unrealized losses on securities available-for-sale	(7,016)	-	-	-	(7,016)
Retained earnings	4,062,268	781,850	60,428	702	4,640,004
Loss not exceeding equity	-	(239,734)	-	(25,510)	-
Foreign exchange gains	1,384,990	2,792	621	51	1,388,454
TOTAL EQUITY	**61,128,006**	**723,834**	**246,067**	**(24,757)**	**62,073,150**
TOTAL LIABILITIES AND EQUITY	**324,938,387**	**7,842,686**	**10,412,544**	**(23,096)**	**343,170,521**
Non-controlling interests	-	-	62	-	62
OFF-BALANCE-SHEET ITEMS	**203,732,334**	**1,062,970**	**3,118,407**	**-**	**207,913,711**
Managed funds	5,013,721	36,300	-	-	5,050,021
Commitments	41,542,712	384,365	1,768,866	-	43,695,943
Other off-balance sheet items	157,175,901	642,305	1,349,541	-	159,167,747

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012
All amounts expressed in thousands of RSD, unless otherwise stated.

56. SEGMENT REPORTING (Continued)

B. INCOME STATEMENT
Year Ended December 31, 2012

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank Invest a.d., Beograd	Total
Interest income	20,129,333	696,502	882,569	13,214	21,721,618
Interest expense	(9,218,758)	(152,735)	(216,686)	-	(9,588,179)
Net interest income	10,910,575	543,767	665,883	13,214	12,133,439
Fee and commission income	5,333,827	145,309	190,381	1,855	5,671,372
Fee and commission expense	(780,032)	(19,458)	(41,002)	(606)	(841,098)
Net fee and commission income	4,553,795	125,851	149,379	1,249	4,830,274
Net gains on the sale of securities carried at fair value through profit and loss	776	-	-	114	890
Net gains on the sale of securities available for sale	83,947	-	-	-	83,895
Net losses on the sale of securities available for sale	-	(52)	-	-	-
Net gains on the sale of other investments	-	-	-	2,124	2,124
Net foreign exchange gains	-	3,757	5,434	-	-
Net foreign exchange losses	(8,036,719)	-	-	(44)	(8,027,572)
Dividend and other income from equity investments	2,251	-	-	-	2,251
Other operating income	241,022	7,672	3,381	31	252,106
Net income from impairment and provisions	-	-	-	36	-
Net impairment losses and provisions	(1,444,299)	(412,158)	(89,948)	-	(1,946,369)
Staff costs	(4,186,346)	(223,188)	(288,456)	(10,709)	(4,708,699)
Depreciation and amortization	(752,356)	(33,845)	(55,604)	(1,186)	(842,991)
Operating and other expenses	(4,933,005)	(240,551)	(310,344)	(4,804)	(5,488,704)
Net gains on the valuation of assets and liabilities	17,989,493	-	-	179	17,989,672
Net losses on the valuation of assets and liabilities	(9,852,222)	-	(3,627)	(17)	(9,855,866)
Profit /(loss) from continuing operations	4,576,912	(228,747)	76,098	187	4,424,450
Income taxes	(472,448)	(12,038)	(14,764)	(212)	(499,462)
Income from creation of deferred tax assets and decreasein deferred tax liabilities	32,885	617	-	47	33,549
Losses on decrease in deferred tax assets and creation of deferred tax liabilities	(10,953)	(852)	-	(413)	(12,218)
NET PROFIT/(LOSS)	4,126,396	(241,020)	61,334	(391)	3,946,319
Non-controlling interests	-	-	1	-	1

57. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank currency market and used in the translation of balance sheet components denominated in foreign currencies into dinars (RSD) as of December 31, 2012 and 2011 were as follows:

	Official NBS Exchange Rate		Average NBS Exchange Rate	
	2012	**2011**	**2012**	**2011**
USD	86.1763	80.8662		
EUR	113.7183	104.6409	113.0415	101.9653
CHF	94.1922	85.9121		
BAM	58.1432	53.5020	57.7972	52.1340