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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS

KOMERCIJALNA BANKA A.D. BEOGRAD

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and true and objective presentation of these financial statements in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Banks Law and other relevant by-laws issued by National Bank of Serbia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present truly and objectively, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2011, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the applicable Law on Accounting and Auditing of the Republic of Serbia, applicable Banks Law and other relevant by-laws issued by National Bank of Serbia.

Other

Financial statements of the Bank as at and for the period ended 31 December 2010 were audited by another auditor whose report dated 25 February 2011 expressed an unqualified opinion on those statements.

Belgrade, 29 February 2012 KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

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

Belgrade, 29 February 2012 KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of RSD	Note	2011	2010
Operating income and expenses			
Interest income	3.1., 4.a.	18,036,321	15,520,261
Interest expense	3.1., 4.b.	(8,182,953)	(8,082,778)
Net interest income		**9,853,368**	**7,437,483**
Fee and commission income	3.2., 5.a.	5,051,445	4,423,483
Fee and commission expense	3.2., 5.b.	(628,046)	(531,024)
Net fee and commission income		**4,423,399**	**3,892,459**
Net (losses) / gains on the sale of securities at fair value through income statement	3.3., 6	(19,110)	11,499
Net gains on the securities available for sale	3.3.,7	1,254	53,720
Net gain from sale of other investment	8.	-	393
Net foreign currency exchange loss	3.4., 9.	(27,828)	(7,371,168)
Dividends and other income from equity investments	3.3., 10.	7,997	2,951
Other operating income	11.	191,207	158,480
Net loss on impairment and other provisions	3.15., 12.	(1,335,461)	(1,416,354)
Salaries, benefits and other personal expenses	13.	(3,925,085)	(3,647,396)
Depreciation expenses	3.5., 14.	(672,099)	(596,057)
Other operating expenses	15.	(4,420,906)	(4,246,734)
Income from assets and liabilities valuation adjustments	3.8., 16	13,180,925	14,577,270
Expenses from assets and liabilities valuation adjustments	3.8., 17.	(13,305,595)	(6,064,582)
Operating profit		**3,952,066**	**2,791,964**
Result for the year before tax		**3,952,066**	**2,791,964**
Income tax	3.12.1., 18.	(426,027)	(157,343)
Gain on increase in deferred tax assets and decrease in deferred tax liabilities	3.12.1., 19.	11,578	16,697
Loss on decrease in deferred tax assets and increase in deferred tax liability	3.12.1., 20.	(23,937)	(131,264)
Profit for the year		**3,513,680**	**2,520,054**
Basic earnings per share (in Dinars)	42.	399	285
Deluted earnings per share (in Dinars)	42.	257	187

BALANCE SHEET AS AT 31 DECEMBER 2011

In thousands of RSD	Note	2011	2010
ASSETS			
Cash and cash equivalents	3.10., 21.	17,228,970	20,724,645
Revocable deposits and loans	22.	55,260,711	43,615,232
Interest and fees receivables	12., 23.	1,187,573	1,185,242
Loans and advances	3.8., 3.15., 12., 24.	155,719,207	150,566,311
Securities (excluding own shares)	3.9.1.-2., 12., 25.	25,637,972	18,267,497
Equity investments	3.9.3., 12., 26.	5,823,583	5,826,005
Other investments	12., 27.	2,187,533	2,308,011
Intangible assets	3.5.1., 28.	555,415	467,547
Fixed assets and investment property	3.5.2.-3., 29.	7,530,271	6,820,704
Non-current assets held for sale and discontinuing operations	3.6.2., 30.	101,040	735,432
Other assets	12., 32.	4,256,443	5,351,683
Total assets		**275,488,718**	**255,868,309**
LIABILITIES			
Transaction deposits	3.13, 33.	31,456,575	29,662,069
Other deposits	3.13, 34.	174,666,705	169,428,671
Borrowings	35.	1,603,761	923,105
Interest and fees liabilities	36.	205,079	227,933
Provisions	3.15, 3.16., 37.	2,135,436	877,386
Tax liabilities	38.	39,737	13,993
Liabilities relating to profit	39.	172,197	71,256
Deferred tax liabilities	3.12.1,20., 40.	17,036	5,351
Other liabilities	41.	20,916,626	13,604,117
Total liabilities		**231,213,152**	**214,813,881**
Share capital	3.14, 42.	28,462,553	28,462,553
Reserves from profit	43.	11,635,440	9,235,440
Revaluation reserves	44.	689,620	663,008
Unrealized losses on securities available for Sale	45.	63,940	15,882
Profit	46.	3,551,893	2,709,309
Total capital		**44,275,566**	**41,054,428**
Total liabilities and equity		**275,488,718**	**255,868,309**

OFF-BALANCE SHEET ITEMS		**183,524,897**	**145,180,526**
Funds managed on behalf of third parties	3.11., 47	4,332,764	4,230,755
Contingent liabilities	48.a	36,215,842	27,012,675
Derivatives	49	261,602	1,054,982
Other off-balance sheet items	50	142,714,689	112,882,114

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

In thousands of RSD	2011	2010
Operating activities		
Interest receipts	17,508,232	14,946,996
Fees and commission receipts	5,058,650	4,449,345
Receipts from other operating income	305,671	64,452
Receipts from dividends and profit sharing	7,997	2,951
Cash inflows from operating activities	**22,880,550**	**19,463,744**
Interest payments	(7,856,238)	(7,207,146)
Fees and commission payments	(625,272)	(530,580)
Payments of gross salaries and fringe benefits and other personal expenses	(3,888,118)	(3,647,381)
Payments of taxes, contributions and other expenses charged to income	(777,893)	(787,810)
Cash payments for other operating expenses	(3,596,850)	(3,506,006)
Cash outflows from operating activities	**(16,744,371)**	**(15,678,923**
Net cash inflows from operating activities before increases/(decreases) in advances and deposits	**6,136,179**	**3,784,821**
Decrease in securities at fear value through profit and loss , securities held for trading and short-term securities held to maturity	347,814	-
Increase in deposit from banks and customers	7,401,269	31,275,609
Decrease in loans and increase in deposits taken	**7,749,083**	**31,275,609**
Increase in loans and advances to banks and customers	(16,381,995)	(27,271,415)
Increase in financial assets at fear value through profit and loss, held for trading and short-term securities held to maturity	-	(17,301,840)
Increase in loans and decrease in deposits taken	**(16,381,995)**	**(44,573,255)**
Net cash outflows from operating activities before income tax	**(2,496,733)**	**(9,512,825)**
Income tax paid	(322,866)	(1,231)
Dividends paid	(289,042)	(165,191)
Net cash outflow from operating activities	**(3,108,641)**	**(9,679,247)**
Cash flow from investing activities		
Cash inflow from the long-term securities investments	18,253	4,436
Cash inflow from sale of intangible and fixed assets	12,969	2,562
Net inflow from investing activities	**31,222**	**6,998**
Cash outflow from the long-term securities investments	(7,312,777)	(105,000)
Cash outflow from sale of equity investments	(1,846)	(3,139,001)
Cash outflow from sale of intangible and fixed assets	(771,429)	(541,796)
Net outflow from investing activities	**(8,086,052)**	**(3,785,797)**
Net cash inflow/(outflow) from investing activities	**(8,054,830)**	**(3,778,799)**

In thousands of RSD	2011	2010
Cash flow from financing activities		
Cash inflow from increase in equity	-	11,400,000
Net cash inflow from subordinated debt	5,232,045	-
Net cash inflow from loans received	2,463,579	2,766,682
Net inflow from financing activities	**7,695,624**	**14,166,702**
Net outflow from financing activities	**-**	**-**
Net cash inflow from financing activities	**7,695,045**	**14,166,702**
NET CASH (OUTFLOWS) / INFLOWS	**(3,467,847)**	**708,656**
CASH AT THE BEGINNING OF THE YEAR	**20,724,645**	**27,387,157**
FOREIGN EXCHANGE GAINS	1,257,639	7,267,187
FOREIGN EXCHANGE LOSSES	(1,285,467)	(14,638,355)
Cash and cash equivalents at end of the period	**17,228,970**	**20,724,645**

T R A N S L A T I O N

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

Description	Share capital	Share premium	Other reserves	Rev. reserves	Profit	Unrealized losses on securities	Total
Balance as at 01.01.2010	9.082.820	7.979.714	7.385.440	717.441	2.134.290	23.324	27.276.381
Opening balance adjustments	-	-	-	-	-	-	-
Adjusted Balance as at 01.01.2010	9.082.820	7.979.714	7.385.440	717.441	2.134.290	23.324	27.276.381
Increase during the year	4.798.190	6.601.829	2.210.868	46.441	2.831.751	3.497	16.485.582
Decrease during the year	-	-	360.868	100.874	2.256.732	10.939	2.707.535
Balance as at 31.12.2010	13.881.010	14.581.543	9.235.440	663.008	2.709.309	15.882	41.054.428
Opening balance adjustments	-	-	-	-	-	-	-
Adjusted Balance as at 31.12.2010	13.881.010	14.581.543	9.235.440	663.008	2.709.309	15.882	41.054.428
Increase during the year	-	-	2.400.000	82.249	3.968.545	49.855	6.400.939
Decrease during the year	-	-	-	55.637	3.125.961	1.797	3.179.801
Balance as at 31.12.2011	13.881.010	14.581.543	11.635.440	689.620	3.551.893	63.940	44.275.566

NOTES

TO THE FINANCIAL STATEMENTS FOR 2011

Belgrade, February 2012

1. THE BANK'S ESTABLISHMENT AND BUSINESS ACTIVITIES

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

The Bank's shareholders, with the most significant participation in the ordinary share capital, are presented as follows:

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

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

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

- 100% - Komercijalna banka AD Budva, Montenegro
- 100% - Kombank invest AD , Serbia
- 99.99% - Komercijalna Banka AD Banja Luka, Bosnia and Herzegovina

Financial statements and Notes to Financial Statements represent data of the Bank as individual parent legal entity.

The Bank is registered in the Republic of Serbia to provide a wide range of banking services associated with loans and deposit activities, payment transactions in country and abroad, all in accordance with the Republic of Serbia Law on Banks. Operations of the Bank are based on principles of liquidity, security of investments and profitability.

As at 31 December 2011 the Bank comprised main branch office in Belgrade, Svetog Save street 14, 24 branches and 217 sub-branches and 11 counters, located on the territory of the Republic of Serbia.

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

As at 31 December 2011 the Bank had 3,022 employees (31 December 2010: 3,101 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Statements of compliance

The Bank keeps records and prepares its financial statements in accordance with the Law on Accounting and Auditing (Official Gazette of RS 46/2006, 111/2009), the Law on Banks (Official Gazette of RS 107/05, 91/10), and other relevant bylaws issued by the National Bank of Serbia, and other regulations effective in the Republic of Serbia.

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

Revisions to existing IASs and translations of new IFRSs, including interpretations which are integral to the standards issued by the Financial Accounting Standards Board and the IFRS Interpretations Committee up to 1 January 2009, have been officially adopted following the Ministry of Finance decision no. 401-00-1380/2010-16, and are published in the Official Gazette of RS 77/2010. Revised or issued IFRS and standards interpretations, after this date, have not been translated and published, and therefore have not been applied in the preparation of the accompanying financial statements.

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

2.2. Basis of measurement

Financial statements have been prepared on the historical cost basis, except for the following items:

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

2.3. Going concern concept

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

2.4. Functional and reporting currency

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

2.5. Use of estimates

The presentation of financial statements demands of the Bank's management to use best possible estimates and reasonable assumptions which affect reported amounts of assets and liabilities, as well as to disclose potential receivables and liabilities on the day of preparation of financial statements and income and expenses during the reporting period.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statements are individual financial statements of the Bank. The Bank has control over following entities, which are not consolidated in these financial statements:

Company	Equity investment
Komercijalna banka AD Budva, Montenegro	100%
Društvo za upravljanje investicionim fondovima KomBank Invest AD Belgrade	100%
Komercijalna banka AD Banja Luka, Bosnia and Herzegovina	99.99%

In accordance with statutory regulations, the financial statements of the Bank's subsidiaries are not consolidated in these financial statements, but the Bank has to prepare individual and consolidated financial statements.

3.1. Interest income and expense

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

Income from loan approval commission is recorded as deferred income, and is recognized under interest income of the period (EIR) in proportion to period of loan usage. Income from loan approval commission is presented as correction of actual returns on loan investments.

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

3.2. Fee and commission income/expenses

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

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

3.3. Income and expenses from securities

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

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

Securities available for sale are measured after initial recognition at fair value, based on current market prices. Changes in market value of financial asset available for sale are charged to equity (revaluation reserves) till the moment of securities sale, when they are recognized as income or expenses.

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

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

With regards to investments in securities of entities which are not quoted on the stock exchange, the Bank makes provisions for the estimated amount of risk.

3.4. **Foreign currency translation**

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

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

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

Contingent liabilities and commitments denominated in foreign currency as at balance sheet date are translated at the foreign exchange mid rate set by the inter-banking foreign currency market ruling as at that date.

3.5. Property and equipment, investment property and intangible assets

3.5.1. Intangible assets

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

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

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

Amortization is calculated on a straight-line basis on the cost of intangible assets by applying an annual rate ranging from 14.29% to 33.34% in order to fully write off the assets over their useful lives.

3.5.2. Fixed assets

/i/ Recognition and measurement

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

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

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

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

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

/ii/ Subsequent costs

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

/iii/ Amortization

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

Annual rates of amortization:

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

3.5.3. Investment property

Investment property is property held by the Bank to earn rental income. Investment property is stated at cost or at purchase value, and is subject to depreciation charge.

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

After initial recognition, investment property is reported at cost.

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

3.6. Inventories

3.6.1. Inventories

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

Inventories include assets acquired by way of collecting receivables.

3.6.2. Non-current assets held for sale

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

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

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

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

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

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

3.7. Financial instruments

/i/ Classification

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

/ii/ Recognition

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

/iii/ Measurement

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

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

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

/iv/ Derecognition

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

The Bank derecognises liabilities when a liability is settled, cancelled or transferred to a third party.

/v/ Measurement at amortised cost

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

/vi/ Measurement at fair value

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

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

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

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

/vii/ Impairment

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

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

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

3.8. Loans

Loans are stated at the amount of principal outstanding, less allowance for impairment, which are based on evaluation of specifically-identified exposures and also cover losses that are inherent in the Bank's loan portfolio. The Bank's management applies internally adopted methodology, based on fully application of IAS 39, in its evaluation of the risks and resulting estimations of the allowances (Note 3.15).

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

3.9. Financial assets

3.9.1. Financial assets at fair value through profit and loss

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

3.9.2. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial instruments with fixed and determinable payment schedules and a fixed date of maturity that the Bank has the intention and ability to hold to maturity. These financial assets comprise Serbian government bonds and discounted bills of exchange.

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

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

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

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

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

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

3.10. Cash and cash equivalents

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

3.11. Funds managed on behalf of third parties

Assets for business operations conducted on behalf of third parties, that are managed by the Bank with no commission, are not included in the Bank's balance sheet, but in the off-balance sheet positions.

3.12. Taxes and contributions

3.12.1. Corporate income tax

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

The annual corporate income tax is payable at the rate of 10% on the tax base reported in the annual income tax return. Tax effects which refer to temporary differences between tax basis for certain assets and liabilities and amounts of those assets and liabilities stated in balance sheet which is in accordance with IAS/IFRS, are shown as deferred income tax or deferred tax liability. Reconciliation of calculated income tax and tax liability calculated in tax return is shown in Note 18.

The Corporate Income Tax Law, effective in the Republic of Serbia, prohibits tax losses of the current period from being used to recover the tax paid within a specific carry back period. However, the current year losses may be used to decrease taxable profits for future periods, but not longer than 10 years.

Republic of Serbia tax profit law allows a tax credit for the recognition of investment in fixed assets for the own activities, as well as tax funds for direct reduction of tax liability in the next ten years.

3.12.2. Taxes and contributions not dependant on results

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

3.13. Deposits

Deposits are reported in the amount of deposited funds which can be increased for accrued interest, which depends on the terms of contract between the depositor and the Bank.

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

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

3.14. Equity

The Bank's equity consists of the founder's share, shares of subsequent issues, retained earnings, uncovered losses and revaluation reserves.

The Bank's equity is formed from the funds invested by the Bank's founders in monetary form. The founder cannot withdraw funds invested in the Bank's equity.

3.15. Significant Accounting Estimates and assumptions

The presentation of the financial statements requires the Bank's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts in the following financial year. It is rare for estimated values to be the same as actual results. Estimates and assumptions that carry the risk of a material adjustment to the carrying values of assets and liabilities in the next financial year, are shown below.

/i/ Allowances for Impairment

Bank reviews the credit portfolio in order to determine allowance for impairment and provisions on a monthly basis. In determining whether the impairment losses on placements should be recognized in the income statement, the Bank assesses whether there is information / evidence indicating the existence of a measurable decrease in the estimated future cash flows of a portfolio basis, before such losses can be identified at the level of individual placements. Information indicating that a placements has suffered impartment include: irregularity and default in liability settlement, market and economic conditions present locally which cause delays in payments etc. Management's estimates of impairment in financial placements within the Bank's portfolio using the estimated future cash flows, are based on actual losses incurred in the past, realized on financial assets with similar risk-exposure and similar causes of impairment. The methodology and assumptions underlying the process of defining the amounts and periods of cash inflows, based on placements, are reviewed on an ongoing basis in order to reduce the difference between estimated and actual losses to the minimum.

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

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

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

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

/ii/ Fair value

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

3.16 . Employee benefits

In accordance with regulatory requirements in the Republic of Serbia, the Bank is 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 Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the applicable government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

The Bank does not have its own defined benefit plans or share-based remuneration options as at 31 December 2011.

The Bank reversed provisions in 2011 in accordance with IAS 19 for a proportional part of the reduction of long-term liabilities of severance pay for retirement. For the calculation in provisions on this basis the Bank has engaged an authorized licensed actuary.

3.17. Segment information

The Bank monitors and discloses information for its operating segments – lines of business (note 55). Due to the fact that the Bank performs most of its operations in the Republic of Serbia, geographical segment information is not disclosed. Dependent legal entities are not of material importance to the individual financial statements of the Bank. Business of dependent legal entities are recorded in the consolidated financial report.

4. INTEREST INCOME AND EXPENSE

a) Interest Income

In thousands of RSD	31 December 2011	2010
Dinar loans approved to:		
- financial and insurance sector	749,096	634,511
- enterprises	8,448,934	7,986,012
- entrepreneurs	205,600	203,491
- public sector	258,982	56,921
- citizens	4,160,892	3,739,266
- other customers	1,032	334
Dinar deposits with:		
- financial and insurance sector	261,588	417,266
Securities in dinars of:		
- enterprises	15,396	14,108
- public sector	1,841,732	907,844
Other placements in dinars:		
- enterprises	138,324	540
- entrepreneurs	27	236
- citizens	729,820	506,738
Total in dinars	16,811,423	14,467,267
Foreign currency loans:		
- financial and insurance sector	-	2
- enterprises	536,226	462,264
- entrepreneurs	859	-
- other foreign entities	368,962	512,566
- Deposits in foreign currency - foreign entities	76,170	42,450
Securities in foreign currency - public sector	214,161	-
Other placements in foreign currency:		
- financial and insurance sector	25,798	33,494
- foreign entities	2,722	2,218
Total in foreign currency	1,224,898	1,052,994
Total	18,036,321	15,520,261

The estimated effect of interest that was not accrued and stated in the Bank's income statement for the year 2011, totals RSD 110,850 thousand and is associated with the interest charged to loans and placements subject to legal disputes or for which interest accrual has been suspended.

b) Interest Expense

In thousands of RSD	31 December 2011	2010
Dinar loans from:		
- financial and insurance sector	10,156	8,483
Dinar deposits from:		
- financial and insurance sector	421,375	256,938
- public companies	254,114	240,564
- enterprises	605,946	431,876
- entrepreneurs	9,633	8,736
- public sector	826,015	575,752
- citizens	114,751	136,194
- foreign entities	274	219
- other customers	1,887	2,223
Other liabilities from:		
- enterprises	28	-
- citizens	27,064	-
Total in dinars	2,271,243	1,660,985
Foreign currency loans from:		
- financial and insurance sector	68,003	51,798
- public sector	51	37
- foreign entities	229,892	105,998
Foreign currency deposits from:		
- financial and insurance sector	57,428	57,935
- public companies	96,282	158,903
- enterprises	519,206	771,335
- public sector	4,774	2,794
- citizens	4,888,561	5,153,925
- foreign entities	5,387	6,103
- other customers	41,874	111,978
Other foreign currency liabilities from:		
- financial and insurance sector	210	987
- foreign entities	42	-
Total in foreign currency	5,911,710	6,421,793
Total	8,182,953	8,082,778

5. FEE AND COMMISSION INCOME AND EXPENSE

a) Fee and Commission Income

In thousands of RSD	31 December 2011	31 December 2010
In dinars from:		
- financial and insurance sector	228,173	150,652
- public companies	38,233	20,290
- enterprises	1,959,159	1,653,260
- entrepreneurs	505,073	471,568
- public sector	1,612	2,474
- citizens	2,146,471	1,898,202
- foreign entities	68,489	57,547
- registered farmers	11	15
- other customers	546	70
Total in dinars	4,947,767	4,254,078
In foreign currency from:		
- financial and insurance sector	279	47
- enterprises	-	72,403
- citizens	47,140	41,397
- foreign entities	55,010	53,778
- other customers	1,249	1,780
Total in foreign currency	103,678	169,405
Total	5,051,445	4,423,483

b) Fee and Commission Expenses

In thousands of RSD	31 December 2011	31 December 2010
In dinars, charged by:		
- financial and insurance sector	280,730	264,544
- enterprises	180,907	131,332
- citizens	22	-
- foreign entities	16,773	14,495
- other customers	124	-
Total in dinars	478,556	410,371
In foreign currency, charged by:		
- foreign entities	149,225	119,761
- other customers	265	892
Total in foreign currency	149,490	120,653
Total	628,046	531,024

6. NET GAINS / LOSSES ON SALE OF SECURITIES AT FAIR VALUE

In thousands of RSD	31 December 2011	2010
Gains on sale of securities at fair value	20,597	11,514
Losses on sale of securities at fair value	(39,707)	(15)
Net gains on sale of securities at fair value trough income statement	(19,110)	11,499

7. NET GAINS ON SECURITIES AVAILABLE FOR SALE

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

8. NET GAINS ON SALES OF OTHER INVESTMENTS

In thousands of RSD	31 December 2011	2010
Gains from sale of other placements	-	393
Net gains on sales of other investments	-	393

9. FOREIGN EXCHANGE GAINS/LOSSES

In thousands of RSD	31 December 2011	2010
Foreign exchange gains	1,257,639	7,267,187
Foreign exchange losses	(1,285,467)	(14,638,355)
	(27,828)	(7,371,168)

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

The accrual of foreign exchange gains and losses is performed and stated at gross principle (negative and positive foreign exchange gains and losses) during the business year as in accordance with the NBS regulations.

10. DIVIDENDS AND OTHER INCOME FROM EQUITY INVESTMENTS

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

11. OTHER OPERATING INCOME

In thousands of RSD	31 December 2011	2010
Other operating income	142,098	114,536
Income from collected written-off receivables	580	492
Income from disposal of fixed and intangible assets	12,970	2,562
Income from decrease of liabilities	2,831	2,294
Surpluses	32	66
Other	32,696	38,530
	191,207	158,480

12. NET INCOME/EXPENSES ON INDIRECT WRITE-OFF OF PLACEMENTS AND PROVISIONS

a) Expenses	31 December 2011	2010
In thousands of RSD		
Income from release of impairment of balance sheet items		
- loans to clients	6,603,913	10,748,455
- interest and fee and commission receivables	571,626	1,364,071
- securities held to maturity	7,554	331
- other assets	69,134	53,857
Provisions for off-balance sheet items	438,497	181,482
Provisions for litigations	1,124,856	12,900
Provision for retirement benefits	48,045	4,842
Provision for interest suspension	19,730	-
	8,883,355	12,365,938

b) Incomes	31 December 2011	2010
In thousands of RSD		
Income from release of impairment of balance sheet items		
- loans to clients	6,447,654	9,720,946
- interest and fee and commission receivables	553,644	940,925
- securities held to maturity	3,254	406
- equity investments and other securities available for sale	1,568	-
- other assets	39,485	37.516
Income from release of provision for off-balance sheet items	342,449	223,676
Income from release of unused reserves for liabilities	-	24,500
Income from suspended interest collected	159,840	1,615
	7,547,894	10.949.584
Net expenses (a-b)	(1,335,461)	(1,416,354)

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

Based on categories of placements determined in accordance with NBS requirements as at 31 December 2011 the Bank estimated the reserve for estimated losses based on the Bank's total credit risk exposure.

According to the NBS Decision on Classification of Balance Sheet Assets and Off-balance Sheet Items, the difference between the amount of reserves for potential losses calculated in accordance with previously mention NBS decision and reserves for off-balance sheet losses that are calculated in accordance with internally adopted methodology, is recorded on a specific account within profit reserves for potential losses.

MOVEMENTS IN THE BALANCE OF ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

	Cash and cash equiv.	Interest and fees receivables and other placements	Loans and deposits	Securities	Equity investments	Other placements	Other assets	Off-balance items	Total
Balance as at 1 January 2011	-	1,732,257	10,554,659	262	371,757	2,857,092	143,597	405,969	16,065,593
Changed during the year	-	571,626	6,359,889	7,554	-	244,024	69,134	438,497	7,690,724
Release during the year	-	(553,644)	(6,194,971)	(3,254)	(1,568)	(252,683)	(39,485)	(342,449)	(7,388,054)
Exchange rate differences	-	12,471	205,990	49	-	(9,696)	(115)	-	208,699
Direct write-offs	-	(83,460)	(261,075)	-	-	(44,788)	(13,058)	-	(402,381)
Other	-	(39,352)	25,755	-	-	(3)	3,716	-	(9,884)
Balance as at 31 December 2011	-	1,639,898	10,690,247	4,611	370,189	2,793,946	163,789	502,017	16,164,697

	Provision calculation In thousands of RSD	31 December 2011	 2010
a)	Provision for estimated losses		
	- balance sheet exposures	29,995,075	26,057,844
	- off-balance sheet items	1,269,589	1,544,033
	Total a	31,264,664	27,601,877
b)	Allowances and provisions determined in accordance with internal regulations (IAS 39)		
	- balance sheet assets provisions	15,662,680	15,659,624
	- provisions for losses on off-balance sheet items	502,017	405,969
	Total b	16,164,697	16,065,593
c)	Required provisions for potential losses		
	- balance sheet assets	14,332,395	10,398,220
	- off-balance sheet items	767,572	1,138,064
	Total c (a - b)	15,099,967	11,536,284
d)	Provisions for estimated losses on balance sheet assets and off-balance sheet items established in previous years		
	- balance sheet assets	10,927,046	8,527,046
	- off-balance sheet items	708,394	708,394
	Total d	11,635,440	9,235,440
e)	Shortfall amount of reserve for potential losses		
	- balance sheet assets	3,405,349	1,871,174
	- off-balance sheet items	59,178	429,670
	Total e (c - d)	3,464,527	2,300,844

Coverage of missing provisions from profit disclosed in note 43.

In accordance with the National Bank of Serbia requirements, apart from provisions, the bank is obliged to form additional reserves from profit for risk assets in the total amount of RSD 14,332,395 thousand. Total missing part of provision for potential losses for balance sheet assets amounts to RSD 3,405,349 thousand.

In accordance with the National Bank of Serbia requirements for guarantees and contingent liabilities, the Bank is required to redistribute 767,572 thousand dinars from profits. From previous profit distributions the Bank redistributed 708,394 thousand dinars, so that as at 31 December 2011 the shortfall amount of profit reserves for estimated losses on off-balance sheet items amounts to 59,178 thousand dinars.

The shortfall amount of profit reserves for estimated losses in the amount of 3,464,527 thousand dinars, the Bank redistributes from profits, after adoption of the financial statements and issuing of appropriate decision by the Bank's shareholders' assembly.

13. PAYROLL EXPENSES, REMUNERATION AND OTHER PERSONAL EXPENSES

	31 December	
In thousands of RSD	2011	2010
Payroll expenses	2,176,302	2,025,254
Remuneration expenses	556,578	498,047
Taxes and contributions on salaries and fringe benefits	425,983	394,480
Contribution expenses and remuneration	649,636	603,147
Remuneration expenses for temporary and occasional operations	53,555	87,667
Other personal expenses	63,031	38,801
	3,925,085	3,647,396

14. DEPRECIATION EXPENSES

	31 December	
In thousands of RSD	2011	2010
Depreciation expense	672,099	596,057

15. OPERATING AND OTHER EXPENSES

In thousands of RSD	31 December 2011	2010
Costs of material	442,330	331,786
Costs of production services	1,752,349	1,767,411
Non-material costs (without taxes and contributions)	1,364,209	1,269,846
Tax expenses	80,641	70,737
Contribution expenses	712,786	707,227
Other expenses	46,079	72,010
Write-offs of irrecoverable debts	-	2,219
Losses on sale of fixed and intangible assets	237	50
Impairment and write-offs of fixed and intangible assets	3,034	11,741
Shortfall and damages	-	5
Other expenses	19,241	13,702
	4,420,906	4,246,734

Liabilities for operating lease of business premises used by the Bank are recognized monthly as rent expenses.

As at 31 December, commitments (excluding VAT) for operating leases of 212 business premises with the total area of 34,462.34 sqm amount to:

- up to one year	412,695
- from one to five years	1,056,821
-over five years	453,474
Total	1,922,990

16. GAINS ON VALUATION OF ASSETS AND LIABILITIES

In thousands of RSD	31 December 2011	2010
Gains on valuation of loans and advances	11,510,850	13,926,816
Gains on valuation of securities	16,077	28,898
Gains on valuation of liabilities	1,653,998	621,556
Total	13,180,925	14,577,270

17. LOSSES ON VALUATION OF ASSETS AND LIABILITIES

In thousands of RSD	31 December 2011	2010
Losses on valuation of loans and advances	11,655,706	3,868,582
Losses on valuation of securities	191,114	11,109
Losses on valuation of liabilities	1,458,141	2,129,387
Losses on valuations of fixed assets, investment property and intangible assets	-	9,955
Losses on valuation of derivatives	634	45,549
Total	13,305,595	6,064,582
Net gains/losses on valuation of assets and liabilities	(124,670)	8,512,688

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

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

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

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

18. INCOME TAX

A. COMPONENTS OF INCOME TAX

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

B. NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF THE

ACCOUNTING RESULTS MULTIPLIED BY THE APPLICABLE TAX RATE

In thousands of RSD	31 December 2011	2010
Profit/Loss before tax	3,952,066	2,791,964
Income tax at the statutory tax rate of 10%	395,207	279.196
Tax effects of non-deductible expenses	115,976	11,774
The tax effects of net capital losses	146	(415)
Tax effects of differences in the depreciation charges	12,874	15,140
Tax effect of transfer pricing	223	5,720
Tax effect of income adjustments	4,917	3,270
Tax credits used in the current year	(103,316)	(157,343)
Correction of tax effects	12,359	114,568
TAX EFFECTS IN THE INCOME STATEMENT	(438,386)	(271,910)
C. EFFECTIVE INCOME TAX RATE	11.09	9.73

Profit tax payment in advance for 2011 in the amount of RSD 293,342 thousand was made in accordance with the Income Tax Law in monthly instalments. The Bank has used for current tax settlement hole amount of advances paid, and the rest of the 132,685 thousand RSD will be paid until tax balance submit.

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

In thousands of RSD	31 December 2011	2010
Increase in deferred tax assets and decrease in deferred tax liabilities	11,578	16,697
	11,578	16,697

Calculation of deferred tax liabilities at a rate of 10% on temporary differences on the value of fixed assets as at 31 December 2011 required a reduction of liabilities in the amount of RSD 6,673 thousand.

Tax assets related to increased provisions for employee benefits (IAS 19) and unused vacations amount to 4,805 thousand dinars.

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

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

	31 December	
In thousands of RSD	2011	2010
Decrease in deferred tax assets and increase in deferred tax liabilities	23,937	131,264
	23,937	131,264

Decrease in deferred tax assets for direct settlement of current taxes by using a part of tax credit from previous years investments amounts to RSD 19,773 thousand, and decrease for adjustment in tax credit for previous years resulting from the disposal of fixed assets amounts to 65 thousand dinars.

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

MOVEMENT ON ACCOUNTS OF DEFERRED TAX ASSETS AND LIABILITIES

In thousands of RSD

Description	Tax assets	Tax liabilities	Net tax effect
1.	2.	3.	4.(2-3)
Opening balance as at 1 January 2011	48,151	(53,502)	(5,351)
Opening balance adjustment on 2 January 2011	752	(78)	674
Adjusted opening balance 1 January 2011	48,903	(53,580)	(4,677)
Income from the abolition of tax liabilities (temporary differences between tax and accounting value of fixed assets)	-	6,673	6,673
Income from the creation of tax assets (Long-term provisions IAS 19)	4,805	-	4,805
Income from the creation of tax assets (calculated unpaid public duties)	100	-	100
Income from the abolition of tax assets (impairment of assets)	(4,099)	-	(4,099)
Loss of the abolition of tax credits based on investments in fixed assets	(19,838)	-	(19,838)
Balance as at 31 December 2011	29,871	(46,907)	(17,036)

The opening balance adjustment from the Table is further explained in the two following tables: tax assets and tax liabilities. The adjustment includes amounts based on the 2010 tax balance, filed within the statutory deadline, adjusted for the effects of the newly published tax regulations for 2010 (changes published in 2011 as applied to the tax balance for 2010).

I Tax assets - based on long-term provisions for severance payments to employees, according to court litigation, and investment in fixed assets, and temporary unrecognized expenses from impairment of assets temporary unrecognized expenses from public charges were as follows :

Description	2011		2010		Gain / loss from the abolition of tax liabilities
	The amount in provisions	Tax assets	The amount in provisions	Tax assets	
1.	2.	3.	4.	5.	6. (3-5)
Long-term provisions IAS 19	276,141	27,615	228,096	22,810	4,805
Tax credit based on the investment in fixed assets	-	-	-	19,838	(19,838)
Tax assets from calculation of public charges	1,000	100	-	-	100
Tax assets from the impairment of assets	21,561	2,156	62,551	6,255	(4,099)
Total	-	29,871	-	48,903	(19,032)

II Tax liabilities - Differences between tax and accounting value of fixed assets

Description	2011		2010		Gain from the abolition of tax liabilities
	The value of fixed assets	Tax liabilities	The value of fixed assets	Tax liabilities	
1.	2.	3.	4.	5.	6. (5-3)
The value according to tax regulations	7,494,561	-	6,690,451	-	-
Accounting value	7,963,622	-	7,226,246	-	-
Difference	469,061	46,907	535,795	53,580	6,673
NET DEFERRED TAX LIABILITIES IN BALANCE SHEET		(17,036)		(4,677)	

21. CASH AND CASH EQUIVALENTS

In thousands of RSD	31 December 2011	2010
In dinars		
Gyro account	9,992,491	11,733,730
Cash in hand	1,730,513	1,665,046
total	11,723,004	13,398,776
In foreign currency		
Foreign exchange account	3,892,766	5,628,479
Cash in hand in foreign currency	1,410,114	1,443,537
Cash equivalents in foreign currency - Cheques in the course of collection	32.753	23,791
Other cash and cash equivalents	170,234	229,963
total	5,505,867	7,325,770
Gold and other precious metals	99	99
Total	17,228,970	20,724,645

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

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

The NBS pays interest on average obligatory reserves in dinars at an interest rate of 2.5% p.a. During 2011 the Bank maintain the average monthly balances of obligatory reserve in dinars. The Bank did not exceed prescribed limits in respect of obligatory reserve during 2011.

22. REVOCABLE DEPOSITS AND LOANS

	31 December	
In thousands of RSD	2011	2010
In dinars		
Loans from repo transactions	11,500,000	200,000
	11,500,000	200,000
In foreign currency		
Obligatory reserve at NBS	43,760,711	43,415,232
	43,760,711	43,415,232
TOTAL	55,260,711	43,615,232

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

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

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

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

	31 December	
In thousands of RSD	2011	2010
Interest and fees receivables in dinars		
- interest	1,947,476	2,088,080
- fees	117,131	130,808
Receivables from sales in dinars	80	3.123
Other receivables on sales in dinars - rent	354,738	347,154
Impairment in dinars	(1,360,913)	(1,447,748)
	1,058,512	1,121,417
Interest and fees receivables in foreign currency		
- interest	364,014	348,319
- fees	4	15
Receivables from sales in foreign currency	44,028	-
Impairment in foreign currency	(278,985)	(284,509)
	129,061	63,825
TOTAL	1,187,573	1,185,242

24. GRANTED LOANS AND DEPOSITS

	31 December	
In thousands of RSD	2011	2010
Loans granted in dinars		
Transaction deposits	5,221,887	3,660,268
Customer loans	4,630,134	5,361,637
Loans for operating assets	30,415,847	25,308,849
Export loans	9,514,560	8,124,450
Investment loans	33,597,472	26,715,739
Housing loans	25,893,496	24,221,737
Other loans	32,526,702	36,004,472
Impairment for loans in dinars	(7,912,752)	(7,739,283)
	133,887,346	121,657,869
Loans granted in foreign currency		
Payments for goods and services import	6,191,620	6,097,570
Overnight loans	8,255,053	749,825
Other loans in foreign currency	9,526,382	10,467,830
Impairment for loans in foreign currency	(2,563,568)	(2,605,645)
	21,409,487	14,709,580

Granted other and defined purpose deposits in foreign currency		
Other deposits in foreign currency	636,301	14,408,593
Impairment deposits in foreign currency	(213,927)	(209,731)
	422,374	14,198,862
	155,719,207	150,566,311

Short-term loans in dinars and foreign currency in 2011 are granted for period ranging from one month to one year at nominal interest rates ranging from 0.69% to 1.80% per month.

Long-term loans in dinars and foreign currency are granted for maximum period of thirty years at nominal interest rates ranging from 3.35% to 22.5% per annum.

Economic sector risk concentrations of loans and advances to customers is significant for following branches:

	31 December	
In thousands of RSD	2011	2010
Agriculture, hunting, forestry, water-works and fishing	4,546,788	3,382,510
Metals and processing industry	29,028,263	28,952,236
Oil and Gas	355,430	2,646,402
Constructions	7,972,943	7,749,787
Trading, maintaining of vehicles and households equipment	31,192,882	27,379,392
Hotels, restaurants and telecommunications	8,707,180	6,254,771
Financial services	7,220,640	3,868,530
Foreign legal entities and foreign banks	13,404,165	19,296,828
Property – renting and other business transactions	3,419,265	3,917,899
Governmental institutions	2,527,389	2,689,339
Retail and entrepreneurs	47,042,624	43,699,916
Other	301,638	728,701
	155,719,207	150,566,311

Risks and Uncertainties

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

25. SECURITIES (EXCLUDING OWN SHARES)

In thousands of RSD	31 December 2011	2010
In dinars		
Securities at fair value trough income statement		
- shares of banks in dinars	728	1,312
- shares of corporate entities in dinars	7,825	13,527
Securities available for sale		
- shares of banks in dinars	79	3,493
- corporate bonds (Tigar)	83,318	102,165
- Republic of Serbia commercial bills	16,895,150	17,927,384
Securities held to maturity		
- corporate bonds (B92)	78,476	110,773
Impairment on securities in dinars	(4,611)	(262)
	17,060,965	18,158,392
In foreign currency		
Securities at fair value trough income statement		
- Republic of Serbia bonds	141,850	109,105
Securities available for sale		
- Republic of Serbia bonds and commercial bills	8,435,157	-
	8,577,007	109,105
TOTAL	25,637,972	18,267,497

Trading securities

As at December 31, 2011, the market value of trading securities portfolio totaled RSD 150,403 thousand (December 31, 2010: RSD 123,944 thousand) out of which dinar denominated trading securities account for RSD 8,553 thousand and foreign currency denominated trading securities total RSD 141,850 thousand.

Individually, the biggest investments are: in Republic of Serbia bonds in the amount of RSD 141,850 thousand, and shares of corporate entities: Veterinarski zavod AD in the amount of RSD 1,846 thousand, Metalac AD RSD 1,453 thousand, Galenika Fitofa AD RSD 1,359 thousand, Messer Tehnogas AD RSD 834 thousand, Sojaprotein AD RSD 715 thousand and Energoprojekt holding AD RSD 710 thousand.

Securities available for sale

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

in dinars:

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

in foreign currency:

Republic of Serbia commercial bills RSD 4,479,837 thousand and long term Republic of Serbia bonds RSD 3,955,320 thousand.

Securities held to maturity

Corporate bonds of RSD 78,746 thousand entirely relate to B92.

26. EQUITY INVESTMENTS

In thousands of RSD	31 December 2011	2010
Equity investments in associated companies in country	140,000	140,000
Equity investments in associated Banks abroad	5,340,888	5,340,888
Equity investments in banks and financial organizations	117,998	151,799
Equity investments in companies and other legal entities	405,008	439,262
Equity investments in foreign entities	189,878	125,813
Impairment	(370,189)	(371,757)
	5,823,583	5,826,005

As AT December 31, 2011, equity investments in subsidiaries domiciled in the country related to KomBank Invest a.d., Beograd in the amount of RSD 140,000 thousand.

Equity investments in subsidiaries domiciled aboard relate to interest held in Komercijalna banka a.d., Banja Luka totalling RSD 2,974,615 thousand and Komercijalna banka a.d., Budva totalling RSD 2,366,273 thousand.

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

Equity investments in enterprises mainly refer to the following business entities: 14. oktobar a.d, Kruševac amounting to RSD 324,874 thousand, RTV Politika d.o.o., Beograd amounting to RSD 37,634 thousand, Dunav osiguranje a.d., Beograd amounting to RSD 25.578 thousand and Politika a.d.,Beograd amounting to RSD 8,631 thousand.

Equity investments in foreign entities are associated with the company VISA Inc, USA totaling RSD 153,599 thousand and Master card, USA totaling RSD 36,279 thousand.

The allowance for impairment of other equity investments of RSD 370.189 thousand relates to the impairment of 100% of cost for those equity investments that do not have a market value out of which, an amount of RSD 324,874 thousand relates to “14. Oktobar” a.d., Kruševac and an amount of RSD 37,634 thousand is associated with “RTV Politika” d.o.o., Beograd.

27. OTHER PLACEMENTS

In thousands of RSD	31 December 2011	2010
Other placements in dinars		
Bought placements - factoring	361,776	127,159
Investments on accepts, guarantees and paid guaranties	1,020,978	910,701
Other placements	452,826	815,751
Impairment on other placements in dinars	(745,367)	(777,647)
	1,090,213	1,075,964

Other placements in foreign currency		
Investments on accepts, guarantees and paid guaranties	241,563	527,357
Unsecured letters of credit and other pledges	598,528	541,599
Other placements in foreign currency	2,305,808	2,242,536
Impairment on other placements in foreign currency	(2,048,579)	(2,079,445)
	1,097,320	1,232,047
TOTAL	2,187,533	2,308,011

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

28. INTANGIBLE ASSETS

Intangible assets

	31 December	
In thousands of RSD	2011	2010
Licences and software	883,134	700,799
Intangible assets in preparation	72.699	-
Impairment	(400,418)	(233,252)
	555,415	467,547

Changes in intangible assets

In thousands of RSD

	Licenses and other rights	Adv. for intangible assets	Other intangible assets in progress	TOTAL
Cost				
Balance as at 31 December 2010.	700,799	-	-	700,799
Correction of opening balance – transfer to other receivables and fixed property	-	-	-	-
Modified opening balance	700,799	-	-	700,799
Purchases	-	-	255,438	255,438
Revaluation	-	-	-	-
Transfers from/to	182,739	-	(182,739)	-
Disposals	(404)	-	-	(404)
Balance as at 31 December 2011.	883,134	-	72,699	955,833
Accumulated depreciation				
Balance as at 31 December 2010.	233,252	-	-	233,252
Correction of opening balance – transfer to other receivables and fixed property	-	-	-	-
Modified opening balance	233,252	-	-	233,252
Depreciation for the period	167,404	-	-	167,404
Revaluation	-	-	-	-
Disposals	(238)	-	-	(238)
Balance as at 31 December 2011.	400,418	-	-	400,418
Net carrying amount :				
31 December 2011	482,716	-	72,699	555,415
31 December 2010	467,547	-	-	467,547

29. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

Changes in properties, equipment and investment properties

	Real Estate	Equipment	Investments in progress	Investment properties	TOTAL
Cost					
Balance as at 31 December 2010.	5,510,151	2,354,047	50,216	1,328,148	9,242,562
Adjusted opening balance – leasehold improvements	-	-	-	-	-
Modified opening balance	5,510,151	2,354,047	50,216	1,328,148	9,242,562
Purchases	-	-	1,247,185	-	1,247,185
Revaluation	-	-	-	-	-
Transfers from/to	194,836	494,870	(1,259,825)	556,711	(13,408)
Disposals	(25,541)	(156,764)	-	-	(182,305)
Other	-	-	-	-	-
Balance as at 31 December 2011.	5,679,446	2,692,153	37,576	1,884,859	10,294,034
Accumulated depreciation					
Balance as at 31 December 2010.	741,491	1,549,842	-	130,525	2,421,858
Adjusted opening balance – leasehold improvements	-	-	-	-	-
Modified opening balance	741,491	1,549,842	-	130,525	2,421,858
Depreciation for the period	141,556	328,675	-	34,464	504,695
Revaluation	-	-	-	-	-
Disposals	(6,660)	(154,798)	-	-	(161,458)
Transfers from/to	14,195	-	-	(15,813)	(1,618)
Other	-	286	-	-	286
Balance as at 31 December 2011.	890,582	1,724,005	-	149,176	2,763,763
Net carrying amount:					
31 December 2011	4,788,864	968,148	37,576	1,735,683	7,530,271
31 December 2010	4,768,660	804,205	50,216	1,197,623	6,820,704

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

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

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

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

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

in thousands of RSD

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

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

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

Estimated value of investment property:

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

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

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

As at 1 January 2005 the Bank booked revaluation (valuation by an independent and certified appraiser) of property. Revaluation model will be used for measurement of property in the future in cases when it is assessed that the value of real-estate property has changed significant (above 15%).

Based on opinion of expert team, the Bank decided that there is no need for independent property valuation for the year 2011.

Management of the Bank believes that present value of property and equipment as at 31 December 2011 is stated at its market value.

Based on yearly stock count, the Bank derecognized fixed assets in amount of RSD 1,997 thousand.

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

In thousands of RSD	31 December 2011	31 December 2010
Non-current assets held for sale	101,040	735,432
	101,040	735,432

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

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

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

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

31. DEFERRED TAX ASSETS

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

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

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

32. OTHER ASSETS

In thousands of RSD	31 December 2011	31 December 2010
Other receivables in dinars		
Receivables for advance payments for current assets	38,565	28,649
Receivables from employees	1,366	3,342
Receivables for prepaid taxes and contributions	3,785	4,882
Other receivables from operations	207,761	2,359,893
Temporary accounts	156,648	135,025
Receivables in settlement	1,518,535	1,223,089
Provision for other receivables	(40,864)	(29,897)
	1,885,796	3,724,983
Other receivables in foreign currency		
Receivables from employees	635	644
Other receivables from operations	97,700	98,429
Temporary accounts	26,330	1,143
Receivables in settlement	871,120	314,381
Provision for other receivables	(118,113)	(108,888)
	877,672	305,709
Prepayments in dinars		
Deferred receivables for accrued interest	286,056	173,855
Deferred receivables for other accrued income	52	72
Deferred expenses for liabilities carried at amortized cost using effective interest rate	82,002	20,527
Other deferred expenses	63,043	46,100
Other prepayments and deferred expenses	1,905	1,806
	433,058	242,360
Prepayments and deferred expenses in foreign currency		
Deferred receivables for accrued interest	44,586	82,063
	44,586	82,063
Inventories		
Materials	15,706	13.227
Equipment and inventory	1,183	1,988
Assets acquired by a way of collecting receivables	1,003,254	986,165
Inventory in use	110,443	92,965
Provisions for assets acquired by a way of collecting receivables	(4,812)	(4,812)
Provision for inventory	(110,443)	(92,965)
	1,015,331	996,568
TOTAL	4,256,443	5,351,683

Material assets received as collection of receivables in the amount of RSD 998,442 (present value) thousand relate to:

Material assets acquired in last 12 months.

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

Tangible assets acquired in prior periods

Description	Area in m²	Value in 000 RSD.	Date of acquisition
Business premises in Novi Pazar, Kej skopskih žrtava 44	82.95	4,343	27/09/2007
Gnjilica, 7th class agricultural land	2,638.00	216	11/06/2008
Hotel Prezident, Čačak, Bulevar oslobođenja no number	2,278.92	127,035	21/01/2009
Residential building, Čačak ul. Ratka Mitrovića 6	114.6	3,706	12/05/2009
Equipment, Valjevo (machines for cutting and tailoring fabrics)		1,205	07/09/2009
Dairy equipment, Novi Pazar		288	24/07/2008
Porch, VI classes	1 ha 24 ara	337	26.11.2010
Lisina, grass fields, VII and VIII classes cultivated land VIII class and a forest of IV class	29,783.00	1,604	21/12/2010
Tivat, Mrčevac – residential building, anciallary building, building under construction and a garage	277	5,512	23/12/2010
Buče forest, IV class	8,292.00	547	26/11/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 br.1	87	24,386	24/12/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 br.2	170	47,639	24/12/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 br.3	173	48,480	24/12/2010
NBGD, Milentija Popovića 5b, apartment I S2 br.5	171	47,919	24/12/2010
NBGD, Milentija Popovića 5b, apartment II S2 br.7	90	25,227	24/12/2010
NBGD, Milentija Popovića 5b, apartment II S2 br.9	175	49,040	24/12/2010
NBGD, Milentija Popovića 5b, apartment IV S1 br. 15	198	55,484	24/12/2010
NBGD, Milentija Popovića 5b, business L4S2	153	55,880	24/12/2010
NBGD, Milentija Popovića 5b, business tor L3S2	128	46,751	24/12/2010
Total		545.599	
TOTAL (present value)		998,442	

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

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

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

The Bank sold 2 tangibles received through collection of receivables in the amount of RSD 85.260 thousand during February 2012 (cost of the sold tangibles amount to RSD 80,710 thousand)

In accordance with NBS regulations for 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 provision of 100%.

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

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

33. TRANSACTION DEPOSITS

	31 December	
In thousands of RSD	2011	2010
in dinars		
- sector of finances and insurance	687,409	1,780,108
- public companies	1,715,030	2,733,929
- enterprises	8,531,260	7,424,469
- entrepreneurs	1,778,231	1,624,141
- public sector	38,392	57,742
- retail sector	5,183,533	4,162,166
- foreign entities	644,129	160,937
- registered agricultural producers	1,056,626	474,888
- other customers	1,375,904	1,371,365
	21,010,514	19,789,745
In foreign currency		
- sector of finances and insurance	1,031,655	1,870,341
- public companies	294,046	134,013
- enterprises	4,781,402	4,604,673
- entrepreneurs	141,585	154,749
- public sector	936,439	226,199
- retail sector	2,076,044	1,799,491
- foreign entities	803,468	784,863
- other customers	381,422	297,995
	10,446,061	9,872,324
	31,456,575	29,662,069

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

Demand deposits of enterprises and non-residents foreign currency denominated are non-interest bearing except for specific business arrangements.

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 up to 0.15% annually for EUR and for other currencies at 0.1% annually.

34. OTHER DEPOSITS

	31 December	
In thousands of RSD	2011	2010
Deposits in RSD		
Savings deposits	1,856,593	1,178,300
Deposits as guaranties for loans	415,857	371,298
Deposits with defined purpose	610,292	847,464
Other deposits		
- sector of finances and insurance	3,309,558	1,021,082
- public companies	1,415,659	1,590,304
- enterprises	18,093,217	17,658,194
- entrepreneurs	36,621	26,500
- public sector	208,521	49,390
- retail sector	12,078	6,246
- foreign entities	1,000	1,000
- other customers	3,813,813	5,514,148
	29,773,209	28,263,926
Deposits in foreign currency		
Savings deposits	127,097,759	117,772,389
Deposits as guaranties for loans	2,743,566	2,808,750
Deposits with defined purpose	928,838	1,665,836
Other deposits		
- sector of finances and insurance	5,183,618	7,632,026
- public companies	3,212,258	4,899,059
- enterprises	4,126,961	4,597,724
- entrepreneurs	27,579	9,557
- public sector	2,180	2,147
- foreign entities	-	12,660
- other customers	1,570,737	1,764,597
	144,893,496	141,164,745
TOTAL	174,666,705	169,428,671

Corporate deposits

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

Foreign currency short-term deposits of companies are deposited at interest rates ranging from 0.25% to 4% per year.

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

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

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

Retail deposits

Short-term retail deposits in dinars are deposited at interest rates ranging from 7% to 10.00% per annum, and in foreign currency from 2.2% to 6% per annum.

Long-term retail deposits in dinars are deposited at interest rates ranging from 10.50% to 11.00% per annum, and in foreign currency from 2.2% to 6% per annum.

35. BORROWINGS

	31 December	
In thousands of RSD	2011	2010
Borrowings in dinars		
Overnight loans	301,368	13,680
Borrowings	1,092	2,183
Other financial liabilities	10,214	4,200
	312,674	20,063
Borrowings in foreign currency		
Other financial liabilities in foreign currency	1,291,087	903,042
	1,291,087	903,042
TOTAL	1,603,761	923,105

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

	31 December	
In thousands of RSD	2011	2010
Interest and fees in dinars		
Interest liabilities	184,711	174,987
Fee and commission liabilities	6,691	7,160
Liabilities of change in fair value of derivatives	634	-
	192,036	182,147
Interest, fees and commissions payable and change in fair value of derivatives		
Interest liabilities	13,043	237
Liabilities of change in fair value of derivatives	-	45,549
	13,043	45,786
TOTAL	205,079	227,933

37. PROVISIONS

	31 December	
In thousands of RSD	2011	2010
Provision for litigation	1,357,278	243,321
Provisions for employee benefits (IAS 19)	276,141	228,096
Provision for contingent liabilities (off-balance sheet assets)	502,017	405,969
TOTAL	2,135,436	877,386

Changes in provision

In thousands of RSD	31 December 2011	2010
Provision for litigation		
Opening balance	243,321	254,921
Provisions	(10,900)	-
Cancellation of provisions	1,124,857	(11,600)
Closing balance	1,357,278	243,321
Provision for severance pay and unused vacations		
Opening balance	228.096	223,254
Cancellation of provisions	48.045	4,842
Closing balance	276.141	228,096
Provision for contingent liabilities		
Opening balance	405,969	448,162
Cancellation of provisions	96,048	(42,193)
Closing balance	502,017	405,969

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

38. TAX LIABILITIES

In thousands of RSD	31 December 2011	2010
VAT liabilities	13,167	6,804
Liabilities for other taxes and contributions	26.570	7,189
	39,737	13,993

39. LIABILITIES RELATED TO PROFIT

In thousands of RSD	31 December 2011	2010
Liabilities related to profit	15,067	16,535
Liabilities for income tax	157,130	54,721
	172,197	71,256

40. DEFERRED TAX LIABILITIES

In thousands of RSD	31 December 2011	2010
Deferred tax assets	(29,871)	(48,151)
Deferred tax liabilities	46,907	53,502
	17,036	5,351

In accordance with IAS 12 „ Income taxes " (paragraph 71), deferred tax liabilities and deferred tax assets are reported in net amount. Changes in deferred tax liabilities and deferred tax assets in 2011 are shown in note 20 in detail.

41. OTHER LIABILITIES

In thousands of RSD	31 December 2011	2010
Other liabilities in dinars		
Trade payables	226,707	157,294
Received advances	373.166	538,376
Financial lease liabilities	-	2,155
Other liabilities from operations	144.717	864,084
Liabilities in settlement	155,406	60,817
Temporary accounts	(139,086)	(97,810)
	760,910	1,524,916
Liabilities for net salaries	26,741	-
Liabilities for taxes on salaries and fringe benefits	4,437	-
Liabilities for contributions on salaries and fringe benefits	5,794	-
Liabilities for temporary service contracts	40	67
Other liabilities to employees	7,119	5,211
	44,131	5,278
Accrued interest liabilities	46,469	40,834
Accrued liabilities for other accounted expenditures	14,091	10,618
Deferred interest income	144,227	97,627
Deferred income stated at depreciation value using efective interets rate	728,255	731,564
Other deffered income	94,720	101,222
Other accruals	520,081	697,455
	1,547,843	1,679,320
Other liabilities in foreign currency		
Received advances	4,804	4,915
Liabilities on behalf of third parties - credit lines	9,577,048	7,400,066
Irrevocable contingent liabilities for unused loans and deposits	997,178	535,303
Temporary account	(142)	1,596
	10,578,888	7,941,880
Subordinated liabilities in foreign currency	5,232,045	-
	5,232,045	-
Accrued interest liabilities	2,572,802	2,206,060
Other accrued liabilities	116,172	122,889
Other accruals	63,835	123,774
	2,752,809	2,452,723
TOTAL	20,916,626	13,604,117

Liabilities on the basis of received advances in dinars for the most part relating to advances received from the Development Fund for subsidizing interest rates for loans to individuals, legal persons and entrepreneurs in the amount of RSD 218.377 thousand, advances received from the Ministry of Agriculture, Forestry and Water Management in the amount of RSD 22 thousand dinars and advances received from the Ministry of Environment, Mining and Spatial Planning for subsidizing interest rates for loans for residential construction in the amount od RSD 152.605 thousand.

Within the delimited interest income in dinars, an amount of 60.380 dinars represent a pre-charged interest rate subsidizing by Ministry of Economy and Regional Development for housing loans that are insured by the National Corporation for loans Insurance

Liabilities on behalf of third parties relate to following credit lines:

Loan from European Investment Bank, granted to Republic of Serbia for financing SME projects, as well as for financing infrastructural projects of small and medium municipalities, in the amount of RSD 2.591.542 thousand.

- Loan from European Investment Bank, granted to Republic of Serbia for financing SME projects, as well as for financing infrastructural projects of small and medium municipalities, in the amount of RSD 2.591.542 thousand.
- Loan from the Government of Republic of Italy, granted to Republic of Serbia for financing SME project in the amount of RSD 1.273.033 thousand.
- Loan from European Agency for Reconstruction, granted to Republic of Serbia in the amount of RSD 89.562 thousands.
- Loan to EFSE (European Fund for Southeastern Europe) in the amount of RSD 3.886.662 thousand, based on credit line granted in approximate amount of EUR 37.17 milion.
- Loan to EBRD in the amount of RSD 1.718.242 thousand, based on credit line granted in approximate amount of EUR 20 milion.
- Loan from Italian and German banks for financing imported goods in total amount of RSD 10.398 thousand.

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

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

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

42. EQUITY

In thousands of RSD	31 December 2011	2010
Share capital	13,881,010	13,881,010
Share premium	14,581,543	14,581,543
	28,462,553	28,462,553

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

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

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

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

- 8,709,310 ordinary shares
- 4,798,190 convertible priority shares and
- 373,510 priority shares.

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

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

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

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

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

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

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

The basic earnings per share:

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

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

Diluted earnings per share:

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

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

43. RESERVE FROM PROFIT

	31 December	
In thousands of RSD	2011	2010
Reserve from profit for estimated losses	11,635,440	9,235,440
	11,635,440	9,235,440

	31 December	
In thousands of RSD	2011	2010
Movements in reserves from profit		
Opening balance	9,235,440	7,385,440
Other capital		
– distribution of retained earnings for 2010	2,400,000	1,850,000
Closing balance	11,635,440	9,235,440

44. REVALUATION RESERVES

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

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

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

45. UNREALIZED LOSSES BASED ON SECURITIES AVAILABLE FOR SALE

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

46. PROFIT

In thousands of RSD	31 December 2011	2010
Retained earnings		
Retained earnings from previous years	38,213	93,055
Current year retained earnings	3,513,680	2,616,254
	3,551,893	2,709,309
Net profit for the year		
- net profit from business activities	3,952,066	2,791,964
- loss from tax effects	(12,359)	(18,367)
- tax expense of period	(426,027)	(157,343)
	3,513,680	2,616,254
Movements in retained earnings from previous years		
Opening balance	93,055	190,746
Opening balance adjustment	93,055	190,746
Increase for the year:		
- transfer from current year profit	2,616,254	1,943,544
- gains on disposal of fixed assets	5,014	-
- gains on realized revaluation reserves	10,038	39,787
Decrease trough the year:		
- dividends for preferential shares	(37,575)	(44,821)
- employee shares in profits	(250,000)	(90,000)
- transfer to reserve	(2,400,000)	(1,850,000)
- usage of tax credits from previous year - tax relief	1,427	(96,201)
Closing balance	38,213	93,055

In accordance with NBS regulations gains on the disposal of revalued fixed assets in 2011 were recognized as retained earnings of previous years in the total amount of RSD 10.038 thousand.

In 2011, based on the decision of the Bank’s Assembly the distribution of stated cumulative retained earnings was executed as follows:

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

47. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

In thousands of RSD	31 December 2011	2010
Funds managed on behalf of third parties	4,332,764	4,230,755

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

48. CONTINGENT LIABILITIES

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

In thousands of RSD	31 December 2011	2010
In dinars		
Guarantees and other sureties	10,529,088	9,572,430
Property pledged for liabilities	5,000,000	-
Irrevocable contingent liabilities for unused loans and deposits	7.033.612	5,121,319
Other irrevocable contingent liabilities	8,524,069	7,154,095
total in dinars	31,086,769	21.847.844
In foreign currency		
Guarantees and other sureties	4,220,514	5,133,800
Irrevocable contingent liabilities for unused loans and deposits	908.559	31,031
total in foreign currency	5.129.073	5,164,831
TOTAL	36,215,842	27,012,675

For mentioned guarantees and contingent liabilities the Bank made provisions for potential losses in accordance with IAS 37 in the amount of RSD 502,017 thousand. This provision is recorded under liabilities and equity in the balance sheet. (note 37)

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

b) Litigations

As at 31 December 2011 contingent liabilities for litigations against the Bank amount to RSD 1.444.490 thousands. (number of cases 83). Management of the Bank does not expect materially significant losses in the near future arising from these litigations. Based on a single litigation in 2011 involving the company Takovo an additional provision was made in the amount of 1,124,857 thousand. For this litigation the Bank received a court ruling and realised collection in this respect, but after the appeal filed by the company Takovo, the decision of the Supreme Cassation Court is awaited. The Bank made provisions for litigations and claims in the amount of RSD 1,357,278 thousand.

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

49. DERIVATIVES

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

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

50. OTHER OFF-BALANCE SHEET ITEMS

In thousands of RSD	31 December 2011	2010
Receivables for suspended interest		
- in dinars	796,922	657,675
- in foreign currency	189,757	134,089
Other off-balance sheet items	141,728,010	112,090,350
	142,714,689	112,882,114

During the 2011, Bank had a net reduction of suspended interest in the amount of RSD 194,915 thousand , which relate on:

a) increase of RSD 413.371 thousand has following structure :

- newly suspended interest in the amount of 215.211,

- resuming the accrual of interest previously suspended in the amount of 197.393,

- exchange rate differences in the amount of RSD 767 thousand.

b) decrease of RSD 218.457 thousand has following structure:

- write-off in the amount of 58.617 and

- collection in the amount of RSD 159.840 thousand.

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

51. CAPITAL ADEQUACY I COMPLIANCE WITH STATUTORY REGULATIONS

The bank shall maintain a minimum capital adequacy ratio of 12% adopted by the National Bank of Serbia which is in accordance with the Basel Convention applicable to all banks. Bank's capital adequacy ratio at 31 December 2011, calculated on the basis of financial statements drawn up by the management of the Bank, is 17.25% in accordance with well-known decision of the National Bank of Serbia in 2011.

The Bank was under obligation to comply it business operations with the requirements of Law on Banks, which means to adjust the scope and structure of its risk assets to the scope prescribed by the National Bank of Serbia. As at 31 December 2011 and as at 31 December 2010 all indicators were compliant with the NBS requirements.

52. RECEIVABLES AND LIABILITIES FROM RELATED PARTIES

52. A . Balance on 31 December 2011

RECEIVABLES

Related parties	Loans and borrowings	Interest and commission	Impairment	Net exposure.	Off-balance sheet exposure	Total
1. Kom. banka AD Budva	5,061	780	-	5,841	-	5,841
2. Kom.banka AD Banja Luka	2,727	-	-	2,727	837,127	839,854
3. Kombank INVEST	6	-	-	6	194	200
Total	7,794	780	-	8,574	837,321	845,895

LIABILITIES

Related parties	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom. banka AD Budva	185,081	-	1,461	186,542
2. Kom.banka AD Banja Luka	3,802	-	-	3,802
3. Kombank INVEST	16,683	43	-	16,726
Total	205,566	43	1,461	207,070

REVENUES AND EXPENSES

Related parties	Interest income	Fees and provisions income	Interest expenses	Fees and provisions expenses	Net
1. Kom. banka AD Budva	276	696	(2,717)	(184)	(1,929)
2. Kom.banka AD Banja Luka	1,333	932	(39,157)	(205)	(37,097)
3. Kombank INVEST	-	169	(1,887)	-	(1,718)
Total	1,609	1,797	(43,761)	(389)	(40,744)

Komercijalna Bank ad Beograd, based on transactions with the subsidiary members made a net positive exchange rates in amount of RSD 129.237 thousand.

52. B . Balance on 31 December 2010

RECEIVABLES

Related parties	Loans and borrowings	Interest and commission	Impairment	Net exposure.	Off-balance sheet exposure	Total
1. Kom. banka AD Budva	11,161	771	-	11,932	288,973	300,905
2. Kom.banka AD Banja Luka	2,749	-	-	2,749	2,158	4,907
3. Kombank INVEST	-	-	-	-	200	200
Total	13,910	771	-	14,681	291,331	306,012

LIABILITIES

Related parties	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom. banka AD Budva	5,488		1,473	6,961
2. Kom.banka AD Banja Luka	12,925	-	-	12,925
3. Kombank INVEST	77	9	-	86
Total	18,490	9	1,473	19,972

Related parties	Interest income	Fees and provisions income	Interest expenses	Costs of fees and commissions	Net
1. Kom. banka AD Budva	24,113	571	(10,827)	(729)	13,128
2. Kom.banka AD Banja Luka	-	1,209	(101,151)	(163)	(100,105)
3. Kombank INVEST	-	128	(2,224)	-	(2,096)
TOTAL:	24,113	1,908	(114,202)	(892)	(89,073)

Komercijalna Bank ad Beograd, based on transactions with the subsidiary members made a loss on exchange differences in amount of RSD 230.126 thousand.

53. RELATED PARTIES TRANSACTIONS

Gross and net remunerations to the members of the Board of Directors and Executive Board in 2011 and 2010 were as follows:

In thousands of RSD	31 December 2011	2010
Gross remunerations		
Executive Board	66,234	66,138
Net remunerations		
Executive Board	55,535	55,716
Gross remunerations		
Board of Directors and Audit Committee	30,199	15,275
Net remunerations		
Board of Directors and Audit Committee	14,629	10,649

54. SUBSEQUENT EVENTS

Unreconciled account balances

Based on the analysis of regular annual balance reconciliation conducted on 31 December 2011, the Bank has unreconciled account balances in the amount of RSD 2,312 thousand. Unreconciled account balances primarily relate to 14 clients, the majority of which dispute either the amount or calculation method of interest and fees and commissions.

Unpaid preferred dividends

Unpaid preferred dividends payable in 2012 amount to:

- from 2011 RSD 40,264 thousand (10.78 % of the nominal value of preferred shares).

55. SEGMENT REPORTING

A) Balance as of December 31, 2011

in thousands of RSD

	Retail	Corporate	Investment Banking and Interbank Operations	Other	Total
Interest and remuneration income	7,880,524	10,977,524	4,229,718	9,251	23,097,017
Interest and remuneration costs	(5,381,228)	(2,515,392)	(914,379)	(19,110)	(8,830,109)
Other income (FX, provisions abolishing and other)	6,410,230	12,822,076	424,384	2,520,972	22,177,662
Other costs (FX, provisions and other)	(6,034,361)	(14,389,867)	(973,975)	(2,076,211)	(23,474,414)
Result before operative expenses	2,875,165	6,894,341	2,765,748	434,902	12,970,156
Operating expenses	-	-	-	-	(9,018,089)
Result before tax*	-	-	-	-	3,952,066
Assets by segment	83,636,976	117,759,299	61,649,274	12,443,169	275,488,718
Placements	48,935,190	101,452,916	51,667,762	-	202,055,868
Mandatory reserve	34,701,786	16,306,383	1,744,973	-	52,753,142
Other	-	-	8,236,539	12,443,169	20,679,708
Liabilities by segment	143,061,647	56,243,065	21,627,661	10,280,779	231,213,152
Deposits	143,061,647	56,243,065	6,818,567	-	206,123,279
Other sources (credit lines i subordinate liabilities)	-	-	14,809,094	-	14,809,094
Other liabilities	-	-	-	10,280,779	10,280,779

* Results by segments do not include internal relation effects between segments

B) Balance as of December 31, 2010

in thousands of RSD

	Retail	Corporate	Investment Banking and Interbank Operations	Other	Total
Interest and fees and commissions income	6,991,776	10,117,090	2,903,048	393	20,012,307
Interest and fees and commissions costs	(5,545,075)	(2,415,323)	(653,404)	-	(8,613,802)
Other income (FX, provisions abolishing and other)	12,225,691	17,741,184	1,749,618	1,236,028	32,952,521
Other costs (FX, provisions and other)	(14,917,122)	(16,667,909)	(1,154,532)	(329,312)	(33,068,875)
Result before operating expenses	(1,244,730)	8,775,042	2,844,730	907,109	11,282,151
Operating expenses	-	-	-	-	(8,490,187)
Result before tax*	-	-	-	-	2,791,964
Assets by segment	83,225,552	110,864,058	48,383,673	13,395,026	255,868,309
Placements	45,783,851	93,270,187	39,279,368	-	178,333,406
Mandatory reserve	37,441,701	17,593,871	1,882,749	-	56,918,321
Other	-	-	7,221,556	13,395,026	20,616,582
Liabilities by segment	130,964,790	61,540,409	13,985,606	8,323,076	214,813,881
Deposits	130,964,790	61,540,409	6,585,541	-	199,090,740
Other sources (credit lines)	-	-	7,400,065	-	7,400,065
Other liabilities	-	-	-	8,323,076	8,323,076

* Results by segments do not include internal relation effects between segments

56. EXCHANGE RATES

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

Foreign currency	Official exchange rate	
	2011.	2010.
USD	80.8662	79.2802
EUR	104.6409	105.4982
CHF	85.9121	84.4458

57. RISK MANAGEMENT

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

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

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

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

The Bank has significantly improved risk management system with successful implementation of Basel II.

Risk management system

The risk management system is governed by the following internal enactments:

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

Risk management strategies are defined as:

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

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

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

Risk management policies for individual risks more precisely define following:

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

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

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

Competencies

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

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

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

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

The Credit Committee decides on loan requests in accordance with the Bank's internal acts, it analyzes the Bank's exposure to credit, interest and currency risk, it analyzes the credit portfolio and implements results of internal audit under the Committee's jurisdiction, and also suggests adequate measures to the Executive Board.

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

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

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

Internal Audit and Audit Committee conducts an independent evaluation of risk management system, and regular assessment of the adequacy, reliability and effectiveness of internal controls system.

Risk management process

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

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

Mitigating of risk involves diversification, transfer, reduction and / or avoidance of risk, and the Bank implement it in accordance with the risk profile and risk appetite.

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

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

Types of risk

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

57.1. CREDIT RISK

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

The Bank monitors the following risks:

- Default risk – the risk of loss that may arise if a debtor fails to settle liabilities toward the Bank;
- Downgrade risk – the risk of loss that may arise if a risk level of a debtor is downgraded (deterioration of in the customer credit rating);
- Risk of change in the fair value of assets – the risk of loss that may arise on assets items that are recorded in the banking book in the event of a decline in their market value compared to the price at which assets were acquired;
- Credit - foreign exchange risk - the probability that the bank will suffer a loss due to default on obligations of the debtor in a timely manner, which is caused by the negative impact of the dinar exchange rate changes on the financial condition of borrowers.

- Concentration Risk – is a risk that is the direct or indirect outcome of the Bank's exposures to same or similar risk factor such as: exposure to one or group of related legal entities, economy sectors, geographical regions, types of products and activities, instruments for credit protection, financial instruments, products...
- Risk of exposure – is a risk that can be an outcome based on Bank's exposure to one legal entity, group of related legal entities or legal entities connected to the Bank;
- Country risk relates to the borrower's country of origin and represents the probability of negative effects on the Bank's financial result and equity due to the inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin;

Besides these risks, the Bank also monitors risk associated with the following risks:

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

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

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

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

The basic principles of credit risk management are:

- managing credit risk inherent in the entire portfolio, as well as the risk of individual loans;
- maintaining the level of credit risk, which minimizes the negative impact on financial results and capital;
- ranking of investments according to risk ;

- business operations in accordance with good banking practice for granting loans;
- ensuring adequate controls to manage credit risk.

For the purpose of credit risk management, Bank intends to operate with clients of good credit rating and acquires adequate instruments to secure payments. Bank estimates credit rating of each client at the moment of request submission and runs constant and supplementary monitoring of a debtor, investments and collateral, so it can take adequate steps in order to collect its receivables.

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

The Bank performs quantitatively and / or qualitative measurement and evaluation of the identified credit risk. The process of measuring credit risk is based on two parallel approaches:

- regulatory approach – process of impairment of investments and estimation of reserves for losses under off-balance sheet positions, in line with International Accounting Standards 39 and International Accounting Standard 37, and classification of receivables from debtors based on statutory regulations;
- internal approach – measuring the level of risk of individual investments based on an internal rating system.

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

In credit risk analysis, besides the internal system for credit ratings, the Bank also uses principles assigned by the National Bank of Serbia, that demand classification of reacivables based on assigned framework and calculation of estimated loss reserves. During 2011 the National Bank of Serbia introduced changes in principles and basis for classification, as well as the level of estimated loss reserves. By applying those principles the Bank is able to predict potential risks that can lead to a client's inability to meet its obligations on maturity date as defined by the contract. In that respect the Bank conducts classification of receivables and calculation of required reserve for estimated losses, with constant portfolio analysis on a monthly basis. The analysis contains measuring of adequate reserves for estimated losses by client, risk categories, parts of portfolio and total portfolio. Reserves for estimated losses represent a specific way of protection from possible negative effects, if invested funds are not returned in full amount at the maturity date.

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

The Bank has defined the following system of decision-making on exposure to credit risk, depending on the type and level of exposure to clients:

1. Corporate clients

- Prime limit - Branch Credit Committee
- Secondary limit - Branch Credit Committee with the approval of the risk management organizational unit

- Central Credit Committee - with the opinion of the risk defined by the types of clients and products
- Executive Committee (with or without approval of the Board of directors depending on the level of exposure).

2. Banks

- Liquidity Committee, within limits approved by the Central Credit Committee and the Executive Board
- Liquidity Committee, within limits approved by the Executive Board with approval of Board of Directors

3. Retail

- Branch Credit Committee (except housing loans)
- Credit Committee for entrepreneurs and retail clients, with opinion on risk defined according to type of client and product, including housing loans
- Executive Committee (with or without approval of the Board of directors depending on the level of exposure).

The Executive Board sets the amount of primary and secondary limits for each branch.

In decision making process within the department for loans, the principles of double control, so called "four eyes principle", are observed through which the Bank ensures that there is always a side that suggests and a side that approves a specific investment. For each decisional level, except the first level, it is necessary to have an opinion of the risk management organizational unit.

For investments contracted in foreign currency or RSD with a foreign currency clause, the Bank estimates the effects of currency volatility on the financial situation and credit rating of the debtor, and mostly analyzes the adequacy of cash flows of debtor in relation to the level of loan obligations under the assumption that there will be volatility in RSD on a yearly bases.

For the purpose of keeping credit risk at an acceptable level, the Bank defined a step to reduce it as follows:

- Defining limits of exposure;
- Defining and implementing measures for mitigation of credit risk
- Decision making process.

The Bank's exposure limits to individual borrowers are based on the assessment of a borrower's , whereas the Bank's exposure limits at portfolio level are directed at limiting exposure cocentration at portfolio level. The Bank continuously controls movements in credit risk within a framework of defined risk profile.

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

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

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

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

For the purpose of protecting itself from counterparty default risk the Bank takes the following steps for managing its collections:

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

For Clients with specific operational problems the Bank approves reprogramming and restructuring of loans. In case that such measures for regulating placements, through forced collection and court procedure, do not provide expected results, the Bank initiates the process of writing off of the remaining receivables. The specific role in decision making for collection of risk investments belongs to the Collection Committee.

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

Credit risk reporting contains internal and external systems of reporting, which is conducted on a monthly basis and through predetermined dynamics and in accordance with defined reporting system.

57.1.1. Total exposure to credit risk

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

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

Gross overview of assets

In thousands of RSD

	Assets subject to classification		Other assets		Total	
	2011	2010	2011	2010	2011	2010
Assets	176,157,075	172,000,242	57,852,717	46,406,807	234,009,792	218,407,049
Revocable deposits and loans	-	-	55,260,711	43,615,232	55,260,711	43,615,232
Interest, fee and commission receivables and other receivables	2,766,031	2,896,428	61,441	21,071	2,827,472	2,917,499
Loans and advances to customers	165,176,321	159,791,452	1,233,132	1,329,518	166,409,453	161,120,970
Other placements	4,580,028	4,848,149	401,452	316,954	4,981,480	5,165,103
Other assets	3,634,695	4,464,213	895,981	1,124,032	4,530,676	5,588,245
Other assets	4,863,737	6,723,979	44,201,587	38,466,187	49,065,324	45,190,166
Cash and cash equivalents	4,058,814	5,854,221	13,170,156	14,870,424	17,228,970	20,724,645
Securities	170,426	231,270	25,472,156	18,036,489	25,642,582	18,267,759
Equity investments	634,497	638,488	5,559,275	5,559,274	6,193,772	6,197,762
Off-balance sheet items	32,402,458	28,992,786	57,005	54,369	32,459,463	29,047,155
Payment guarantees	7,145,564	8,745,663	-	-	7,145,564	8,745,663
Performance bonds	6,812,395	4,689,980	484	2,389	6,812,879	4,692,369
Acceptances and sureties	77,853	216,889	-	-	77,853	216,889
Irrevocable letters of credit	713,306	1,051,309	-	-	713,306	1,051,309
Irrevocable commitments	16,324,350	12,159,749	56,521	51,980	16,380,871	12,211,729
Other	1,328,990	2,129,196	-	-	1,328,990	2,129,196

57.1.2. Downgrade Risk

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

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

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

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

	2011		2010	
In thousand RSD	Gross	Net	Gross	Net
Rating 1	68,380,230	68,238,652	67,785,119	67,517,675
Rating 2	59,388,144	58,927,923	52,705,766	52,500,281
Rating 3	26,080,198	25,468,048	28,865,734	28,382,456
Rating 4	1,346,361	1,289,420	3,487,388	3,246,447
Rating 5	20,962,142	6,945,152	19,156,235	5,065,778
Total	176,157,075	160,869,195	172,000,242	156,712,637

57.1.3. Risk of Change in the Value of Assets

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

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

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

Overview of impairment per risk categories:

In thousands of RSD

	Allowance for impairment of balance sheet assets		Provision for losses on off-balance sheet items	
	2011	2010	2011	2010
Rating 1	141,578	267,444	8,630	-
Rating 2	460,221	205,485	77,822	2,438
Rating 3	612,150	483,278	79,712	10,043
Rating 4	56,941	240,941	187	22,365
Rating 5	14,016,990	14,090,457	335,667	371,123
Total	15,287,880	15,287,605	502,018	405,969

Assessment of Allowance for Impairment of Receivables

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

Individual Assessment

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

Group Assessment

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

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

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

Assessment of Provisions for Off-Balance Sheet Items

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

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

Overview of individual and group assessment of impairment of receivables

In thousands of RSD

	Loans and advances		Equity investments	
	2011	2010	2011	2010
I. Individual Allowance for Impairment				
Rating 1	-	-	5,777,457	2,684,651
Rating 2	9,501,151	372,306	37,755	3,124,540
Rating 3	10,331,259	1,253,529	10,283	20,295
Rating 4	349,976	2,578,578	3,676	3,676
Rating 5	17,271,964	16,139,959	364,600	364,600
Loans and receivables, gross	37,454,350	20,344,372	6,193,771	6,197,762
Allowance for Impairment	11,811,811	11,948,958	370,188	371,757
Carrying amount	25,642,539	8,395,414	5,823,583	5,826,005
II. Group Allowance for Impairment				
Rating 1	54,546,360	42,175,990	-	-
Rating 2	47,254,447	49,107,710	-	-
Rating 3	15,741,521	27,600,867	-	-
Rating 4	996,385	897,733	-	-
Rating 5	3,690,178	3,000,359	-	-
Loans and receivables, gross	122,228,891	122,782,659	-	-
Allowance for Impairment	3,476,069	3,338,647	-	-
Carrying amount	118,752,822	119,444,012	-	-
III. Matured unimpaired placements:				
Rating 1	91,047	142,514	-	-
Rating 2	13,381	969	-	-
Rating 3	7,379	299	-	-
Rating 4	-	1,449	-	-
Rating 5	-	5,436	-	-
Loans and receivables, gross	111,807	150,667	-	-
Matured impaired placements:				
0-30	91,047	142,514	-	-
31-60	13,381	969	-	-
61-90	7,379	299	-	-
91-180	-	1,449	-	-
over 180	-	5,436	-	-
Carrying amount	111,807	150,667	-	-
IV. Unmatured unimpaired placements:				
Rating 1	13,742,823	25,466,615	-	-
Rating 2	2,619,165	3,224,781	-	-
Rating 3	39	11,039	-	-
Rating 4	-	9,628	-	-
Rating 5	-	10,481	-	-
Carrying amount	16,362,027	28,722,544	-	-
Total gross carrying amount	176,157,075	172,000,242	6,193,771	6,197,762
Total allowance for impairment	15,287,880	15,287,605	370,188	371,757
Total net carrying amount	160,869,195	156,712,637	5,823,583	5,826,005
Total unclassified assets	57,852,717	46,406,807		
Total	234,009,792	218,407,049		
Reprogramming / restructured loans	22,540,561	23,011,740		

Individual allowance for impairment In thousands of RSD

	Loans and advances				Equity investments			
	2011		2010		2011		2010	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Rating 1	-	-	-	-	5,777,457	5,773,539	2,684,651	2,684,633
Rating 2	9,501,151	9,328,590	372,306	245,164	37,755	37,737	3,124,540	3,119,053
Rating 3	10,331,259	10,191,224	1,253,529	1,186,095	10,283	8,631	20,295	18,643
Rating 4	349,976	406,444	2,578,578	2,457,911	3,676	3,676	3,676	3,676
Rating 5	17,271,964	5,716,281	16,139,959	4,506,244	364,600	-	364,600	-
Total	37,454,350	25,642,539	20,344,372	8,395,414	6,193,771	5,823,583	6,197,762	5,826,005

57.1.4. Concentration Risk

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

Overview of Credit Risk Exposure per Regions: In thousands of RSD

	2011		2010	
	Gross	Net	Gross	Net
Serbia	161,065,273	145,952,314	151,717,357	136,413,046
Central Serbia	139,693,477	125,892,845	131,624,013	117,303,429
Vojvodina	20,983,780	19,678,499	19,765,535	18,786,193
Kosovo and Metohija	388,016	380,970	327,809	323,424
European Union	12,689,471	12,689,420	15,915,991	15,907,032
USA and Canada	710,096	496,170	221,409	221,409
Other	1,692,235	1,731,291	4,145,485	4,171,150
Total	176,157,075	160,869,195	172,000,242	156,712,637

Overview of Credit Risk Exposure per Industrial Sectors: In thousands of RSD

	2011		2010	
	Gross	Net	Gross	Net
Sector of Finance and Insurance	5,175,334	4,996,018	5,513,807	5,356,830
Sector of corporate clients and public companies	97,466,714	87,331,807	94,886,212	84,780,614
Agriculture	4,959,018	4,629,383	3,859,486	3,504,549
Processing Industries	35,472,370	29,522,705	35,789,398	29,248,700
Electricity	359,237	358,117	2,662,926	2,662,175
Construction	8,775,901	8,243,540	8,455,950	7,995,179
Wholesale and Retail	33,993,789	32,051,294	32,337,386	30,841,157
Service Industries	10,254,905	9,032,012	7,650,182	6,556,431
Real-estate Related Activities	3,651,494	3,494,756	4,130,884	3,972,423
Entrepreneurial Sector	1,914,045	1,668,334	1,738,124	1,466,541
Public Sector	1,337,039	1,306,606	1,400,634	1,370,476
Retail Sector	47,683,975	45,686,382	44,476,088	42,495,290
Foreign Customer Sector	19,181,789	18,897,223	20,233,425	19,943,437
Sector of other customers	3,398,179	982,825	3,751,952	1,299,449
Total	176,157,075	160,869,195	172,000,242	156,712,637

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

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

	2011		2010	
	Gross	Net	Gross	Net
Corporate Customers	111,752,136	100,838,477	105,781,605	94,878,728
Large clients	64,439,780	59,924,195	64,554,666	60,463,742
Medium sized clients	18,562,482	16,661,613	17,075,745	15,394,367
Small clients	13,339,952	9,592,447	13,636,518	10,464,534
Other	15,409,922	14,660,222	10,514,676	8,556,085
Banks	12,603,061	10,985,592	17,686,789	16,069,004
Retail	51,801,878	49,045,126	48,531,848	45,764,905
Private individuals	43,869,517	42,216,766	41,306,322	39,734,068
Farmers	3,814,458	3,469,616	3,169,766	2,761,222
Micro clients	2,203,858	1,690,410	2,317,636	1,803,074
Entrepreneurs	1,914,045	1,668,334	1,738,124	1,466,541
Total	176,157,075	160,869,195	172,000,242	156,712,637

57.1.5. Off-Balance Sheet Items

In addition to credit exposures, the Bank also has off-balance sheet exposures (various types of callable and performance guarantees, letters of credit) that pose contingent liabilities for the Bank to make payments to third parties. For off-balance sheet exposures, the Bank uses the same control processes and procedures as for loans risks.

Provision for losses on off-balance sheet items

In thousands of RSD

	2011		2010	
	Gross	Net	Gross	Net
Provision for off-balance sheet items				
Rating 1	22,300,177	22,291,547	17,083,772	17,083,772
Rating 2	5,555,849	5,478,027	6,094,472	6,092,034
Rating 3	4,058,610	3,978,898	5,021,409	5,011,366
Rating 4	152,154	151,967	340,937	318,572
Rating 5	335,668	-	452,196	81,073
Loans and receivables (1-5)	32,402,458	31,900,439	28,992,786	28,586,817

57.1.6. Measures of credit risk protection (collateral)

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

.As a standard type of loan security the Bank receives from clients contractual authorizations for account withdrawals and bills of exchange, while additional collateral is contracted, depending on credit risk assessment:

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

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

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

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

Fair value of collateral

In thousands of RSD

	Loans and advances	
	2011	2010
I. Individual Allowance for Impairment		
Mortgages	53,409,037	44,142,771
Deposits	75,131	160,101
Guarantees	637,778	95,981
Pledged securities	8,193,981	1,017,260
Pledged property	11,343,456	5,650,806
Other	7,530,031	2,408,399
Total	81,189,414	53,475,318
II. Group Allowance for Impairment		
Mortgages	174,903,129	141,462,622
Deposits	2,684,368	2,773,816
Guarantees	14,856,109	10,689,585
Pledged securities	29,321,105	62,076,671
Pledged property	21,980,106	28,164,102
Other	45,623,920	54,062,192
Total	289,368,737	299,228,988
III. Matured unimpaired placements		
Mortgages	1,519,846	15,118,178
Deposits	58,390	756,055
Guarantees	1,249	630,799
Pledged securities	495,893	211,928
Pledged property	136,963	2,308,389
Other	751,232	1,998,689
Total	2,963,573	21,024,038
IV. Unmatured unimpaired placements		
Mortgages	314,175	901,628
Deposits	37,043	18,099
Guarantees	204	389
Pledged securities	14,970	1,601
Pledged property	190,915	303,013
Other	833,652	1,180,958
Total	1,390,959	2,405,688
Total fair value	374,912,683	376,134,032

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

Assets acquired by a way of collecting receivables:

		In thousands of RSD
	2011	2010
Residential buildings	731,236	743,170
Commercial buildings	238,822	238,797
Land and forest	31,703	2,705
Equipment	1,493	1,493
Total	1,003,254	986,165
Provisions	4,812	4,812
Fair value	998,442	981,353

57.2. Liquidity risk

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

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

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

The Bank has established an appropriate organizational structure, where there is a difference between the process of underwriting the liquidity risk and its management processes. The Liquidity Committee and the Asset and Liability Management Committee are responsible for managing liquidity risk within their competencies, along with other boards/committees whose decisions can impact the Bank'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 a sufficient level of liquidity reserves;
- manages monetary funds;
- monitors future cash flows and liquidity levels;
- manages market sources;
- limits the primary sources of credit risk that have the most impact on liquidity risk;
- defines and periodically tests Plans for Liquidity Management in Crisis Situations.

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

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

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

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

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

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

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

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

The legally prescribed liquidity ratio:

	2011	2010
As of December 31	2.91	2.45
Average for the period	2.25	2.48
Maximum for the period	3.40	4.00
Minimum for the period	1.34	1.35

During 2010, the liquidity ratio was significantly above prescribed limits.

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

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

	Limits	2011.	2010.
GAP up to 1 month/Total assets	Max (10%)	9.03%	6.63%
Cumulative GAP up to 3 months / Total assets	Max (20%)	2.06%	(4.49%)
Loans and advances to customers/Liabilities to customers	Max 90%	74.96%	75.28%

In addition, the Bank limits and coordinates operations within the limits defined in terms of maturity of currencies.

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

	Up to 1 month	From 1 - 3 month	From 3 - 12 month	From 1 - 5 years	Over 5 years	Total
Cash and cash equivalents	17,228,970	-	-	-	-	17,228,970
Revocable deposits and loans	55,260,711	-	-	-	-	55,260,711
Interest, fee and commission receivables	1,187,573	-	-	-	-	1,187,573
Loans and advances to customers	22,156,799	11,892,479	38,750,925	46,871,599	36,047,405	155,719,207
Securities	1,276,017	2,529,632	11,378,685	9,650,291	803,347	25,637,972
Stakes	-	-	-	-	5,823,583	5,823,583
Other placements	1,725,367	421,575	40,591	-	-	2,187,533
Other assets	2,844,535	901	10,467	137,283	-	2,993,187
	101,679,972	14,844,587	50,180,668	56,659,174	42,674,335	266,038,736
Transaction deposits	31,456,575	-	-	-	-	31,456,575
Other deposits	47,081,293	45,722,102	64,484,806	16,982,267	396,237	174,666,705
Borrowings	1,593,547	-	-	-	10,214	1,603,761
Interest, fee and commission payables	205,079	-	-	-	-	205,079
Other liabilities	5,609,182	351,502	779,937	6,334,530	7,225,437	20,300,587
	85,937,914	46,073,604	65,272,505	23,316,797	7,631,887	228,232,707

Liquidity gap

As of December 31, 2011	15,734,296	(31,229,017)	(15,084,075)	33,342,377	35,042,447	37,806,028
As of December 31, 2010	16,642,431	(27,816,606)	(13,060,654)	30,878,520	30,444,761	37,008,452

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

The Bank’s management is of the opinion that diversity of deposits by number and type of depositors, as well as previous experience of the Bank offer a sound basis for the conclusion that deposits represent a long-term and stable source of financing, and in this respect significant outflow of assets that could jeopardize the Bank’s liquidity is not expected. The Bank also defined an appropriate business plan in order to make further diversification and to establish a more stable deposit base and optimal capital and liabilities in the future.

In support of stability operations in terms of liquidity there is the fact that the Bank has a sufficient level of liquidity reserves which can be used in the event of a liquidity crisis, which is confirmed by the results of stress testing and testing of the plan for management liquidity in a crisis.

57.3. Market Risk

Market risk represents the possibility of occurrence of negative effects on the Bank's financial result and equity due to changes in market variables and comprises interest rate risk, currency risk and other market risks. The Bank is exposed to market risks arising on items in the trading book and banking book.

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

57.3.1. Interest Rate Risk

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

The Bank manages the following types of interest rate risk:

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

Basic objective of interest rate risk management is maintaining an acceptable level of interest rate risk exposure by conducting adequate policy in respect to maturity mismatch of the period passing before reestablishment of interest rates, by reconciling adequate sources with placements according to the type of interest rate and maturity, as well as by projecting movements in the yield curve on the foreign and domestic market. Primarily, the Bank manages the margin of internal yield through the price of loans and deposits focusing on interest rate margin. The bank considers separately the effects of interest rates and structure of interest bearing assets and liabilities from the perspective of maturity, repricing and currency structure, and manages their effect on the economic value of capital.

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

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

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

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

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

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

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

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

	Limits	2011.	2010.
Relative GAP	Max 15%	(7.23%)	(9.75%)
Mismatch ratio	0.75 – 1.25	0.91	0.88

During 2011, interest rate risk ratio was within internally prescribed limits.

The Bank also defines the internal limits of exposure to interest rate risk in order to limit the negative impact on financial results and equity. Impact on financial results is limited to the period up to 1 year by the limits defined in terms of maturity and resetting of interest rates per materially significant currencies. Impact on capital is limited by the maximum value of the economic value of capital.

Compliance with internally defined economic value of capital limits:

	Limits	2011.	2010.
Economic value of capital	Max 20%	10.53%	12.31%

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

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

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Interest-Bearing	Non-Interest Bearing	Total
Cash and cash equivalents	9,151,509	-	-	-	-	9,151,509	8,077,462	17,228,970
Revocable deposits and loans	11,500,000	-	-	-	-	11,500,000	43,760,711	55,260,711
Interest receivables	-	-	-	-	-	-	1,187,573	1,187,573
Loans and advances to customers	56,954,714	16,435,649	34,194,292	27,530,411	20,604,140	155,719,207	-	155,719,207
Securities	1,418,002	2,438,705	10,902,967	9,113,575	786,434	24,659,683	978,289	25,637,972
Stakes	-	-	-	-	-	-	5,823,583	5,823,583
Other placements	1,107,132	427,840	41,681	-	-	1,576,653	610,881	2,187,533
Other assets	-	-	-	-	-	-	2,993,187	2,993,187
Total	80,131,357	19,302,194	45,138,940	36,643,986	21,390,574	202,607,051	63,431,685	266,038,736
Transaction deposits	31,456,575	-	-	-	-	31,456,575	-	31,456,575
Other deposits	54,276,747	39,053,044	63,970,258	16,971,409	395,246	174,666,705	-	174,666,705
Borrowings	1,593,547	-	-	-	10,214	1,603,761	-	1,603,761
Interest, fee and commission liabilities and change in value of derivatives liabilities	-	-	-	-	-	-	205,079	205,079
Other liabilities	169,834	2,978,363	10,705,934	859,280	95,682	14,809,093	5,491,494	20,300,587
Total	87,496,703	42,031,407	74,676,192	17,830,689	501,143	222,536,134	5,696,574	228,232,708
Interest rate GAP								
At December 31, 2011	(7,365,346)	(22,729,214)	(29,537,253)	18,813,297	20,889,432	(19,929,083)	57,735,111	37,806,028
At December 31, 2010	(16,700,307)	(24,739,636)	(28,017,877)	23,481,832	21,021,857	(24,954,131)	62,042,584	37,088,453

GAP report about interest rate risk of monetary statement contains monetary statement positions distributed according to the period interest rate repricing or remaining period till maturity, depending on which period is shorter. In accordance with this, the conservative assumption is used that all transactions and sight deposits will be withdrawn within one month.

Bank management believes that appropriate compliance of positions by type of interest rate and period of interest rate repricing gives good qualification for existence, with required financial results, while maintaining economical value of equity. Besides this, the Bank defined a compatible business plan based on which it will act in the period to come in adjusting its positions further for the purpose of achieving higher results, with minimal negative impacts of interest rate volatility on economical value of equity.

57.3.2. Currency Risk

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

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

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

currency risk reporting.

In indentifying currency risks, the Bank 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 Bank is done through quantitative and/or qualitative assessment of identified currency risk by using the following techniques:

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

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

Control and monitoring of foreign deposits risk consists of observation and supervision of compliance with internally and externally defined limits, as well as monitoring of already defined and implemented measures. Continuous monitoring and control of foreign deposits risk during the day ensures timely taking of measures for the purpose of maintaining foreign deposits risk within defined limits. Control of foreign deposit means control of all management levels, as well as an independent system of control that is implemented by organizational departments responsible for internal audit and following compliance in between operations. Reporting on foreign deposits risk includes internal and external systems of reporting according to set schedules and in accordance with a defined system.

The Bank coordinates its operations with the prescribed regulatory indicator of foreign exchange risk, which represents the ratio between the total open foreign exchange position and the position of gold in relation to regulatory capital.

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

	2011	2010
Total currency risk balance	452.801	2.266.604
Currency risk ratio	1.68%	7.19%
Legally-defined limit	20%	20%

The table below represents the Bank's currency exposure based on the Summary of monetary assets and monetary liabilities per currencies.

Summary of Monetary Assets and monetary Liabilities per Currencies as of December 31, 2010

	EUR	USD	CHF	Other	Total	FX clause	RSD	Total
Cash and cash equivalents	3,776,238	856,075	288,845	584,709	5,505,867	-	11,723,103	17,228,970
Revocable deposits and loans	37,287,894	6,472,817	-	-	43,760,711	-	11,500,000	55,260,711
Interest receivables	128,933	128	-	-	129,061	44,875	1,013,637	1,187,573
Loans and advances to customers	21,077,274	529,389	-	225,198	21,831,861	105,972,060	27,915,286	155,719,207
Securities	7,773,660	803,347	-	-	8,577,007	156,987	16,903,978	25,637,972
Stakes	-	-	-	-	-	-	5,823,583	5,823,583
Other placements	498,793	598,526	-	-	1,097,319	115,865	974,349	2,187,533
Other assets	130,611	761,941	602	2,774	895,928	-	2,097,259	2,993,187
Total	70,673,403	10,022,222	289,447	812,682	81,797,754	106,289,787	77,951,195	266,038,736
Transaction deposits	8,877,972	1,085,549	385,644	96,896	10,446,061	-	21,010,514	31,456,575
Other deposits	131,496,656	8,808,063	3,903,211	685,567	144,893,497	13,345,361	16,427,847	174,666,705
Borrowings	1,250,793	23,561	14,724	2,009	1,291,087	-	312,674	1,603,761
Interest, fee and commission liabilities and change in value of derivatives liabilities	3,073	9,792	45	132	13,042	-	192,037	205,079
Other liabilities	16,660,552	107,573	1,778,391	17,368	18,563,884	-	1,736,703	20,300,587
Total	158,289,045	10,034,539	6,082,015	801,973	175,207,572	13,345,361	39,679,775	228,232,707
Net currency position								
as of December 31, 2011	(87,615,643)	(12,317)	(5,792,568)	10,709	(93,409,818)	92,944,426	38,271,420	37,806,029
as of December 31, 2010	(74,619,056)	142,280	(4,169,050)	40,693	(78,605,133)	82,052,599	33,598,677	37,046,143

57.4. OPERATIONAL RISK

Operational risk represents the possibility of negative effects on the Bank's financial result and equity due to employee errors, inadequate procedures and processes in the Bank, inadequate management of information and other systems in the Bank, 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 unsuccessfulinternal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the workplace, customer receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors, process management.

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

The process of operational risk management represents an integral part of the Bank'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 Bank monitors operating risk events daily and manages operating risks. The Bank 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 Bank which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

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

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

The Bank takes measures in order to relieve operational risks and ensure a proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information systems and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Bank's business processes. Through reliable and agile reporting on the implementation of measures to mitigate operational risks, the Bank has established a system for monitoring the activities undertaken by parts of the Bank for the purpose of reducing operational risk and preventive responses to operational risk events that are emerging.

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

57.5. THE BANK'S INVESTMENT RISK

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

57.6. EXPOSURE RISK

Large exposures of the Bank to a single person or group of related persons, including legal entities connected to the Bank, is exposure amounting to at least 10% of the Bank's capital.

In its operations, the Bank is taking into account compliance with statutory limits of exposure:

- Exposure toward one legal entity or group of related entities cannot exceed 25% of the Bank's equity.
- Exposure toward a legal entity related with the Bank cannot exceed 5% of the Bank's equity; total exposure toward legal entities related with the Bank cannot exceed 20% the Bank's equity.
- Sum of all large exposures of the Bank cannot exceed 400% the Bank's equity

The Bank calculates exposure toward one legal entity or group of related parties, as the sum of exposures toward those legal entities:

- For trading book positions through which the Bank calculates equity request for price risk,
- For trading book positions based on which the Bank is exposed to counterparty risk to a contract,
- As a gross sum of accounting values of all other balance positions and off-balance sheet items that are addressed to those legal entities but, reduced for the amount of corrected values in balance of assets and for provisions for losses for off-balance sheet assets, and as well the amount of required provisions for estimated losses.

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

Countries or Central Banks, autonomous regions, entities under local government, international Banks for development, international organizations and public administrative bodies entitled to credit risk weight of 0% and as well exposure to securing their letter of credits.

- Cash securities and cash equivalents deposited at the Bank,
- Based on unused amount of credit line (under the terms that it has been agreed that the client or group of clients can withdraw unused amount only if it is not going to exceed predetermined regulated limit) and other off-balance sheet items based on which low risk payments cannot be realized.
- Equity deductions,
- Toward members of Bank group that are fully integrated in consolidated statements and financial reports. That is fully integrated in consolidated statements and financial reports.

57.7. COUNTRY RISK

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

- Political-economical risk, which means possibility of realizing losses due to the inability of the Bank to collect its receivables because of limitations imposed by official state documents and other official bodies of the debtor's country of origin, as well as general and systemic conditions in such country;
- Risk of transfer, which relates to the probability of realized losses due to the inability to collect receivables presented in currency that is not the official currency of debtor's country of origin, and is caused by limitations in payment obligations toward creditors from other countries in specific currency that is predetermined by official state documents and other official bodies debtor's country of origin.

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

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

Bank investments that are approved to debtors whose head offices are outside Republic of Serbia, for financing operations on the territory of Republic of Serbia, whose financial obligations are expected to be settled toward the Bank from funds realized in Republic of Serbia, reflect Bank's account receivables that are not exposed to risk of debtor's country of origin.

57.8. EQUITY MANAGEMENT

In accordance with regulatory requirements, the Bank has completed implementation of Basel II standards during 2011, by applying a standard approach. Changes in the legislative framework in respect of capital adequacy and risk control affected capital levels and the Bank's capital ratios.

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

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

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

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

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

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

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

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

The Bank's capital represents the sum of share capital and additional capital, reduced for deductible items. The capital adequacy ratio represents the proportion of the Bank capital and sum of assets weighted by credit risk, open foreign currency positions and capital requirements for other market risks. Risk-weighted balance sheet items are determined pursuant to risk weights prescribed for all types of balance sheet assets. Exposure to operating risk is obtained by multiplying the reciprocal value of a given parameter for capital adequacy and capital requirements for operating risk, defined as a three years product average of indicators of exposure on all business lines and prescribed rates of capital requirements for each business line.

Capital adequacy ratio		In thousands of RSD
	2011	2010
Basic capital	41,749,118	38,730,446
Additional capital	5,852,703	646,580
Deductible items	(20,655,322)	(7,854,632)
Capital	26,946,499	31,522,394
Weight of assets on credit risk	142,142,319	181,691,049
Operating risk exposure	14,105,358	-
Currency risk exposure	-	2,266,612
Capital adequacy ratio	17.25%	17.14%

The Bank operates in accordance with the following limits:

- The monetary amount of capital cannot drop below the equivalent dinar value of EUR 10 million;
- The capital adequacy ratio cannot be lower than 12%.

Basic goals for capital management are:

- Securing continuous business operations in unlimited time line in foreseeable future;
- Maintaining optimal capital structure;
- Minimizing capital expense;

- Securing risk protection;
- Enabling growth, trough expanding the range of its operations, that is Bank development by implementing new software and methodological solutions;
- Preserving client's trust and Bank's financial potential.

57.9. MACROECONOMIC ENVIRONMENT AND BANK OPERATIONS IN 2011

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

During 2011 the Serbian government implemented a program of measures for alleviating the negative effects of the world economic crisis through a general program of support of the economy, dinarisation of the financial market, increase in the purchase power of the retail sector. With a view to improving the investment climate and protection against risks and negative external influences of the crisis on the country's economy, a standby agreement was concluded with the International Monetary Fund in the amount of 1.1 billion euro, whose particular importance is reflected in additional guarantees of short-term and mid-term macroeconomic stability of the country, direct influence on the country's risk premium, greater availability of favourable credit lines from other international financial institutions.

In 2011 the National Bank of Serbia waged a less interventionist monetary policy, reduced the key policy rate by a total of 1.75 percentage points, maintained stability of the foreign currency market, with minimum intervention. It applied measures which contribute to gradual reduction in the level of foreign currency risk in the financial system of Serbia. With a view to ensuring liquidity it conducted repo transactions of purchase and sale of dinar securities, based on pledged dinar securities, and also stimulated international swap purchases and sale of foreign currencies.

By the end of 2011 all the preparations were carried out for Basel II implementation. The National Bank of Serbia through new decisions (Decision on Risk Management, Decision on Capital Adequacy and the Decision on Classification of Assets and Off-balance Sheet Items of a Bank), which went into effect on 31 December 2011, fully established a framework for the implementation of Basel II standards. The domestic banking sector is largly capitalised, and banks adopted new measures in respect of risk management. The banking sector in Serbia remained stable, i.e. liquid, solvent and with a high level of reserves for potential losses, while retails savings in banks reached a historical high point in 2011.

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

In Belgrade,	Person responsible for preparing	Legal Representative
28 February 2012	financial report	of the Bank
	______________________	___________________