KOMERCIJALNA BANKA A.D., BEOGRAD

Financial Statements
For the Year Ended December 31, 2013
and Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

CONTENTS

Deloitte.

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Komercijalna banka a.d., Beograd (hereinafter: the "Bank"), which comprise the balance sheet as of December 31, 2013 and the related income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks, as well as for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

Belgrade, February 26, 2014

Deloitte d.o.o. BEOGRAD IV

Miroslav Tončić
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2013
(Thousands of RSD)

	Note	2013	2012
Interest income	5 a)	22,034,807	20,130,880
Interest expenses	5 b)	(9,094,536)	(9,220,564)
Net interest income		12,940,271	10,910,316
Fee and commission income	6 a)	5,493,211	5,334,914
Fee and commission expenses	6 b)	(928,063)	(780,448)
Net fee and commission income		4,565,148	4,554,466
Net gains on the sale of securities carried at fair value through profit and loss	7	16,340	776
Net gains on the sale of securities available for sale	8	1,738	83,947
Net foreign exchange losses	9	(957,618)	(8,041,381)
Dividend and other income from equity investments	10	391,724	2,251
Other operating income	11	337,919	241,022
Net impairment losses and provisions	12	(2,866,578)	(1,444,299)
Staff costs	13	(4,258,109)	(4,186,346)
Depreciation and amortization charge	14	(792,648)	(752,356)
Operating and other expenses	15	(5,519,630)	(4,933,005)
Net gains/(losses) on the valuation of assets and liabilities	16, 17	729,818	8,137,271
PROFIT FROM CONTINUING OPERATIONS		4,588,375	4,572,662
Income taxes	18	-	(472,448)
Gains from creation of deferred tax assets and decrease in deferred tax liabilities	19	87,950	32,885
Losses on decrease in deferred tax assets and creation of deferred tax liabilities	20	-	(10,953)
NET PROFIT		4,676,325	4,122,146
Earnings per share (in RSD, rounded)	42		
Basic earnings per share (in RSD, rounded)	42	468	469
Diluted earnings per share (in RSD, rounded)	42	242	290

Notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beogpad as at February 26, 2014.

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

Snežana Pejčić
Head of Accounting

Ivica Smolić
President of the Executive Board

BALANCE SHEET
As of December 31, 2013
(Thousands of RSD)

	Note	2013	2012
ASSETS			
Cash and cash equivalents	21	41,137,794	40,514,180
Revocable deposits and loans	22	53,395,120	43,053,502
Receivables arising from interest, fee and commission, trade, fair value adjustments of derivatives and other receivables	23	2,788,176	1,547,342
Loans and advances to customers	24	184,004,121	177,106,865
Securities (excluding treasury shares)	25	57,001,465	41,347,719
Equity investments (interests)	26	6,054,110	5,917,033
Other investments	27	2,929,218	3,227,896
Intangible assets	28	537,445	600,438
Property, equipment and investment property	29	8,386,224	7,416,846
Non-current assets held for sale and assets of discontinued operations	30	71,630	78,763
Deferred tax assets	31	-	4,896
Other assets	32	7,349,063	3,372,293
Total assets		363,654,366	324,187,773
LIABILITIES AND EQUITY			
Transaction deposits	33	53,217,378	40,336,776
Other deposits	34	202,380,166	195,183,968
Borrowings	35	1,619,990	637,264
Interest, fee and commission payables and change in the value of derivatives	36	255,888	188,910
Provisions	37	765,132	2,331,760
Taxes payable	38	21,616	21,799
Tax and dividend payables	39	150,124	85,114
Deferred tax liabilities	40	10,156	-
Other liabilities	41	40,271,698	25,535,622
Total liabilities		298,692,148	264,321,213
EQUITY			
Share capital	42	40,034,550	40,034,550
Reserves retained from earnings	43	16,635,440	14,785,440
Revaluation reserves	44	1,791,268	867,774
Unrealized losses on securities available-for-sale	45	(187,011)	(7,016)
Retained earnings	46	6,687,971	4,185,812
		64,962,218	59,866,560
Total liabilities and equity		363,654,366	324,187,773
OFF-BALANCE-SHEET ITEMS		224,949,026	204,642,280
Managed funds	47	5,402,256	5,013,721
Commitments	48	30,829,366	42,452,658
Other off-balance sheet items	49	188,717,404	157,175,901

Notes on the following pages
form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2013
(Thousands of RSD)

	Share Capital	Share Premium	Reserves Retained from Earnings for Potential Losses	Revaluation Reserves	Unrealized Losses	Retained Earnings	Total
Balance at January 1, 2012	13,881,010	14,581,543	11,635,440	689,620	(63,940)	3,551,893	44,275,566
Capital increase	3,310,456	8,261,541	-	-	-	-	11,571,997
Transfer of 2011 retained earnings portion to reserves retained from earnings	-	-	3,150,000	-	-	(3,150,000)	-
Gains on realized reserves	-	-	-	(10,037)	-	10,037	-
Decrease based on the change in the fair value of equity investments and securities available for sale	-	-	-	(630)	9,363	-	8,733
Increase based on the change in the fair value of equity investments and securities available for sale	-	-	-	188,821	(22,219)	-	166,602
Adjustment based on the fair value of equity investments (Note 45)	-	-	-	-	76,783	-	76,783
Net losses on the change in the fair value of equity investments and securities available for sale	-	-	-	-	(7,003)	-	-
Payment of dividends for preferred shares	-	-		-	-	(40,264)	(40,264)
Employee share in profit	-	-	-	-	-	(308,000)	(308,000)
Profit for the year	-	-	-	-	-	4,122,146	4,122,146
Balance at December 31, 2012	17,191,466	22,843,084	14,785,440	867,774	(7,016)	4,185,812	59,866,560
Transfer of 2012 retained earnings portion to reserves retained from earnings	-	-	1,850,000	-	-	(1,850,000)	-
Gains on realized reserves	-	-	-	(10,038)	-	10,038	-
Decrease based on the change in the fair value of equity investments and securities available for sale	-	-	-	(371,445)	226,384	-	(145,061)
Increase based on the change in the fair value of equity investments and securities available for sale	-	-	-	721,299	(406,379)	-	314,920
Property valuation effects as per certified appraiser's assessment	-	-	-	686,680	-	-	686,680
Tax effects of revaluation reserves	-	-	-	(103,002)	-		(103,002)
Payment of dividends for preferred shares	-	-		-	-	(37,351)	(37,351)
Employee share in profit	-	-	-	-	-	(296,853)	(296,853)
Profit for the year	-	-	-	-	-	4,676,325	4,676,325
Balance at December 31, 2013	17,191,466	22,843,084	16,635,440	1,791,268	(187,011)	6,687,971	64,962,218

Notes on the following pages
form an integral part of these financial statements.

CASH FLOW STATEMENT
Year Ended December 31, 2013
(Thousands of RSD)

	December 31, 2013	December 31, 2012
Cash inflows from operating activities	26,515,177	23,921,322
Interest receipts	20,440,320	18,412,248
Fee and commission receipts	5,493,457	5,308,328
Receipts of other operating income	225,323	198,495
Receipts from dividends and profit distribution	356,077	2,251
Cash outflows from operating activities	(19,690,614)	(18,947,991)
Interest paid	(8,948,540)	(8,985,130)
Fees and commissions paid	(929,932)	(775,246)
Payments to, and on behalf of employees	(4,318,918)	(4,115,419)
Taxes, contributions and other duties paid	(927,771)	(887,648)
Payments of other operating expenses	(4,565,453)	(4,184,548)
Net cash generated by operating activities prior to increases or decreases in loans and deposits	6,824,563	4,973,331
Decrease in securities carried at fair value through profit and loss, trading investments and short-term securities held-to-maturity	1,849,275	554,116
Increase in deposits due to banks and customers	22,308,046	26,615,066
Increase in loans and advances to banks and customers	(23,859,645)	(900,488)
Income taxes paid	(699,916)	(642,361)
Dividends paid	(269,195)	(278,218)
Net cash generated by operating activities	6,153,128	30,321,446
Net outflows from long-term investments in securities	(17,362,800)	(14,952,474)
Net outflows from sales of equity investments	(976)	(751)
Net outflows from sales of intangible assets, property and equipment	(739,068)	(657,055)
Net cash used in investing activities	(18,102,844)	(15,610,280)
Inflows arising from capital increase	-	11,571,997
Net cash inflows from subordinated debt	46,190	453,870
Net cash inflows from borrowings	13,484,758	4,589,558
Net cash generated by financing activities	13,530,948	16,615,425
Net increase in cash and cash equivalents	1,581,232	31,326,591
Cash and cash equivalents, beginning of year	40,514,180	17,228,970
Foreign exchange losses on translation of cash	(957,618)	(8,041,381)
Cash and cash equivalents, end of year	41,137,794	40,514,180

Notes on the following pages
form an integral part of these financial statements.

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

1. BANK'S ESTABLISHMENT AND ACTIVITY

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

At December 31, 2013, the Bank's most significant holders controlling shares were the following:

1. Republic of Serbia and
2. EBRD, London

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

The Bank has three subsidiaries with the following equity interests:

- 100%	- Komercijalna banka a.d. Budva, Montenegro
- 100%	- KomBank INVEST a.d., Serbia
- 99.99 %	- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina

The accompanying financial statements and notes to the financial statements represent the financial information of the Bank as a separate parent legal entity.

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

As of December 31, 2013, the Bank was comprised of the Central Office in Belgrade at the address of No.14, Svetog Save St., 24 branches and 233 sub-branches. As of December 31, 2013, the Bank had 2,966 employees (December 31, 2011: 2,989 employees). The Bank's tax identification number is 100001931.

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

2.1. Financial Statements

These financial statements include only receivables, liabilities, profit from operations, changes in equity and cash flows of the Bank excluding its subsidiaries. Pursuant to the regulations prevailing in the Republic of Serbia, the Bank has prepared consolidated financial statements which include the financial statements of the following subsidiaries:

- Komercijalna banka a.d. Budva, Montenegro, entirely owned by the Bank;
- Investment Fund Managing Company KomBank INVEST a.d. Beograd, entirely owned by the Bank; and
- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina, where the Bank holds a 99.99% equity interest.

2.2. Basis of Preparation and Presentation of Financial Statements

The Bank maintains accounting records and prepares financial statements in compliance with the effective Law on Accounting of the Republic of Serbia (Official Gazette of RS no. 62/2013) (hereinafter: the "Law"), Law on Banks (Official Gazette of RS no.107/2005 and 91/2010) and other relevant bylaws of the National Bank of Serbia and other effective regulations of the Republic of Serbia.

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law. As a large legal entity, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance and which were in effect as at December 31, 2002.

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

2.2. Basis of Preparation and Presentation of Financial Statements (Continued)

The amendments to IAS, as well as the newly issued IFRS and the related interpretations issued by the IASB and the IFRIC, in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (the "Ministry") and published in the Official Gazette of the Republic of Serbia no. 77 of October 25, 2010.

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

Standards and interpretations in issue but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.3 and 2.4.

In accordance with the aforedescribed, and given the potentially material effects which the departures of accounting regulations of the Republic of Serbia from IAS and IFRS may have on the fairness presentations made in the financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IAS and IFRS.

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

- financial instruments carried at fair value through profit and loss, which are measured at fair value;
- financial instruments available for sale, which are measured at fair value through other comprehensive income;
- derivatives, which are measured at fair value; and
- building properties.

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

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

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described in Note 3.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction” – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).

- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);

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

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

- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);

- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);

- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);

- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012),

- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);

- Amendments to various standards “Improvements to IFRSs (2009-2011 Cycle)” issued in May 2012, resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013),;

- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013).

2.4. Standards and Interpretations in Issue not yet in Effect

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

- IFRS 9 “Financial Instruments” and subsequent amendments (effective date was not yet determined);

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016);

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

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

- Amendments to IFRS 10, IFRS 12 and IAS 27 - Exemption from Consolidation of Subsidiaries under IFRS 10 'Consolidated Financial Statements' (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions Statements' (effective for annual periods beginning on or after July 1, 2014);
- Amendments to IAS 32 “Financial Instruments: Presentation” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 “Impairment of Assets” - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 “Financial Instruments:” Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014);
- Amendments resulting from Annual Improvements 2010-2012 Cycle issued in December 2013 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);
- Amendments resulting from Annual Improvements 2011-2013 Cycle issued in December 2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014);
- IFRIC 21 “Levies” (effective for annual periods beginning on or after January 1, 2014).

2.5. Comparative Information

Comparative information includes the Bank’s financial statements as of and for the year ended December 31, 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expenses

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Fee and Commission Income and Expenses

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

Fee and commission income and expenses from banking services are recognized when such services are invoiced and rendered within the income statement. Fees and commission charged for guarantees, sureties and letters of credit issued are deferred and recognized as income proportionately over their maturity periods.

3.3. Income and Expenses from Securities

All realized gains and losses arising from movements in the market value are carried through profit and loss.

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

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

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

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

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

3.4. Foreign Exchange Translation

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

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

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

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

3.5. Property, Investment Property, Equipment and Intangible Assets

3.5.1. Intangible Assets

The Bank’s intangible assets are recognized at cost or purchase price. Subsequent to the initial recognition, intangible assets are stated at cost less accumulated amortization and impairment losses.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3.5.1. Intangible Assets (Continued)

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

Intangible assets are amortized on straight-line basis using the annual amortization rates ranging from 14.29 to 33.34%.

3.5.2. Property and Equipment

Recognition and Measurement

Property and equipment are initially measured at cost or purchase price. Fixed assets other than property are measured at cost less accumulated depreciation and impairment losses. As from January 2005, the Bank had adopted revaluation method for properties in its ownership. In 2013, based on the market value appraisal of the Bank's properties performed by a certified appraiser, fair value of properties was adjusted and effects of the valuation were recognized. The positive valuation effect was recognized within equity, whereas the negative valuation effect was recognized as decrease in previously formed revaluation reserves and/or expenses of the period.

Cost includes all acquisition-related expenses. Purchased software necessary for the functioning of equipment is capitalized as part of such equipment.

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

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

Subsequent Expenditure

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

Depreciation

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

Annual depreciation rates applied are as follows:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3.5.3. Investment Property

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

An item of investment property is initially measured at cost or purchase price. Transaction costs are not included in the initial measurement.

The Bank applies cost method for subsequent measurement of investment property.

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

3.6. Inventories

3.6.1. Inventories

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

3.6.2. Non-Current Assets Held for Sale

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

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

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

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

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

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

3.7. Financial Instruments

Classification

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

Recognition

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

Measurement

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

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

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

Derecognition

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

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

Amortized Cost Measurement

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

Fair Value Measurement

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

Impairment

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

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

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

3.8. Loans

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

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

3.9. Financial Assets

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

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

3.9.2. Financial Assets Held to Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. This category of securities includes commercial papers issued by legal entities.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Financial Assets

3.9.2. Financial Assets Held to Maturity (Continued)

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

3.9.3. Equity Investments and Other Financial Assets Available for Sale

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

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

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

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

3.10. Cash and cash Equivalents

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

3.11. Managed Funds

The Bank manages funds on behalf of, and for the account of third parties, and charges fees for these services. These items are not included in the Bank's balance sheet but presented within off-balance sheet items.

3.12. Taxes and Contributions

3.12.1. Income Taxes

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Taxes and Contributions (Continued)

3.12.1. Income Taxes (Continued)

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

3.12.2. Indirect Taxes and Contributions

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

3.13. Deposits

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

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

Deposits are presented as transaction and other deposits within the Bank's balance sheet.

3.14. Equity

The Bank's equity is comprised of the founding capital, subsequently issued shares, reserves retained from earnings, revaluation reserves, retained earnings/accumulated losses and the profit for the year less unrealized losses on the securities available for sale.

The Bank's core capital was formed from the monetary contributions of the Bank's founders. A founder cannot withdraw assets contributed to the Bank's core capital.

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

In 2013, the Bank made provisions for long-term liabilities for employee retirement benefits in accordance with IAS 19. The Bank hired a certified actuary to perform evaluation and calculation of provisions for the aforesaid purpose.

The Bank does not have own defined benefit plans or share-based remuneration options and there were no identified liabilities thereof as of December 31, 2013.

3.16. Segment Information

The Bank monitors and discloses information on its operating segments – lines of business (Note 55). The major portion of the Bank's business operations is conducted in the territory of the Republic of Serbia and, therefore, the information on geographical segments is not disclosed. Subsidiaries are not material for the Bank's stand-alone financial statements. Business operations of subsidiaries are presented in the consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES

Key Accounting Estimates and Assumptions

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

Impairment Allowance

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

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

Impairment of materially less significant loans is assessed on a portfolio basis for each credit rating group separately, given their similar characteristics in respect of credit risk in the percentage of migration of the relevant credit rating group into the V credit rating group as adjusted for the percentage of collected loans previously classified into V credit rating group. If individual impairment assessment of a materially significant loan reveals no objective evidence of loan impairment, the impairment thereof is calculated as the percentage of impairment of the whole credit rating group the loan belongs to. The amounts of inflows expected from a loan are assessed based on evidence of the debtor's planned earnings. In case these are determined as insufficient, the Bank assesses the cash flow from collateral foreclosure. The number of days in default against certain receivables from debtors is determined by considering all relevant evidence about the timeline of debtors' planned earnings inflow as well as historical default of those debtors.

Fair Value

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

Provisions for Litigations

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

Matters that either represent contingent liabilities or fail to meet the criteria for provisioning are disclosed except in instances of remote probability that economic benefits will flow out of the Bank.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

5. INTEREST INCOME AND EXPENSES

a) Interest Income

	Year Ended December 31, 2013	2012
Interest income in RSD		
From loans		
- finance and insurance sector	1,246,701	396,740
- public enterprises	381,365	-
- corporate customers	8,372,766	8,647,012
- entrepreneurs	255,703	222,550
- public sector	492,279	487,996
- retail customers	5,030,139	4,686,282
- other customers	983	1,674
From deposits		
- finance and insurance sector	710,674	476,332
From securities		
- finance and insurance sector	246,160	116,704
- corporate customers	7,355	12,214
- public sector	1,868,442	2,000,624
From other investments		
- corporate customers	156,303	108,804
- entrepreneurs	2	29
- retail customers	1,079,667	923,684
	19,848,539	18,080,645
Interest income in foreign currencies		
From foreign currency loans		
- corporate customers	718,947	745,177
- entrepreneurs	963	1,213
- non-residents	67,817	426,668
From foreign currency deposits – non-residents	5,628	13,715
From foreign currency securities		
- public sector	1,381,799	851,334
- non-residents	67	-
From other investments in foreign currencies		
- finance and insurance sector	11,017	11,528
- non-residents	30	600
	2,186,268	2,050,235
	22,034,807	20,130,880

Within RSD interest income, deferred interest income on loans totaled RSD 495,377 thousand, whereas deferred interest income in foreign currencies amounted to RSD 26,438 thousand. Loan origination fee income represents 2.37% of the total recognized interest income.

Fees that are collected in advance comprising deferred income totaling RSD 808,666 thousand are presented within other liabilities within the Bank's balance sheet (Note 41).

The estimated effect of interest that was not accrued and stated within the Bank's income statement for the year 2013 amounted to RSD 228,673 thousand and is associated with suspended interest on loans and investments subject to litigation.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

5. INTEREST INCOME AND EXPENSES (Continued)

b) Interest Expenses

	Year Ended December 31, 2013	2012
Interest expenses in RSD		
For borrowings		
- finance and insurance sector	1,522	69,643
For deposits		
- finance and insurance sector	814,638	559,846
- public enterprises	129,111	173,423
- corporate customers	1,291,806	497,862
- entrepreneurs	15,010	12,885
- public sector	405,747	871,631
- retail customers	149,352	128,794
- non-residents	1,259	1,531
Based on other liabilities		
- corporate customers	18	119
- retail customers	5,173	2,290
	2,813,636	2,318,024
Interest expenses in foreign currencies		
For loans		
- finance and insurance sector	234,362	61,950
- corporate customers	4,963	-
- entrepreneurs	3	-
- public sector	-	8
- non-residents	647,586	654,288
For deposits		
- finance and insurance sector	157,191	57,036
- public enterprises	25,838	82,204
- corporate customers	263,685	573,140
- public sector	3,743	494
- retail customers	4,940,787	5,468,355
- non-residents	2,697	4,879
Based on other liabilities		
- financial and insurance sector	31	176
- non-residents	14	10
	6,280,900	6,902,540
	9,094,536	9,220,564

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

6. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

	Year Ended December 31, 2013	2012
Fees and commissions in RSD		
- finance and insurance sector	172,409	196,717
- public enterprises	43,727	41,840
- corporate customers	1,948,304	2,067,445
- entrepreneurs	627,043	561,649
- public sector	146	1,254
- retail customers	2,429,480	2,176,768
- non-residents	126,709	124,984
	5,347,818	5,170,657
Fees and commissions in foreign currencies		
- finance and insurance sector	3,098	1,177
- corporate customers	-	12,265
- retail customers	58,295	51,757
- non-residents	84,000	99,058
	145,393	164,257
	5,493,211	5,334,914

b) Fee and Commission Expenses

	Year Ended December 31, 2013	2012
Fees and commissions in RSD		
- financial and insurance sector	414,850	324,398
- corporate customers	250,535	246,617
- non-residents	14,100	13,229
	679,485	584,244
Fees and commissions in foreign currencies		
- non-residents	248,578	196,204
	248,578	196,204
	928,063	780,448

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

	Year Ended December 31, 2013	2012
Gains on the sale of securities carried at fair value through profit and loss	16,340	2,656
Losses on the sale of securities carried at fair value through profit and loss	-	(1,880)
Net gains on the sale of securities carried at fair value through profit and loss	16,340	776

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

	Year Ended December 31, 2013	2012
Net gains on the sale of securities available for sale	1,738	83,947

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

9. FOREIGN EXCHANGE LOSSES, NET

	Year Ended December 31, 2013	2012
Foreign exchange gains	1,440,279	5,682,006
Foreign exchange losses	(2,397,897)	(13,723,387)
	(957,618)	(8,041,381)

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

Calculation of foreign exchange gains and losses is conducted and stated at gross principle (foreign exchange gains and losses) during the financial year in accordance with the regulations of the National Bank of Serbia.

10. INCOME FROM DIVIDENDS AND EQUITY INVESTMENTS

	Year Ended December 31, 2013	2012
Income from dividends and equity investments	391,724	2,251

In 2013 the bank received dividend payment form its subsidiary bank in Budva, Montenegro in the amount of RSD 387,597 thousand (EUR 3,400 thousand). For this payment, withholding tax was paid at the rate of 9% in the Republic of Montenegro in the amount of RSD 34,884 thousand (EUR 306 thousand). Net dividend paid amounted to RSD 352,713 thousand, i.e. EUR 3,094 thousand.

11. OTHER OPERATING INCOME

	Year Ended December 31, 2013	2012
Other operating income	186,815	157,217
Collected receivables previously written off	26	506
Gains on the sale of property, equipment and intangible assets	12,136	38,481
Write-off of liabilities	5,197	3,314
Surpluses	1	2,556
Other income	133,744	38,948
	337,919	241,022

The most significant amount within other operating income represents rental income from lease of property of RSD 105,544 thousand.

Based on the relevant court ruling, within the item other income the Bank recognized the amount of RSD 102,301 thousand related to the penalty interest accrued on uncollected lease receivables due from Politika a.d., Beograd. This uncollected lease receivable was fully provided for.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

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

	Year Ended December 31, 2013	2012
a) Losses		
Impairment losses per balance sheet assets		
- loans and advances to customers	7,937,710	6,336,717
- interest and fee receivables	715,149	298,306
- securities held to maturity	38,144	6,909
- equity investments and other securities available for sale	-	76,783
- other assets	87,345	190,055
Impairment losses per off-balance sheet items	602,322	522,524
Provisions for l for liabilities arising from litigations (Note 37 a)	13,100	218,528
Provisions for retirement benefits (Note 37 b)	7,637	49,359
Suspended interest	26,603	117,483
	9,428,010	7,816,664
b) Gains		
Reversal of impairment of balance sheet assets		
- loans and advances to customers	4,903,842	5,458,400
- interest and fee receivables	254,407	234,856
- securities held to maturity	38,648	7,073
- equity investments and other securities available for sale	-	-
- other assets	386,763	54,537
Reversal of provisions for losses per off-balance sheet items	576,908	526,910
Reversal of unused provisions for liabilities arising from litigations (Note 37 a)	381,670	18,249
Reversal of unused other provisions for employee benefits (Note 37 b)	3,623	48,929
Collected interest previously suspended	15,571	23,411
	6,561,432	6,372,365
Losses, net (a-b)	(2,866,578)	(1,444,299)

Based on the classification of loans and investments in accordance with the requirements of the National Bank of Serbia, as of December 31, 2013, the Bank assessed the special reserve for estimated losses based on the Bank's aggregate credit risk exposure.

In accordance with the NBS Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items of the Bank, the positive difference between provisions against potential losses calculated in line with the aforementioned Decision and amount of impairment allowances for balance sheet items and provisions for off-balance sheet items calculated in line with the internally adopted methodology represents the amount of required provisions against potential losses and is recorded on a separate account.

Based on the court decision on the first partial bankruptcy estate distribution for settlement of the second payment priority creditors in the bankruptcy procedure over Jugobanka a.d., Beograd, in January 2014, the Bank collected receivables in the amount of RSD 49,435 thousand (Note 27). As at the reporting date, December 31, 2013, the Bank reversed impairment allowance thereof in full amount collected in accordance with the requirements of IAS 10 "Events After the Reporting Period."

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

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

MOVEMENTS ON THE ACCOUNTS OF IMPAIRMENT ALLOWANCES AND PROVISONS FOR OFF-BALANCE SHEET ITEMS

	Interest and Fee Receivables	Loans and Deposits	Securities	Equity Investments	Other investments	Other Assets	Off-Balance Sheet Items (Note 37 c)	Total
Balance, January 1, 2012	1,563,515	11,706,428	4,671	446,954	3,177,855	305,242	497,632	17,702,297
Charge for the year	715,149	7,432,555	38,144	-	505,155	87,345*	602,322	9,380,670
Decrease	(254,407)	(4,340,112)	(38,648)	-	(563,730)	(386,763)	(576,908)	(6,160,568)
Foreign exchange gains	4,355	47,397	444	-	7,328	734	-	60,258
Write-offs	(10,304)	(10,689)	-	-	(736)	(2,055)	-	(23,784)
Other movements	(15,748)	2,803	-	-	(2,818)	545,105	(49,399)	479,943
Balance, December 31, 2012	2,002,560	14,838,382	4,611	446,954	3,123,054	549,608	473,647	21,438,816

***** within “other assets” the Bank included negative effects of the change in the value of assets acquired in lieu of debt collection

		Year Ended December 31, 2013	2012
	Calculation of provisions		
a)	Special reserve for estimated losses per		
	- balance sheet assets	41,008,734	29,535,247
	- off-balance sheet items	833,809	782,289
	Total a	41,842,543	30,317,536
b)	Impairment allowance and provisions calculated in line with the internally adopted methodology (IAS 39)		
	- impairment allowance for balance sheet assets	20,965,169	17,204,665
	- provisions against losses per off-balance sheet items	473,647	497,632
	Total b	21,438,816	17,702,297
c)	Difference between the amounts of calculated impairment allowance and provisions		
	- balance sheet assets	20,043,565	12,330,582
	- off-balance sheet items	360,162	284,657
	Total c (a - b)	20,403,727	12,615,239
d)	Reserves retained from earnings for estimated losses per balance sheet assets and off-balance sheet items created in prior years		
	- balance sheet assets	15,927,046	14,077,046
	- off-balance sheet items	708,394	708,394
	Total d	16,635,440	14,785,440
e)	Total required special reserve for estimated losses according to the NBS methodology		
	- balance sheet assets	20,559,411	13,089,033
	- off-balance sheet items	483,108	368,107
	Total	21,042,519	13,457,140

Movements on reserves retained from earnings are disclosed in Note 43.

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

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

Pursuant to the regulations of the National Bank of Serbia, in addition to impairment allowance, the Bank is obligated to form additional reserves retained from earnings for estimated losses on classifying assets, which totaled RSD 20,559,411 thousand. In prior years the Bank created reserves retained from earnings for estimated losses per balance sheet assets totaling RSD 15,927,046 thousand as of December 31, 2013.

Pursuant to the regulations of the National Bank of Serbia, the Bank is obligated to form reserves retained from earnings for estimated losses per classifying off-balance sheet items, which totaled RSD 483,108 thousand. In prior years the Bank created reserves retained from earnings for estimated losses per off-balance sheet items totaling RSD 708,394 thousand as of December 31, 2013.

13. STAFF COSTS

	Year Ended December 31, 2013	2012
Net salaries	2,583,349	2,449,198
Compensations	408,709	471,746
Taxes on salaries and benefits	413,507	454,665
Contributions to salaries and benefits	757,473	683,430
Temporary and seasonal employees	54,146	64,628
Other staff costs	40,925	62,679
	4,258,109	4,186,346

14. DEPRECIATION AND AMORTIZATION CHARGE

	Year Ended December 31, 2013	2012
Depreciation and amortization charge	792,648	752,356

15. OPERATING AND OTHER EXPENSES

	Year Ended December 31, 2013	2012
Cost of materials	460,929	520,422
Production service costs	2,036,060	1,923,528
Non-material costs (without taxes and contributions)	1,615,612	1,507,289
Taxes	142,445	87,372
Contributions	816,697	794,748
Other costs	39,296	40,827
Losses on the sale of property, equipment and intangible assets	42	-
Losses on disposal of property, equipment and intangible assets	3,149	1,672
Shortages and damages	4,834	7,600
Other expenses	400,566	49,547
	5,519,630	4,933,005

Within item of “other expenses” totaling RSD 400,566 thousand, the amount of RSD 339,883 thousand refers to the expenses related to the lost legal suit against the entity Ineks Intereskport for a portion of the liability that was not provided for (Note 37).

15. OPERATING AND OTHER EXPENSES (Continued)

Within production service costs, rental costs for 2013 amounted to RSD 644,915 thousand. Rental costs mostly refer to the operating lease of business premises in the amount of RSD 568,131 thousand.

As of December 31, 2013, commitments per operating lease contracts for business premises for future periods, excluding value added tax, for 212 business premises with the total area of 34,565.19 m² totaled (in thousands of RSD):

- within a year	455,767
- from one to five years	1,300,046
- over five years	100,511
Total	1,856,324

The Bank recognizes liabilities per operating lease of business premises as regular rental costs on a monthly basis.

16. GAINS ON VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31, 2013	2012
Gains on the valuation of investments and receivables:	6,497,855	17,179,893
Gains on the valuation of securities	14,787	41,892
Gains on the valuation of liabilities	421,001	767,535
Gains on the valuation of property, equipment, investment property and intangible assets	12,260	173
	6,945,903	17,989,493

17. LOSSES ON VALUATION OF ASSETS AND LIABILITIES

	Year Ended December 31, 2013	2012
Losses on the valuation of investments and receivables:	5,573,681	7,792,526
Losses on the valuation of securities	9,004	14,937
Losses on the valuation of liabilities	462,464	2,040,489
Gains on the valuation of property, equipment, investment property and intangible assets	170,936	4,270
	6,216,085	9,852,222
Net gains on the valuation of assets and liabilities	729,818	8,137,271

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

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

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

Gains/losses on the valuation of property, equipment, investment property and intangible assets are presented in Note 29.

The Bank calculates effects of valuation at each month-end during the year and at each transaction date.

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

18. INCOME TAXES

a) Components of income taxes

	Year Ended December 31, 2013	2012
Current income tax expense	-	(472,448)
Gains from creation of deferred tax assets and reversal of deferred tax liabilities	87,950	32,885
Losses from creation of deferred tax liabilities and reversal of deferred tax assets	-	(10,953)
	87,950	(450,516)

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

	Year Ended December 31, 2013	2012
Profit before taxes	4,588,375	4,572,662
Income tax at the statutory tax rate of 15%	688,256	457,266
Tax effects of the expenses not recognized within the tax balance	41,352	42,334
Tax effects of the net capital gains/losses	(73)	(1,261)
Tax effects of the difference between the tax-purpose and accounting depreciation and amortization of fixed assets	32,010	21,364
Tax effects of the transfer prices	1,311	445
Tax effects of income reconciliation	(46,245)	(1,820)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	(668,255)	-
Tax credit used in the current year	(48,356)	(45,880)
Tax effect adjustments (used and new ones)	(87,950)	(21,932)
TAX EFFECTS STATED WITHIN THE INCOME STATEMENT	87,950	(450,516)
C. EFFECTIVE TAX RATE	0.00	9.85

The Bank had no current income tax liabilities mostly due to the decrease in the tax base for interest income from debt securities issued by the Republic of Serbia, Autonomous Province of Vojvodina or the National Bank of Serbia pursuant to Article 25, paragraph 2 of the Corporate Income Tax Law.

The Bank made income tax advance payments in the amount of RSD 777,491 thousand in 2013 as monthly tax liabilities stipulated by the Income Tax Law.

19. GAINS FROM CREATION OF DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES

	Year Ended December 31, 2013	2012
Gains from creation of deferred tax assets and decrease in deferred tax liabilities – change in the statutory tax rate from 10% to 15%	-	14,935
Gains from creation of deferred tax assets and decrease in deferred tax liabilities	87,950	17,950
	87,950	32,885

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

19. GAINS FROM CREATION OF DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES (Continued)

The total effect of the change in deferred tax assets /liabilities amounted to RSD 87,950 thousand and it includes the effect of creation of new deferred tax assets in the amount of RSD 32,805 thousand and decrease in deferred tax liabilities in the amount of RSD 55,145 thousand.

	December 31, 2013	December 31, 2012
Provisions for retirement benefits and unused annual leaves	602	13,872
Temporarily unrecognized expenses arising from impairment of assets	32,132	19,002
Temporarily unrecognized expenses arising from calculated public duties not paid	71	(11)
Temporary difference between the carrying amounts and the tax base of fixed assets	55,145	-
	87,950	32,885

MOVEMENTS ON THE ACCOUNTS OF DEFERRED TAX ASSETS AND LIABILITIES

	Deferred Tax Assets	Deferred Tax Liabilities	Net Tax Effect
Opening balance at January 1, 2013	62,656	(57,760)	4,896
Creation of tax liabilities against revaluation reserves based on fair value adjustment of property	-	(103,002)	(103,002)
Gains from decrease in deferred tax liabilities (temporary differences between the carrying amounts and the tax base of fixed assets)	-	55,145	55,145
Gains from creation of deferred tax assets (long-term provisions per IAS 19)	602	-	602
Gains from creation of deferred tax assets (calculated public duties not paid)	71	-	71
Gains from creation of deferred tax assets (based on impairment of assets)	32,132	-	32,132
Balance at December 31, 2013	95,461	(105,617)	(10,156)

Based on the fair value adjustment of property and recognition of increase in the value thereof within equity, a deferred tax liability was created against revaluation reserves in the amount of RSD 103,002 thousand. For this reason (increase in the carrying amount of property and equipment based on the appraisal thereof) deferred tax liabilities decreased and the decrease was credited to the net profit for the year in the amount of RSD 55,145 thousand.

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

	2013		2012		
	Provisions	Deferred Tax Assets at 15% Rate	Provisions	Deferred Tax Assets at 15% Rate	Gains on Creation of Tax Assets
Long-term provisions per IAS 19	280,585	42,088	276,571	41,486	602
Assets based on the calculation of public duties	545	82	73	11	71
Assets based on the impairment of assets	355,272	53,291	141,059	21,159	32,132
Total		95,461		62,656	32,805

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

19. GAINS FROM CREATION OF DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES (Continued)

ii) Deferred tax liabilities - Temporary difference between the carrying amounts and the tax base of fixed assets

	2013		2012		Effect in 2013	
	Amount of Fixed Assets	Deferred Tax Liabilities at 15% Rate	Amount of Fixed Assets	Deferred Tax Liabilities at 15% Rate	Gains on Reversal of Tax Liabilities	Tax Liabilities against Revaluation Reserves
Tax base	8,107,552	-	7,523,460	-	-	-
Carrying amount	8,811,661	-	7,908,521	-	-	-
Difference	704,109	105,617	385,061	57,760	(55,145)	103,002
NET DEFERRED TAX (LIABILITES) / ASSETS IN THE BALANCE SHEET		(10,156)		4,896		

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

	December 31, 2013	December 31, 2012
Losses on decrease in deferred tax assets and creation of deferred tax liabilities – change in the statutory tax rate from 10% to 15%	-	23,453
Decrease in loss from based on the decrease of deferred tax liabilities	-	(12,500)
	-	10,953

21. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012
In RSD		
Gyro account	22,926,420	21,884,424
Cash on hand	2,524,909	2,612,665
	25,451,329	24,497,089
In foreign currencies		
Foreign currency accounts	11,351,000	14,077,140
Cash on hand	1,921,714	1,722,461
Foreign currency cash equivalents – cheques in the course of collection	14,836	21,272
Other cash and cash equivalents	2,398,816	196,119
	15,686,366	16,016,992
Gold and other precious metals	99	99
	41,137,794	40,514,180

The Bank's required reserve represent the minimum deposits set aside in accordance with the NBS "Decision on Required Reserves of Banks with the National Bank of Serbia." The calculation of the required reserve in dinars is performed once a month – on the 17th day of the month based on the average balance of dinar deposits as found in the prior calendar month. The required 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 required reserve in dinars where, in order to attain the average daily balance of allocated required reserve, the daily balance found on the gyro account may be below or above the calculated required reserve in dinars.

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

21. CASH AND CASH EQUIVALENTS (Continued)

The annual interest rate applied to allocated resources found on the regular account used for required reserves in equals 2.5%. In 2013 the Bank maintained the average monthly balance in the amount of required reserve in dinars, i.e. required reserves in dinars were not used at any time.

Within the item “other cash and cash equivalents” the amount of RSD 2,392,726 thousand refers to the funds the Bank received on its account held with the Central Registry of Securities as collection of matured Government-issued securities in foreign currencies.

22. REVOCABLE LOANS AND DEPOSITS

	December 31, 2013	December 31, 2012
In RSD		
Loans based on repo transactions	12,246,700	4,000,000
In foreign currencies		
Required reserve in foreign currency held with NBS	41,148,420	39,053,502
	53,395,120	43,053,502

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

Foreign currency required reserve does not accrue interest. During 2013, in accordance with the Decision on Required Reserves of Banks with the National Bank of Serbia, the Bank allocated a certain portion of its foreign currency reserve in dinars to its gyro account.

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

	December 31, 2013	December 31, 2012
Interest, fee and commission receivables in RSD		
- interest	3,932,088	2,232,991
- fees	140,618	142,287
Receivables from trade in RSD	170	177
Other receivables in RSD - rentals	371,664	363,100
Less: Allowance for impairment of receivables in RSD	(1,716,933)	(1,284,149)
	2,727,607	1,454,406
Interest, fee and commission receivables in foreign currencies		
- interest	346,189	372,299
- fees	7	3
Less: Allowance for impairment of receivables in foreign currencies	(285,627)	(279,366)
	60,569	92,936
	2,788,176	1,547,342

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

24. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2013	December 31, 2012
RSD loans to customers		
Loans per transaction accounts	5,479,565	5,615,020
Consumer loans	1,165,521	1,903,601
Working capital loans	47,729,473	48,392,968
Export loans	2,905,328	3,076,278
Investment loans	36,897,924	33,486,818
Housing loans	33,800,924	30,109,265
Other loans	45,483,860	44,625,186
Less: Allowance for impairment of RSD loans	(11,566,892)	(8,638,581)
	161,895,703	158,570,555
Foreign currency loans to customers		
Loans for the payment of goods imported and services received from aboard	4,805,145	5,112,910
Overnight loans	9,238,017	2,170,276
Other loans	11,113,991	13,933,828
Less: Allowance for impairment of foreign currency loans	(3,051,579)	(2,839,872)
	22,105,574	18,377,142
Other and earmarked foreign currency deposits		
Other foreign currency deposits	222,755	387,143
Less: Allowance for impairment of foreign currency deposits	(219,911)	(227,975)
	2,844	159,168
	184,004,121	177,106,865

During 2013, loans maturing up to one year in dinars and in foreign currencies were approved for the periods from one month to one year at interest rates ranging from 0.53% to 1.8% per month.

Loans with over one year maturities denominated in dinars and in foreign currencies were approved for a period of maximum 30 years at annual interest rates ranging from 3.35% (as increased by the interest rate agreed upon according to adequate monetary collateral type) to 22.5%.

Concentration of the aggregate loans approved to customers is presented in Note 53.

Risks and Uncertainties

The Bank's management recorded provisions for all estimated or known credit risks as of the date of issuing the financial statements. The Bank's loan portfolio contains a number of customers that are involved in the privatization and/or restructuring processes. The Bank's loan portfolio receivables were classified based on most recent financial information available, and the expected course of their respective restructuring processes. Unless these fail to result in settlement of liabilities due to the Bank, the Bank's receivables are mostly collateralized by mortgages assigned over property held by debtors, as well as pledge liens on movables. In the event that such attempts of collection prove to be unsuccessful, additional amounts of allowances for impairment and provisions for contingent liabilities will be required in the forthcoming reporting periods.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

25. SECURTIES (EXCLUDING TREASURY SHARES)

	December 31, 2013	December 31, 2012
In RSD		
Securities carried at fair value through profit and loss		
- shares of banks in RSD	490	708
- corporate shares	3,832	5,703
Securities available for sale		
- shares of banks in RSD	75	75
- corporate bonds (Tigar a.d., Pirot)	62,812	67,904
- bonds of banks	1,600,661	1,566,640
- Republic of Serbia bonds and Treasury bills	23,476,805	17,221,078
- bonds of local self-government	51,281	56,089
Securities held to maturity		
- corporate bonds (RDP B92 a.d., Beograd)	20,206	51,167
Less: Allowance for impairment of securities in RSD	(4,611)	(4,671)
	25,211,551	18,964,693
In foreign currencies		
Securities carried at fair value through profit and loss		
- Republic of Serbia bonds	93,751	206,492
Securities available for sale		
- Republic of Serbia bonds and Treasury bills	31,646,433	22,176,534
- bonds of foreign banks	49,730	-
	31,789,914	22,383,026
	57,001,465	41,347,719

Trading Securities

As of December 31, 2013, the market value of trading securities portfolio totaled RSD 98,073 thousand (December 31, 2012: RSD 212,903 thousand), whereof dinar denominated trading securities account for RSD 4,322 thousand and the foreign currency denominated trading securities amounted to RSD 93,751 thousand.

The largest investments were made into the Republic of Serbia old savings bonds, in the amount of RSD 93,751 thousand and in shares of the following companies: DIN fabrika duvana a.d., Niš of RSD 314 thousand, Metalac a.d., Gornji Milanovac of RSD 2,202 thousand, Messer Tehnogas a.d., Beograd of RSD 978 thousand and Zastava promet a.d., Beograd of RSD 210 thousand.

25. SECURTIES (EXCLUDING TREASURY SHARES)

Securities Available for Sale

As of December 31, 2013, the structure of investments made in securities available for sale was as follows:

In RSD:

Republic of Serbia Treasury bills in the amount of RSD 13,871,933 thousand; Republic of Serbia bonds in the amount of RSD 9,604,872 thousand; bonds from the City of Pančevo budget in the amount of RSD 51,281 thousand; bonds of the company Tigar a.d., Pirot in the amount of RSD 62,812 thousand; and bonds of the following banks: Societe generale banka a.d., Beograd in the amount of RSD 1,075,009 thousand, Erste banka a.d., Beograd in the amount of RSD 525,652 thousand and AIK banka a.d., Niš in the amount of RSD 75 thousand.

In foreign currencies:

Republic of Serbia Treasury bills in the amount of RSD 4,867,389 thousand; long-term Government of the Republic of Serbia bonds in the amount of RSD 26,444,359 thousand; Republic of Serbia old savings bonds in the amount of RSD 334,685 thousand; foreign bank bonds - Raiffeisen Bank International in the amount of RSD 49,730 thousand.

Securities Held to Maturity

The amount of RSD 20,206 thousand entirely relates to the bonds of the company RDP B92 a.d., Beograd.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

26. EQUITY INVESTMENTS (INTERESTS)

	December 31, 2013	December 31, 2012
Equity investments in subsidiaries domiciled in the country	140,000	140,000
Equity investments in subsidiary banks domiciled abroad	5,340,888	5,340,888
Equity investments in banks and financial organizations	135,667	136,236
Equity investments in corporate and other legal entities	457,178	451,430
Equity investments in foreign entities domiciled abroad	427,331	295,433
Less: Allowance for impairment	(446,954)	(446,954)
	6,054,110	5,917,033

As of December 31, 2013, 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 interests held in Komercijalna banka a.d., Banja Luka totaling RSD 2,974,615 thousand and Komercijalna banka a.d., Budva totaling 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 53,997 thousand, Jubmes banka a.d., Beograd in the amount of RSD 1,409 thousand and Union banka d.d., Sarajevo in the amount of RSD 1,874 thousand.

Equity investments in enterprises mainly refer to the following business entities: 14. oktobar a.d, Kruševac amounting to RSD 324,874 thousand, RTV Politika d.o.o., Beograd in the amount of RSD 37,634 thousand, Dunav osiguranje a.d., Beograd amounting to RSD 51,182 thousand and Politika a.d., Beograd amounting to RSD 35,216 thousand.

Equity investments in foreign entities are associated with the company VISA Inc, USA totaling RSD 343,706 thousand and Master Card, USA totaling RSD 83,625 thousand.

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

27. OTHER INVESTMENTS

	December 31, 2013	December 31, 2012
Other investments in RSD		
- Purchased investments – factoring	159,499	103,282
Advances for acceptances, bills of guarantees and payments made upon guarantees called	1,654,239	1,445,695
Other investments	216,866	380,005
Less: Allowance for impairment	(983,708)	(968,074)
	1,046,896	960,908
Other investments in foreign currencies		
Advances for acceptances, bills of guarantees and payments made upon guarantees called	234,344	286,636
Secured letters of credit and other sureties	1,220,893	1,662,270
Other investments	2,566,431	2,527,863
Less: Allowance for impairment	(2,139,346)	(2,209,781)
	1,882,322	2,266,988
TOTAL	2,929,218	3,227,896

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

27. OTHER INVESTMENTS (Continued)

Advances for acceptances, bills of guarantees and payments made upon guarantees called of RSD 1,654,239 thousand mostly refer to the payments made upon guarantees called in the amount of RSD 1,298,486 thousand.

Secured letters of credit and other sureties of RSD 1,220,893 thousand are mostly associated with *cash cover* collateral placed to securitize the guarantee approved at the request of the customer TE Nikola Tesla Obrenovac d.o.o., Obrenovac in favor of Commerzbank AG, Frankfurt for the ultimate beneficiary Alstom Power, Warsaw, in the amount of RSD 573,211 thousand, as well as deposits placed with foreign banks as collaterals for Visa and master card transactions. Deposit to securitize Master card transactions placed with Deutsche Bank AG, Frankfurt amounts to RSD 431,435 thousand. Deposit to securitize Visa card transactions placed with Barclays Bank PLC, London amounts to RSD 216,247 thousand.

Within other investments denominate din dinars, the largest portion refers to the nominal value of discounted bills of exchange totaling RSD 285,028 thousand, whereas out of other investments denominated in foreign currencies the largest portion of RSD 1,654,239 thousand accounts for receivables due Jugobanka a.d., Beograd in bankruptcy provided for in the amount by RSD 49,435 thousand below the full amount (Note 12), which was the amount collected form Jugobanka a.d. in bankruptcy during January 2014.

28. INTANGIBLE ASSETS

	December 31, 2013	December 31, 2012
Licenses and software	1,397,741	1,166,177
Intangible assets in progress	10,420	46,537
Less: Accumulated amortization	(870,716)	(612,276)
	537,445	600,438

Movements on the account of intangible assets

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance at December 31, 2012	1,166,177	46,537	1,212,714
Additions	-	195,447	195,447
Transfers	231,564	(231,564)	-
Balance at December 31, 2013	1,397,741	10,420	1,408,161
Accumulated amortization			
Balance at December 31, 2012	612,276	-	612,276
Charge for the year 2013	258,440	-	258,440
Balance at December 31, 2013	870,716	-	870,716
Net Book Value:			
- at December 31, 2013	527,025	10,420	537,445
- at December 31, 2012	553,901	46,537	600,438

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

29. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

Movements on the account of property, equipment and investment property

	Property	Equipment	Construction in Progress	Investment Property	Total
Cost					
Balance, December 31, 2012	5,765,101	2,795,998	50,434	1,907,716	10,519,249
Additions	-	-	1,006,523	-	1,006,523
Transfers from construction in progress	287,195	379,504	(965,894)	299,195	-
Transfer from investment property	154,350	-	-	(154,350)	-
Impairment due to *force majeure*	(27,806)	-	-	-	(27,806)
Disposal and retirement	(3,743)	(112,618)	-	-	(116,361)
Appraisal (revaluation) increase	972,450	-	-	(52,000)	920,450
Appraisal (revaluation) decrease	(191,808)	-	-	-	(191,808)
Balance, December 31, 2013	6,955,739	3,062,884	91,063	2,000,561	12,110,247
Accumulated Depreciation					
Balance, December 31, 2012	1,031,410	1,889,510	-	181,483	3,102,403
Charge for the year 2013	147,369	353,723	-	33,116	534,208
Transfer from investment property	20,755	-	-	(20,755)	-
Impairment due to *force majeure*	(3,649)	-	-	-	(3,649)
Disposal and retirement	(2,923)	(107,323)	-	-	(110,246)
Appraisal (revaluation) increase	226,092	-	-	(1,837)	224,255
Appraisal (revaluation) decrease	(23,617)	-	-	-	(23,617)
Other	-	669	-	-	669
Balance, December 31, 2013	1,395,437	2,136,579	-	192,007	3,724,023
Net Book Value:					
at December 31, 2013	5,560,302	926,305	91,063	1,808,554	8,386,224
at December 31, 2012	4,733,691	906,488	50,434	1,726,233	7,416,846

The Bank hired an external certified appraiser to perform appraisal of the following assets:
- property owned by the Bank and used for business purposes and
- investment property.

Positive appraisal effects were recognized within equity whereas the negative appraisal effects were recognized as decrease in the previously formed revaluation reserves and/or expenses of the period. However, increase is recognized in the income statement up to the amount in which the revaluation decrease for a particular asset that had previously been recognized as an expense in the income statement is reversed.

The appraisal effects of the properties owned by the Bank:

Property	**Income Statement**	**Balance Sheet**	**Total Appraisal Effect**
Property used for business purposes	(120,773)	(24,439)	(145,212)
	12,260	711,119	723,379
	(108,513)	686,680	578,167
Investment property	(50,163)	-	(50,163)
Total	(158,676)	686,680	528,004

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

29. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

a) Investment Property

As of December 31, 2013, the Bank stated investment property as totaling RSD 1,808,554 thousand comprised of leased out premises.

Pursuant to executed long-term lease agreements, in 2013 the Bank transferred to investment property building properties (Šabac, Lovćenac and Negotin) with the net book value of RSD 257,492 thousand, which account for the largest portion of increase in investment property in 2013 (RSD 299,195 thousand).

By activating part of the investment property at the address of Makedonska 29 in Belgrade for its own purposes in 2013, the Bank made a transfer to its own property (business premises) with the cost of RSD 133,595 thousand. Revaluation decrease thereof amounted to RSD 8,747 thousand.

As of December 31, 2013 the net profit realized form investment property amounted to RSD 50,041 thousand:

Property	Area in m^2	Total Expenses	Total Rental Income	Net Profit
Belgrade, Makedonska 29	5,553	(30,299)	72,065	41,766
Niš, Vrtište new D building	1,816	(556)	4,081	3,525
Niš, TPC Kalča	85	(799)	1,829	1,030
Belgrade, Omladinskih brigada 19	15,218	(14,172)	15,765	1,593
Šabac, Majur, Obilazni put bb	1,263	(751)	1,735	984
Lovćenac, Maršala Tita bb,	46,890	(1,808)	3,432	1,624
Negotin, Save Dragovića 20-22	658	(816)	335	(481)
		(49,201)	99,242	50,041

In December 2013 the hired external certified appraiser performed the valuation of investment property.

The carrying value of investment property as of December 31, 2013 amounted to EUR 15,776 thousand (equivalent to RSD 1,808,554 thousand).

The appraised value of investment property is provided in the table below:

Property	Area in m^2	Carrying Amount in RSD '000	Appraised Fair Value In EUR'000	Appraised Fair Value In RSD '000	Variance In RSD '000
Beograd, Makedonska 29	5,553	863,354	7,531	863,354	-
Niš, Vrtište new D building	1,816	25,336	240	27,514	2,178
Niš, TPC Kalča	85	35,605	426	48,837	13,232
Beograd, Omladiskih brigada 19	15,218	628,687	6,201	710,781	82,094
Šabac, Majur, Obilazni put bb	1,263	40,045	357	41,042	997
Lovćenac, Maršala Tita bb,	46,890	173,109	1,510	173,109	-
Negotin, Save Dragovića 20-22	658	42,418	370	42,418	-
		1,808,554	16,635	1,907,055	98,501

Investment property positive appraisal effect of RSD 98,501 thousand was not posted given the cost method the Bank has elected for accounting for investment property in its accounting policies.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

29. PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

b) Property

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

As a result of incomplete land registers, as at December 31, 2013, the Bank did not have title deeds as proof of ownership for 25 buildings stated at the net book value of RSD 910,607 thousand. The Bank's management has taken all actions necessary to obtain the appropriate property titles for these buildings.

The Bank hired an independent certified appraiser to perform a new valuation of property observing all the relevant IAS requirements. The negative 2013 appraisal effects were recognized as expenses of the period, while the positive appraisal effects were recognized within equity.

The appraised value of property is provided in the table below:

Property	Area in m^2	Carrying Amount in RSD '000	Appraised Fair Value In EUR'000	Appraised Fair Value In RSD '000	Variance In RSD '000
Beograd, Makedonska 29	12,532	2,105,531	17,979	2,061,166	(44,365)
Beograd, Kralja Petra 19	5,358	553,504	6,330	725,684	172,180
Beograd, Svetog Save 14	3,715	477,687	4,865	557,734	80,047
Beograd, Svetogorska 42-44	3,333	385,320	4,796	549,824	164,504
Šabac, Jevremova 2	1,210	136,484	1,100	126,106	(10,378)
Kruševac, Trg fontana 1	2,959	93,045	1,400	160,499	67,454
Other properties (79 buildings/premises)		1,206,968	10,266	1,176,870	148,725
TOTAL*		4,958,539	46,736	5,357,883	578,167

** The total carrying amount does not include leasehold improvements amounting to RSD 202,419 thousand.*

The appraised fair value of property as of December 31, 2013 totaled EUR 46,736 thousand (equivalent to RSD 5,357,883 thousand).

Based on the annual inventory count, permanently useless fixed assets with the net book value of RSD 2,925 thousand were disposed of and derecognized.

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

	December 31, 2013	December 31, 2012
Non-current assets held for sale	71,630	78,763
	71,630	78,763

The Bank's management is taking all the necessary measures in order to realize sales of the assets held for sale. In the course of 2013, two buildings were sold: business premises in Braničevo and Svrljig and a garage located in Ražanj was disposed of as it was previously fully impaired according to the appraisal performed.

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

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

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

Based on the assessment of the fair value of non-current assets held for sale performed by an expert team, in 2013 the Bank decreased the value of buildings located in Varvarin and Ražanj in its books of account by RSD 2,237 thousand.

Non-current assets held for sale:

Property	Area in m^2	Carrying Amount at December 31, 2013	Carrying Amount at December 31, 2012
Braničevo, business premises	21.08	-	480
Jasika, business premises	75.87	611	611
Požarevac, M.Pijade 2, business premises	790.82	31,839	31,839
Požarevac, M.Pijade 2, business premises	880.86	26,345	26,345
Ražanj, garage	15	-	26
Belgrade, Toše Jovanovića 7, business premises	24.05	2,213	2,213
Vrbas, M. Tita 49, business premises	145.56	4,688	4,688
Varvarin, M. Marinovića, business premises	207	5,934	8,144
Svrljig, ugao D. Trifunca i Hadžićeve, business premises	128	-	4,417
		71,630	78,763

31. DEFERRED TAX ASSETS

	December 31, 2013	December 31, 2012
Deferred tax assets	-	62,655
Deferred tax liabilities	-	(57,759)
Deferred tax assets, net	-	4,896

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

In line with paragraph 71 of IAS 12 ”Income Taxes,” the Bank stated deferred tax assets and deferred tax liabilities at net principle (net deferred tax liabilities are disclosed in Note 40).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

32. OTHER ASSETS

	December 31, 2013	December 31, 2012
Other receivables in RSD		
Advances paid for current assets	52,647	28,762
Advances paid for permanent investments	15,121	51,479
Receivables from employees	4,404	1,381
Receivables for prepaid taxes ad contributions	2,859	3,162
Receivables for prepaid income taxes	712,700	12,784
Other receivables from operations	264,650	231,900
Suspense and temporary accounts	608,508	198,710
Receivables in settlement	2,688,270	547,695
Less: Allowance for impairment of other receivables	(272,518)	(53,938)
	4,076,641	1,021,935
Other receivables in foreign currencies		
Receivables from employees	42	18
Other receivables from operations	336,697	98,190
Suspense and temporary accounts	2,256	174
Receivables in settlement	323,250	228,472
Less: Allowance for impairment of other receivables	(135,733)	(127,697)
	526,512	199,157
Prepayments in RSD		
Deferred receivables for accrued interest	429,369	496,147
Deferred expenses for liabilities at amortized cost using effective interest rate	156,219	90,497
Deferred other expenses	171,129	191,163
Other prepayments	33	-
	756,750	777,807
Prepayments in foreign currencies		
Deferred receivables for accrued interest	105,676	135,112
	105,676	135,112
Inventories		
Inventories of materials	54,586	26,147
Inventories of tools and fixtures	1,445	1,220
Assets acquired in lieu of debt collection	1,968,810	1,334,522
Fixtures in use	101,845	130,024
Less: Allowance for impairment of assets acquired in lieu of debt collection	(141,357)	(123,607)
Less: Allowance for impairment of inventories	(101,845)	(130,024)
	1,883,484	1,238,282
	7,349,063	3,372,293

Within receivables in settlement totaling RSD 2,688,270 thousand, the largest portion of RSD 1,719,750 thousand accounts for receivables from purchase and sales of foreign currencies in the foreign exchange market, the amount of RSD 416,933 refers to the receivables due form the insurance company Dunav osiguranje a.d., Beograd for collective life insurance of employees, and the amount of RSD 545,105 thousand refers to the receivables claimed in legal suits won against the customers company Takovo a.d., Gornji Milanovac (of RSD 336,020 thousand) and KMS Cyprus LTD (of RSD 209,085 thousand).

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

32. OTHER ASSETS (Continued)

Tangible assets acquired in lieu of debt collection with the net book value of RSD 1,827,453 thousand pertain to the following:

Tangible assets acquired in lieu of debt collection for the past 12 months

Description	Area in m^2	Value	Acquisition Date
Niš, Čajnička bb, residential and ancillary buildings	825.74	11,515	31/03/2013
Niš, Sjenička 1, commercial building and warehouse	1,452.73	14,178	31/03/2013
Ćuprija, Alekse Šantića 2/24, apartment	72.40	924	16/04/2013
Niš, Ivana Gorana Kovačića 31, apartment	434.58	9,666	17/04/2013
Niš, Ivana Milutinovića 30, business premises	438.39	5,049	23/04/2013
Sombor, Apatinski put 56, family house	191	1,064	21/05/2013
Valjevo, Donja Grabovica, residential and commercial building	200	4,618	12/06/2013
Vranić, Milijane Matić 2, commercial building, ancillary buildings and land	10,584.24	27,571	09/07/2013
Vrhpolje, restaurant and land	1,334	2,483	14/06/2013
Leskovac, Kralja Petra I, commercial building and land	1,157	5,863	10/04/2013
Niš, Triglavska 3/1, apartment	79.80	3,486	26/07/2013
Niš, Bulevar 12 februara, warehouse – ancillary building	2,878	83,059	01/08/2013
Niš, Gornjomatejevačka VIII prilaz bb, 2 apartments	113.99	2,328	29/08/2013
Niš, Radoja Dakića 84, store	70.93	6,075	23/10/2013
Kula, Železnička bb, business premises, warehouse, power substation	7,959	25,071	22/11/2013
Vranje, arable field, category 2 vineyard	2,339	1,858	29/11/2013
Mladenovac, category 3 filed and forest	1,142	506	18/12/2013
Beograd, Radnička 22, sales sow room and servicing premises	7,190.52	638,720	19/12/2013
Prijepolje, Karoševina, saw mill	450	1,126	31/12/2013
Total I		845,160	

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

32. OTHER ASSETS (Continued)

Tangible assets acquired in lieu of debt collection in prior periods

Description	Area in m^2	Value	Acquisition Date
Mur, Novi Pazar, house and category 3 orchard	1,190	5,535	06/04/2012
I.C.P Kruševac, commercial building	12,836	49,982	08/06/2012
Soko Banja, cottage, production plant, family residential building	1,944	34,954	01/08/2012
Soko Banja, arable land (orchard, fields)	5,740.83 ares	35,335	01/08/2012
Beograd, Baje Pivljanina 83, commercial building	278.52	67,320	23/08/2012
Novi Pazar, Ejupa Kurtagića 13, house	139.90	4,010	24/07/2012
Majur, Tabanovačka, category 4 arable field	1,445 ha	1,671	10/08/2012
Mladenovac, category 3 arable field	16,633	274	22/11/2012
Prokuplje, Maloplanska 7, two buildings and land	490	314	11/06/2012
Obrenovac, Mislođin, arable field	10,017	1,051	11/01/2012
Gnjilica, category 7 arable field	2,638	115	11/06/2008
Hotel President, Čačak, at Bulevar oslobođenja bb	2,278.92	113,882	12/02/2009
Residential building, Čačak, at Ratka Mitrovića 6	195	3,706	12/05/2009
Novi Pazar, Kej skopskih žrtava 44, store	82.95	3,435	27/09/2006
Novi Pazar, yard and category 4 meadow	1 ha 24 ares	337	26/11/2010
Tivat, Mrčevac – residential building, ancillary facilities in construction and garage	277	5,512	23/12/2010
Tutin, Buče category 4 forest	8,292	547	26/11/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.1	87	22,800	24/12/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.2	170	44,552	24/12/2010
NBGD, Milentija Popovića 5b, apartment MZ S2 no.3	173	45,338	24/12/2010
NBGD, Milentija Popovića 5b, apartment I S2 no.5	171	44,814	24/12/2010
NBGD, Milentija Popovića 5b, apartment II S2 no.9	175	45,863	24/12/2010
Tutin, Ostrovica, forest, field and pasture	110,782	601	30/07/2012
Mali Požarevac, Veliko polje, category 3 and 4 fields	21,915	328	27/09/2012
Mur, Novi Pazar, forest, field and orchard	34.96 ares	4,379	12/07/2011
Budva, category 4 forest	974	13,532	17/06/2011
Prijevor, category 4 forest	1,995	11,087	17/06/2011
Residential building Galathea	925	319,214	21/11/2011
Total II		880,488	

In 2013 for the Bank changed utilization purpose for three properties totaling RSD 125,031 thousand (business premises, two in New Belgrade and one in Niš) into premises for used for performance of its own business activity.

Tangible assets acquired in lieu of debt collection for the past 12 months - Equipment

Description	Value	Acquisition Date
Vranić, equipment – production line	10,843	09/07/2013
Total III	10,843	

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

32. OTHER ASSETS (Continued)

Tangible assets acquired in lieu of debt collection in prior periods – Equipment

Description	**Value**	**Acquisition Date**
Kruševac, movables (machinery, furniture, equipment)	45,243	11/06/2012
Niš i Soko Banja, movables (coffee processing line, transporters and cleaning equipment)	34,701	31/07/2012
Paraćin, coffee roasting line	11,018	31/12/2012
Total IV	90,962	
TOTAL (net book value) I + II+ III+ IV	1,827,453	

Tangible assets acquired in lieu of collection of receivables within a year totaled RSD 856,003 thousand as of December 31, 2013 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. The Bank's management is undertaking actions to sell such property.

During 2013, the Bank impaired tangible assets acquired in lieu of collection of receivables (seven properties: five apartments in new Belgrade, commercial building in Vranić and a house in Novi Pazar) based on the fair value appraisal performed by the Bank's expert team in the total amount of RSD 17,750 thousand.

In accordance with NBS regulations, the Bank is under obligation to dispose of for tangible assets acquired in lieu of collection of receivables up to December 30, 2013 or to deploy them for its own use within twelve months of the date of acquisition.

In accordance with amended NBS regulations in effect as from December 31, 2013, the Bank is under obligation to dispose of for tangible assets acquired in lieu of collection of receivables up to December 30, 2013 or to deploy them for its own use within three years from either the underlying receivable maturity date or the date of acquisition of such assets, in the event the asset acquisition date I earlier than the underlying receivable maturity date.

In the event that the prescribed deadline is exceeded the Bank must make a full provision for estimated losses thereon.

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

33. TRANSACTION DEPOSITS

	December 31, 2013	December 31, 2012
In RSD		
- finance and insurance sector	7,971,822	592,959
- public enterprises	3,999,425	2,952,311
- corporate customers	15,203,645	12,567,931
- entrepreneurs	2,156,416	1,818,444
- public sector	17,338	42,979
- retail customers	7,056,609	5,535,428
- non-residents	215,136	157,962
- registered agricultural producers	1,496,911	1,265,464
- other customers	1,668,873	1,482,446
39,786,175	39,786,175	26,415,924
In foreign currencies		
- finance and insurance sector	1,133,046	753,711
- public enterprises	173,189	195,144
- corporate customers	5,408,486	7,029,121
- entrepreneurs	228,643	197,079
- public sector	1,979,117	1,363,062
- retail customers	3,388,756	2,658,638
- non-residents	627,488	1,155,728
- registered agricultural producers	73	68
- other customers	492,405	568,301
13,431,203	13,431,203	13,920,852
	53,217,378	40,336,776

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 2013, these deposits were interest-bearing. Depending on the level of average monthly balance on transaction accounts of customers, the interest rates ranged from 0.25% to 1.5% annually.

Demand deposits of corporate customers and non-residents denominated in foreign currencies are non-interest bearing except for specific business arrangements.

Dinar demand savings deposits placed by retail customers were deposited at an interest rate of 0.15% annually. Foreign currency demand savings deposits of retail customers were placed at an interest rate of 0.15% annually for EUR deposits, i.e. 0.10% annually for deposits in other currencies.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

34. OTHER DEPOSITS

	December 31, 2013	December 31, 2012
Other deposits in RSD		
Savings deposits	3,343,612	1,828,785
Deposits for loans approved	293,401	344,192
Special-purpose (earmarked) deposits	3,776,033	3,629,670
Other deposits:		
- finance and insurance sector	715,513	4,979,525
- public enterprises	812,499	811,095
- corporate customers	4,092,753	10,585,279
- entrepreneurs	191,465	56,650
- public sector	173,898	339,343
- retail customers	41,989	22,102
- non-residents	5	7
- other customers	6,183,768	5,695,334
	19,624,936	28,291,982
Other deposits in foreign currencies		
Savings deposits	165,597,594	147,512,464
Deposits for loans approved	1,727,259	2,394,006
Special-purpose (earmarked) deposits	1,585,322	1,734,876
Other deposits:		
- finance and insurance sector	6,055,118	5,235,630
- public enterprises	527,353	2,432,538
- corporate customers	4,870,619	6,331,891
- entrepreneurs	18,875	34,570
- public sector	2,437	2,425
- non-residents	917	910
- other customers	2,369,736	1,212,676
	182,755,230	166,891,986
	202,380,166	195,183,968

Corporate Customer Deposits

In 2013, short-term dinar deposits of corporate customers were placed at annual interest rates ranging between the key policy rate less 4 percentage points for deposits placed up to 7 days to key policy rate less 1.85 percentage points for deposits placed up to a year annually.

Short-term foreign currency deposits of corporate customers were placed at an interest rate ranging between 0.25% and 3% annually for EUR deposits and 1.75% annually for deposits in other currencies.

Long-term dinar deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased by 1.7 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate of 1.95% for other currencies and 3.25% for EUR.

In 2013, short-term dinar deposits of corporate customers indexed to EUR exchange rate were placed at interest rates ranging from 0.7% to 1.7% annually.

Long-term dinar deposits of corporate customers indexed to EUR exchange rate were placed at the interest rate of 2% annually.

Retail Customer Deposits

In 2013, short-term dinar deposits of retail customers were placed at interest rates ranging from 6.5% to 8.5 % annually, while foreign currency short-term retail deposits accrued interest at rates from 0.25% to 2.75% annually.

Long-term dinar deposits of retail customers were placed at interest rates ranging from 9.75% to 10.25% annually, while foreign currency short-term retail deposits accrued interest at rates from 1% to 3.65 % annually.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

35. BORROWINGS

	December 31, 2013	December 31, 2012
Borrowings received in RSD		
Overnight loans	1,239,935	249,476
Other financial liabilities	44,174	21,741
	1,284,109	271,217
Borrowings received in foreign currencies		
Other financial liabilities in foreign currencies	335,881	366,047
	335,881	366,047
	1,619,990	637,264

Overnight loans refer to the short-term loans maturing within 7 days at the interest rate between 4% and 7.5%. The breakdown of the largest creditors for overnight loans is provided below:

Creditor	**December 31, 2013**
ADOC d.o.o., Beograd	823,000
JP Stara Planina, Knjaževac	172,603
Politika Štamparija d.o.o., Beograd	55,600
MALEX-CITY COPY SERVIS d.o.o., Beograd	46,500
Sava Osiguranje a.d.o., Beograd	30,000
Other creditors	112,232
	1,239,935

Other financial liabilities in foreign currencies mostly refer to the payments not made based on the received proceeds from abroad in the amount of RSD 325,013 thousand.

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

	December 31, 2013	December 31, 2012
Interest, fee and commission payables in RSD and change in the value of derivatives		
Interest payable	243,160	171,976
Fees and commissions payable	10,024	11,893
	253,184	183,869
Interest, fee and commission payables in foreign currencies and change in the value of derivatives		
Interest payable	2,704	5,041
		5,041
	255,888	188,910

37. PROVISIONS

	December 31, 2013	December 31, 2012
Provisions for potential losses arising from litigation	10,900	1,557,557
Provisions for employee benefits (IAS 19)	280,585	276,571
Provisions against potential losses per commitments and contingent liabilities (off-balance sheet items)	473,647	497,632
	765,132	2,331,760

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

37. PROVISIONS (Continued)

Movements on accounts of provisions

	December 31, 2013	December 31, 2012
a) Provisions for potential losses arising from litigation		
Opening balance	1,557,557	1,357,278
Charge for the year (Note 12 a)	13,100	218,528
Release of provisions during the year	(1,178,087)	-
Reversal of provisions (Note 12 b)	(381,670)	(18,249)
Balance, end of year (Note 48 b)	10,900	1,557,557
b) Provisions for retirement benefits and unused annual leaves (vacations)		
Opening balance	276,571	276,141
Charge for the year – annual leaves (Note 12 a)	7,637	49,359
Reversal of provisions – retirement benefits (Note12 b)	(3,623)	(48,929)
Balance, end of year	280,585	276,571
c) Provisions for potential losses per commitments and contingent liabilities		
Opening balance	497,632	502,017
Reversal of provisions (Note 12)	(23,985)	(4,385)
Balance, end of year (Note 48 b)	473,647	497,632

a) Comment on movements on provisions for litigations:

i) Based on the Supreme Appellate Court revised ruling during 2013 the amount of provisions in respect of the legal suit against company Takovo a.d., Gornji Milanovac totaling RSD 1,124,857 thousand was:
- reversed in the amount of RSD 380,770 thousand due to collection made (the total amount of reversal of provision based on collection amounted to RSD 381,670 thousand as of December 31, 2013);
- released in the amount of RSD 744,087 thousand for the refund of this portion of the Bank's receivable for redeliberation due to the altered method of interest calculation;
- and the Bank's receivables for newly determined penalty of RSD 336,020 thousand was recognized based on the new ruling which is expected to become final and enforceable at the end of 2014.

ii) Based on the final and enforceable adjudication of the Commercial Court of Belgrade, in December 2013 the Bank made a payment totaling RSD 757,070 thousand in respect of the legal suit against, the customer Ineks Intereksport a.d., Beograd (in bankruptcy) as follows:
- release of provisions was made in the amount of RSD 417,187 thousand;
- RSD 339,883 thousand was additionally charged to the income statement.

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

	December 31, 2013	December 31, 2012
Discount rate	11.25%	11.25%
Salary growth rate within the Bank	4%	4%
Employee turnover	5%	5%

The discount rate equaled the previous years' key policy rate of the National Bank of Serbia as of December 31, 2012 (whereas the key policy rate for 2013 equals 11%).

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

38. TAXES PAYABLE

	December 31, 2013	December 31, 2012
Value added tax payable	6,792	7,273
Other taxes and contributions payable	14,824	14,526
	21,616	21,799

39. TAX AND DIVIDEND PAYABLES

	December 31, 2013	December 31, 2012
Tax and dividend payables	150,124	85,114

40. DEFERRED TAX LIABILITIES

	December 31, 2013	December 31, 2012
Deferred tax assets	(95,461)	-
Deferred tax liabilities	105,617	-
	10,156	-

In line with paragraph 71of IAS 12 ”Income Taxes,” the Bank stated deferred tax assets and deferred tax liabilities at net principle. Changes in deferred tax assets and liabilities during 2012 are presented in detail in Note 19.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

41. OTHER LIABILITIES

	December 31, 2013	December 31, 2012
Other liabilities denominated in RSD		
Accounts payable	253,193	227,126
Advances received	20,217	190,454
Other accounts payable	44,399	41,902
Liabilities for consignment operations (LEDIB 1and 2)	18,406	-
Liabilities in settlement	698,886	235,620
Suspense and temporary accounts	45,843	(292,991)
	1,080,944	402,111
Net salaries	38,931	88,187
Taxes on salaries and benefits	4,691	12,921
Contributions to salaries and benefits	3,290	6,562
Temporary and seasonal employees	-	-
Other liabilities to employees	7,427	7,277
	54,339	114,947
Liabilities for deferred interest accrued	76,251	45,711
Other accrued expenses	6,598	17,224
Deferred interest income	29,271	49,865
Deferred receivables at amortized cost calculated by applying effective interest rate (Note 5a)	808,666	824,282
Deferred other income	91,820	93,237
Other accruals	555,668	526,612
	1,568,274	1,556,931
Other foreign currency liabilities		
Advances received	15,747	10,373
Liabilities from consignment operations – loan facilities	26,688,192	14,212,223
Liabilities in settlement	2,056,385	589,716
Other liabilities	7,291	7,366
Suspense and temporary accounts	89	54
	28,767,704	14,819,732
Subordinated foreign currency liabilities	5,732,105	5,685,915
	5,732,105	5,685,915
Liabilities for deferred interest accrued	2,968,105	2,862,595
Other accrued expenses	98,626	91,803
Other accruals	1,601	1,588
	3,068,332	2,955,986
	40,271,698	25,535,622

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

- Liabilities toward the Republic of Serbia based on the loans from the Kingdom of Denmark for financing projects of local economic development in the Balkans:

LEDIB 1 and 2

2013		2012	
Amount in RSD ‘000	**Amount in EUR ‘000**	**Amount in RSD ‘000**	**Amount in EUR ‘000**
18,406	-	-	-

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

41. OTHER LIABILITIES (Continued)

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

2013		2012	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
5,781,447	50,430	4,815,056	42,342

- Liabilities toward the Republic of Serbia based on the loans from the Republic of Italy for financing projects of small and medium-sized enterprises:

2013		2012	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
1,062,640	9,269	1,199,385	10,547

- Liabilities toward the Republic of Serbia based on a loan obtained from the European Agency for Reconstruction (EAR):

2013		2012	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
158,421	1,382	124,413	1,094

- Liabilities toward international financial organizations:

a) EFSE 1 and 2

2013		2012	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
5,011,497	43,714	3,574,004	31,429

b) GGF

2013		2012	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
2,636,768	23,000	2,615,521	23,000

c) FMO

2013		2012	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
2,292,842	20,000	-	-

d) KfW

2013		2012	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
6,305,314	55,000	-	-

e) EBRD

2013		2012	
Amount in RSD '000	Amount in EUR '000	Amount in RSD '000	Amount in EUR '000
3,439,263	30,000	1,883,844	20,000

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

41. OTHER LIABILITIES (Continued)

Liabilities for deferred interest accrued in foreign currencies totaling RSD 2,870,516 thousand mostly refer to foreign currency retail savings deposits.

Fees collected in advance comprising deferred income amounting to RSD 808,666 thousand are included in interest income within the balance sheet (Note 5 a).

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

The received subordinated loan amounted to RSD 5,732,105 thousand, i.e. EUR 50,000 thousand.

In respect of the loan facilities obtained, the Bank agreed to certain financial indicators stipulated by the loan agreements with its creditors. The methodology for calculating the contractually defined financial indicators per loan facilities obtained differs from the calculation method for those indicators in accordance with the regulations of the National Bank of Serbia in part referring to the calculation of capital and inclusion of items relevant for determining open credit exposure.

Pursuant to the loan agreements executed with the Kreditanstalt fur Wiederaufbau (German Development Bank, abbreviated: KfW), the Bank is obligated to comply with certain financial indicators until completion of the loan repayment. As of December 31, 2013 the Bank did not comply with the open credit exposure ratio (actually achieved - 62.04% as compared to the prescribed maximum of 25%). On June 6, 2013 the Bank received from KfW a Waiver Letter where KfW waives the rights stipulated by the Loan Agreement dated December 12, 2012 in respect of the Bank's non-compliance with the financial covenants in the period up to December 31, 2013. At the Bank's request, KfW approved of the modification to the methodology for determining open credit exposure ratio, whereas obtaining the approval of the National Bank of Serbia as the agent for this loan facility is underway. After reconciling methodological assumptions, the Bank will fully comply with the contractually defined ratios.

Pursuant to the loan agreements executed with the European Bank for Reconstruction and Development (EBRD) and International Financial Corporation (IFC), the Bank is obligated to comply with certain financial indicators until completion of the loan repayment. As of December 31, 2013 the Bank did not comply with the open credit exposure ratio (actually achieved - 28.39% as compared to the prescribed maximum of 25% for EBRD, and actually achieved - 47.59% as compared to the prescribed maximum of 25% for IFC). The aforesaid departures from the contractually defined financial indicators do not allow IFC to demand early loan repayment. Negotiations have been initiated in order to harmonize methodologies for determining the financial indicators at issue.

42. CORE CAPITAL

	December 31, 2013	December 31, 2012
Share capital	17,191,466	17,191,466
Share premiums	22,843,084	22,843,084
	40,034,550	40,034,550

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

42. CORE CAPITAL (Continued)

The structure of the Bank's shareholders in respect of common shares at December 31, 2013 was the following:

Shareholder	Share Count	% Interest
Republic of Serbia	3,709,890	42.60
EBRD, London	2,177,330	25.00
Jugobanka a.d., Beograd in bankruptcy	321,600	3.69
Invej d.o.o., Beograd	230,000	2.64
Evropa osiguranje a.d., Beograd in bankruptcy	209,420	2.40
East capital (lux)-Balkan fund	202,906	2.33
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.97
ERSTE bank a.d., Novi Sad	130,308	1.50
Vicamex Consulting Limited	121,907	1.40
Stankom co. d.o.o., Beograd	117,535	1.35
UniCredit bank Srbija	101,494	1.17
Others (1,175 shareholders)	1,215,540	13.95
	8,709,310	100.00

The structure of the Bank's shareholders in respect of convertible preferred shares at December 31, 2013 was the following:

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

The structure of the Bank's shareholders in respect of preferred shares at December 31, 2013 was the following:

Shareholder	Share Count	% Interest
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (635 shareholders)	355,420	95.16
	373,510	100.00

During 2013, prior year dividends were paid on preferred shares in the amount of RSD 40,342 thousand.

The basic earnings per share totaled RSD 468 or 46.75 % of a common share par value in 2013, whereas in 2012 the basic earnings per share amounted to RSD 469 or 46.9 % of a common share par value.

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

42. CORE CAPITAL (Continued)

Diluted earnings per share totaled RSD 242 or 24.21% of a common share par value in 2013, whereas in 2012 the diluted earnings per share amounted to RSD 290 or 29.04% of a common share par value.

	2013	2012
Profit for the year less preferred share dividend	4,071,705	4,084,795
Average weighted number of shares during the year	8,709,310	8,709,310
Basic earnings per share (in RSD)	468	469

	2013	2012
Profit for the year less preferred share dividend	4,071,705	4,084,795
Average weighted number of shares during the year	16,817,956	14,068,288
Diluted earnings per share (in RSD)	242	290

43. RESERVES FOR ESTIMATED LOSSES RETAINED FROM EARNINGS

	December 31, 2013	December 31, 2012
Special reserves for estimated losses retained from earnings	16,635,440	14,785,440
Movements on the reserves retained from earnings		
Balance, beginning of year	14,785,440	11,635,440
Other capital		
– allocation of portion of 2012 profit to reserves	1,850,000	3,150,000
Balance, end of year	16,635,440	14,785,440

44. REVALUATION RESERVES

	December 31, 2013	December 31, 2012
Revaluation reserves based on valuation of property and equipment	1,062,582	488,942
Revaluation reserves based on fair value adjustment of securities	728,686	378,832
	1,791,268	867,774
Movements on revaluation reserves		
Balance, beginning of the year	867,774	689,620
increase/decrease during the year	923,494	178,154
Balance, end of the year	1,791,268	867,774

Revaluation reserves are associated with gains on:

- increase in the value of property based on the valuation performed by an independent appraiser in the amount of RSD 686,680 thousand and fair value adjustment of securities available for sale in the amount of RSD 349,854 thousand, net and
- decrease of revaluation reserves of depreciation and amortization of fixed assets in the amount of RSD 10,038 thousand and decrease in revaluation reserves for tax effects in the amount of RSD 103,002 thousand.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

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

	December 31, 2013	December 31, 2012
Unrealized losses on the fair value adjustment of securities available for sale	(187,011)	(7,016)

In the course of 2013 increase in unrealized losses from the securities available for sale totaling RSD 179,995 thousand includes increase of RSD 406,379 thousand and decrease of RSD 226,384 thousand.

46. RETAINED EARNINGS

	December 31, 2013	December 31, 2012
Retained earnings		
Prior year profits	2,011,646	63,666
Profit for the year	4,676,325	4,122,146
	6,687,971	4,185,812
Profit for the year		
- profit from continuing operations	4,588,375	4,572,662
- profit /loss from tax effects	87,950	21,932
- current income tax expense	-	(472,448)
	4,676,325	4,122,146
Movements on prior year profits		
Balance, beginning of year	63,666	38,213
Increases during the year:		
- transfer from profit for the year	4,122,146	3,513,680
Decreases during the year:		
- dividends on preferred shares	(37,351)	(40,264)
- employee profit sharing	(296,853)	(308,000)
- transfer to the Bank's reserves	(1,850,000)	(3,150,000)
- increase due to the effect of revaluation reserves amortization based on valuation of property and equipment	10,038	10,037
Balance, end of year	2,011,646	63,666

Pursuant to the regulations of the National Bank of Serbia, gains on the realized revaluation reserves from property and equipment in 2013 were recognized within retained earnings from prior years in the total amount of RSD 10,038 thousand.

In 2013, pursuant the Decision enacted by the Bank's Shareholder Assembly, accumulated retained earnings from 2012 was distributed as follows:

Payment of dividend on preferred shares for the year 2012	37,351
Transfer to the Bank's reserves retained from 2012 earnings	1,850,000
Employee profit sharing	296,853
	2,184,204

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

47. MANAGED FUNDS

	December 31, 2013	December 31, 2012
Funds managed on behalf and for the account of third parties	5,402,256	5,013,721

Funds managed on behalf and for the account of third parties are mostly comprised of assets for consignment loans of the Republic of Serbia, the largest portion of which, in the amount of RSD 3,491,045 thousand, relates to the long-term housing loans extended to retail customers. Other managed funds mostly refer to loans approved for agriculture and assets received from foreign grantors for micro loans.

48. COMMITMENTS

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

	December 31, 2013	December 31, 2012
In RSD		
Guarantees issued and other sureties	11,203,900	10,519,984
Collaterals securing liability settlement	-	5,856,170
Irrevocable commitments for undrawn loans and advances	7,118,983	7,896,786
Other irrevocable commitments	9,278,956	9,072,881
	27,601,839	33,345,821
In foreign currencies		
Guarantees issued and other sureties	2,024,730	4,775,632
Irrevocable commitments for undrawn loans and advances	521,333	919,509
Other irrevocable commitments based on the contractually agreed value of RS securities and bonds	681,464	3,411,696
	3,227,527	9,106,837
	30,829,366	42,452,658

Other irrevocable commitments in RSD mostly refer to the following: unused portion of approved retail clients' current account overdrafts in the amount of RSD 5,052,982 thousand and unused portion of the approved limit amounts per credit cards in the amount of RSD 1,983,853 thousand and charge cards in the amount of RSD 2,074,810 thousand.

For the aforesaid guarantees and contingent liabilities the total estimated provision for potential losses on off-balance sheet items as in accordance with IAS 37 was formed in the amount of RSD 473,647 thousand (Note 37). This provision amount is stated within the liabilities in the Bank's balance sheet.

As of December 31, 2013 and 2012, there were no liabilities arising from forward foreign exchange operations.

b) Litigation

As of December 31, 2013, contingent liabilities based on legal suits filed against the Bank amounted to RSD 2,276,270 thousand (for 265 legal suits). The Bank's management anticipates no materially significant losses thereof in the forthcoming period.

The most significant legal suits involving the Bank as a defendant is the legal suit against the company Takovo a.d., Gornji Milanovac worth RSD 1,124,857 thousand. Based on the Supreme Appellate Court revised ruling, in 2013 the Bank collected the due receivables in the amount of RSD 380,770 thousand. Pursuant to the final and enforceable verdict received, with regard to the resumed lawsuit against Takovo, the Bank is entitled to receivables of RSD 336,020 thousand representing penalty interest accrued on claimed loans approved to Takovo.

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

48. COMMITMENTS (Continued)

b) Litigation (Continued)

Based on the expert estimate made by the Bank's Legal Department, in 2013 not all legal suits filed against the Bank will entail outflows of funds, but if there are any for certain cases, the amounts will be immaterial. Based on the aforesaid estimate, the Bank's management made no additional provisions for potential losses on litigations apart from the amount of RSD 10,900 thousand as disclosed in Note 37 a) to the financial statements.

The total provisions of the Bank for litigation losses amount to RSD 10,900 thousand (Note 37).

In addition, the Bank is involved in lawsuits against third parties the most significant portion of which amounts to RSD 20,314,063 thousand (for 251 cases with the largest individual amounts). The Bank's management anticipates favorable outcome of the most lawsuits.

49. OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2013	December 31, 2012
Receivables for suspended interest		
- in RSD	1,782,978	1,636,802
- in foreign currencies	321,276	282,058
Other off-balance sheet assets	186,613,150	155,257,041
	188,717,404	157,175,901

In the course of 2013, the Bank had a net increase in suspended interest of RSD 185,394 thousand comprised of:

a) increase of RSD 211,488 thousand, with the following structure:
   - newly-suspended interest of RSD 49,635 thousand;
   - resumed calculation of suspended interest of RSD 160,125 thousand;
   - foreign exchange gains of RSD 1,728 thousand; and
b) decrease of RSD 26,094 thousand, with the following structure:
   - write-off of RSD 2,577 thousand;
   - collection of RSD 20,342 thousand; and
   - transfer to other off-balance sheet items of RSD 3,175 thousand.

Within other off-balance sheet assets, inter alia, the Bank records custody operations performed for the Bank's clients, repo investments in the Government-issued securities and old foreign currency savings bonds. In accordance with the obtained permit for custody operations, the Bank keeps the financial instruments of the customers on the accounts of securities, recorded within off-balance sheet items. The Bank is not exposed to credit risk per these items.

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

The Bank is required to maintain a minimum capital adequacy ratio of 12%, as established by the National Bank of Serbia in accordance with the Basel Convention applied to all banks. As of December 31, 2013, the Bank's capital adequacy ratio, as calculated based on the financial statements prepared by the Bank's management, by applying the NBS decisions effective for 2013, was 19.02%.

The Bank is also required to maintain certain ratios pertaining to the volume of its activities and composition of risk assets in compliance with the Law on Banks and with the NBS requirements. As of December 31, 2013 and 2012, all ratios pertaining to the volume of its activities and composition of risk assets were within their prescribed limits.

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

51. RELATED PARTY TRANSACTIONS – RECEIVABLES AND PAYABLES

A. Balance as at December 31, 2013

RECEIVABLES

Subsidiaries	Loans and Advances	Interest and Fees	Other Assets	Net Balance Exposure	Off-Balance Sheet Items	Total
Komercijalna banka a.d., Budva	430,157	825	4,253	435,235	-	435,235
Komercijalna banka a.d., Banja Luka	232,271	-	2,646	234,917	343,926	578,843
KomBank INVESTa.d., Beograd	-	1	-	1	200	201
TOTAL:	662,428	826	6,899	670,153	344,126	1,014,279

LIABILITIES

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
Komercijalna banka a.d., Budva	147,914	-	1,601	149,515
Komercijalna banka a.d., Banja Luka	9,228	-	-	9,228
KomBank INVEST a.d., Beograd	12,940	13	-	12,953
TOTAL:	170,082	13	1,601	171,696

INCOME AND EXPENSES

Subsidiaries	Interest Income	Fee and Commission Income	Dividend Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
Komercijalna banka a.d., Budva	4,414	1,548	387,597	-	(831)	392,728
Komercijalna banka a.d., Banja Luka	2,639	628	-	(390)	(293)	2,584
KomBank INVESTa.d., Beograd	-	47	-	(948)	-	(901)
TOTAL:	7,053	2,223	387,597	(1,338)	(1,124)	394,411

Komercijalna banka a.d., Beograd realized net foreign exchange losses in the amount of RSD 1,189 thousand in 2013 (2012: RSD 4,662 thousand) from related party transactions.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

51. RELATED PARTY TRANSACTIONS – RECEIVABLES AND PAYABLES (Continued)

B. Balance as at December 31, 2012

RECEIVABLES

Subsidiaries	Loans and Advances	Interest and Fees	Impairment Allowance	Net Balance Exposure	Off-Balance Sheet Items	Total
Komercijalna banka a.d., Budva	5,686	892	-	6,578	-	6,578
Komercijalna banka a.d., Banja Luka	2,963	-	-	2,963	909,746	912,709
KomBank INVESTa.d., Beograd	-	1	-	1	200	201
TOTAL:	8,649	893	-	9,542	909,946	919,488

LIABILITIES

Subsidiaries	Deposits and Loans	Interest and Fees	Other Liabilities	Total
Komercijalna banka a.d., Budva	487,804	-	1,588	489,392
Komercijalna banka a.d., Banja Luka	8,085	-	-	8,085
KomBank INVEST a.d., Beograd	14,906	38	-	14,944
TOTAL	510,795	38	1,588	512,421

INCOME AND EXPENSES

Subsidiaries	Interest Income	Fee and Commission Income	Interest Expenses	Fee and Commission Expense	Net Income/ Expenses
Komercijalna banka a.d., Budva	230	1,501	-	(720)	1,011
Komercijalna banka a.d., Banja Luka	1,570	828	(588)	(509)	1,301
KomBank INVESTa.d., Beograd	-	131	(1,223)	-	(1,092)
TOTAL:	1,800	2,460	(1,811)	(1,229)	1,220

52. RELATED PARTY DISCLOSURES

Gross and net remunerations paid to the members of the Bank's Executive Board, Board of Directors and Audit Committee in 2013 were as follows:

	December 31, 2013	December 31, 2012
Gross remunerations		
Executive Board	83,788	72,972
Net remunerations		
Executive Board	71,179	61,199
Gross remunerations		
Board of Directors and Audit Committee	26,845	26,141
Net remunerations		
Board of Directors and Audit Committee	17,276	17,087

53. RISK MANAGEMENT

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

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

Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Bank's aptitude to assume risks it is or may be exposed in accordance with adopted strategies and policies.

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

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

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; and
- Other enactments.

Risk Management Strategy sets out:

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

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

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

53. RISK MANAGEMENT (Continued)

Policies for managing certain risk types define the following:

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

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

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

Competencies

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

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

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

The Asset and 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 approval requests within framework determined by the Bank's enactments, analyses the Bank's exposure credit, interest rate and currency risk, analyzes loan portfolio and proposes measures to be taken to the Executive Board.

The Debt Collection 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 exceeding its limits of authorization.

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

Treasury 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.

53. RISK MANAGEMENT (Continued)

Competencies (Continued)

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

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

Risk Management Process

The Bank regularly measures and evaluates risks identified in its operations. Measurement entails applying qualitative and quantitative measurement methods and models that enable detection of changes in risk profile and assessment of new risks.

For all risks identified the Bank determines their significance based on as comprehensive assessment of risks inherent in the Bank's particular operations, products, activities and processes.

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

Risk monitoring and control is based on limits that are set by the Bank. They in turn depend on 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: the Bank's Board of Directors, Executive Board, Audit Committee, Asset Liability Management Committee and Credit Committee, and they contain all the information required for risk assessment and reaching of conclusions about the Bank's risks.

Types of Risk

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

53.1. CREDIT RISK

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

- **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 the customer credit rating);
- **Risk of change in the value of assets** - the risk of loss that may arise on assets in the event of a decline in their market value as compared to the price at which assets were acquired;
- **Credit foreign exchange risk** – represents probability that the Bank will incur a loss due to default of the debtor in liability settlement within contractually defined terms, which is caused by adverse impact of the RSD exchange rate changes on the debtor's financial situation;
- **Concentration risk** – represents a risk that is a direct or indirect outcome of the Bank's exposures the same or similar risk factor or type, such as: exposure to a single entity or a group of related parties, industries, geographical regions, types of products and activities, collaterals, financial instruments;
- **Exposure risk** - is a risk that can arise from the Bank's exposure to a single entity, group of related entities or the Bank's related parties;
- **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.

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

In addition to the aforelisted risks, the Bank also monitors the following related risks:

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

Credit Risk Management

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

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

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

The basic principles of credit risk management are as follows:

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

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

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

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

Credit Risk Management (Continued)

The Bank performs quantitative and/or qualitative measurement, i.e. assessment of the identified credit risk. The credit risk measurement process is based on measuring risk level of individual loans and investments based on the internally adopted rating system.

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

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. Application of these principles allows the Bank to cover unexpected losses due to the customer's inability to settle liabilities as they fall due, in accordance with contractually defined terms. For these purposes, the Bank classifies receivables and assesses the level of necessary reserve using the regular analysis of portfolio. The analysis includes the measurement of adequacy of reserves formed against individual borrowers, risk categories, portion of portfolio and at overall portfolio level. Reserves for estimated losses represent a certain form of hedge against potential adverse effects in case lent funds are not repaid when due and in full.

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

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level: for loans within defined limits decisions are made by the branch credit committees, although in certain cases approval of the risk management organizational unit is required. Central Credit Committee decides on the loans in excess of the defined limits (depending on the type of client) with prior opinion of the risk management organizational unit. The Executive Board and Board of Directors make decisions depending on the exposure levels.

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

For loans contracted in foreign currencies or dinars indexed to a currency clause, the Bank estimates the effects of the changes in foreign exchange rates on the financial situation and creditworthiness of debtors and particularly analyzes adequacy of the debtor's cash flows in relation to the changed level of liabilities per loans assuming that there will be certain fluctuation in RSD exchange rates on an annual basis.

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

The basic techniques for credit risk mitigation are as follows:

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

The Bank's exposure limits per individual debtor are based on the assessment of the debtor's credit-worthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Bank continuously controls credit risk movements within a defined risk profile.

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

Credit Risk Management (Continued)

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

Investment diversification is aimed at alleviating credit risk through reduction portfolio concentrations in certain segments of assets.

Monitoring loan investment quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality. For protection against credit risk exposure, in addition to the regular monitoring of the customers' business operations, the Bank contractually defines security instruments (collaterals), which reduce credit risk.

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

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

As a hedge against counterparty default risk, the Bank undertakes the following steps in respect to collection of due receivables: rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; executing agreements with interested third parties; and instigating court proceedings and other measures.

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

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

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 as a uniform method for assigning ratings which ensures that customers with the same rating have the same credit characteristics and the same probability of default, in part or in full, over the period of one year. The basic parameters of credit risk used in determining a risk subcategory are calculated and monitored on a monthly basis.

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

Downgrade Risk (Continued)

A low level of risk implies doing business with customers with a high credit rating (risk rating 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 rating category 3), and a high level of risk characterizes customers with negative operating results and poor credit rating (risk rating categories 4 and 5).

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

Risk of Change in the Value of Assets

Allowance for impairment of loan investments is intended to ensure reasonable, cautious and timely registering of losses on loan impairment, as well as to intervene in respect of contingent liabilities with a view to protect the 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 loans and provisions are made when there is justification and objective evidence of impairment arising as the result of events that occurred after initial recognition of a loan, that have a negative effect on future cash flows associated with a loan.

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

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

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

Individual Assessment

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

Group-Level Assessment

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

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

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

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

Assessment of Provisions for Probable Losses on Off-Balance Sheet Items

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

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

53.1.1 Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2013 is presented in the table below without taking into account any collateral or any other sort of credit risk hedge. The stated values are presented in gross and net carrying amounts (after impairment effects).

Maximum credit risk exposure before collateral or any other improvements

	December 31, 2013		December 31, 2012	
	Gross	Net	Gross	Net
I. Assets	**365,452,580**	**345,075,720**	**324,556,515**	**307,922,409**
Cash and cash equivalents	41,137,794	41,137,794	40,514,180	40,514,180
Revocable deposits and loans	53,395,120	53,395,120	43,053,502	43,053,502
Receivables arising from interest, fees, commissions, trade, changes in the fair value of derivatives and other receivables	4,790,736	2,788,176	3,110,857	1,547,342
Loans and advances to customers	198,842,503	184,004,121	188,813,293	177,106,865
Other investments	6,052,272	2,929,218	6,405,751	3,227,896
Securities	57,006,076	57,001,465	41,352,390	41,347,719
Other assets	4,228,079	3,819,826	1,306,542	1,124,905
II. Off-balance sheet items	**30,882,511**	**30,408,862**	**33,938,607**	**33,440,975**
Payment guarantees	7,357,476	7,291,000	7,870,828	7,814,377
Performance bonds	5,787,610	5,661,141	6,771,239	6,663,684
Irrevocable commitments	16,830,341	16,830,341	17,812,584	17,812,584
Other	907,084	626,380	1,483,956	1,150,330
Total (I+II)	**396,335,091**	**375,484,582**	**358,495,122**	**341,363,384**

The largest credit risk is associated with the executed loan arrangements; however, the Bank is exposed to risk based on off-balance sheet items resulting from commitments and contingent liabilities.

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

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

Loans and advances to customers and receivables due from banks

December 31, 2013	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Businesses	Total Retail	Corporate Customers	Total	Due from Banks
Loans not matured and not provided for	-	-	-	-	-	-	9,206,341	9,206,341	8,894,091
Loans not matured and not provided for	-	-	-	-	-	-	10,049,711	10,049,711	1,000,231
Group-level impaired	33,322,704	12,702,248	4,114,157	7,882,304	5,337,991	63,359,404	74,080,872	137,440,276	319,911
Individually impaired	478,220	-	37,590	-	877,367	1,393,177	30,538,765	31,931,942	-
Total	**33,800,924**	**12,702,248**	**4,151,747**	**7,882,304**	**6,215,358**	**64,752,581**	**123,875,689**	**188,628,270**	**10,214,233**
Impairment allowance	**460,696**	**681,094**	**302,815**	**626,578**	**823,152**	**2,894,335**	**11,624,136**	**14,518,471**	**319,911**
Group-level impairment allowance	325,894	681,094	290,101	626,578	707,348	2,631,015	6,239,206	8,870,221	319,911
Individual impairment allowance	134,802	-	12,714	-	115,804	263,320	5,384,930	5,648,250	-
Net carrying amount	**33,340,228**	**12,021,154**	**3,848,932**	**7,255,726**	**5,392,206**	**61,858,246**	**112,251,553**	**174,109,799**	**9,894,322**

The breakdown does not include the related interest and fees, which for loans and advances totaled RSD 2,997,956 thousand as of December 31, 2013 (December 31, 2012: RSD 2,216,398 thousand). After impairment effects, the net carrying amount of interest and fees totaled RSD 1,792,107 thousand as of December 31, 2013 (December 31, 2012: RSD 1,257,309 thousand).

December 31, 2012	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Businesses	Total Retail	Corporate Customers	Total	Due from Banks
Loans not matured and not provided for	-	-	-	-	-	-	12,648,006	12,648,006	2,326,256
Loans not matured and not provided for	-	-	-	-	-	-	6,417,514	6,417,514	3,189
Group-level impaired	29,868,845	10,714,200	3,223,169	8,162,955	5,439,315	57,408,484	84,805,171	142,213,655	327,974
Individually impaired	240,420	-	44,140	-	867,091	1,151,651	23,725,048	24,876,699	-
Total	**30,109,265**	**10,714,200**	**3,267,309**	**8,162,955**	**6,306,406**	**58,560,135**	**127,595,739**	**186,155,874**	**2,657,419**
Impairment allowance	**374,463**	**643,304**	**296,276**	**558,786**	**705,041**	**2,577,870**	**8,800,584**	**11,378,454**	**327,974**
Group-level impairment allowance	249,894	643,304	275,775	558,786	609,075	2,336,834	6,091,371	8,428,205	327,974
Individual impairment allowance	124,569	-	20,501	-	95,966	241,036	2,709,213	2,950,249	-
Net carrying amount	**29,734,802**	**10,070,896**	**2,971,033**	**7,604,169**	**5,601,365**	**55,982,265**	**118,795,155**	**174,777,420**	**2,329,445**

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

Impaired Loans and Advances

Impaired loans and advances are those for which the Bank has determined the existence of objective evidence of impairment and does not expect them to be collected in full amounts of principal and interest matured pursuant to the relevant loan agreements. In the internal rating system, such loans for retail and corporate customers are allocated rating from 2 to 5 and represent individually significant loans (totaling above RSD 6 million). For loans that are not individually significant impairment is determined on a group-level, depending on the categorization in to groups with similar risk levels, for all rating categories from 1 to 5.

Impairment Allowance

The Bank makes impairment allowance for loan arrangements based on the assessment of impairment. The key components of impairment allowance made in this manner are: impairment allowance related to individually significant credit risk exposures and group-level impairment allowance made for groups of similar loans where impairment has occurred but has not yet been identified (materially less significant loans) as well as for those materially significant loans that were subject to individual assessment of impairment yet no impairment was identified on an individual basis.

Receivables Matured but not Impaired

Loans and advances matured but not impaired represent those loans and advances where there is default in settling liabilities for contractually agreed interest or principal outstanding. Yet the Bank believes that it is not appropriate to make impairment allowances for such loan investments given the probability of default status occurrence for certain types of customers (migrations), the value of instruments securitizing such loans and/or certainty of debt collection on the part of the Bank.

Receivables not Matured and not Impaired

Loans and advances not matured and not impaired extended to corporate customers and banks relate to the loans approved and disbursed to state-owned companies, local self-governments, municipalities, and to deposits placed with other banks for which it is determined that it is not appropriate to make impairment allowances for such loan investments given the probability of default status occurrence for certain types of customers (migrations) and/or certainty of debt collection on the part of the Bank.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

Loans and advances to customers and due from banks, not matured and not impaired

December 31, 2013	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	5,179,605	5,179,605	8,894,091
Medium (IR 3)	4,026,736	4,026,736	-
High (IR 4, 5)	-	-	-
Total	**9,206,341**	**9,206,341**	**8,894,091**

December 31, 2012	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	12,648,006	12,648,006	2,326,256
Medium (IR 3)	-	-	-
High (IR 4, 5)	-	-	-
Total	**12,648,006**	**12,648,006**	**2,326,256**

Loans and advances to customers and due from banks, matured but not impaired

December 31, 2013	Corporate Customers	Total	Due from Banks
Up to 30 days past due	9,977,752	9,977,752	1,000,231
31 - 90 days past due	71,959	71,959	-
Over 90 days past due	-	-	-
Total	**10,049,711**	**10,049,711**	**1,000,231**

December 31, 2012	Corporate Customers	Total	Due from Banks
Up to 30 days past due	6,395,481	6,395,481	3,189
31 - 90 days past due	22,033	22,033	-
Over 90 days past due	-	-	-
Total	**6,417,514**	**6,417,514**	**3,189**

The breakdown does not include the related interest and fees accrued on matured loans and advances to corporate customers totaling RSD 92,424 thousand as of December 31, 2013 (December 31, 2012: RSD 59,052 thousand) and to banks totaling RSD 830 thousand as of December 31, 2013 (December 31, 2012: RSD 892 thousand).

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

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

53.1.2. Loans with Altered Initially Agreed Terms

Loans with altered initially agreed terms are those loans that are rescheduled or restructured due to the difficulties in the debtor servicing the liabilities when due.

Rescheduling of receivables is performed for debtors with currently mismatching cash inflows and outflows, yet whose financial indicators have not deteriorates suggesting that the debtor will be able to settle the rescheduled liabilities according to the subsequently agreed repayment terms. Receivables are rescheduled if due from debtors up to 90 days in default, most commonly per individual loan subaccount, i.e. not including all the receivables due from the same debtor (not all loan subaccounts).

Restructuring is performed for loans due from debtors with significant problems in business where financial indicators are substantially deteriorating. Upon restructuring:

- All balance sheet receivables due form the debtor or a greater portion thereof are replaced;
- Terms whereunder the relevant receivable was approved are essentially altered (which particularly entails extension of the period for repayment of principal or interest, decrease in interest rate applied or the amount receivable and other modifications of terms which are to facilitate the position of a debtor);
- Adoption of an adequate financial consolidation program is mandatory.

Loans with Altered Initially Agreed Terms

	Rescheduled				Restructured			
	December 31, 2013		December 31, 2012		December 31, 2013		December 31, 2012	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Housing loans	570,897	535,365	319,670	317,679	84,371	71,998	245,649	245,524
Cash loans	200,670	190,174	134,509	131,521	43,989	32,652	49,866	42,832
Agricultural loans	137,953	123,606	52,959	48,365	41,409	36,687	46,987	43,852
Other loans	19,950	19,167	24,016	23,175	122	-	146	146
Micro businesses	257,056	215,516	523,653	478,558	428,962	389,335	406,973	378,019
Total retail	**1,186,526**	**1,083,828**	**1,054,807**	**999,298**	**598,853**	**530,672**	**749,621**	**710,373**
Corporate customers	26,600,393	26,169,189	15,594,905	15,377,919	12,007,317	7,415,552	10,209,883	6,496,747
Total	**27,786,919**	**27,253,017**	**16,649,712**	**16,377,217**	**12,606,170**	**7,946,224**	**10,959,504**	**7,207,120**

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

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

53.1.3. Concentration Risk

The Bank controls concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, product types, geographical regions, single entities or groups of related parties, collaterals…). Establishment of appropriate exposure limits is the basis for concentration risk control with the aim of loan portfolio diversification.

Breakdown of loans and advances per industry sector:

	Loans and advances to customers				Off-balance sheet items			
	December 31, 2013		December 31, 2012		December 31, 2013		December 31, 2012	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Finance and insurance sector	**9,279,535**	**9,151,266**	**6,850,722**	**6,720,598**	**897,031**	**897,031**	**1,735,689**	**1,733,553**
Corporate sector	**114,110,847**	**103,570,817**	**116,600,937**	**108,423,868**	**20,120,473**	**19,649,426**	**22,023,317**	**21,533,984**
Agriculture	6,139,611	5,847,062	6,490,636	6,271,752	774,549	513,051	659,411	395,241
Processing industry	44,283,969	38,228,675	36,499,008	31,267,245	4,577,951	4,504,435	5,423,728	5,388,452
Power industry	8,725,351	8,724,930	6,525,994	6,520,104	781,666	781,586	1,128,842	1,128,818
Construction works	4,295,483	4,048,794	6,398,937	6,048,983	4,325,512	4,274,383	5,031,176	4,922,894
Wholesale and retail	35,621,296	32,638,461	38,828,052	37,315,083	8,075,830	8,008,356	7,524,396	7,461,597
Services industries	12,610,202	11,747,262	18,399,210	17,637,925	823,166	813,958	1,314,711	1,303,752
Real estate activities	2,434,935	2,335,633	3,459,100	3,362,776	761,799	753,657	941,053	933,230
Entrepreneurs	**2,208,708**	**1,999,903**	**2,246,191**	**2,050,388**	**406,760**	**404,418**	**410,404**	**406,770**
Public sector	**1,183,883**	**1,153,488**	**1,153,852**	**1,123,631**	**72,843**	**72,833**	**13,339**	**13,324**
Retail sector	**58,537,223**	**56,466,040**	**52,253,727**	**50,380,901**	**8,567,239**	**8,567,239**	**8,390,034**	**8,390,034**
Non-residents	**8,576,985**	**8,279,634**	**5,355,762**	**5,044,639**	**635,722**	**635,722**	**1,175,779**	**1,175,777**
Other customers	**4,945,322**	**3,382,973**	**4,352,102**	**3,362,840**	**182,443**	**182,193**	**190,045**	**187,533**
Total	**198,842,503**	**184,004,121**	**188,813,293**	**177,106,865**	**30,882,511**	**30,408,862**	**33,938,607**	**33,440,975**

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

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

53.1.3. Concentration Risk (Continued)

Depending on general economic trends and individual industry sector trends, the Bank diversifies investments into the industry sectors that are resistant to the impact of adverse economic trends.

Breakdown of loans and advances per geographical region:

	Loans and advances to customers				Off-balance sheet items			
	December 31, 2013		December 31, 2012		December 31, 2013		December 31, 2012	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Serbia	190,238,272	175,711,914	183,431,472	172,045,981	30,230,779	29,757,132	32,741,948	32,244,319
Montenegro	537,978	533,291	199,436	197,506	1,798	1,798	2,308	2,308
Bosnia and Herzegovina	458,424	458,117	328,460	328,190	344,290	344,290	910,260	910,260
European Union	6,973,785	6,971,290	3,671,771	3,660,460	191,827	191,827	269,769	269,766
USA and Canada	220,265	352	816,929	588,954	108,023	108,023	12,037	12,037
Other	413,779	329,157	365,225	285,774	5,794	5,792	2,285	2,285
Total	**198,842,503**	**184,004,121**	**188,813,293**	**177,106,865**	**30,882,511**	**30,408,862**	**33,938,607**	**33,440,975**

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

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

53.1.4. Securities

	December 31, 2013		December 31, 2012	
	Gross	Net	Gross	Net
Securities :				
- available for sale	56,887,797	56,885,285	41,088,320	41,085,776
- at fair value through profit and loss	98,073	97,816	212,903	212,690
- held to maturity	20,206	18,364	51,167	49,253
Total	**57,006,076**	**57,001,465**	**41,352,390**	**41,347,719**

Available-for-sale financial assets represent financial instruments which are intended to be held over an indefinite time period and which may be sold for liquidity purposes, due to the movements in interest rates, exchange rates or prices of capital. They mostly comprise Treasury bills and bonds issued by the Republic of Serbia and bonds of other banks. Available-for-sale assets are initially measured at cost, and on a quarterly basis fair value thereof is determined based on the market prices for securities traded in active stock exchange (*mark to market*). Internally developed valuation models (*mark to model*) are used in instances that for certain financial instruments independent sources of market information are not available, and are based on the maturity of the security and the risk-free interest rate level.

Financial assets carried at fair value through profit and loss refer to the old foreign currency savings bonds of the Republic of Serbia and corporate and banks hares. These securities are measured using the market approach adjustment methodology (*mark to market*) or internally developed models (*mark to model*), depending on whether there are available prices changing on a daily basis those trading via continuous trading method.

Held-to-maturity securities entirely relate to corporate customer bonds.

53.1.5. Credit Risk Hedges (Collateral)

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

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

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

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

The Bank monitors the market value of collaterals and if necessary, it can demand additional collateral pursuant to the loan/deposit agreement executed. It is the Bank's policy to ensure collection from collateral foreclosure and use the proceeds therefrom to reduce or repay debt.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

53. RISK MANAGEMENT (Continued)

53.1. CREDIT RISK (Continued)

53.1.6. Tangible Assets Acquired in Lieu of Debt Collection

Collaterals securitizing loan repayments repossessed by the Bank in the process of debt collection are provided below:

Collaterals acquired through collection of loans	**2013**	**2012**
Residential buildings	279,216	245,614
Business premises	1,516,067	939,405
Equipment	101,805	82,195
Land and forests	71,722	67,308
Total	**1,968,810**	**1,334,522**
Accumulated depreciation	141,357	123,606
Net book value	**1,827,453**	**1,210,916**

In order to stat the acquired assets at fair value, as of December 31, 2013 the Bank impaired tangible assets acquired in lieu of debt collections based on new fair value estimates.

During 2013, in the process of loan debt collection via collateral foreclosure, the items repossessed in this manner totaled RSD 1,060,829 thousand (2012: RSD 442,213 thousand).

It is the Bank's policy to ensure collection from collateral foreclosure.

53.2. LIQUIDITY RISK

Liquidity risk represents the risk of negative effects on the Bank's financial result and equity resulting from the Bank's difficulty or inability to settle its matured liabilities in instances of insufficient liquidity reserves and inability to cover for unexpected outflows and other liabilities.

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

Liquidity risk represents the Bank's inability to settle its matured liabilities. Liquidity risk may be manifest as the risk related to sources of funds and market liquidity risk. The problem of liquidity in respect of the sources of funds relates to the structure of liabilities and is expressed through potential significant share of unstable and short-term sources of funds or their concentration. On the other hand, liquidity risk is reflected in reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

The Bank has established appropriate organizational structure, which allows for clear differentiation between the process of assuming and the process of managing liquidity risk. The Asset and Liability Management Committee and Liquidity Committee have the most significant role therein as well as other competent 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 sufficient liquidity reserves;
- Manages monetary funds;
- Monitors future cash flows and liquidity levels on a daily basis;
- Limits principal sources of credit risk with most significant impact on liquidity; and
- Defines and periodically tests Plans for Liquidity Management in Crisis Situations.

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

53. RISK MANAGEMENT (Continued)

53.2. LIQUIDITY RISK (Continued)

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

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

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

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

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

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

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

The Bank's operations are reconciled daily with legally prescribed liquidity ratio and rigid/cash liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During 2013, the Bank's liquidity and rigid liquidity ratios were significantly in excess of the prescribed limits.

The Bank's operations are reconciled daily with legally prescribed liquidity ratio as follows: minimum 0.8 for one working day; minimum 0.9 for no longer than three consecutive working days and minimum 1 as the average liquidity ratio for all working days in a month. The Bank also monitors compliance with the regulatory prescribed rigid/cash liquidity ratio as follows: minimum 0.5 for one working day; minimum 0.6 for no longer than three consecutive working days and minimum 0.7as the average liquidity ratio for all working days in a month.

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio	
	2013	2012	2013	2012
As at December 31	3.45	2.18	3.08	2.04
Average for the period	2.73	2.36	2.43	2.01
Maximum for the period	3.89	3.39	3.39	2.77
Minimum for the period	1.69	1.04	1.50	0.93

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	2013	2012
GAP up to 1 month/Total assets	Max (10%)	10.42%	10.17%
Cumulative GAP up to 3 months / Total assets	Max (20%)	6.75%	11.00%

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

53. RISK MANAGEMENT (Continued)

53.2 LIQUIDITY RISK (Continued)

In addition, the Bank limits and coordinates its operations with the limits defined for maturity per major foreign currencies.

Maturity structure of monetary assets and monetary liabilities as of December 31, 2013

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash equivalents	41,137,794	-	-	-	-	41,137,794
Revocable deposits and loans	53,395,120	-	-	-	-	53,395,120
Interest, fee and commission receivables	2,788,176	-	-	-	-	2,788,176
Cash and cash equivalents	24,539,297	10,896,615	44,505,710	72,320,797	31,741,702	184,004,121
Securities	2,585,847	3,348,400	20,186,150	25,402,260	5,478,808	57,001,465
Other investments	2,920,858	8,360	-	-	-	2,929,218
Other assets	2,888,548	-	931,278	-	-	3,819,826
	130,255,640	**14,253,375**	**65,623,138**	**97,723,057**	**37,220,510**	**345,075,720**
Transaction deposits	53,217,378	-	-	-	-	53,217,378
Other deposits	54,273,868	28,641,604	88,592,672	30,143,979	728,043	202,380,166
Borrowings	1,619,990	-	-	-	-	1,619,990
Interest, fee and commission payables	255,888	-	-	-	-	255,888
Other liabilities	3,300,870	613,958	6,526,493	24,887,104	3,930,667	39,259,092
	112,667,994	**29,255,562**	**95,119,165**	**55,031,083**	**4,658,710**	**296,732,514**
Net liquidity gap						
As of December 31, 2013	**17,587,646**	**(15,002,187)**	**(29,496,027)**	**42,691,974**	**32,561,800**	**48,343,206**
As of December 31, 2012	**5,907,439**	**(10,862,310)**	**(19,715,351)**	**38,937,924**	**38,875,793**	**53,143,495**

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

The Bank collects deposits of corporate and retail customers which commonly have shorter maturity periods and can be withdrawn at the client request. Short-term nature of such deposits increases the bank's liquidity risk and requires active liquidity risk management and constant monitoring of market trends.

In near term, the Bank manages liquidity risk by monitoring and controlling items in all major currencies in order to identify the needs for additional funding in a timely manner in case of maturities of certain items, i.e. in the long term, the Bank plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

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

The Bank tests the Plans for Liquidity Management in Crisis Situations which are intended for testing potential crisis, checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

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

53. RISK MANAGEMENT (Continued)

53.3 LIQUIDITY RISK (Continued)

Undiscounted cash flows from monetary assets and monetary liabilities as of December 31, 2013:

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash equivalents	41,137,794	-	-	-	-	41,137,794
Revocable deposits and loans	53,415,946	-	-	-	-	53,415,946
Interest, fee and commission receivables	2,788,176	-	-	-	-	2,788,176
Cash and cash equivalents	25,784,389	12,978,322	52,429,519	90,117,879	46,374,389	227,684,498
Securities	2,796,827	3,892,051	21,646,773	28,391,388	5,938,337	62,665,376
Other investments	2,920,858	8,360	-	-	-	2,929,218
Other assets	2,888,548	-	931,278	-	-	3,819,826
	131,732,538	16,878,733	75,007,570	118,509,267	52,312,726	394,440,834
Transaction deposits	53,217,378	-	-	-	-	53,217,378
Other deposits	54,742,668	29,199,564	92,198,424	33,651,339	1,135,412	210,927,407
Borrowings	1,620,165	-	-	-	-	1,620,165
Interest, fee and commission payables	255,888	-	-	-	-	255,888
Other liabilities	3,310,161	698,924	7,444,945	27,680,130	4,101,489	43,235,649
	113,146,260	29,898,488	99,643,369	61,331,469	5,236,901	309,256,487
Net liquidity gap						
As of December 31, 2013	**18,586,278**	**(13,019,755)**	**(24,635,799)**	**57,177,798**	**47,075,825**	**85,184,347**

Undiscounted cash flows arising from the items of monetary assets and monetary liabilities include future cash flows per balance sheet items and future interest. In the case of transaction deposits and demand deposits, which, observing the conservative approach, are categorized into deposits with maturities of up to a month, the undiscounted cash flows include only the cash flows from the debt principal outstanding.

In the course of 2013 the Bank continuously improved the liquidity risk management process and implemented a software solution in order to advance the asset and liability management. The aforesaid software enables considering the undiscounted future cash flows from interest in addition to those from principal. The implemented methodology was applied only to the data as of December 31, 2013
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53.3. 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 for all business operations and price risk for all items in the trading book.

The Bank is exposed to interest rate risk, currency risk, risk of securities fluctuations, counterparty risk and risk of settlement related to trading book items. The trading book contains balance sheet and off-balance sheet assets and liabilities related to financial instruments that the Bank holds for sale or to hedge other financial instruments that are maintained in the trading book.

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

53. RISK MANAGEMENT (Continued)

53.3. MARKET RISK (Continued)

53.3.1. Interest Rate Risk

Interest rate risk represents the probability of negative effects on the Bank's financial result and equity through items of the banking general ledger due to adverse interest rate fluctuations. The exposure to this risk depends on the relation between the interest rate sensitive assets and liabilities.

The Bank is exposed to interest rate risk inherent in the items within the banking general ledger, which is reflected in the possible negative effects on the Bank's financial result and equity through due to adverse interest rate fluctuations.

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

53. RISK MANAGEMENT (Continued)

53.3. MARKET RISK (Continued)

53.3.1. Interest Rate Risk (Continued)

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

	Limits	2013	2012
Relative GAP	Max 15%	(3.66%)	(4.42%)
Mismatch ratio	0.75 – 1.25	0.95	0.94

During 2013, interest rate risk ratios were within internally prescribed limits.

The Bank has defined internal limits for interest rate risk exposure per major currency as well as the limit of the maximum economic value of equity.

Compliance with internally defined limits of economic value of equity:

	2013	2012
As at December 31	5.20%	5.37%
Average for the year	5.98%	9.16%
Maximum for the year	7.45%	11.00%
Minimum for the year	4.78%	5.37%
Limit	20%	20%

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

53. RISK MANAGEMENT (Continued)

53.3. MARKET RISK (Continued)

53.3.1. Interest Rate Risk (Continued)

The Report on Interest Rate GAP in monetary assets and liabilities as of December 31, 2013:

	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	23,534,499	-	-	-		23,534,499	17,603,295	41,137,794
Revocable loans and deposits	12,246,700	-	-	-		12,246,700	41,148,420	53,395,120
Interest, fee and commission receivables and changes in the fair value of derivatives and other receivables	-	-	-	-		-	2,788,176	2,788,176
Loans and advances to customers	83,397,805	12,954,358	40,450,078	30,322,493	16,879,387	184,004,121	-	184,004,121
Securities	3,183,177	12,208,765	19,267,623	14,946,565	5,262,509	54,868,639	2,132,827	57,001,465
Loans and advances to customers	1,662,749	8,362	-	-		1,671,111	1,258,107	2,929,218
Other assets	-	-	-	-		-	3,819,826	3,819,826
Total	**124,024,930**	**25,171,485**	**59,717,701**	**45,269,058**	**22,141,896**	**276,325,070**	**68,750,651**	**345,075,720**
Transaction deposits	53,217,378	-	-	-	-	53,217,378	-	53,217,378
Other deposits	63,264,204	21,156,934	87,124,607	30,109,379	725,042	202,380,166	-	202,380,166
Borrowings	1,619,990	-	-	-	-	1,619,990	-	1,619,990
Interest, fee and commission payables and changes in the fair value of derivatives	-	-	-	-	-	-	255,888	255,888
Other liabilities	1,776,542	8,430,589	15,525,768	6,711,122	1,887	32,445,908	6,813,184	39,259,092
Total	**119,878,114**	**29,587,523**	**102,650,375**	**36,820,501**	**726,929**	**289,663,442**	**7,069,072**	**296,732,514**
Interest rate GAP:								
- at December 31, 2013	**4,146,816**	**(4,416,038)**	**(42,932,674)**	**8,448,556**	**21,414,967**	**(13,338,372)**	**61,681,580**	**48,343,206**
- at December 31, 2012	**(22,603,136)**	**3,951,030**	**(18,037,955)**	**17,279,462**	**10,758,138**	**(8,652,461)**	**61,795,956**	**53,143,495**

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

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

53. RISK MANAGEMENT (Continued)

53.3. MARKET RISK (Continued)

53.3.1. Interest Rate Risk (Continued)

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

In the course of 2013 the Bank continuously improved the interest rate risk management process and implemented a software solution in order to advance the asset and liability management.

53.3.2. Currency Risk

Currency risk 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 foreign currency 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 appropriate organizational structure, which allows for clear differentiation between the process of assuming currency risk and the process of managing currency risk. The Asset and Liability Management Committee has the most significant role therein as well as other competent boards/committees, whose decisions can impact the Bank's exposure to this risk.

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

In identifying 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.

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

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

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

Control and monitoring of the currency risk consists of observation and supervision of compliance with internally and externally defined limits as well as monitoring of defined and implemented measures. Continuous monitoring and control of foreign currency risk during the day ensures timely undertaking measures for the purpose of maintaining the currency risk within defined limits. Foreign currency risk control means control at all management levels as well as independent control system implemented by the organizational units responsible for internal audit and compliance monitoring. Reporting on currency risk includes internal and external reporting systems. It is performed on a daily basis and according to set schedules and in accordance with the defined system.

The Bank reconciles its business operations with the prescribed foreign currency risk ratio, which represents the ratio between the total net foreign currency balance and the position of gold relative to the Bank's regulatory capital.

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

	2013	2012
Total currency risk balance	720,705	333,032
Currency risk ratio	2.12%	0.82%
Legally-defined limit	20%	20%

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

53. RISK MANAGEMENT (Continued)

53.3. MARKET RISK (Continued)

53.3.2. Currency Risk (Continued)

Summary of Monetary Assets and Monetary Liabilities per Currencies as of December 31, 2013

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause u CHF	RSD Items	Total
Cash and cash equivalents	12,735,560	715,730	1,266,886	968,190	15,686,366	-	-	-	25,451,428	41,137,794
Revocable deposits and loans	36,772,258	4,376,162	-	-	41,148,420	-			12,246,700	53,395,120
Interest, fee and commission receivables and changes in the fair value of derivatives and other receivables	60,569	-	-	127	60,696	1,664,542	65	16,708	1,046,165	2,788,176
Loans and advances to customers	21,124,633	665,026	-	345,308	22,134,967	114,844,167	-	5,701,438	41,323,549	184,004,121
Securities	26,550,988	5,189,196	49,730	-	31,789,914	129,945	-	-	25,081,606	57,001,465
Other investments	1,231,635	650,687	-	-	1,882,322	28,180	-	-	1,018,716	2,929,218
Other assets	612,936	16,969	-	27	629,932	276,717	-	1,632	2,911,545	3,819,826
Total	**99,088,579**	**11,613,770**	**1,316,616**	**1,313,652**	**113,332,617**	**116,943,551**	**65**	**5,719,778**	**109,079,709**	**345,075,720**
Transaction deposits	11,706,777	860,655	720,063	143,708	13,431,203	-	-	-	39,786,175	53,217,378
Other deposits	165,067,236	10,492,231	6,183,638	1,012,125	182,755,230	2,421,888	56,699	-	17,146,349	202,380,166
Borrowings	271,889	54,944	7,791	1,256	335,880	27,461	-	16,717	1,239,932	1,619,990
Interest, fee and commission payables and changes in the fair value of derivatives	2,619	81	-	4	2,704	2,061	-	-	251,123	255,888
Other liabilities	37,235,615	141,609	91,420	99,408	37,568,052	14,204	-	-	1,676,836	39,259,092
Total	**214,284,136**	**11,549,520**	**7,002,912**	**1,256,501**	**234,093,069**	**2,465,614**	**56,699**	**16,717**	**60,100,415**	**296,732,514**
Net currency position										
- December 31, 2013	**(115,195,557)**	**64,250**	**(5,686,296)**	**57,151**	**(120,760,452)**	**114,477,937**	**(56,634)**	**5,703,061**	**48,979,295**	**48,343,206**
- December 31, 2012	**(99,860,577)**	**(22,742)**	**(6,126,427)**	**48,089**	**(105,961,657)**	**100,094,831**	**3,061**	**6,175,735**	**52,831,525**	**53,143,495**

53. RISK MANAGEMENT (Continued)

53.3.3. OPERATIONAL RISK

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

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

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 operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, 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, self-assessment and stress testing. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several financial variables on the Bank's exposure to operational risk.

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

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

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

53. RISK MANAGEMENT (Continued)

53.4. THE BANK'S INVESTMENT RISKS

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

53.5. EXPOSURE RISK

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

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

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

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

53.6. COUNTRY RISK

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

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

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

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

The Bank's investments approved to the borrowers domiciled outside of the Republic of Serbia for financing businesses in the Republic of Serbia, whose financial obligations to the Bank are expected to be settled from the operating results achieved in the Republic of Serbia, represent the Bank's receivables without exposure to the risk of the borrower country of origin.

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

53. RISK MANAGEMENT (Continued)

53.7. CAPITAL MANAGEMENT

The Bank has established a risk management system in accordance with the volume and structure of its business activities and the capital management is aimed at unhindered achievement of the Bank's business policy goals.

The calculation of the amount of capital and capital adequacy ratio is reconciled with the Basel II Standards.

The Bank manages capital on an ongoing basis in order to:

- Maintain the minimum regulatory capital requirement (EUR 10 million);
- Comply with the prescribed capital adequacy ratio (minimum 12%);
- Maintain customer trust in the safety and stability of the Bank's operations;
- Realize business and financial plans;
- Support the expected growth of loans and advances to customers;
- Ensure optimum future sources of funds and deployment thereof;
- Realize of the dividend policy.

The Bank's regulatory capital represents the sum of the core capital and supplementary capital, reduced for deductible items. The capital adequacy ratio represents the Bank's capital relative to the sum of credit risk-weighted assets, foreign currency gap and operational risk exposure. Credit risk-weighted assets are determined pursuant to risk weights prescribed for all types of assets. Exposure to operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy indicators

	2013	**2012**
Core capital	45,134,001	50,696,348
Supplementary capital	4,961,842	5,329,728
Deductible items	(16,076,615)	(15,648,210)
Capital	**34,019,228**	**40,377,866**
Credit risk-weighted assets	161,509,806	169,333,007
Operational risk exposure	16,668,642	15,196,808
Foreign currency risk exposure	720,804	-
Capital adequacy ratio (minimum 12%)	**19.02%**	**21.88%**

In the course of 2013, the Bank's capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

Through its Capital Management Strategy and Capital Management Plan, the Bank controls and ensures maintenance of the level and structure of the internal capital, which adequately supports increase in loans and advances, future sources of funding and their utilizations, dividend policy and changes in regulatory requirements.

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

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

53. RISK MANAGEMENT (Continued)

53.8. CAPITAL MANAGEMENT (Continued)

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

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

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

Stages of the internal capital adequacy assessment include the following:

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

54. EVENTS AFTER THE REPORTING PERIOD

Unreconciled outstanding item statements

Based on the analysis of the regular annual inventory count performed as of December 31, 2013, the Bank has unreconciled outstanding item statements in the amount of RSD 1,286 thousand. Statements unreconciled with 29 customers mostly relate to the clients which contest the amount or the manner of calculation of interest and fees and the accounts of which are blocked or contest the amounts outstanding as per their respective reorganization plans.

Unrealized dividends

Unrealized dividends payable in 2014 amount to:
- RSD 37,015 thousand for 2013 (9.91 % of the nominal value of preferred shares);
- RSD 567,605 thousand for 2013 (7% of the nominal value of convertible preferred shares).

Non-compliance with agreement covenants for loans obtained from international crediting institutions

As disclosed in Note 41, on March 8, 2013 the Bank received a Waiver from the creditor IFC waivers the rights stipulated by the Loan Agreement dated December 25, 2011 in respect of the Bank's non-compliance with the covenants in the period from March 31, 2014 to December 31, 2013.

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

55. SEGMENT REPORTING

A) Balance as at December 31, 2013

	Retail Sector Operations	Corporate/ Legal Entity Operations	Investment Banking and Interbank Operations	Other	Total
Interest, fee and commission income	10,034,643	11,336,991	6,156,384	-	27,528,018
Interest, fee and commission expenses	(5,687,926)	(1,933,536)	(2,401,137)	-	(10,022,599)
Other income (foreign exchange gains, reversal of impairment allowance and other income)	3,467,570	9,154,812	1,329,356	1,743,598	15,695,336
Other expenses (foreign exchange losses, impairment allowance and other expenses)	(4,369,246)	(11,605,526)	(1,203,236)	(1,272,578)	(18,450,586)
Operating result before operating expenses	3,445,041	6,952,741	3,881,367	471,020	14,750,169
Operating expenses	-	-	-	-	(10,161,794)
Profit before taxes*	-	-	-	-	4,588,375

	Retail Sector Operations	Corporate/ Legal Entity Operations	Investment Banking and Interbank Operations	Other	Total
Assets per segment	107,844,330	127,668,764	111,796,911	16,344,361	363,654,366
Loans and advances	62,331,827	117,401,889	85,290,075	-	265,023,791
Special reserve	45,512,503	10,266,875	6,506,229	-	62,285,607
Other	-	-	20,000,607	16,344,361	36,344,968
Liabilities per segment	186,766,804	42,131,535	59,145,199	10,648,610	298,692,148
Deposits	186,766,804	42,131,535	26,699,205	-	255,597,545
Other resources (loan facilities and subordinated debt)	-	-	32,455,994	-	32,455,994
Other liabilities	-	-	-	10,648,610	10,648,610

***** Results per segment do not include effects of the inter-segment relations.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013
All amounts expressed in thousands of RSD, unless otherwise stated.

55. SEGMENT REPORTING (Continued)

B) Balance as at December 31, 2012

	Retail Sector Operations	Corporate/ Legal Entity Operations	Investment Banking and Interbank Operations	Other	Total
Interest, fee and commission income	9,059,320	11,636,415	4,770,059	-	25,465,794
Interest, fee and commission expenses	(6,080,746)	(1,405,753)	(2,514,513)	-	(10,001,012)
Other income (foreign exchange gains, reversal of impairment allowance and other income)	9,717,064	18,696,613	884,926	1,075,137	30,373,740
Other expenses (foreign exchange losses, impairment allowance and other expenses)	(15,404,415)	(13,050,675)	(2,008,770)	(989,113)	(31,452,973)
Operating result before operating expenses	(2,708,777)	15,876,600	1,131,702	86,024	14,385,549
Operating expenses	-	-	-	-	(9,812,887)
Profit before taxes*	-	-	-	-	4,572,662
Assets per segment	97,400,214	138,834,124	76,480,199	11,473,236	324,187,773
Loans and advances	56,360,007	123,162,951	53,623,897	-	233,146,855
Special reserve	41,040,207	15,671,173	2,035,667	-	58,747,047
Other	-	-	20,820,635	11,473,236	32,293,871
Liabilities per segment	164,532,866	62,826,756	28,066,627	8,894,964	264,321,213
Deposits	164,532,866	62,826,756	8,161,123	-	235,520,745
Other resources (loan facilities and subordinated debt)	-	-	19,905,504	-	19,905,504
Other liabilities	-	-	-	8,894,964	8,894,964

***** Results per segment do not include effects of the inter-segment relations.

Change in the structure of interest expenses and fee and commission expenses as well as liabilities within the balance sheet per segments for 2012 was performed in accordance with the change in the structure occurred in 2013.

56. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank foreign exchange market and used in the translation of balance sheet components denominated in foreign currencies into dinars (RSD) as of December 31, 2013 and 2012 were as follows:

	December 31, 2013	December 31, 2012
USD	83.1282	86.1763
EUR	114.6421	113.7183
CHF	93.5472	94.1922