The world
is changing.

Let's change
together.

2014 Consolidated Reports and Accounts

This report expresses UniCredit's approach to banking by telling everyday stories about our interactions with Customers, innovations in products and adaptability in services.

These brief but meaningful stories come directly from our colleagues. They are examples of the tangible benefits and concrete solutions offered by UniCredit, demonstrating how we make a difference in people's lives.

Our clear goal to improve everyday circumstances is rooted in our complete commitment to outcomes that ensure Customer satisfaction.

At UniCredit, listening to our Clients and engaging with them to offer simple, direct results lies at the heart of our commercial banking operations. It is part of our determined effort to contribute to the economic and social well-being of our Customers as well as the communities where we work.

We will continue with this commitment to all of you, every day.

2014 Annual report

Independent Auditors' Report

Deloitte.

To the Shareholders of UniCredit Bank Serbia JSC Belgrade

We have audited the accompanying financial statements of UniCredit Bank Serbia JSC Belgrade (hereinafter: the "Bank"), enclosed on pages 2 to 80, which comprise the balance sheet as of December 31, 2014, and the related income statement, statement of other comprehensive income, 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 International Financial Reporting Standards as per 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 present fairly, in all material respects, the financial position of UniCredit Bank Serbia JSC Belgrade as on December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as per the Law on Accounting of the Republic of Serbia and regulations of the National Bank of Serbia governing financial reporting of banks.

Report on Other Legal and Regulatory Requirements

Management of the Bank is responsible for the preparation of the annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia. In accordance with the Law on Audit of the Republic of Serbia and Decision on Amendments and Supplements to the Decision on External Audit of Banks, it is our responsibility to express an opinion on the compliance of the annual business report for the year 2014 with the financial statements for the same financial year. In our opinion, financial information disclosed in the annual business report for 2014 is consistent with the audited financial statements for the year ended December 31, 2014.

February 27, 2015
Miroslav Tončić, Certified Auditor
Deloitte d.o.o,
Belgrade

Deloitte d.o.o. BEOGRAD IV

The world
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In a world that is always on the move, UniCredit saw the need for a network of high-tech services. **UniCredit Start Lab** is our accelerator for innovative startups. From mentoring and network development to managerial coaching, we've got it covered. **MyZabaStart** is a platform, lauched in Croazia da Zagrebačka Banca BB, that provides support for deserving business ideas in the green, creative and innovative sectors, to help drive their business growth.

Contents

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ADDRESSING OF THE PRESIDENT OF MANAGEMENT BOARD

Despite all difficulties and turbulences which have characterized the business environment in the previous years, the banking sector in Serbia has proven itself as strong, stable and healthy. It managed to deal successfully with all adverse circumstances, maintaining at the same time a high level of capitalization. Measures and conservative regulatory framework which National Bank of Serbia timely introduced have contributed in a large extent to its strength. On the other hand, the catastrophic floods which hit Serbia in May 2014 have certainly influenced the significant slowdown of the economic recovery of the country.

Even in these diverse circumstances, UniCredit Bank Serbia managed to further reinforce its role of solid and reliable player. The bank reconfirmed its position number 3 on the market in terms of total assets, at the same time additionally strengthening customer business and broadening the range of customer services. In line with its strategy, UniCredit Bank continued to engage itself in the process of increasing reputation on the local market through its socially responsible business, as well as the level of customer satisfaction through implementation of a new service model which comprehends completely new concept of performing banking activities. Its primary goal is to ensure that clients feel comfortable and to spend their time in the branch more productively, meaning that client now can perform all banking transactions, apply for any product or service at one single point of entry.

As in the previous years, in 2014 UniCredit Bank Serbia managed to keep high level of efficiency. Bank's operating profit reached RSD 8.79 billion, marking an increase of 1% in comparison to 2013. In line with Group's strategy, focused on developing strong roots in local markets, UniCredit continued to demonstrate strong commitment to Serbia, as is evidenced by the increase of balance sheet volume/assets by 6% YoY to over RSD 265 billion. At the end of 2014, net profit of the bank in Serbia reached RSD 5.46 billion, followed by a 5% increase in net interest income and 10% in net fee and commission income.

Customer focus, new service model and tailor-made products aligned with the needs of different client segments, additionally contributed to nearly 18% increase in customer base of UniCredit Bank Serbia, exceeding 247,000. Consequently, client's deposits grew by 25% in comparison to the previous year, exceeding the amount of RSD 141 billion. Even though the local market was characterized by lack of credit worthy demand, we managed to gain suitable clients and continued to show our commitment and determination to support expected future development of the country and customer's financial needs. The volume of loans in 2014 reached almost RSD 165 billion, marking the strong increase of 14% compared to previous year. Such trend in deposits and loans growth assured more stable funding position of the Bank while commercial volumes increase outperform the growth of net interest and fee income due to overall margin compression.

We managed to perform over the market when looking into numerous important parameters, such as cost/income ratio, capital adequacy ratio, return on equity and level of non-performing loans. We are well positioned for expected recovery of local economy and, more importantly, able to exploit all future market opportunities.

And even though Serbia is facing the major issue of having one of the highest levels of NPLs, we are pleased to point out that our portfolio quality is significantly better and therefore the level of NPLs is far below the market average.

But, what is more important is that, despite an overall negative trend on the market, we increased the number of employees by 4% to 1,089. UniCredit Bank Serbia did not rationalize its operations by cutting the total number of people. Our saving measures were always focused on finding the ways to be more efficient, to reduce our operational costs optimizing the processes and in the same time continuing to invest in the development of our people. We strive to make our bank the best place for work.

As in all previous years, we have invested lots of effort and work in upgrading the image of UniCredit Bank as socially responsible company and an equal member of the Serbian society. The most important project certainly includes the initiative of providing support to employees, citizens and local communities affected by the floods, both in terms of financial means and introducing relief measures for banking products and services for the endangered ones. We have continued to support local communities in which bank is present in the way that we were involved in organization of different initiatives and manifestation, trying to contribute to their further development. We are extremely proud of the second edition of the project "Idea for better tomorrow" which we have started at the end of the year with the aim to promote social entrepreneurship.

MACROECONOMIC ENVIRONMENT

In 2014 Serbia experienced significant slowdown of the economic recovery started year before. Macroeconomic situation was very difficult and complex resulting in contraction of GDP by around 2% due to reduced industrial production, drop in net exports and decline in credit activity. Catastrophic floods which hit Serbia in May 2014 caused damage and loss of around EUR 1.7 billion as estimated by the World Bank. Flood related losses hit almost every sector of the economy being leading contributor to GDP decline. In late 2014 Government begun a process of fiscal consolidation by introduction of pensions and public sector salary decrease supported by three year precautionary agreement with IMF signed. Several very important legislative changes were adopted in 2014: Labour law, Law on privatization and Law on bankruptcy while there is still prominent need for accelerating the restructuring process in public sector and state owned companies. Inflation was at a record low in 2014 (1.7% YoY) remaining under targeted band predicted by National Bank of Serbia. In 2014 foreign direct investments in Serbia almost doubled in comparison to the previous year and amount to EUR 1.4 billion.

Decline in economic activity reflected on the banking sector through further slowdown in credit activity and persisting high share of NPLs. Government subsidized lending program prevented more dramatic drop assuring more or less flat real YoY lending growth.

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Corporate and Investment Banking Division (CIB)

2014 was a uniquely challenging year for the Serbian corporate banking sector, as economy entered its second recession in the last three years. Decreasing trend in credit activity, increase in non-performing loan (NPL) rate in the corporate banking sector combined with negative macroeconomic developments caused by the May floods presented a challenges for the Division. Bank remained committed to the strategy of portfolio consolidation with emphasis on de-concentration of credit risk and selective approach with focus on high credit rating particularly mid-market clients. As a result, the credit portfolio remained stable at around EUR 1.5 billion (on and off balance), with a base of around 3,700 clients, while at the same time the NPL rate entered a decreasing trend and moved further below market average.

CIB continued to strengthen deposit position of the Bank through various commercial activities and recorded a significant increase of volumes in transaction banking. This resulted in a 27% YoY growth in deposits, reaching the amount of EUR 674 million and significant growth in the number of transaction recorded.

Markets Department reinforced its long-established leading position in the local market. Overall revenues recorded a YoY growth, continuing the positive trend established in previous years. The National Bank of Serbia's official data for 2014 shows that UniCredit Bank's Markets Department holds leading position in providing FX services to residents and non-residents. Furthermore, UniCredit Bank ranked first in transaction volumes in interbank exchange in euros with a 14.26% market share.

During the 2014, the Bank continued in its effort to promote hedging products as a way to shield businesses from interest rate and FX fluctuations by offering interactive workshop for both large enterprises and medium-sized companies. The Bank continues to be ahead of the competition with its innovative approach, and affirmed its leadership in the designing and marketing of these products.

The National Bank of Serbia continued with key rate cuts in 2014, which during the year recorded a cumulative drop of 150 bps and amounted to 8% at the end of the year. State extended the yield curve by introducing a 10 year RSD bond in October last year. UniCredit Bank remained market leader in trading with financial instruments on both primary and secondary markets with a market share of over 30%.

UniCredit Bank was very active in the Government subsidized loan program that was launched to support lending activity with a special focus on Medium, Small and Micro-sized companies. Through its outstanding commitment and support for the program, UniCredit Bank strongly contributed to the successful completion of the program holding 14% of the total volumes. On a segment level, UniCredit Bank ranked 1st in disbursements to Medium-sized companies and high second rank in Small and Micro-sized segments.

The Bank played an active role in every public tender for financing and continued collaboration on innovative solutions, such as Stara Pazova Municipal Bond issuance, where UniCredit Bank actively participated and provided support to development of local community and sustainable projects.

In 2015, Corporate and Investment Banking Division will continue with the strategy of selective portfolio growth and creation of economic value for Bank by increasing the return on risk-weighted assets through increased cross selling. Division will seek to increase market share in segments with lower penetration rate and foster long-term partnership with existing customers based on reciprocity and trustworthiness. Furthermore, CIB remains committed to continuous improvement of internal efficiencies through the process of evaluation and optimization. The Bank's business activities will be focused on stimulating the development and supporting the recovery of local economy by expanding our innovative value-added products proposition and advisory services to clients.

The Bank will also continue close cooperation with regulators including the National Bank of Serbia and Ministry of Finance, thus actively supporting the improvement of domestic business environment, as well as all development initiatives.

Dedication to clients will remain our priority as well as ambition to create economic value to our clients and local communities by fully exploiting our deep knowledge of the Serbian market, our Group global reach and deep expertise in financial products and solutions.

Retail Division

Even with the challenging environment during the 2014, highly affected by the crises, Retail Banking division managed to maintain an upward trend by recording 9.0% growth in Revenues (compared with previous year). Loan and deposit volumes have followed the same scenario, by increasing for 28.9% on lending and 26.9% on deposit side, this increase is also reflected in improvement in market share in lending activity.
During 2014 Retail banking division has expanded offer for private individuals and SME with different products and services.

Through further cooperation with the insurance company Wiener Stadtsche the Bank introduces two new important products: Endowment insurance policy "My profit" and Insurance in case of developing critical illness "Best Doctors". Selling of these products was followed by organized successful sales campaigns which significantly contributed to increase in revenues.

In 2014, offer of the consumer loan product has been extended by introducing Administrative ban enabling sales of these loans to non pay-roll clients, which significantly contributed to number of approved loans.

MBanking application was redesigned in order to make it available for users of the Windows phones. Application is user friendly and simple to use. In order to promote electronic services and extend client group that uses electronic channels, respecting the needs of interested groups, mobile banking is introduced within the Student Package as standard service.

When card's business is concerned, offer has been enriched with MaestroPayPassTM card which enables contactless payment, as well as the payment on standard POS terminals. Furthermore, all benefits of credit cards, such as deferred payment without interest calculation, cards with chip, as well as several campaigns with MasterCard, were actively promoted. Namely, Bank has participated with the goal of promoting this payment method in Delhaize, Corner Shop and Jasmin.

In mid of 2014 Bank has implemented the recommendation of the National Bank of Serbia with the aim to provide support to clients who are repaying loans indexed in foreign currency.

During 2014 Retail Banking Division continued the implementation of several projects and initiatives of significant importance. New service model for private individuals was successfully implemented. The new concept aims to improve the quality of services and the expansion of banking services and products that can be provided to this client segment. The Bank actively participated in Government subsidized loan program which was aimed at financing working capital and maintaining liquidity of small businesses and entrepreneurs. The program began in early June and lasted until the end of 2014. Bank has achieved remarkable result positions itself among the first banks on the market by volume of approved loans.

Project Migration transaction was fully operational in 2014. Project enables payment of bills at ATMs for all types of bills that have a bar code with no additional cost, which significantly expanded the range of products that we offer and number of clients who are using this method of payment. Apart from the abovementioned, the project is focused on cash transactions and exchange transactions and it was implemented through a package of electronic banking services called "Bank on button". The basic idea of the project is to reduce the number of transactions at the cash desk in the branches and their migration to electronic transaction channels (ATM, online banking, banking M), while increasing the number of users as well as increasing the number of transactions executed through electronic channels.

Significant increase in the number of clients was achieved as a result of the contract signed with The Ministry of Education, Science and Technological Development since UniCredit Bank got the exclusive right to deliver student and pupil loans and scholarships.

Selling of non-risk bearing products during 2014 (M banking, SMS card alarm, Pre paid card, etc.) reflected in the continued increase of sales, while on the lending side mortgage and cash loans were the best seller products.

During 2014, in order to further strengthen relationship with clients and to acquire new ones, focusing on more effective approach by creating target group and tailored offers, Retail Division has continued active usage and development of CRM (Customer relationship management) as precondition for further bank strategic positioning on local market.

Beside constant product innovations, focus on further education and training of our employees, together with transparent condition for our clients remain our main drivers for success.

Following the good practice, Retail Division run two waives of mystery shopping and two waves of customer satisfaction campaign in order to improve the quality of services at branches and increase the level of customer satisfaction.

In 2015 Bank will continue to be focused on market share growth based on further growth of retail business (private individuals, business clients and entrepreneurs). We also plan to finish the process of implementation of New Service Model in the entire network. Bank will also intensify cross-selling activities with Corporate and Investment Banking Division by using the full potentials of this business segment. Approach toward micro clients based on approval competences on branch level, clearly defined target lists and permanent monitoring of sales activities will be standardized and proactive in order to maintain deposit clients portfolio, while offering loan and deposit products. Bank will continue to increase private individuals loan portfolio through Client acquisition based

Retail Division (continued)

on competitive package account, as well as attractive campaigns intended for specific target groups. Furthermore, development and implementation of CRM (Customer Relationship Management) concept, as necessary precondition for strategic positioning of the bank on local market will stay as one of the priorities. Development of alternative sales channels with the focus on the special offers for employees of large corporate and public institutions will remain one of the main tasks.

Risk Division

Within its organizational structure, the Bank has a separate Risk Division with comprehensive and very important function of maintaining and developing a stable and profitable loan and other placements portfolio. This division covers the management of credit, market, operational and liquidity risk through the work of five departments: Strategic Risk Management and Control Department, Corporate Underwriting Department, Retail Credit Operations Department, Corporate Special Credit Department, Market and Operational Risk Department. They all report to the Member of Management Board in charge of Risk Management, which provides increased control over all loan process phases, as well as a global overview and assessment of the risks to which the bank is exposed.

In order to define a consistent policy of lending activity and the overall framework of risk management, the Bank has defined a Retail credit risk strategy and Corporate credit risk strategy, which are updated annually in line with changes in the environment and the strategic objectives of the bank.

In this way, the bank provides the proper realization of the adopted business policy within framework that will result in an acceptable level of credit risk when it comes to individual placements and adequate diversification and general quality of the loan portfolio.

Identification, measurement, control and credit risk management at portfolio level are based on the reporting system, which provides information about the condition, quality and movements in the loan portfolio. During 2014, the performance of improving the reporting process has been continued through increased automation of accounting and report creation.

Within the corporate area, during 2014, the focus was on improving the credit process, especially when the system of monitoring non-performing loans is concerned. The focus has been put on the process of early monitoring in order to timely detect possible problems. Also, in banking sector in Serbia, UniCredit Bank launched a special project of harmonization with internationally accepted INSOL principles for the management of significant non-performing loans and problematic customers in terms of a larger number of creditors, where a common approach and coordinated actions/measures of creditors are crucial for the successful resolution of the problem. In the retail sector, it continued to work on improving the monitoring and collection of loans of private individuals, as well as of small businesses and entrepreneurs with the aim of increasing efficiency and improving collection. Thanks to improvements within portfolio monitoring, the bank was able to promptly respond to unplanned changes that occurred during 2014, such as natural disaster or a reduction in public sector wages and pensions, through the identification of vulnerable customers and finding adequate solutions in order to maintain the quality of loan portfolio.

It is important to note that during 2014 the European Central Bank (ECB), in cooperation with the European supervisory body for the banking sector conducted Stress test and review of asset quality. As a result of this rigorous exercise, which included the Bank, UniCredit Group has emerged as one of the most stable banks in Europe, with a solid capital position.

In addition, the bank has implemented a special project of the active promotion of Risk culture in all areas of banking business in order to increase awareness of business risks and to improve the ways in which the risks are approached.

Based on the foregoing, it can be concluded that during 2014 the Bank further enhanced risk management system, along with its capital adequacy and profitability levels, guarantees adequate management and coverage of the risks to which the Bank is exposed.

Global Banking Services Division

Main focus of Global Banking Services Divisions in 2014 was on continuous support of development and implementation of business strategy, while trying to secure maximum level of operational efficiency, to optimise costs and to ensure system of internal control.

Following the Bank's and the Group's short and mid-term strategy, Global Banking Services Division has implemented different activities in order to fulfil business requests and to proactively offer solutions which can support sustainable growth and development.

Significant improvement within ICT department was introduced in 2014, with special focus on complete redesign and implementation of Disaster Recovery infrastructure, achieving the placement of the best DR solution among financial institution in Serbia. Besides that, significant changes were also made within internal organisation and implementation of procedures in this Department which enabled important improvement of key processes (change management, incident and problem management).

Security Department focused its main initiatives on improving security of ICT by implementation of new processes and tools from this field. Anti-fraud process was also enhanced, which enabled that all processes within Security Department round up in one unity.

Further steps forward were made in field of Project and Process management based on methodology implemented in 2013, by introducing the concept of divisional partners as primary contacts for all project/process related activities and initiatives of each division.

Although 2014 saw a light increase of cost-income ratio, overall cost management assessment was very positive and ensured that unplanned costs, mostly related to changes in local legislations (for example increased deposit insurance premium rate), compensate by savings in other areas. This was also the result of excellent work of Procurement Unit, primarily due to very well organised tenders which ensured balance ratio of decrease in costs and increase in quality.

This year as well, UniCredit Bank Serbia remained by far the best bank on the market when it comes to efficiency and cost management, as well as the benchmark in this field within UniCredit Group.

In this year, as well as in past, employees in GBS Division were providing professional and efficient support to all business initiatives, both in regular daily activities, and when ad-hoc initiatives are concerned, thus showing their adoptability to all challenges and business needs.

Subsidized loan program was one of such challenges when UniCredit Bank Serbia ended 2014 as one of the first banks on the market when the total volume of approved loans is concerned.

Main strategic focus for GBS in 2015 will be linked to continuation of changes already started in the way we manage projects, security of ICT, as well as overall support for the business growth initiatives.

Special attention will be given to CEE2020 projects, which are expected to bring real discontinuity in the way we do business today and which will enable the Bank to be even more operationally efficient in comparison to the competitors on the market.

Human Resources Department

By continuing to provide strategic support in achieving the planned business activities, during 2014 Human Resources Department had several key initiatives aimed, on one hand, at positioning UniCredit Bank as the most desirable employer in the market, through the continuation of the successful cooperation with universities, on the other hand, the development of employees, their progress, increasing commitment and engagement.

During the year, we have further improved the system of staff appraisal and supported managers in the implementation of the process by which we continue to foster culture of high achievement and performance management of employees who do not fulfil the goals. We have also enhanced and optimized communication during the process of evaluation and development of employees.

During 2014, we have fully realized development plans defined in the process of evaluation and development of employees.

Following and developing potential successors for key leadership positions, we continued to work on increasing their motivation for high achievement by providing support in their daily work.

By providing opportunities for the development of our employees, we have increased the number of cross-divisional moves, and the number of employees who got the chance to do new and different tasks within their division.

In order to enhance the level of expertise of our staff and boost knowledge sharing in the bank, we have developed a group of internal trainers with over 80 members thanks to which we increased the total number of trainings per person.

Significant number of activities on the development of people also took place within the framework of the preparation and training of employees in the Network for the adoption and implementation of the new service model through activities defined for this purpose.

UniCredit pays special attention to the awareness of employees about the prevention of various types of risks, and for this purpose we have introduced a number of preventive measures for risk mitigation, such as workshops for managers of employees who do not meet the business targets, brochures for managers, supporting the managers in the annual evaluation process as well as in communication with employees, and through technical trainings for employees.

As one of our priorities in the plan for 2015, HR Department has defined continuing the efforts to respect the values of UniCredit Group, fostering diversity and equal opportunities for all through a program of diversity management in all aspects of cooperation within the bank.

We will continue to provide full support to the business in achieving the results through improving internal processes and quality of people management, developing potential leaders for key positions, motivating and retaining high achieving employees with the required technical skills, behaviours and values through monitoring and realization of their individual development plans and continuous support in their daily work, as well as by increasing the number of internal, cross-divisional moves and closing open positions internally.

In order to position the UniCredit bank as the most desirable employer in the market, we will continue cooperation with universities through internship programs, study visits and scholarships for the best students.

The Department will work further on improvement of system of staff appraisal through improved functionalities, in order to achieve more objective appraisal and to provide continuous support to managers in communication with employees.

Strengthening employee risk awareness through the creation of a common framework of communication and understanding of risks is also one of the priorities for 2015, bearing in mind the current market trends.

Identity and Communication / Customer satisfaction Department

2014 was extremely important when it comes to UniCredit Bank's brand. We tried to additionally boost our overall recognition on the market, consistency in what we offer and what we say and to emphasize the uniqueness of our offer which is in line with our concept of "Real life banking". Our communication platform "Life is full of ups and downs. We are with you in both situations" aims to provide clients with concrete answers to real life problems, which was supported with continuous designing of innovative products and services tailored made to meet the needs of clients.

Activity that marked the beginning of 2014 is certainly a transition to a new service model within our branches. It is a completely new concept of banking services, whose primary objective is to ensure that the client feels comfortable and to spend more productively time in the branch. Creation of visual concept of branches and the formation of standards which will be applied to all future adaptation of the network was done by Identity and Communication Unit. The process of restructuring and redesigning of the entire branch network is still ongoing, and the plan is to be implemented by the end of 2015.

During 2014 two campaigns for Cash Loans have been created and realized - in the first half of the year and in December. In parallel with the campaign for the cash loan a promotion offer Super transfer which was focused on Selector current account was launched. This campaign aimed at motivating satisfied customers to recommend our bank to their friends, but also to encourage other potential customers to "gather their team" in our bank. The results so far are more than solid and the plan is to continue Super transfer promotional offer throughout 2015.

In period from 14th till 19th of October, nearly 15,000 fans visited throughout Serbia the UEFA Champions League Trophy Tour presented by UniCredit throughout Serbia, in Belgrade, Niš and Novi Sad. During Trophy Tour in all three cities football tournaments for youngest were organized, and the best teams won their first trophies. Integrated marketing campaign that invited fans not to miss these magical moments of football fever was created as an adequate announcement of the event of this scale. Campaign was directed to invite the visitors, but was essentially designed for launching and raising awareness of the importance of six-year lasting sponsorship of the UEFA Champions League and a strong positive impact on the image of local brands.

In accordance with its strategy of communication, UniCredit Bank has, through various activities at the national and local level, also in 2014 sought to increase its presence in the media and thus further contribute to the recognition of the bank on the local market. According to comparative media analysis, the results show that the number of releases in comparison to the 2013 increased by 40%, which is accompanied by the growth of PR value of 36%.

Communication with employees was also in focus in previous year with the aim of further improvement. The new UniCredit Bank's IntraNet was launched on September 1st 2014. In addition to new visual solutions, modelled on OneGate, intranet portal of the Group, new IntraNet has brought more new functionalities.

In 2015, Identity and Communication Unit will continue to provide support in development of bank's business and in increasing number of clients through different communication channels with wisely created campaigns. Furthermore, we will additionally upgrade the image of competent interlocutor in the media which we gained during previous years.

Corporate Social Responsibility

As in all previous years, we have invested lots of effort and work in upgrading the image of UniCredit Bank as socially responsible company. Led by system of values of UniCredit Group, based on Integrity Charter, in 2014, UniCredit Bank continued to support different activities with the aim to support young population, vulnerable categories of citizens, as well as cultural and sports manifestations through investing in local communities in which operates.

After catastrophic floods which hit Serbia in May 2014, UniCredit Bank adopted its CSR strategy in accordance with the circumstances. Thus we have engaged continuous efforts in finding modules aimed at supporting Serbia and its citizens. First initiatives included financial aid which was paid on the account of Republic of Serbia and employees of the Bank organized themselves for collection of humanitarian aid packages. Besides, with joint forces of Bank's management and its employees, financial aid was collected for colleagues who suffered the consequences of this natural disaster. Moreover, in 17 countries in which UniCredit Group operates with over 130,000 employees fundraising project was organized and funds raised were disbursed through Foundation Ana and Vlade Divac.

On the other hand, in order to facilitate repayment of loan obligations of its clients, UniCredit Bank introduced numerous repayment relief measures, and also supported the project of International humanitarian and development organization, Mercy Corps and in that way helped in the donation of EUR 900,000 through UniCredit Bank cards enabling households to start renovating their homes and small businesses. In order to support this initiative, UniCredit Bank absorbed all fees related to the issuing and usage of the cards. By the end of year, UniCredit Bank donated additional EUR 5,000 for the initiative "Join our hearts – for Eastern Serbia" for faster recovery of living conditions of citizens and local communities affected by September floods.

As in the previous years, Bank continued to provide continuous support to traditional cultural manifestations like Days of Bora Stanković, Days of Zoran Radmilović i Days dedicated to Mokranjac. Besides, in 2014, for the first time we have supported „Atelje 212" and thus we became general sponsor of 53rd Theatre Season.

In November 2014, UniCredit Bank started with the second edition of competition "Idea for better tomorrow" which we are implementing in cooperation with UniCredit Foundation from Milan, Foundation Ana and Vlade Divac, Smart Kolektiv and Touristic organisation of Serbia. Within this competition which has the aim to contribute to the development of social and existing business overall amount of EUR 45,000 is ensured. Project will be finished during 2015.

Socially responsible behaviour remains one of the most important pillars of our business. In accordance with our Mission, to invest a part of achieved profit into local communities in which we operate, we will continue to implement Micro Marketing Budget supporting the projects which are of outmost importance for cities throughout Serbia.

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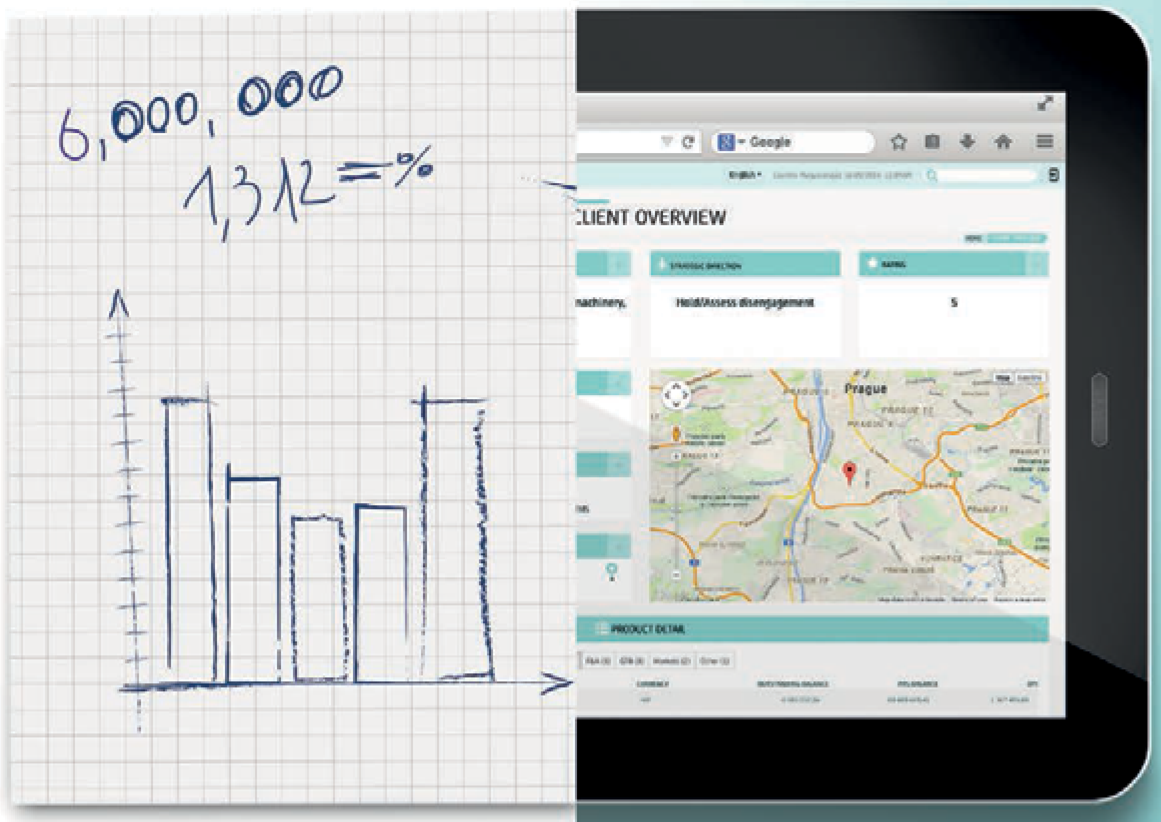


BALANCE SHEET
As of December 31, 2014 (Thousands of RSD)

(In thousands of RSD)

	Note	December 31, 2014	December 31, 2013	January 1, 2013
Cash and cash funds held with the central bank	3.k, 19	29,942,038	39,330,098	24,719,384
Financial assets at fair value through profit and loss, held for trading	3.j, 3.o, 20	685,490	1,258,108	4,153,324
Financial assets available for sale	3.j, 3.p, 21	54,871,603	47,490,994	30,221,980
Financial assets held to maturity	3.j, 3.n, 22	584,474	97,812	245,090
Loans and receivables due from banks and other financial institutions	3.j, 3.m, 23	10,631,808	14,973,378	28,957,094
Loans and receivables due from customers	3.j, 3.m, 24	164,982,403	144,634,102	151,489,707
Fair value adjustments of risk hedged items	3.l, 25	97,950	-	-
Intangible assets	3.r, 3.t, 26	919,595	912,227	999,854
Property, plant and equipment	3.q, 3.t, 27	1,186,429	1,134,511	1,151,981
Investment property	28	1,463	1,495	1,528
Current tax assets	3.i, 18.4	772,408	746,499	-
Deferred tax assets	3.i, 29	42,912	169,836	37,507
Non-current assets held for sale and assets from discontinued operations		-	-	378
Other assets	30	553,890	546,364	861,933
Total assets		**265,272,463**	**251,295,424**	**242,839,760**
Financial liabilities carried at fair value through profit and loss, held for trading	3.j, 31	207,354	339,028	663,537
Liabilities per financial derivatives designated as risk hedging instruments	3.j, 3.l, 32	454,559	159,313	274,220
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.j, 3.u, 33	70,299,097	90,875,563	89,335,386
Deposits and other liabilities due to customers	3.j, 3.u, 34	134,459,546	104,776,958	102,157,538
Subordinated liabilities	3.j, 3.u, 35	2,698,019	3,428,417	3,438,300
Provisions	3.v, 3.y, 36	447,823	149,412	151,610
Current tax liabilities	3.i, 18.4	-	-	45,218
Deferred tax liabilities	3.i, 29	-	593	322
Other liabilities	37	1,447,828	1,041,361	966,127
Total liabilities		**210,014,226**	**200,770,645**	**197,032,258**
Issued capital	39.1	24,169,776	24,169,776	24,169,776
Profit	39.1	5,464,805	3,831,533	4,395,110
Reserves	39.1	25,623,656	22,523,470	17,242,616
Total equity		55,258,237	50,524,779	45,807,502
Total liabilities and equity		**265,272,463**	**251,295,424**	**242,839,760**

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

INCOME STATEMENT
Year Ended December 31, 2014 (Thousands of RSD)

(In thousands of RSD)

	Note	2014	2013
Interest income	3.d, 7	16,375,843	16,550,309
Interest expenses	3.d, 7	(5,700,847)	(6,400,886)
Net interest income		**10,674,996**	**10,149,423**
Fee and commission income	3.e, 8	3,007,002	2,663,968
Fee and commission expenses	3.e, 8	(736,589)	(595,448)
Net fee and commission income		**2,270,413**	**2,068,520**
Net gains on the financial assets held for trading	3.f, 3.l, 9	64,619	320,546
Net gains on the hedges against risks	3.g, 3.l, 10	13,794	5,821
Net gains on the financial assets available for sale	3.o, 11	63,847	19,948
Net foreign exchange gains and positive currency clause effects	3.c, 12	1,171,095	908,677
Net gains from the investments in associates and joint ventures	30.3	60	-
Other operating income	13	77,401	39,863
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	3.j, 14	(3,110,503)	(5,004,071)
Staff costs	15	(2,153,719)	(1,985,916)
Depreciation and amortization charge	3.q, 3.r, 16	(530,719)	(491,166)
Other expenses	17	(2,861,392)	(2,332,440)
Profit before taxes		**5,679,892**	**3,699,205**
Income tax	3.i, 18	(215,087)	132,328
Profit after taxes		**5,464,805**	**3,831,533**
Earnings per share			
Basic earnings per share (in RSD, rounded)	39.2	2,315	1,623
Diluted earnings per share (in RSD, rounded)	39.2	2,315	1,623

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

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2014

(In thousands of RSD)

	Note	2014	2013
PROFIT FOR THE YEAR		5,464,805	3,831,533
Components of other comprehensive income that cannot be reclassified to profit or loss			
Actuarial losses	18.3	(2,130)	-
Components of other comprehensive income that can be reclassified to profit or loss			
Net fair value adjustments of financial assets available for sale		(730,130)	886,015
Gain/(loss) from taxes on the other comprehensive income for the year	29.2	913	(271)
Total (negative)/positive other comprehensive income for the year			
	39.3	(731,347)	885,744
TOTAL POSITIVE OTHER COMPREHENSIVE INCOME FOR THE YEAR		**4,733,458**	**4,717,277**

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

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2014

(In thousands of RSD)

	Note	2014	2013
Issued capital			
Balance, beginning of year		23,607,620	23,607,620
Balance, end of year	39.1	23,607,620	23,607,620
Share premium			
Balance, beginning of year		562,156	562,156
Balance, end of year	39.1	562,156	562,156
Other reserves from profit			
Balance, beginning of year		21,457,759	17,062,649
Prior year's retained earnings distribution		3,831,533	4,395,110
Balance, end of year	39.1	25,289,292	21,457,759
Revaluation reserves			
Balance, beginning of year		1,101,373	205,604
Effect of the market value adjustment of securities available for sale		(667,451)	895,769
Balance, end of year	39.1	433,922	1,101,373
Unrealized losses on securities available for sale			
Balance, beginning of year		(35,662)	(25,637)
Effect of the market value adjustment of securities available for sale		(62,086)	(10,025)
Balance, end of year	39.1	(97,748)	(35,662)
Actuarial losses per defined benefit plans			
Balance, beginning of year		-	-
Movements during the year		(1,810)	-
Balance, end of year	39.1	(1,810)	-
Retained earnings			
Balance, beginning of year		3,831,533	4,395,110
Prior year's profit distribution – allocation to reserves		(3,831,533)	(4,395,110)
Profit for the year		5,464,805	3,831,533
Balance, end of year	39.1	5,464,805	3,831,533
TOTAL EQUITY		**55,258,237**	**50,524,779**

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

STATEMENT OF CASH FLOWS
Year Ended December 31, 2014

(In thousands of RSD)

	Note	2014	2013
Cash generated by operating activities		**18,169,973**	**20,123,036**
Interest receipts		12,067,193	12,670,126
Fee and commission receipts		3,017,349	2,617,247
Receipts of other operating income		3,085,274	4,835,565
Dividend receipts and profit sharing		157	98
Cash used in operating activities		**(12,558,550)**	**(14,745,520)**
Interest payments		(5,749,380)	(6,185,330)
Fee and commission payments		(724,475)	(585,620)
Payments to, and on behalf of employees		(1,863,037)	(1,977,231)
Taxes, contributions and other duties paid		(394,676)	(375,989)
Payments for other operating expenses		(3,826,982)	(5,621,350)
Net cash inflows from operating activities prior to changes in loans and deposits		**5,611,423**	**5,377,516**
Decrease in loans and increase in deposits received and other liabilities		**23,610,932**	**18,399,796**
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers		-	13,812,606
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not intended for investments		130,348	2,780,810
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		23,480,584	1,806,380
Increase in loans and decrease in deposits received and other liabilities		(8,186,763)	-
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(8,186,763)	-
Net cash generated by operating activities before income taxes		21,035,592	23,777,312

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

STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2014

(In thousands of RSD)

	Note	2014	2013
Income taxes paid		(407,181)	(791,717)
Net cash generated by operating activities		20,628,411	22,985,595
Cash generated by investing activities		7,129	-
Other proceeds from investing activities		7,129	-
Cash used in investing activities		(3,246,279)	(13,040,596)
Outflows per investments in investment securities		(2,653,999)	(12,652,260)
Purchases of intangible assets, property, plant and equipment		(592,280)	(388,336)
Net cash used in investing activities		(3,239,150)	(13,040,596)
Cash generated by financing activities		-	1,704,471
Inflows from the borrowings		-	1,704,471
Cash used in financing activities		(24,327,303)	-
Net cash used for subordinated liabilities		(924,089)	-
Net cash used in the repayment of borrowings		(23,403,214)	-
Net cash (used in)/generated by financing activities		(24,327,303)	1,704,471
Total cash inflows		41,788,034	40,227,303
Total cash outflows		(48,726,076)	(28,577,833)
Net cash (decrease)/increase		(6,938,042)	11,649,470
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3.k	22,514,819	10,876,459
Foreign exchange gains		75,142	-
Foreign exchange losses		-	(11,110)
CASH AND CASH EQUIVALENTS, END OF YEAR	3.k	15,651,919	22,514,819

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

NOTES TO THE FINANCIAL STATEMENTS

1) BANK'S ESTABLISHMENT AND ACTIVITY

UniCredit Bank Serbia JSC Belgrade (the: "Bank") was originally established as HVB Banka Jugoslavija ("HVB") in 2001 after obtaining an operating license from the National Bank of Yugoslavia on July 2, 2001. On October 1, 2005, a status change of merger and acquisition of entities HVB Banka Srbija i Crna Gora A.D. Beograd, as the Acquirer and Eksport-Import banka Eksimbank A.D. Beograd, as the Acquiree was registered. The Bank changed its name to UniCredit Bank Serbia JSC Belgrade on March 30, 2007.

The Bank is a member of UniCredit Bank Austria AG, domiciled in Vienna, and a member of UniCredit Group. UniCredit Bank Austria AG is the sole owner and shareholder of the Bank.

The Bank is registered in the Republic of Serbia to provide banking services associated with payment transfers, lending and depositary activities in the country and abroad.

As of December 31, 2014, the Bank was comprised of the Head Office in Belgrade and 71 branch offices located in towns throughout the Republic of Serbia (December 31, 2013: 74 branch offices).

As of December 31, 2014, the Bank had 1,089 employees (December 31, 2013: 1,046 employees).

2) BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

(a) Basis of Preparation and Presentation of Financial Statements

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 on Accounting (hereinafter referred as: the "Law", Official Gazette of the Republic of Serbia no. 62/2013). 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.

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") on October 5, 2010 and published the Official Gazette of the Republic of Serbia no. 77/2010. The Ministry's Decision dated March 13, 2014 adopted the translation of the Conceptual Framework for Financial Reporting and (the "Conceptual Framework,“ adopted by the IASB in September 2010, which supplants the Framework for Preparation and Presentation of the Financial Statements) and basic texts of IAS and IFRS ("Decision on Adoption of the Translations of the Conceptual Framework for Financial Reporting and Basic Texts of International Accounting Standards and International Financial Reporting Standards," published the Official Gazette of the Republic of Serbia no. 35 on March 27, 2014 ("Decision on Adoption of the Translations"), encompassing amendments to IAS and new IFRS and related interpretations issued by IASB and IFRIC/effective as of December 31, 2013. Based on this Decision on Adoption of the Translations, the Conceptual Framework, IAS, IFRS, IFRIC and related interpretations that have been translated shall be applied to the financial statements prepared as of December 31, 2014.

Standards and interpretations issued that came into effect in the current period pursuant to the Decision on Adoption of the Translations are disclosed in Note 2.(b), while standards and interpretations in issue but not yet in effect are disclosed in Note 2.(c)

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of RS nos. 71/2014 and 135/2014).

These financial statements were prepared at historical cost principle, except for measurement of the following significant balance sheet items:

- financial assets available for sale stated at fair value;
- derivative financial instruments stated at fair value;
- financial assets and liabilities held for trading stated at fair value.

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

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

(b) Standards and Interpretations Issued that Came into Effect in the Current Period Pursuant to the Decision on Adoption of the Translations of the Ministry

The following standards, amendments and interpretations came into effect in the current period for the financial year ended December 31, 2014:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);
- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);
- Amendments to IAS 38 "Intangible Assets" (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 2 "Share-Based Payment": Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 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);
- 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);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance" (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to 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 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);
- 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 IFRS 10 "Consolidated Financial Statements," IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016);
- 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); and
- IFRIC 21 "Levies" (effective for annual periods beginning on or after January 1, 2014).

(c) 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 for the year ended December 31, 2014:
- IFRS 9 "Financial Instruments" and subsequent amendments, supplanting the requirements of IAS 39 "Financial Instruments: Recognition and Measurement," with regard to classification and measurement of financial assets. This standard eliminates the categories existing under IAS 39 – assets held to maturity, assets available for sale and loans and receivables. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.
- IFRS 15 "Revenue from Contracts with Customers," defining the framework for revenue recognition. IFRS 15 supplants IAS 18 "Revenue," IAS 11 "Construction Contracts," IFRIC 13 "Customer Loyalty Programs," IFRIC 15 "Agreements for the Construction of Real Estate" and IFRIC 18 "Transfers of Assets from Customers". IFRS 15 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.
- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisition of an Interest in a Joint Operation (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (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); and
- 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).

(d) Comparative Data

In order to achieve compliance with the presentation of the current period data, the Bank reclassified data presented in the financial statements for the year 2013.

(e) Use of Estimates

Preparation of the financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses arising during the accounting period. Actual amounts of assets and liabilities may vary from these estimates.

These estimations and underlying assumptions are subject to regular review. The revised accounting estimates are presented for the period in which they are revised as well as for the ensuing periods.

(f) Statement of Compliance

The Bank's financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies presented hereinafter have been consistently applied for all years presented.

(a) Consolidation

The Bank has no control over any other legal entity and hence prepares no consolidated financial statements.

(b) Going Concern

The financial statements have been prepared under going concern assumption, which means that the Bank will continue its operations for an indefinite period in the foreseeable future.

(c) Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official exchange rates effective at the date of each transaction.

Monetary assets and liabilities denominated in foreign currencies, as well as those indexed to a currency clause, are translated into dinars by applying the official exchange rates prevailing at the balance sheet date.

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 and positive/negative currency clause effects.

The official middle exchange rates determined by the National Bank of Serbia and applied in the translation of the balance sheet components into dinars for the following major currencies were as follows:

In RSD	December 31, 2014	December 31, 2013
USD	99.4641	83.1282
EUR	120.9583	114.6421
CHF	100.5472	93.5472

(d) Interest Income and Expenses

Interest income and expenses are recognized in profit and loss and are calculated using the effective interest method. The effective interest rate is the rate that precisely discounts the estimated future cash disbursement or payment through the expected duration of the financial instrument or, where appropriate, a shorter period, on the net carrying value of financial assets or financial liabilities. When calculating the effective interest rate, the Bank performs an assessment of cash flows, taking into consideration all conditions of the agreement related to the financial instrument, but not considering future loan losses.

The calculation includes all fees and commissions paid and received, which are a constituent part of the effective interest rate. Transaction costs are costs directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expenses recognized in profit or loss include:
- interest on financial assets and financial liabilities that are measured at amortized cost calculated using the effective interest rate method;
- interest on securities available for sale calculated using the effective interest rate method.

Interest income and expenses from all trading assets and liabilities are deemed secondary to the trading activities of the Bank and are presented together with all other changes in the fair value of trading assets and liabilities within net gains on financial assets held for trading.

Regular interest income from impaired loans and receivables due from customers is calculated based on the net amounts of loans using the effective interest method in accordance with IAS/IFRS. Calculation of penalty interest income from impaired loans is suspended from the assignment of the default status to the client and recorded therefrom within off-balance sheet items.

Impaired loans and receivables are those due from customers with default status (internal ratings 8-, 9 and 10), which is explained in more detail in the Rulebook on Calculating Provisions under IAS/IFRS and the Methodology for Default Status Identification under Basel II standards.

(e) Fee and Commission Income and Expenses

Fee and commission income and expenses that are integral parts of the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate and therefore stated within interest income and expenses.

Other fee and commission income is recorded upon service rendering. It mainly comprises fees for services rendered in the domestic and foreign payment transfers, issue of guarantees and letters of credit and other banking services.

Other fee and commission expenses mostly relate to fees for transactions and services provided and are recorded upon receipt of services.

(f) Net Gains on the Financial Assets Held for Trading

Net gains on the financial assets held for trading comprise net gains arising from trade in assets and liabilities, including all realized and unrealized changes in the fair values thereof.

(g) Net Gains on the Hedges against Risks

Net gains on the hedges against risks include net gains on changes in fair values of derivatives designated as risk hedging instruments and changes in fair values of loans, receivables and securities as hedged items, arising from the risks against which the items are hedged.

(h) Lease Liabilities

Payments made during the year under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Income Tax Expenses

Tax expense comprises current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current Income Tax

Current tax is expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current income tax represents an amount calculated in accordance with the Republic of Serbia Corporate Income Tax Law. The prescribed tax rate for 2014 equals 15% (2013: 15%). The taxable base is the profit before taxes shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the Republic of Serbia.

Under the Amendments and Supplements to the Corporate Income Tax Law (the "Law"), Article 48, stipulating the criteria for entitlement to tax credits based on capital expenditures, is entirely deleted. The transition provisions of the Law prescribe that a taxpayer that became entitled to the tax incentive from Article 48 of the Law up to December 31, 2013 and presented the data thereon in the tax balance and income tax return for 2013 may exercise this right until the expiry of the period and in the manner as prescribed by the Law. Accordingly, upon calculating the tax expenses for 2014, the Bank has exercised the aforesaid right and reduced the tax expenses for 2014 based on the unused tax credit from 2013.

(ii) Deferred Income Taxes

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as value added tax, capital gains tax and payroll contributions. These are included under other operating expenses within the income statement.

(j) Financial Assets and Liabilities

(i) Recognition and Initial Measurement

The Bank initially recognizes financial assets and liabilities at the settlement date.

A financial asset or liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, except for financial assets and liabilities held for trading, whose measurement does not include these costs.

/ii/ Classification

- loans and receivables;
- held-to-maturity investments;
- financial assets available for sale; and
- financial assets and liabilities at fair value through profit and loss.

Please refer to accounting policies 3(l), 3(m), 3(n) and 3(o).

The Bank classifies its financial liabilities as measured at amortized

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

cost or held for trading. Please refer to accounting policy 3(t).

(iii) Derecognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset.

Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or have expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and other optional models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price. When the Bank has position with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received. However, in some cases, the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognized in profit or loss on initial recognition of the instrument. In other cases the difference is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

(vii) Impairment Identification and Measurement

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

The Bank writes off certain loans and receivables and investment securities when they are determined to be uncollectable (please refer to Note 4(b)).

(k) Cash and Cash Funds Held with the Central Bank

Cash and cash funds held with the central bank include cash on hand, balances held on the Bank's gyro account, other cash funds and the obligatory foreign currency reserve held with the central bank. Cash and cash funds held with the central bank are stated at amortized cost within the balance sheet.

For the purposes of cash flow statement preparation cash and cash funds include funds held on the accounts with foreign banks, while the obligatory foreign currency reserve held with the central bank is not included in the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Derivatives Held for Hedges against Risks and Hedge Accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the balance sheet.

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes as assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range from 80% to 125%.

(i) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If only certain risks attributable to hedged items are subject to hedging, the recognized changes in fair value of the hedged items that are not associated with the risk subject to hedging are recognized in accordance with the Bank's policy on financial instrument measurement depending on the instrument classification.

(m) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Loans and receivables are presented net of specific and collective allowances for impairment. Specific and collective allowances are made against the carrying amount of loans and advances that are identified as being impaired in order to reduce their value to recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement within the line item "net losses from impairment of financial assets."

(n) Held-to-Maturity Financial Assets

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 the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger reclassification:
- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value,
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal, and
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(o) Financial Assets at Fair Value through Profit and Loss

Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or upon initial recognition are designated by the Bank as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that the Bank acquired or incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or derivatives.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets at fair value through profit or loss are measured at fair value. Changes in the fair value are presented within the income statement

(p) Financial Assets Available for Sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as another category of financial asset. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in other comprehensive income until the investment is sold or impaired, where upon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial assets for the foreseeable future or until maturity.

(q) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of expenditure will flow to the Bank.

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

(iii) Depreciation

Items of property and equipment are depreciated from the following month when they are available for use. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The depreciation rates used for the current and comparative periods are as follows:

Assets	Estimate Useful Life (Years)	Minimum Annual Rate (%)
Buildings	Maximum 50	2
Furniture	Maximum 25	4
IT equipment and electronic systems	Maximum 15	6.67
Other	Maximum 10	10

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate.

(r) Intangible Assets

Intangible assets comprise software, licenses and other intangible assets.

Intangible assets purchased by the Bank are stated at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use. The estimated useful life of intangible assets is five years and amortization rate used is 20%, except for the assets whose usage periods are contractually defined, when these assets are amortized over

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the contractually defined periods.
Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate.

(s) Leases – the Bank as a Lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Bank's balance sheet.

(t) Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a cash-generating unit.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(u) Deposits, Borrowings and Subordinated Liabilities

Deposits, borrowings from banks and customers and subordinated liabilities are the Bank's source of debt funding.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs and subsequently measured at their amortized cost using the effective interest method.

(v) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(x) Financial Guarantees

Financial guarantee represent contracts whereby the Bank is obligated to make the designated payment to the guarantee holder for the loss incurred due to the designated debtor's failure to make the relevant payment in timely manner in accordance with the debt instrument terms.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within contingent liabilities.

(y) Employee Benefits

In accordance with regulatory requirements of the Republic of Serbia, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which 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 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 government funds. These taxes and contributions payable on behalf of the employee and employer are charged to staff costs in the period in which they arise.

Pursuant to the Labor Law, the Bank has an obligation to disburse

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

an employment retirement benefit to a retiree. The retirement benefit obligation recognized in the balance sheet as on December 31, 2014 represents the present value of the defined benefit obligation determined through actuarial valuations by using assumptions that are not only based on mortality tables, employee turnover and disability rates, projected annual salary growth rate of 3%, annual discount rate of 8.75%, as well as margins on annuities to a vanishing point as prepared by the actuary. In addition, in 2014 the Bank made provisions for unused annual leaves (vacations).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) FINANCIAL RISK MANAGEMENT

(a) Introduction and Overview

In its operations the Bank is particularly exposed to the following risks:

- Credit risk, including the residual risk, dilution risk, settlement/delivery risk, and counterparty risk;
- Concentration risk, which includes risks of exposure to a single entity or a group of related entities;
- Liquidity risk;
- Market risks (interest rate risk, currency risk and other market risks);
- Operational risk;
- Investment risk;
- Strategic risk; and
- Compliance risk.

Credit risk is the risk of possible negative effects on financial result and capital of the Bank caused by the borrower default on its obligations to the Bank. Credit risk includes risks which represent the likelihood of occurrence of adverse effects on the financial result and capital due to:

- Residual risk –the fact that credit risk mitigation techniques are less efficient than anticipated or their implementation does not have sufficient influence on reduction of risks to which the bank is exposed.
- Dilution risk – reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the debtor
- Settlement/delivery risk – unsettled transactions or counterparty's failure to fulfil his part of the deal in a transaction or settlement of monetary liabilities under that transaction
- Counterparty risk – consequence of failure to fulfil his part of the deal in a transaction before final settlement of cash flows of the transaction or settlement of monetary liabilities under that transaction.

Liquidity risk is the possibility of occurrence of adverse effects on financial result and capital of the Bank caused by the Bank's inability to fulfil its due obligations as a result of withdrawal of existing sources of financing and/or impossibility of securing new sources of financing, or difficulties in converting assets into liquid funds due to market disturbances.

Market risks include interest rate risk, foreign exchange risk and other market risks. Interest rate risk is a risk of negative effects on financial result and capital of the Bank caused by changes in the level of interest rate. Foreign exchange risk is the risk of negative effects on financial result and capital of the Bank caused by changes in the exchange rate. Other market risks include price risk on equity securities, price risk on debt securities, settlement/delivery risk and counterparty risk.

Operational risk is the risk of negative effects on financial result and capital of the Bank caused by human error, inadequate internal procedures and processes, inadequate management of the information system and other systems in the Bank, as well as by unpredictable external events.

Risk Management Framework

The most important role in the risk management is assigned to the Supervisory Board (SB) of the Bank, which is responsible for risk management system establishing and monitoring. SB is defining strategies and policies for managing key risk types that the Bank is exposed to in its operations. Also, SB is in charge of approval of large exposures to single person or group of related entities towards whom the Bank's exposure is over 10% of capital of the Bank also for the case of increasing of that exposure over 20% of capital of the Bank. Audit Committee is supporting SB in its functioning by considering the most important internal regulations of the Bank before final approval by SB. The Management Board of the Bank is in charge of implementation of approved risk strategies and policies and for approval of procedures for identification, measuring, estimation and managing of risks. Important role in loan approval process is assigned to the Credit Committee, which is in charge of making decisions about credit applications within its competence level, or giving recommendation for higher credit approval competence level. ALCO is monitoring Market and Liquidity Risks.

Internal organization of the Bank ensures functional and organizational separation of risk management and other regular business activities. The Bank has a separate Risk Management Division in its organizational structure, with a comprehensive and very important function of maintaining and developing a stable and profitable loan portfolio. Risk Management Division now covers the management of credit, market, operational and liquidity risk through the activity of five departments: Strategic Risk Management and Control, Retail Credit Operations, Corporate Underwriting, Corporate Special Credit, and Market and Operational Risk Department.

All departments report directly to the member of the Management Board in charge of Risk Management, thereby ensuring increased supervision of all phases of the credit process as well as global overview and assessment of all risks the Bank is exposed to.

Internal Audit Department

The Internal Audit Department conducts its activities based on the annual operating plan and strategic three year internal audit plan approved by the Management Board. The frequency of internal audit (frequency or length of audit cycle) of a particular business area varies from one to three years, and directly depends on estimated level of risk. The Internal Audit Department regularly monitors implementation of recommendations (action plans) made and reports to the Audit Committee and the Managing Board on all potential delays in the implementation of the measures.

4) FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk

Credit process in the Bank is based on strict segregation of the competences and responsibilities in credit operations between risk taking activities, "business" function responsibilities on one side and credit risk management function on the other side. Business function is represented with sectors that are dealing with client acquisition and relationship management, while credit risk management function is represented by mentioned Departments in the Risk Management Division in charge of loan underwriting, monitoring, restructuring and collection. According to "four eye" principle, decision on credit application is proposed by business side (first vote) and final decision or recommendation for credit approval decision is given by risk management function (second vote). Exception can be made for standardized products in retail segment, when due to a large number of relatively small loan amounts and simplification of the procedure, approval process can be completely realized within business function, with mandatory applied "4 eyes principle", in accordance with predefined criteria and parameters, approved by risk management function.

With the aim to ensure adequate and timely risk management, in the area of credit activity the Bank applies following internal regulations: Risk Management Rulebook, Rules on Competences for Credit Business, documents which define rules for internal credit rating assignment, Rules of Procedure for Credit Committee, Collateral Policy, Valuation Policy, Guideline for the Management of Corporate Special Credit Clients, Rules on the IAS/IFRS provision calculation and other regulations. The goal is to manage and optimize exposure to risks, by defining adequate procedures and responsibilities in the risk management process.

In order to define a consistent policy for the credit activity and a general framework for risk management, the Bank has made credit risk management strategies for Retail (Credit Risk Retail Strategy) and Corporate (Industry Credit Risk Strategy) segments, which include general guidelines for the basic parameters of risk management, principles of analysis of the creditworthiness of each customer segment, and the determination of the direction of development of individual products, as well as detailed strategy direction of portfolio development by individual industries and the largest groups of related persons. In this way, the Bank ensures that approved business policies are implemented, resulting in an acceptable level of exposure to credit risk at the level of individual placement, as well as adequate diversification and general quality of the loan portfolio.

Competences, responsibilities and authorities of persons involved in risk management system are defined in Rules on Competences for Crediting Business. In credit process "four eye" principle has to be followed in order to ensure that each side in credit process is checked – the one who propose credit decision, and the other who approves application.

Credit Risk Reporting

Timely identification, measuring, monitoring and managing of credit risk on portfolio level of the Bank is supported by Risk Management Information System (hereinafter: RMIS). By reporting at total portfolio level or particular client level, RMIS provides complete, accurate and timely information about the quality and changes of the loan portfolio.

RMIS has to fulfil 4 main functions:

1. Collecting and processing of data and indicators of credit risk
2. Analysis of movements and changes in the entire loan portfolio and its structural characteristics
3. Continuous monitoring of credit risk; and
4. Providing basis for credit risk management decision making process.

The scope of monitoring, management and reporting on credit risk on portfolio level includes monitoring of loan loss provisions, as well as special reserves for loan losses, calculated in accordance with Decision on classification and relevant internal regulations of the Bank.

Credit Risk Parameters

Quantification of credit risk is done by measuring of expected loss. Main indicators that are used to monitor credit risk and to calculate expected loss and loan loss provisions are:

- Exposure of the Bank at default moment (EaD)
- Probability of default (PD)
- Loss given default (LGD)
- Loss confirmation period (LCP)

The Bank uses internal credit rating models. Rating models define specific rating for clients with similar credit risk level. Each rating grade is related to certain PD parameter. The Bank also internally calculates others parameters of credit risk.

Rating models, credit risk parameters and collaterals are used for loan loss provisions calculation in line with IFRS, as defined by the special internal regulation of the Bank.

In order to fulfil above mentioned functions, RMIS is using IT systems of the Group and internally generated databases with figures about portfolio by types of placement. Group systems provide rating and overdue days data, as important parameters of credit risk of client.

Limits

The Bank manages credit risk concentration in portfolio by determining limits. Limits are defined by internal regulations and/or NBS regulations; they are constantly monitored and reported.

In accordance with NBS regulation, total exposure limit toward one client or group of related entities should not be over 25% of total

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) FINANCIAL RISK MANAGEMENT (Continued)

capital of the Bank, after applying all prescribed deducted positions. Sum of all exposures that exceed 10% of capital of the Bank, cannot be higher than 400% of capital of the Bank. Total exposure limit toward one client or group of related entities that exceed 10% of capital of the Bank have to be approved by Supervisory Board.

Exposure of the Bank towards entity related with the Bank cannot exceed 5% of capital of the Bank. Total exposure of the Bank towards related entities cannot exceed 20% of capital of the Bank.

Reports

In monitoring of credit risk on portfolio level, the following reports are used:
- Risk Report (RR);
- Credit Risk Monitoring Report (CRM); and
- Assets Quality Report (AQ).

RR is prepared monthly and quarterly, and quarterly report is more detailed and with wider scope.

Standard monthly RR, among other, includes:
- Structure and development of portfolio by risk classes;
- Amounts and changes of provisions in accordance with IFRS;
- Collateral coverage of portfolio;
- Main indicators of credit risk and their development;
- Comment on main changes and credit risk tendency; and
- Overview of largest clients with default status.

Quarterly RR includes data shown on monthly level but dispersed by segments as well as additional information related to:
- Collateral structure;
- Off balance sheet structure;
- Overview of portfolio by type and currency of placement;
- Overview of portfolio by industrial sectors;
- Structure of portfolio depending on loan tenor; and
- Overview of large exposures toward one client or group of related entities.

CRM is prepared on monthly level. Data are shown in sub segment level (large companies, mid companies, financing real estate, business clients and entrepreneurs and retail), with comparable data from previous month and end of previous year. Report contains, among other, the following information:
- Loan Structure (type and currency);
- Portfolio collateral coverage and collateral structure;
- Maturity structure of portfolio;
- Amounts and changes of provisions in accordance with IFRS;
- Structure of portfolio by internal rating categories; and
- Structure of portfolio by criteria of (non)-default status.

AQ is prepared on monthly level, data are shown by sub segments with comparable data from all months in reporting year. Report contains:
- Outstandings, EAD, collaterals, each sub segment collateral coverage and collateral structure;
- Additional impairment allowances and reversal thereof, individual and general loan loss provisions and NPL impairment allowances;
- Cost of risk evolution; and
- NPL breakdown according to NBS.

Beside standardized reports, there are many activities in order to provide accurate parameters used in monitoring of credit risk: ad hoc analysis and reporting and other activities that contribute to the accuracy of parameters of credit risk.

Ad hoc analysis and reporting are applied in case of higher risk exposure, especially if the credit risk level is changing drastically and promptly and when timely reaction is expected. For example: deterioration of internally defined rating grades, significant need for additional provisions, mismatching signs in organization, implemented system or procedures, change of any of credit risk parameters and provisions calculation.

Other activities include: control of data quality that are used in monitoring, managing and reporting of credit risk, improving of existing systems and procedures, annual process of budgeting and additional controlling and correcting of budget parameters.

4) FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk Exposure

The table below shows gross financial assets and classification for individual and group-level impairment:

(In thousands of RSD)

	Cash and cash funds held with the central bank		Held-to-maturity financial assets		Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Financial assets at FVTPL held for trading		Available-for-sale financial assets		Other assets		Off-balance sheet items	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Individually impaired																
Corporate clients, rating 10	-	-	16,252	55,316	-	-	13,553,170	13,221,070	-	-	-	-	104,747	79,461	48,264	6,315
Corporate clients, rating 9	-	-	-	2,600	-	-	11,254,978	11,180,564	-	-	-	-	80,828	84,194	119,077	139,949
Corporate clients, restructured loans*	-	-	-	-	-	-	947,485	202,486	-	-	-	-	28,989	20,273	134,877	8,983
Retail clients, > 90 days past due	-	-	-	-	-	-	3,567,539	2,780,902	-	-	-	-	70,726	60,149	7,874	10,754
Gross loans	-	-	16,252	57,916	-	-	29,323,172	27,385,022	-	-	-	-	285,290	244,077	310,092	166,001
Impairment allowance	-	-	16,252	55,316	-	-	17,661,214	14,672,198	-	-	-	-	262,507	244,077	188,674	14,491
Carrying value	-	-	-	2,600	-	-	11,661,958	12,712,824	-	-	-	-	22,783	-	121,418	151,510
Group-level impaired																
Corporate clients, rating 1 - 6	41,052	561,774	487,891	66,622	9,491,052	3,964,789	98,818,505	90,288,409	-	-	3,457,008	3,596,782	520,209	545,067	93,354,676	83,696,816
Corporate clients, rating 7	-	-	100,237	25,000	1,173,254	7,875	12,425,190	7,172,256	-	-	-	-	6,979	1,097	2,339,182	1,557,596
Corporate clients, rating 8	-	-	-	4,200	-	-	1,680,729	344,052	-	-	-	-	4,435	342	214,332	4,464
Retail clients, < 90 days past due	-	-	-	-	-	-	41,201,528	34,628,209	-	-	-	-	1,781	466	1,614,904	1,809,021
Gross loans	41,052	561,774	588,128	95,822	10,664,306	3,972,664	154,125,952	132,432,926	-	-	3,457,008	3,596,782	533,404	546,972	97,523,094	87,067,897
Impairment allowance	449	-	3,654	610	32,498	1,608	805,507	511,648	-	-	-	-	2,308	607	106,431	42,780
Carrying value	40,603	561,774	584,474	95,212	10,631,808	3,971,056	153,320,445	131,921,278	-	-	3,457,008	3,596,782	531,096	546,365	97,416,663	87,025,117
Carrying value of rated assets	40,603	561,774	584,474	97,812	10,631,808	3,971,056	164,982,403	144,634,102	-	-	3,457,008	3,596,782	553,879	546,365	97,538,081	87,176,627
Carrying value of non-rated assets	29,901,435	38,768,324	-	-	-	11,002,322	-	-	685,490	1,258,108	51,414,595	43,894,212	11	-	-	-
Total carrying value	**29,942,038**	**39,330,098**	**584,474**	**97,812**	**10,631,808**	**14,973,378**	**164,982,403**	**144,634,102**	**685,490**	**1,258,108**	**54,871,603**	**47,490,994**	**553,890**	**546,365**	**97,538,081**	**87,176,627**

*Category "corporate clients – restructured loans" includes corporate customers with internal rating 8-, whose impairment allowance was made on a group-level and not individually

4) FINANCIAL RISK MANAGEMENT (Continued)

Implementation of Basel II Standards

In the area of Basel II standards implementation the focus of activities was placed mainly on the refinement of Retail scoring models, as well as comprehensive validation of Mid Corporate rating model in line with UniCredit Group standards. Regarding LGD and EaD parameters, activities were focused on validation of LGD model and final implementation of the adopted values for the purposes of all relevant calculations. In addition, an initiative has been made to optimize regular quarterly PD models monitoring process. Further improvements to the internal capital adequacy assessment as per NBS regulatory requirements and the Group standards were realized during 2014 in the area of internal capital assessment and stress testing.

Internal Rating System (Rating Scale)

The ranking rules for customers are established at the level of the UniCredit Group and as such are unique for each member of the group. The Bank's rating system is developed and in use since 2004 at Group level for clients classified in the corporate clients group. For retail clients and entrepreneurs, the rating system is internally developed and in use as of 2010. The Master Scale is used as a unique rating assignment method which ensures that customers with the same rating have the same credit characteristics and the same probability that they will not settle their obligations, in part or in full, within the period of 1 year.

The Master Scale is divided into 10 rating classes that are further broken down into a total of 26 rating subgroups.

The internal master scale is compliant with Basel II standards, meaning that each rating subgroup has a PD parameter associated with it, with probability that a customer with particular characteristics will be unable to settle liabilities toward the Bank and will be in default. For the first 24 subgroups the probability of default ranges between 0.02% and 20.00%, where those clients are rated between 1+ and 8. Their probability of default is based on statistical analysis based on historical data.

Ratings from 1+ to 6-: These rating notches are reserved for customers determined in an internal credit assessment to have a credit standing of very good to just acceptable. For customers with this rating periodic review of credit rating is performed annually.

Ratings 7+ to 7-: Covers three subgroups for transactions with low credit rating. Customers assigned these rating notches have substantially greater risk factors and must be constantly monitored. Ratings 8+ and 8 cover those companies without individual provisioning which are subject to special workout or credit-reduction measures.

Rating 8- relates to customers in default according to the Basel II criteria.

Rating 9 comprises customers who are individually provisioned or for which a part of the claim has been written off.

Rating 10 contains customers who are in a state of liquidation or bankruptcy.

Ratings 8-, 9 and 10 are by definition assigned to customers in default in accordance with Basel II measures, with loan loss provisioning.

Impairment Allowance and Provisioning Methodology

The procedure which is based on the Rulebook on Calculating Provisions in accordance with IAS/IFRS provision calculation and adopted rules is conducted in two steps:

- assessment of individual/specific provision (at group or individual level) for clients where impairment of value already occurred, and
- assessment of impairment on a portfolio level for loans where impairment in value does not exist or exists but it has not yet been identified.

Special Provisioning/Individual impairment Allowance Rules and Principles

A financial asset is impaired and impairment has occurred if there is objective evidence of impairment resulting from one or more events after initial recognition which impact future cash flows associated with such financial asset. The Bank reviews at least once in three months whether there is objective evidence of impairment of a financial assets or group of assets. If there is such evidence, the Bank is required to calculate the amount of impairment for the purpose of deciding whether to recognize an impairment loss. In other words, if there is any such evidence of impairment, the Bank should estimate the recoverable amount for such assets or group of assets and recognize an impairment loss.

In determining the adequate amount of provision a distinction is made between the need for calculating a special provision on an individual basis and a special provision on a group basis for clients grouped in categories with similar risk characteristics, including segments to which the client belongs and total amount of exposure at client level. Total exposure of clients consists of the balance of receivable and off-balance balance of receivables, including undrawn amounts of loans.

The process of calculating a special provision on an individual basis is intended to measure impairment at client level. Individual provisions are measured as the difference between the book value of a receivable and present value of expected future cash flows (excluding future impairments not recognized as already occurred) discounted using the effective interest rate for the particular financial asset (e.g. effective interest rate specified in the contract). In other words, the provision is set in the amount of the individual receivable for which collection is

4) FINANCIAL RISK MANAGEMENT (Continued)

doubtful. In the event that the effective interest rate is not available, in calculating the provision an alternative interest rate is used which is compliant with rules specified in the Bank`s internal regulations. In determining the present value of a receivable, first the discounted cash flow from repayment of principal, interest and any other cash flows associated with the placement are determined. After that, the discounted cash flow from the net realizable value of impaired assets is determined for the given placement. Finally, the net present value of future cash flows is compared to the carrying amount of the particular asset and the amount of the provision for impairment of the given placement is calculated and reported in the income statement.

Calculation of provisions for exposures that are impaired and which are not classified as individually significant is performed on a group basis by grouping clients with a default status into homogenous categories with similar risk characteristics. In defining homogenous categories, the Bank uses segmentation criteria in developing the model for computing the loss rate upon occurrence of loss given default (LGD model).

General Provisioning Rules and Principles

In determining provisions for exposures for which there are no objective evidence of impairment the Bank uses the general provisioning method (IBNR). According to this method, provisions are calculated not just for exposures for which an event has been identified which leads to impairment, but also for exposures for which an event that leads to impairment has occurred, but has not been identified yet by the Bank. Even though for such placements no indications of impairment exist, nor any credit risk losses as at balance sheet date, historical information suggest that over time, for a portion of these placements, contractual obligations toward the Bank will not be performed.

The method of general provisioning is based on the concept of expected loss according to Basel II standards. Expected loss represents the average loss for a credit portfolio in the period of one year and depends on credit risk parameters. A parameter which links the concept of expected losses with the method of general provisioning is the period of identification of an occurred loss (Loss Confirmation Period – LCP). LCP represents a time period expressed as the number of months between the moment of occurrence or potential occurrence of an event that results in placement impairment and the moment when an event has been identified by the Bank. Identification of the event itself is linked to the fulfilment of criteria for default status.

In order for an occurred (but still not identified) loss to be covered for a part of the credit portfolio without the existence of objective evidence of placement impairment, a general provision is calculated as the product of the expected loss for the period of one year and the LCP parameter expressed for parts of the year.

The value of the LCP parameter is six months for retail customers (private individuals, entrepreneurs and small entities) and 12 months for corporate customers in accordance with the range recommended by the UniCredit Group, between four and twelve months.

For receivables from transactions with other banks a provision will be calculated and assigned only if there is actual impairment of value per such transactions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) FINANCIAL RISK MANAGEMENT (Continued)

The table below shows gross and net NP loans due from banks and customers. Non-performing loans are loans which have at least one repayment instalment over 90 days past due. Such loans are impaired and provided for in full, after considering collection from collateral foreclosure.

(In thousands of RSD)

	Held-to-maturity financial assets		Loans and receivables due from customers		Loans and receivables due from banks and other financial institutions		Available-for-sale financial assets		Other assets		Off-balance sheet assets	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2014												
Corporate clients, rating 10	16,252	-	13,553,170	2,709,632	-	-	-	-	104,747	10,962	48,264	44,205
Corporate clients, rating 9	-	-	11,254,978	6,699,606	-	-	-	-	80,828	37	119,077	67,079
Corporate clients, restructured loans*	-	-	947,485	813,112	-	-	-	-	28,989	9,008	134,877	3,979
Retail clients, > 90 days past due	-	-	3,567,539	1,439,608	-	-	-	-	70,726	2,776	7,874	6,155
Total	**16,252**	**-**	**29,323,172**	**11,661,958**	**-**	**-**	**-**	**-**	**285,290**	**22,783**	**310,092**	**121,418**
December 31, 2013												
Corporate clients, rating 10	55,316	-	13,221,070	3,947,934	-	-	-	-	79,461	-	6,315	3,138
Corporate clients, rating 9	2,600	2,600	11,180,564	7,574,249	-	-	-	-	84,194	-	139,949	138,363
Corporate clients, restructured loans*	-	-	202,486	115,630	-	-	-	-	20,273	-	8,983	1,655
Retail clients, > 90 days past due	-	-	2,780,902	1,075,011	-	-	-	-	60,149	-	10,754	8,354
Total	**57,916**	**2,600**	**27,385,022**	**12,712,824**	**-**	**-**	**-**	**-**	**244,077**	**-**	**166,001**	**151,510**

Security Instruments - Collaterals

Mitigation of credit risk is done with adequate collateral requirements. The purpose of acquiring all available collaterals, proper booking, assessment and monitoring is to minimize risk as much as possible. Therefore the Bank is especially dedicated to the management of collaterals, maintaining the acceptable relationship between the undertaken risk and real rate of the collateral recovery, control and mitigation of risks related to quality, concentration, or insurance of the receivables, maturity, currency, etc. Aiming at further enhancement of processes and systems with regards to credit risk mitigation, Bank set-up a special unit within Strategic Risk Management and Control Department – Collateral Management Unit (CMU).

The Bank uses relevant policies for collateral management. Collaterals accepted and used by the Bank for minimizing credit risk comprise:

- financial collaterals (cash deposits), allowed to be recognized in full amounts;
- payment guarantees issued by first-class banks and governments, allowed to be recognized at full amounts;
- mortgages on residential or commercial property, recognized up to 70% or 60%, respectively of appraised value of property;
- pledge liens over receivables, recognized up to 70%;
- pledge liens over movable assets, recognized up to 50%; and
- securities issued by governments, central banks or institutions with adequate credit rating.

In the event that the currency of a security instrument differs from the currency of the loan for which it provides security, the value of the security instrument must be further reduced using a factor defined for every currency combination, as specified by the aforementioned policy.

4) FINANCIAL RISK MANAGEMENT (Continued)

Security Instruments - Collaterals

Appraised fair values of collaterals securitizing the Bank's loans up to the credit risk exposure level as of December 31, 2014 are presented in the table below:

(In thousands of RSD)

	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Held-to-maturity financial assets		Available-for-sale financial assets		Other assets		Off-balance sheet assets	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Corporate clients, rating 10	**-**	**-**	**1,849,356**	**1,986,397**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,287**
Real estate	-	-	1,835,473	1,974,202	-	-	-	-	-	-	-	2,287
Other	-	-	13,883	12,195	-	-	-	-	-	-	-	-
Corporate clients, rating 9	**-**	**-**	**6,431,002**	**6,551,355**	**-**	**-**	**-**	**-**	**-**	**19**	**13,051**	**26,578**
Real estate	-	-	3,155,095	2,807,607	-	-	-	-	-	19	13,051	26,234
Other	-	-	3,275,907	3,743,748	-	-	-	-	-	-	-	344
Corporate clients, restructured loans	**-**	**-**	**732,437**	**44,119**	**-**	**-**	**-**	**-**	**-**	**-**	**25,750**	**-**
Real estate	-	-	292,416	43,113	-	-	-	-	-	-	25,585	-
Other	-	-	440,021	1,006	-	-	-	-	-	-	165	-
Retail clients, > 90 days	**-**	**-**	**429,721**	**389,292**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Past due	-	-	428,510	387,821	-	-	-	-	-	-	-	-
Real estate	-	-	1,211	1,471	-	-	-	-	-	-	-	-
Other												
Group-level impairment allowance based on collateral appraisal	**1,071**	**2,074,916**	**51,567,425**	**52,098,664**	**-**	**-**	**-**	**-**	**-**	**-**	**18,676,407**	**15,933,408**
Real estate	-	2,064,667	37,597,593	33,408,056	-	-	-	-	-	-	3,042,261	2,421,457
Other	1,071	10,249	13,969,832	18,690,608	-	-	-	-	-	-	15,634,146	13,511,951
Total	**1,071**	**2,074,916**	**61,009,941**	**61,069,827**	**-**	**-**	**-**	**-**	**-**	**19**	**18,715,208**	**15,962,273**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, calls on guarantees, margins and other obligations to pay out cash and cash equivalents. The Bank does not maintain cash resources to meet all of these needs since historical experience demonstrates that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is not unusual for banks never to cover their balances, given that business transactions are often carried out for indefinite periods and are of different types. Open positions potentially increase profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, the interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank's management judges that the diversification of deposits by the type of deposit placed and the number of customers, as well as the historical experience of the Bank, provide adequate assurance that its deposits represent a stable and reliable source of finance.

The Bank's liquidity is expressed through the liquidity ratio. The Bank is under obligation to maintain the ratio between the sum of liquid receivables of first order and liquid receivables of second order, on the one hand, and the sum of the Bank's call deposit liabilities and deposits without contractual maturity and deposits with contracted maturity, as follows:

- at least 1.0 – when calculated as an average of all working days in a month;
- not below 0.9 for over three consecutive days; and
- at least 0.8 – when calculated for one working day.

In addition, the Bank is obligated to maintain the liquidity levels so that the rigid/cash liquidity ratios are as follows:

- at least 0.7 – when calculated as an average of all working days in a month;
- not below 0.6 for over three consecutive days,
- at least 0.5 – when calculated for one working day.

The Bank is under obligation to report to the National Bank of Serbia if the liquidity ratio is not within prescribed parameters for two working days, and must do so on the next working day. If the Bank determines a critically low liquidity ratio, it must report this to the National Bank of Serbia at the latest by the next working day. Such report should contain information on the amount of liquid assets that are not available, on the reasons for the lack of liquidity and on planned activities for resolving the cause of illiquidity. The Market and Operating Risk Department prepares a report on daily liquidity for the National Bank of Serbia at daily and monthly levels.

The Bank's liquidity management is the responsibility of the head of Assets and Liabilities Management ("ALM"). The Liquidity Centre of the UniCredit Group monitors the liquidity of its subsidiaries, maintains liquidity policy in the region and, when needed, orders corrective measures that are to be carried out by a subsidiary. Short term liquidity management in responsibility of Markets department.

In the event that the liquidity crisis is limited to the local market, the local CEO, CFO and CRO hold general responsibility for crisis management in line with effective liquidity management policy. They identify and assess necessary measures and manage the internal/external communications process. Also, they ensure timely flow of information within the subsidiary entity and to/from the Liquidity Center and facilitate timely decision making.

	2014	2013
Liquidity ratio (I grade):		
as on 31 December	1.50	2.36
average for the period – December	1.58	2.28
maximum for the period – December	1.74	2.46
minimum for the period – December	1.38	2.09

	2014	2013
Rigid/cash liquidity ratio:		
as on December 31	1.05	2.16
average for the period – December	1.11	1.93
maximum for the period – December	1.37	2.17
minimum for the period – December	0.87	1.75

4) FINANCIAL RISK MANAGEMENT (Continued)

The following table provides breakdown of relevant maturity groups of the Bank's financial assets and liabilities as of December 31, 2014:

(In thousands of RSD)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash funds held with the central bank	29,942,038	-	-	-	-	**29,942,038**
Financial assets at fair value through profit and loss, held for trading	89,210	8,497	169,416	418,367	-	**685,490**
Financial assets available for sale	1,823,954	873,967	17,534,824	28,987,727	5,651,131	**54,871,603**
Financial assets held to maturity	463,892	120,582				**584,474**
Loans and receivables due from banks and other financial institutions	9,454,340	-	1,137,200	40,268	-	**10,631,808**
Loans and receivables due from customers	9,768,260	2,120,357	25,848,005	87,777,961	39,467,820	**164,982,403**
Current tax assets	772,408	-	-	-	-	**772,408**
Other assets	553,890	-	-	-	-	**553,890**
Total assets	**52,867,992**	**3,123,403**	**44,689,445**	**117,224,323**	**45,118,951**	**263,024,114**
Liabilities						
Financial liabilities at fair value through profit and loss, held for trading	-	-	118,500	88,854	-	**207,354**
Liabilities per financial derivatives designated as risk hedging instruments	-	-	-	-	454,559	**454,559**
Deposits and other liabilities due to banks other financial institutions and the central bank	8,947,701	586,857	4,649,122	44,607,022	11,508,395	**70,299,097**
Deposits and other liabilities due to customers	85,508,055	9,743,621	24,073,740	11,913,672	3,220,458	**134,459,546**
Subordinated liabilities	-	-		2,698,019	-	**2,698,019**
Other liabilities	1,447,828	-	-	-	-	**1,447,828**
Total liabilities	**95,903,584**	**10,330,478**	**28,841,362**	**59,307,567**	**15,183,412**	**209,566,403**
Net liquidity gap as on December 31, 2014	**(43,035,592)**	**(7,207,075)**	**15,848,083**	**57,916,756**	**29,935,539**	**53,457,711**

The structure of asset and liability maturities as on December 31, 2014 is indicative of maturity mismatch between the outstanding maturities of assets and those of liabilities in the time baskets of up to a month and the basket from one to three months, primarily due to maturity structure of deposits, i.e., a significant share of demand deposits and short-term deposits in the total deposits due to banks and customers. However, based on historical data and experience, a significant portion of demand deposits may be considered a long-term source of financing given the transactions and withdrawals realized; in addition, a large number of term deposits are commonly renewed and placed for another term immediately upon maturity. At the same time, the Bank is in possession of liquid instruments, securities that can be pledged with the National Bank of Serbia at any time, as well as agreed and not yet withdraws loan facilities approved by the international financial institutions and the Parent Bank.

4) FINANCIAL RISK MANAGEMENT (Continued)

The following table provides breakdown of relevant maturity groups of the Bank's financial assets and liabilities as on December 31, 2013:

(In thousands of RSD)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash funds held with the central bank	39,330,098	-	-	-	-	**39,330,098**
Financial assets at fair value through profit and loss, held for trading	1,258,108	-	-	-	-	**1,258,108**
Financial assets available for sale	696,430	6,260,638	5,835,754	28,922,210	5,775,962	**47,490,994**
Financial assets held to maturity	52,353	45,459		-	-	**97,812**
Loans and receivables due from banks and other financial institutions	14,932,656		5,502	35,220	-	**14,973,378**
Loans and receivables due from customers	10,265,854	3,509,352	25,605,895	56,846,904	48,406,097	**144,634,102**
Current tax assets	746,499	-	-	-	-	**746,499**
Other assets	546,364	-	-	-	-	**546,364**
Total assets	**67,828,362**	**9,815,449**	**31,447,151**	**85,804,334**	**54,182,059**	**249,077,355**
Liabilities						
Financial liabilities at fair value through profit and loss, held for trading	339,028	-	-	-	-	**339,028**
Liabilities per financial derivatives designated as risk hedging instruments	159,313	-	-	-	-	**159,313**
Deposits and other liabilities due to banks other financial institutions and the central bank	12,452,388	373,169	17,755,848	48,766,184	11,527,974	**90,875,563**
Deposits and other liabilities due to customers	67,396,393	6,784,561	19,672,780	4,884,491	6,038,733	**104,776,958**
Subordinated liabilities	1,409	-	917,137	2,509,871	-	**3,428,417**
Other liabilities	1,041,361	-	-	-	-	**1,041,361**
Total liabilities	**81,389,892**	**7,157,730**	**38,345,765**	**56,160,546**	**17,566,707**	**200,620,640**
Net liquidity gap as on December 31, 2013	**(13,561,530)**	**2,657,719**	**(6,898,614)**	**29,643,788**	**36,615,352**	**48,456,715**

4) FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risks

The Bank takes on exposure to market risks. Markets risks arise from open positions in interest rate, currency and securities, all of which are exposed to general and specific market movements. The Bank applies a "value at risk" ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

(i) Interest Rate Risk

The Bank is exposed to various risks that due to market interest rate fluctuations affect its financial position and cash flows. Interest rate margins can increase as the result of these fluctuations, but at the same time they can be reduced or cause losses in the event of unexpected fluctuations. Review of risk of fluctuation in interest rates is made using reports of acceptable interest rates based on which monetary assets and liabilities can be revaluated very quickly, with all risk of interest rate fluctuation becoming materially insignificant. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The Bank is focused on interest rate spreads. The Bank is aware that volatility of Interest Rate Risk (IRR) spread is potential interest rate risk indicator. This spread is managed by loan pricing, deposit pricing, and investing.

The methodology used to assess the Investment book interest rate risk is the Gap/Duration analysis. The difference between the interest bearing assets and liabilities within the separate time "baskets" shows how two balance sheet sides react differently to interest rate changes:

- in case of positive GAP the bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency fall,
- in case of negative GAP, bank is exposed to the risk of loss if interest rates of the certain maturity of the observed currency rise.

The number and the "baskets" schedule are defined on the ALCO and level of UniCredit Group. Gap limits are defined according to the currency (limits per currency).

Resulting short and long positions are weighted by factors designed to reflect the sensitivity of the positions in the different time baskets to an assumed change in interest rates, based on an assumed parallel shift of 200 basis points throughout the time spectrum, and on proxies of modified duration.

	December 31, 2014		December 31, 2013	
	Nominal GAP duration	Effect of parallel shift in interest rate by 200 bp	Nominal GAP duration	Effect of parallel shift in interest rate by 200 bp
RSD	-	(1,311,714)	-	(69,610)
EUR	-	64,251	-	(68,509)
USD	-	(8,171)	-	(6,182)
GBP	-	-	-	-
CHF	-	(136,829)	-	(286,072)
JPY	-	-	-	-
CAD	-	-	-	-
AUD	-	-	-	-
DKK	-	-	-	-
NOK	-	-	-	-
SEK	-	-	-	-
Total effect	**-**	**(1,392,464)**	**-**	**(430,373)**

The Bank prepares reports for measuring interest rate risk for all positions of assets, liability and off-balance items, as well as for all other compensations or expenditures that are exposed to interest rate risk. These reports are used to measure risk to Net Interest Income ("NII") arising from the re-pricing of assets and liabilities over time. The risk is measured upon the size and duration potential movements in interest rates.

In addition to the GAP analyses, interest rate risk management also entails monitoring the sensitivity of the Bank's assets and liabilities to different standard and non-standard scenarios of changes in interest rates. The standard scenarios prepared on a daily basis entail parallel changes (increases and decreases) in the yield curve by 200 basis points (b.p.) in Serbia.

One of the objective targets of ALM is managing of the interest rate risk of the Bank through acting on financial market (through Interbank trading) in order to hedge the risk return profile desired by the Bank and providing sufficient earnings by managing the Bank's investment portfolio. Approved instruments for ALM to take an interest related strategic position to improve the profitability of the banking book.

4) FINANCIAL RISK MANAGEMENT (Continued)

The Bank's sensitivity analysis, i.e. impact on the Bank's financial performance of the increase/decrease in the interest rates assuming symmetrical movement in yield curves and constant financial position is presented in the table below:

(In thousands of RSD)

	Parallel increases by 200 b.p.	Parallel decreases by 200 b.p.
2014		
As on December 31	1,744,650	(1,744,650)
Average for the year	1,851,915	(1,851,915)
Maximum for the year	2,170,318	(2,170,318)
Minimum for the year	1,657,668	(1,657,668)
2013		
As on December 31	577,832	(577,832)
Average for the year	783,628	(783,628)
Maximum for the year	1,411,461	(1,411,461)
Minimum for the year	384,656	(384,656)

Breakdown of VaR position of the Bank's trading portfolio:

(In thousands of RSD)

	As at December 31	Average	Maximum	Minimum
2014				
Currency risk	6,923	4,610	17,035	154
Interest rate risk	4,932	8,910	29,298	4,932
Credit spread risk	1,169	1,844	435	11,212
Covariance	(5,909)	-	-	-
Overall	7,115	9,916	29,298	4,946
2013				
Currency risk	15,586	6,349	29,277	94
Interest rate risk	7,021	4,712	16,774	1,520
Credit spread risk	2,015	4,249	9,723	0
Covariance	(7,439)	-	-	-
Overall	17,183	9,506	30,854	3,506

4) FINANCIAL RISK MANAGEMENT (Continued)

Exposure to interest rate movements as on December 31, 2014:

(In thousands of RSD)

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and cash funds held with the central bank	29,942,038	11,090,023	-	-	-	-	18,852,015
Financial assets at fair value through profit and loss, held for trading	685,490	106,340	-	288,149	-	-	291,001
Financial assets available for sale	54,871,603	-	-	54,871,603	-	-	-
Financial assets held to maturity	584,474	441,801	97,078	43,686	-	-	1,909
Loans and receivables due from banks and other financial institutions	10,631,808	9,445,146	-	1,138,271	-	-	48,391
Loans and receivables due from customers	164,982,403	1,208,618	70,084,426	60,279,541	24,837,226	2,034,093	6,538,499
Current tax assets	772,408	-	-	-	-	-	772,408
Other assets	553,890	-	-	-	-	-	553,890
Total assets	**263,024,114**	**22,291,928**	**70,181,504**	**116,621,250**	**24,837,226**	**2,034,093**	**27,058,113**
Financial liabilities at fair value through profit and loss, held for trading	207,354	-	-	-	-	-	207,354
Liabilities per financial derivatives designated as risk hedging instruments	454,559	-	-	-	-	-	454,559
Deposits and other liabilities due to banks other financial institutions and the central bank	70,299,097	3,779,533	48,325,859	3,278,632	13,856,662	-	1,058,411
Deposits and other liabilities due to customers	134,459,546	39,200,494	48,024,893	25,520,371	13,152,506	448,735	8,112,547
Subordinated liabilities	2,698,019	-	-	-	-	2,698,019	-
Other liabilities	1,447,828	-	-	-	-	-	1,447,828
Total liabilities	**209,566,403**	**42,980,027**	**96,350,752**	**28,799,003**	**27,009,168**	**3,146,754**	**11,280,699**
Net interest rate risk sensitivity exposure on December 31, 2014	**53,457,771**	**(20,688,099)**	**(26,169,248)**	**87,822,247**	**(2,171,942)**	**(1,112,661)**	**15,777,414**

Exposure to interest rate movements as on December 31, 2013:

(In thousands of RSD)

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and cash funds held with the central bank	39,330,098	10,049,059	-	-	-	-	29,281,039
Financial assets at fair value through profit and loss, held for trading	1,258,108	886,762	-	-	-	-	371,346
Financial assets available for sale	47,490,994	-	-	1,704,843	38,012,504	7,773,647	0
Financial assets held to maturity	97,812	869	87,729	6,627	-	-	2,587
Loans and receivables due from banks and other financial institutions	14,973,378	13,375,126	7,963	-	-	-	1,590,289
Loans and receivables due from customers	144,634,102	18,181,327	86,049,048	39,180,884	-	-	1,222,843
Current tax assets	746,499	-	-	-	-	-	746,499
Other assets	546,364	-	-	-	-	-	546,364
Total assets	**249,077,355**	**42,493,143**	**86,144,740**	**40,892,354**	**38,012,504**	**7,773,647**	**33,760,967**
Financial liabilities at fair value through profit and loss, held for trading	339,028	-	-	-	-	-	339,028
Liabilities per financial derivatives designated as risk hedging instruments	159,313	-	-	-	-	-	159,313
Deposits and other liabilities due to banks other financial institutions and the central bank	90,875,563	9,473,068	2,414,553	78,667,260	-	-	320,682
Deposits and other liabilities due to customers	104,776,958	29,845,469	32,313,605	36,312,269	-	-	6,305,615
Subordinated liabilities	3,428,417	-	-	3,427,008	-	-	1,409
Other liabilities	1,041,361	-	-	-	-	-	1,041,361
Total liabilities	**200,620,640**	**39,318,537**	**34,728,158**	**118,406,537**	**-**	**-**	**8,167,408**
Net interest rate risk sensitivity exposure on December 31, 2013	**48,456,715**	**3,174,606**	**51,416,582**	**(77,514,183)**	**38,012,504**	**7,773,647**	**25,593,559**

4) FINANCIAL RISK MANAGEMENT (Continued)

(ii) Currency Risk

Foreign currency risk is the risk of potential negative effects on the Bank's financial result and equity due to fluctuations in the foreign currency exchange rates.

The foreign currency risk ratio is the relation between total foreign currency balance and the Bank's risk based capital, calculated in accordance with the decision that regulates the adequacy of the Bank's risk based capital. The Bank is under obligation to maintain the relation between assets and liabilities in such a way that its foreign currency balance at the end of a working day must not exceed 20% of its equity capital. The Market and Operational Risk Department prepares a report on daily liquidity for the NBS at daily and monthly levels.

The Bank is exposed to the effects of exchange rate fluctuations of the most important foreign currencies on its financial position and cash flows. Bank management sets limits for risk of exposure to particular foreign currencies and constantly monitors whether balances of various foreign currencies are within prescribed limits. Limits are effective for all relevant foreign currency products within the Financial Markets Trading Sector (Markets). They comprise trade balances as well as selected strategic foreign currency ALM balances. These limits are defined in the General section of the MIB Manual. All sensitivities that result from foreign currency balances are limited by the general VaR limit set for UniCredit Bank Serbia, both for the Bank in the aggregate and for the Markets and ALCO departments individually.

For the purpose of protecting itself against the risk of fluctuations in the foreign currency exchange rate the Bank concludes derivative contracts and concludes loan and investment contracts linked to foreign currency.

Foreign currency risk management at the operating level of a bank that is a member of the UniCredit Group is the responsibility of the Financial Markets Trading Directorate.

	2014	2013
Foreign exchange risk ratio:		
as on December 31	4.33	11.76
maximum for the period – December	6.77	11.76
minimum for the period – December	0.19	0.07

4) FINANCIAL RISK MANAGEMENT (Continued)

The Bank's net currency position as on December 31, 2014:

(In thousands of RSD)

	USD	EUR	CHF	Other currencies	RSD	Total
Assets						
Cash and cash funds held with the central bank	73,879	16,202,236	46,809	45,310	13,573,804	29,942,038
Financial assets at fair value through profit and loss, held for trading	-	512,450	-	-	173,040	685,490
Financial assets available for sale	-	15,302,264	-	-	39,569,339	54,871,603
Financial assets held to maturity	-	-	-	-	584,474	584,474
Loans and receivables due from banks and other financial institutions	7,215,407	2,477,340	412,213	526,699	149	10,631,808
Loans and receivables due from customers	2,552,108	106,625,086	6,778,878	-	49,026,331	164,982,403
Fair value adjustments of risk hedged items	-	-	97,950	-	-	97,950
Intangible assets	-	-	-	-	919,595	919,595
Property, plant and equipment	-	-	-	-	1,186,429	1,186,429
Investment property	-	-	-	-	1,463	1,463
Current tax assets	-	-	-	-	772,408	772,408
Deferred tax assets	-	-	-	-	42,912	42,912
Other assets	945	121,336	4,456	82	427,071	553,890
Total assets	**9,842,339**	**141,240,712**	**7,340,306**	**572,091**	**106,277,015**	**265,272,463**
Liabilities						
Financial liabilities carried at fair value through profit and loss, held for trading	-	207,354	-	-	-	207,354
Liabilities per financial derivatives designated as risk hedging instruments	-	280,707	173,852	-	-	454,559
Deposits and other liabilities due to banks, other financial institutions and the central bank	4,195,844	55,414,131	3,397,747	7,900	7,283,475	70,299,097
Deposits and other liabilities due to customers	6,863,257	80,665,487	747,307	544,405	45,639,090	134,459,546
Subordinated liabilities	-	-	2,698,019	-	-	2,698,019
Provisions	-	-	-	-	447,823	447,823
Other liabilities	30,771	664,091	8,055	4,484	740,427	1,447,828
Equity	-	-	-	-	55,258,237	55,258,237
Total liabilities and equity	**11,089,872**	**137,231,770**	**7,024,980**	**556,789**	**109,369,052**	**265,272,463**
Off-balance sheet financial instruments	1,253,637	(6,237,990)	(346,888)	12,387	5,400,489	81,635
Net currency gap as of December 31, 2014	**6,104**	**(2,229,048)**	**(31,562)**	**27,689**	**2,308,452**	**81,635**

Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) FINANCIAL RISK MANAGEMENT (Continued)

The Bank's net currency position as on December 31, 2013:

(In thousands of RSD)

	USD	EUR	CHF	Ostale valute	RSD	Ukupno
Assets						
Cash and cash funds held with the central bank	56,919	18,805,430	48,934	36,840	20,381,975	39,330,098
Financial assets at fair value through profit and loss, held for trading	-	737,243	23,245	-	497,620	1,258,108
Financial assets available for sale	-	14,398,247	-	-	33,092,747	47,490,994
Financial assets held to maturity	-	-	-	-	97,812	97,812
Loans and receivables due from banks and other financial institutions	2,082,956	1,168,894	305,718	413,460	11,002,350	14,973,378
Loans and receivables due from customers	5,173,329	105,790,461	7,137,083	-	26,533,229	144,634,102
Fair value adjustments of risk hedged items	-	-	-	-	912,227	912,227
Intangible assets	-	-	-	-	1,134,511	1,134,511
Property, plant and equipment	-	-	-	-	1,495	1,495
Investment property	-	-	-	-	746,499	746,499
Current tax assets	-	-	-	-	169,836	169,836
Other assets	1,283	172,433	4,348	37	368,263	546,364
Total assets	**7,314,487**	**141,072,708**	**7,519,328**	**450,337**	**94,938,564**	**251,295,424**
Liabilities and equity						
Financial liabilities carried at fair value through profit and loss, held for trading	861	321,653	15,214	-	1,300	339,028
Liabilities per financial derivatives designated as risk hedging instruments	-	159,313	-	-	-	159,313
Deposits and other liabilities due to banks, other financial institutions and the central bank	5,124,803	71,904,509	4,139,070	1,792	9,705,389	90,875,563
Deposits and other liabilities due to customers	5,562,991	65,359,635	888,697	312,394	32,653,241	104,776,958
Subordinated liabilities	-	918,231	2,510,186	-	-	3,428,417
Provisions	-	-	-	-	149,412	149,412
Deferred tax liabilities	-	-	-	-	593	593
Other liabilities	15,732	496,228	749	66,100	462,552	1,041,361
Equity	-	-	-	-	50,524,779	50,524,779
Total liabilities and equity	**10,704,387**	**139,159,569**	**7,553,916**	**380,286**	**93,497,266**	**251,295,424**
Off-balance sheet financial instruments	3,380,658	(5,545,017)	(366,705)	(64,294)	2,604,281	8,923
Net currency gap as of December 31, 2013	**(9,242)**	**(3,631,878)**	**(401,293)**	**5,757**	**4,045,579**	**8,923**

Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed.

4) FINANCIAL RISK MANAGEMENT (Continued)

(e) Concentration Risk

Concentration risk directly or indirectly arises from the Bank's exposure to the same or similar risk origination source or the same or similar risk type. Concentration risk relates to:

- large exposures;
- exposure groups with the identical or similar risk factors, such as industry, product type and the like;
- collaterals, including maturity and currency mismatching between large exposures and collaterals securitizing large exposures.

Concentration risk mitigation and control is achieved through active management of the loan portfolio and definition of appropriate exposure limits enabling portfolio diversification. The process of deciding on approval of the Bank's large exposures involves the Supervisory Board, Credit Committee and relevant organizational units within the Group, which ensures another aspect of concentration risk control.

Concentrations of loans and receivables due from customers are disclosed in Notes 24.1 and 24.5.

(f) Exposure Risk

The Bank's exposure risks encompass either risks of exposure to a single entity or a group of related entities or risk of exposure to an entity related to the Bank. In accordance with the NBS regulations, the Bank's total exposure to a single entity or a group of related entities cannot exceed 25% of the Bank's total equity, net of prescribed deductible items. The aggregate amount of all Bank's exposures in excess of 10% of the Bank's equity cannot exceed 400% of the Bank's equity. The total exposure to a single customer or a group of related customers in excess of 10% of the Bank's equity must be approved by the Supervisory Board. 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 manner of large exposure calculation is defined under the Bank's Decision on the Risk Management.

(g) Investment Risk

The Bank's investment risk relates to the risk of investing in other entities and capital expenditures. The Bank's investments in a non-financial sector entity cannot exceed 10% of the Bank's equity, 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.

(h) Country Risk

Country risk is the risk of occurrence of negative effects on the Bank's financial result and equity, arising from the Bank's inability to collect receivables from borrowers from other countries, for reasons that are associated with political, economic or social conditions in the borrower's country of origin. Country risk comprises:

- political-economic risk which consists of the probability that losses will be incurred due to the impossibility of collecting the Bank's receivables due to limitations stipulated by state and other institutions of the borrower's country of origin, as well as general and systemic conditions in that country;
- transfer risk which comprises the probability that losses will be incurred due to the impossibility of collecting receivables denominated in a currency that is not the official currency of the borrower's country of origin, due to limitations on payments of liabilities to creditors from other countries in specific currencies, as prescribed by regulations issued by state and other institutions of the borrower's country of origin.

The Bank's exposure to this risk is significantly limited due to the Bank's business focus on the customers domiciled and operating in the territory of the Republic of Serbia.

(i) Compliance Risks

The Bank's internal bylaws stipulate the Compliance Unit's responsibility for identifying and estimating main compliance risks of the Bank and reporting thereon to the Management Board and the Audit Committee, as well as the Supervisory Board, proposing plans for major risk management in accordance with its competences defined by the Program and Annual Activity Plan.

The Program and relevant policies of UniCredit Group adopted at the Bank level as well, define the regulatory areas and remit of the compliance control function, organizational and legal prerequisites and operational methodology and manner of reporting. The Annual Activity Plan sets forth the volume of activities (per type) and expected results in the forthcoming year.

In addition to its advisory role in the implementation of the effective regulations, the Bank's Compliance Unit monitors activities aimed at implementing control level II, i.e. internal control system improvement.

(j) Strategic Risks

The Bank's organizational structure is defined and adjusted in such a manner that resources dedicated to the preparation and application of crediting policies and strategies, development and implementation of the respective methodologies, rulebooks and other bylaws. The Bank continuously monitors, assesses and adjusts all the relevant bylaws

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) FINANCIAL RISK MANAGEMENT (Continued)

and enactments and crediting processes and proposes improvements or actions to be taken in response to the changes in the environment in order to adequately alleviate their impact on the Bank's financial performance.

(k) Operational Risks

Operational risk is the risk of loss resulting from error, breach, interruption, damage caused by internal processes, employees or systems or external events. Operational risk is defined as an event occurring as the result of inappropriate or unsuccessful internal processes, actions of employees and systems or systemic and other external events: internal or external embezzlement, employment practice and safety at work, receivables from clients, distribution of products, fines and penalties for injury, damage to property, disruption in operation and system errors, process management. Strategic risks, business risks and reputation risks differ from operational risks, while legal risks and compliance risk are included in the definition of operational risk.

The Market and Operational Risk Department is responsible for recording, monitoring and managing the Group's operating risk and directly answers to the Chief Risk Officer (CRO).This Department's basic task is to coordinate and cooperate with operating risk managers and to communicate with colleagues at the Operational Risk Department in Vienna and Milano, with the purpose of securing information for the efficient monitoring of operating risk at all levels. On a daily basis the department monitors changes in specially defined accounts and on a weekly basis it reports to members of the Executive Board regarding all changes in operational risks. For the purpose of efficient monitoring of operational risks the Bank appoints operational risk managers and their deputies from various organizational units that are responsible for the accuracy and timeliness of data relating to all damaging events in their organizational unit, as well as for recording all damaging events into a database. The Bank uses ARGO application for the operational risk evidence.

The Operational risk Committee meets quarterly for more efficient internal control and process improvement for minimizing risks arising from operational risk. The Directorate is also responsible for the calculation of capital requirements for operational risks that are calculated using the Standardized Approach, as well as reporting for local management and at Group level.

(l) Capital Management

The Bank's regulator, the National Bank of Serbia ("NBS"), sets and monitors capital requirements for the Bank. The capital requirements of the regulator are based on the Basel II framework. The Bank monitors on the monthly basis its capital adequacy in compliance with the standardized approach.

The capital adequacy ratio is equal to the ratio between capital and risk assets. In accordance with the NBS Decision on Capital Adequacy ("Decision") the Bank is required to maintain its capital adequacy ratio at a level that cannot be lower than 12%. If the capital adequacy ratio specified in Decision, due to profit distribution, is greater by less than 2.5%, profit distribution can only be carried out from elements of basic capital.

The Bank is required to maintain basic capital in the dinar equivalent amount of EUR 10,000,000, using the official exchange rate. The Bank is required to maintain at all times its capital at a level required for covering all risks to which it is exposed or could be exposed in its operations, and at least in the aggregate sum of the following capital requirements:

- Capital requirements for credit risk and for counterparty risk for all of the Bank's banking activities and capital requirements for settlement/supply risk for its trading activities;
- Capital requirements for price risk for trading activities;
- Capital requirements for foreign currency risk and commodity risk for all banking activities;
- Capital requirements for operational risks for all banking activities.

The Bank's regulatory capital as managed by its Central Bank Treasury is divided into two tiers:

- Core capital (Tier 1 capital) and
- Supplementary capital (Tier 2 capital).

Tier 1 capital consists of:

- Paid in share capital, except for cumulative preference shares;
- Reserves from profit – all types of reserves of the Bank formed from profits after taxes, based on a decision by the Bank's Shareholder Assembly;
- Retained earnings from prior years as well as for the current year.

When calculating Tier 1 capital, the Bank is obliged to reduce sum of Tier 1 capital elements for the following categories:

- Previous years' losses;
- Current year loss;
- Intangible assets;
- Purchased common and preference shares, except for cumulative preference shares, in the amount of the book value (nominal value increased for share issue premium);
- Common and preference shares, except for cumulative preference shares, that the Bank received as collateral in the lower amount of receivables secured with pledged shares and nominal value of shares received as collateral increased for related share issue premium;

4) FINANCIAL RISK MANAGEMENT (Continued)

- Regulatory adjustments in value in compliance with International Financial Reporting Standards and International Accounting Standards (IFRS/IAS), which comprise:
  - Unrealized losses on available-for-sale securities;
  - Other revaluation reserves in the negative net amount which relate to deductible items of basic equity or elements which are included in additional equity;
  - Profit based on the Bank's liabilities measured at fair value which are reduced because of change in the Bank's credit rating;
  - Amount of required reserve for estimated losses on balance sheet assets and off-balance sheet items of the Bank.

Tier 2 capital consists of:

- Paid in share capital for cumulative preference shares – the nominal value of paid in cumulative preference shares and associated share issue premium;
- Part of positive revaluation reserves – the Bank includes the part of positive revaluation reserves (90%) occurred from effects of changes in the fair value of fixed assets, securities and other assets that, in accordance with IFRS/IAS, are reported under these reserves, and that are reduced for tax liabilities;
- Hybrid capital instruments;
- Subordinated liabilities (with the following characteristics: fully paid in; with date of maturity of at least 5 years from date of payment; repayment to or purchase from creditors is not possible before contractual date of maturity, except in the case of conversion of these liabilities into the Banks' shares which are not cumulative preference shares; in the event of bankruptcy or liquidation of the Bank, they can be settled only after settlement of all other liabilities which are not subordinated, and before the Bank's shareholders and owners of hybrid instruments issued by the bank; they are not the subject of collateral issued by the Bank or any of its related parties; the Bank's creditor is not at the same time its debtor in respect of subordinated receivables). The amount of subordinated liabilities of the Bank included in additional equity, in the last 5 years before the date of maturity of such liabilities, is reduced by 20% per annum, so that in the last year before the date of maturity of such subordinated liability they are not included in additional equity;
- Surplus provisions, reserves and required reserves in respect of expected losses – if the Bank receives NBS approval for use of IRB approach.

When calculating Tier 2 capital, the Bank is obliged to reduce sum of Tier 2 capital elements for the following categories:

- Purchased cumulative preference shares or the amount of their book value;
- The Bank's cumulative preference shares that the Bank accepted as collateral in the lower amount of the receivable secured with a pledge over such shares and of the nominal value of shares accepted as collateral, increased for related share issue premium;
- Receivables for balance sheet assets and off-balance sheet items of the Bank which are secured with hybrid instruments or subordinated liabilities, up to the amount for which such instruments/liabilities are included in supplementary capital.

The capital of the Bank shall be the sum total of its Tier 1 and Tier 2 minus following deductions:

- Direct and indirect investment in banks and other financial sector entities that exceed 10% of the capital of such banks and/or other financial sector entities;
- Investment in hybrid instruments and subordinated obligation of other banks and entities in financial sector in which Bank has direct and indirect investment that exceed 10% of the capital of such banks and/or other financial sector entities;
- Total of direct and indirect investment in banks and other financial sector entities up to exceed 10% of the capital of such banks and/or other financial sector entities and investment in hybrid instruments and subordinated obligation that exceed 10% of tier 1 and tier 2 capital of such banks;
- Amount that exceed qualified investment in entities in other sectors;
- Amount of exposure to free delivery if other party has not fulfilled its obligation within four working days;
- All claims and potential liabilities of entities related to the Bank or employees of the Bank that were contracted on more favorable terms and conditions than those contracted with entities that are not related with the Bank.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4) FINANCIAL RISK MANAGEMENT (Continued)

The table below provides the balances of capital and total risk-weighted assets as of December 31, 2014:

	2014	2013
Core capital – Tier 1		
Share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	25,289,292	21,457,759
Less:		
Intangible assets	(919,595)	(912,227)
Unrealized losses on securities available for sale	(99,559)	(35,662)
Required reserve from profit for estimated losses	(12,911,468)	(11,094,795)
Total qualifying tier 1 capital	35,528,446	33,584,851
Supplementary capital – Tier 2		
Qualifying subordinated loans	1,618,609	2,007,897
Revaluation reserves	368,836	936,167
Total qualifying Tier 2 capital	1,987,445	2,944,064
Deductible items		
Receivables and liabilities to related parties with better conditions comparing to conditions for non-related parties	(6,771)	(7,321)
Provisions for potential losses	-	-
Total deductible items	(6,771)	(7,321)
Reduction in Tier 1 capital	(3,386)	-
Reduction in Tier 2 capital	(3,385)	(7,321)
Total Tier 1 capital	35,525,060	33,584,851
Total Tier 2 capital	1,984,060	2,936,743
Total regulatory capital	**37,509,120**	**36,521,594**

In both 2014 and 2013 the Bank achieved capital adequacy ratio and performance indicators within limits defined by the Decision on Capital Adequacy and Decision on Risk Management.

5) USE OF ESTIMATES AND JUDGMENTS

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Revision to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

These disclosures supplement the comments on financial risk management (Note 4).

c) Key Sources of Estimation Uncertainty

(i) Provisions for Credit Losses

Assets accounted at amortized cost are assessed for impairment on a basis described in accounting policy 3(j)(vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowances, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective (group-level) allowances.

(ii) Fair Value Estimates

Determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(j)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

d) Critical Accounting Judgments in Applying the Bank's Accounting Policies

Critical accounting judgments made in applying the Bank's accounting policies include the following:

(iii) Measurement of Financial Instruments

The Bank's accounting policy on fair value measurement is disclosed in accounting policy 3(j)(vi).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs other than quoted prices, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable price exist and other valuation models. Assumptions and inputs used

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5) USE OF ESTIMATES AND JUDGMENTS (Continued)

in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, bond and equity prices, foreign exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the future markets.

6) FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following table show the breakdown of financial instruments measured at fair value at the end of the reporting period, grouped in fair value hierarchy levels:

(In thousands of RSD)

	Note	Level 1	Level 2	Level 3	Total
2014					
Financial assets at fair value through profit and loss, held for trading	20	-	494,092	191,398	685,490
Financial assets available for sale	21	-	485,199	54,386,404	54,871,603
Fair value adjustments of risk hedged items	25	-	97,950	-	97,950
			1,077,241	**54,577,802**	**55,655,043**
Financial liabilities at fair value through profit and loss, held for trading	31	-	199,462	7,892	207,354
Liabilities per financial derivatives designated as risk hedging instruments	32	-	454,559	-	454,559
		-	**654,021**	**7,892**	**661,913**
2013					
Financial assets at fair value through profit and loss, held for trading	20	-	752,471	505,637	1,258,108
Financial assets available for sale	21	-	833,355	46,657,639	47,490,994
		-	**1,585,826**	47,163,276	48,749,102
Financial liabilities at fair value through profit and loss, held for trading	31	-	337,728	1,300	339,028
Liabilities per financial derivatives designated as risk hedging instruments	32		159,313	-	159,313
		-	**497,041**	**1,300**	**498,341**

Fair Value Hierarchy for Assets and Liabilities Other than Measured at Fair Value

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6) FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (Continued)

Estimated fair values of financial assets and liabilities other than measured at fair value are provided in the table below, according to the fair value hierarchy levels under IFRS 13:

(In thousands of RSD)

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2014						
Cash and cash funds held with the central bank	19	-	-	29,942,038	29,942,038	29,942,038
Financial assets held to maturity	22	-	346,328	270,683	617,011	584,474
Loans and receivables due from banks and other financial institutions	23	-	10,294,552	289,731	10,584,283	10,631,808
Loans and receivables due from customers	24	-	86,760,316	93,313,046	180,073,361	164,982,403
Other assets	30	-	553,890	-	553,890	553,890
		-	**97,955,085**	**123,815,498**	**221,770,583**	**206,694,613**
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	-	25,961,714	44,381,465	70,343,179	70,299,097
Deposits and other liabilities due to customers	34	-	61,629,830	73,400,211	135,030,041	134,459,546
Subordinated liabilities	35	-	2,698,019	-	2,698,019	2,698,019
Other liabilities	37	-	1,447,828	-	1,447,828	1,447,828
		-	**91,737,391**	**117,781,676**	**209,519,067**	**208,904,490**
2013						
Cash and cash funds held with the central bank	19	-	39,330,098	-	39,330,098	39,330,098
Financial assets held to maturity	22	-	104,591	-	104,591	97,812
Loans and receivables due from banks and other financial institutions	23	-	14,979,585	-	14,979,585	14,973,378
Loans and receivables due from customers	24	-	141,754,142	14,638,488	156,392,630	144,634,102
Other assets	30	-	546,364	-	546,364	546,364
		-	**196,714,780**	**14,638,488**	**211,353,268**	**199,581,754**
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	-	90,126,135	-	90,126,135	90,875,563
Deposits and other liabilities due to customers	34	-	104,877,655	-	104,877,655	104,776,958
Subordinated liabilities	35	-	3,428,417	-	3,428,417	3,428,417
Other liabilities	37	-	1,472,709	-	1,472,709	1,041,361
		-	**199,904,916**	**-**	**199,904,916**	**200,122,299**

Valuation techniques and models the Bank uses for fair value calculations are disclosed in Note 5b(i).

6) FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (Continued)

The methodology and assumptions used in calculation of fair values for the aforesaid financial assets and liabilities other than measured at fair value in the financial statements are the following:

(ii) Assets The Fair Values of which Approximate their Carrying Values

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amount approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and variable rate financial instruments.

(iii) Financial Instruments with Fixed Interest Rates

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing financial instruments are based on discounted cash flows using prevailing money-market interest rates for financial instruments with similar credit risk characteristics and maturities.

Financial assets held to maturity, loans and deposits include a portion of the portfolio at fixed interest rates, which caused differences between their carrying amounts and fair values.

In 2014 a more restrictive allocation to fair value hierarchy levels was applied due to decreased departure threshold between the risk-free and risk-adjusted fair values.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7) NET INTEREST INCOME

Net interest income includes:

(In thousands of RSD)

	2014	2013
Interest income		
Cash and cash funds held with the central bank	355,216	424,812
Financial assets at fair value through profit and loss, held for trading	306,552	349,768
Financial assets available for sale	4,329,861	3,357,870
Financial assets held to maturity	7,117	25,453
Loans and receivables due from banks and other financial institutions	619,044	1,448,333
Loans and receivables due from customers	10,557,200	10,734,553
Financial derivatives and assets held for risk hedging purposes	200,853	209,520
-	16,375,843	16,550,309
Interest expenses		
Financial liabilities carried at fair value through profit and loss, held for trading	234,604	227,209
Liabilities per financial derivatives designated as risk hedging instruments	70,114	77,013
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,360,831	2,609,486
Deposits and other liabilities due to customers	2,911,448	3,362,141
Subordinated liabilities	123,850	125,037
-	5,700,847	6,400,886
Net interest income	**10,674,996**	**10,149,423**

In accordance with accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 385,457 thousand in 2014 (2013: RSD 231,434 thousand).

8) NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

(In thousands of RSD)

	2014	2013
Fee and commission income		
Payment transfer business	944,722	651,712
Fees on issued guarantees and other contingent liabilities	615,351	497,370
Brokerage fee	55,880	46,291
Custody fee	389,621	355,416
Fees arising from card operations	513,869	431,730
Fees and commissions for other banking services	487,559	681,449
Total fee and commission income	**3,007,002**	**2,663,968**
Fee and commission expenses		
Payment transfer business	79,322	62,864
Commission expenses arising on guarantees and letters of credit	45,666	4,015
Fees arising from card operations	499,795	396,698
Fees and commissions for other banking services	111,806	131,871
Total fee and commission expenses	736,589	595,448
Net fee and commission income	**2,270,413**	**2,068,520**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9) NET GAINS ON THE FINANCIAL ASSETS HELD FOR TRADING

Net gains on the financial assets held for trading include:

(In thousands of RSD)

	2014	2013
Net gains on the sales of securities held for trading	47,299	66,552
Net losses on the changes in the fair value securities held for trading	(4,406)	(18,778)
Net gains on the fair value changes of derivatives held for trading	21,726	272,772
Net gains on the financial assets held for trading	**64,619**	**320,546**

10) NET GAINS ON THE HEDGES AGAINST RISKS

Net gains on the hedges against risks include:

(In thousands of RSD)

	2014	2013
Net gains/(losses) on the fair value changes of loans, receivables and securities	220,267	(111,208)
Net (losses)/gains on the fair value changes of derivatives held for risk hedging purposes	(206,473)	117,029
Net gains on the hedges against risks	**13,794**	**5,821**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11) NET GAINS ON THE FINANCIAL ASSETS AVAILABLE FOR SALE

Net gains on the financial assets available for sale include:

(In thousands of RSD)

	2014	2013
Gains on the sale of securities available for sale	68,855	19,948
Losses on the sale of securities available for sale	(5,008)	-
Net gains on the financial assets available for sale	**63,847**	**19,948**

12) NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

Net foreign exchange gains and positive currency clause effects:

(In thousands of RSD)

	2014	2013
Foreign exchange gains and positive currency clause effects	52,588,545	74,546,292
Foreign exchange losses and negative currency clause effects	(51,417,450)	(73,637,615)
Net foreign exchange gains and positive currency clause effects	**1,171,095**	**908,677**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13) OTHER OPERATING INCOME

Other operating income includes:

(In thousands of RSD)

	2014	2013
Reversal of unreleased provisions for litigations	7,505	15,914
Dividend income	157	98
Other operating income	69,739	23,851
Total other operating income	**77,401**	**39,863**

14) NET LOSSES FROM IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE SHEET ASSETS

Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets include:

(In thousands of RSD)

	2014	2013
Loans and receivables due from customers		
Additional impairment allowance on an individual basis, net	2,505,355	4,971,301
Reversal of collective impairment allowance, net	348,203	30,789
Total	**2,853,558**	**5,002,090**
Contingent liabilities		
Reversal/additional individual impairment allowance (Note 36)	174,183	(1,820)
Reversal/additional collective impairment allowance (Note 36)	63,651	(6,655)
Total	**237,834**	**(8,475)**
Write-off	19,111	10,847
Collected receivables, previously written off	-	(391)
Total	**3,110,503**	**5,004,071**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15) STAFF COSTS

Staff costs comprise:

(In thousands of RSD)

	2014	2013
Net salaries	1,300,504	1,215,816
Payroll taxes and contributions	510,266	478,272
Net (gains)/losses on provisions for retirement benefits and unused annual leaves (vacations)	(3,353)	8,833
Other staff costs	346,302	282,995
Total	**2,153,719**	**1,985,916**

16) DEPRECIATION AND AMORTIZATION CHARGE

Depreciation and amortization charge includes:

(In thousands of RSD)

	2014	2013
Amortization of intangible assets (Note 26.2)	356,199	325,823
Depreciation of investment property (Note 28)	32	33
Depreciation of property and equipment (Notes 27.2, 27.3)	174,488	165,310
Total	**530,719**	**491,166**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17) OTHER EXPENSES

Other expenses include:

(In thousands of RSD)

	2014	2013
Business premises costs	77,862	77,936
Office supplies	28,102	20,139
Rental costs	520,878	439,604
IS maintenance	383,685	363,699
Property and equipment maintenance	52,149	57,122
Marketing, advertising and entertainment	291,375	199,399
Lawyer fees and other consultant services	78,744	80,742
Telecommunications and postage services	94,848	87,582
Insurance premiums	480,179	289,325
Insurance of property and security services	83,225	81,241
Professional training	10,648	6,319
Servicing	65,623	36,287
Transportation services	15,798	8,754
Employee commuting allowance	33,229	30,369
Accommodation and meal allowance – business travel costs	25,854	18,978
Other taxes and contributions	382,906	385,390
Provisions for litigations and other provisions	74,630	15,914
Losses on disposal of property, equipment and intangible assets	4,643	8,861
Other costs	157,014	124,779
Total	**2,861,392**	**2,332,440**

18) INCOME TAXES

18.1 Basic components of income taxes as on December 31 are the following:

(In thousands of RSD)

	2014	2013
Current income tax expense	(87,843)	-
Increase in deferred tax assets and decrease in deferred tax liabilities	1	132,792
Decrease in deferred tax assets and increase in deferred tax liabilities	(127,245)	(464)
Total	**(215,087)**	**132,328**

18.2 Numerical reconciliation of the effective tax rate is provided below:

(In thousands of RSD)

	2014	2013
Profit before taxes	5,679,892	3,699,205
Income tax at the legally prescribed tax rate of 15%	851,984	554,881
Tax effects of permanent differences		
Tax effects of expenses not recognized for tax purposes	14,357	28,716
Tax effects of income adjustment	(794,063)	(598,510)
Tax effects of temporary differences		
Difference between depreciation/amortization calculated for tax and financial reporting purposes	20,487	13,090
Tax effects of expenses recognized in the forthcoming period	15,494	1,823
Tax effects of reduction		
Capital expenditures	(20,416)	-
Current income tax expense	**87,843**	**-**

18.3 Income taxes recognized within other comprehensive income are provided below:

(In thousands of RSD)

	2014			2013		
	Before taxes	Tax expense	After taxes	Before taxes	Tax expense	After taxes
Securities available for sale	335,581	593	336,174	1,066,304	(593)	1,065,711
Actuarial losses	(2,130)	320	(1,810)	-	-	-
Balance on December 31	**333,451**	**913**	**334,364**	**1,066,304**	**(593)**	**1,065,711**

18.4 The calculated current income tax payable for the year 2014 amounting to RSD 87,843 thousand was settled through several tax advance payments made. After income tax liability settlement, current tax assets amounted to RSD 772,408 thousand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19) CASH AND CASH FUNDS HELD WITH THE CENTRAL BANK

Cash and cash funds held with the central bank include:

(In thousands of RSD)

	2014	2013
RSD cash on hand	886,490	799,788
Gyro account balance	12,676,531	19,572,418
Foreign currency cash on hand	588,435	524,746
Other foreign currency cash funds	41,052	37,028
Obligatory foreign currency reserve held with the central bank	15,749,979	18,396,118
	29,942,487	**39,330,098**
Impairment allowance	(449)	-
Balance on December 31	**29,942,038**	**39,330,098**

The gyro account balance includes the RSD obligatory reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans and other RSD liabilities during a single calendar month, using a rate in the range between 0% and 5%, depending on the maturity of liabilities and their sources of funding. The reserve is thereafter held on the Bank's gyro account. In 2014 NBS paid interest on the balance of the Bank's obligatory RSD reserve at the annual interest rate of 2.5%.

The obligatory foreign currency reserve with the National Bank of Serbia represents the minimum foreign currency reserve amount allocated in accordance with the Decision on Obligatory Reserves Held with the NBS. In accordance with the said Decision, the obligatory foreign currency reserves are calculated based on the average daily carrying amount of foreign currency deposits, loans and other foreign currency liabilities or those in RSD with a currency clause index (EUR to RSD) during a single calendar month, using a rate in the range between 22% and 27% depending on the maturity of liabilities and their sources of funding, and exceptionally, the rate of 50% applied to the portion of the foreign currency reserve comprised of RSD liabilities with a currency clause index.

The Bank is under obligation to maintain the average daily balance of the allocated foreign currency reserve in the amount of the calculated foreign currency obligatory reserve on the foreign currency accounts held with NBS. Foreign currency obligatory reserve does not accrue interest.

20) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS, HELD FOR TRADING

Financial assets at fair value through profit and loss, held for trading include:

(In thousands of RSD)

	2014	2013
Securities held for trading		
RS Ministry of Finance Treasury bills in RSD	106,341	487,063
RS foreign currency bonds	288,149	399,700
Total	**394,490**	**886,763**
Receivables per derivative held for trading		
Currency swaps and forwards	66,700	10,557
Interest rate swaps	224,300	360,788
Total	**291,000**	**371,345**
Balance on December 31	**685,490**	**1,258,108**

As of December 31, 2014 investments in securities held for trading totaling RSD 106,341 thousand represent investments in the Treasury bills of the Republic of Serbia Ministry of Finance with maturities up to 2015, while the amount of RSD 288,149 thousand represents investments in bonds of the Republic of Serbia with maturities up to 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21) FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale comprise:

(In thousands of RSD)

	2014	2013
Financial assets available for sale comprise		
RS Ministry of finance Treasury bills	51,079,616	43,180,105
Local self-governance bonds – hedged items	3,381,898	3,477,332
RS foreign currency bonds	410,089	714,107
Bonds of entities from finance and insurance sector	-	119,450
Balance on December 31	**54,871,603**	**47,490,994**

As of December 31, 2014 investments in available-for-sale securities totaling RSD 3,381,898 thousand represent investments in bonds issued by local self-governance as hedged items with maturities up to 2023; the amount of RSD 51,079,616 thousand relates to investments in the Treasury bills of the Republic of Serbia Ministry of Finance with maturities up to 2015; while the amount of RSD 410,089 thousand represents investments in bonds of the Republic of Serbia with maturities up to 2020.

For hedging local self-governance bonds against the interest rate risk, the Bank implemented micro fair value hedging, i.e., designated as hedge items investments in bonds issued by local self-governance with face value of EUR 29 million, while an interest rate swap of EUR 29 million was designated as a hedging instrument. As of December 31, 2014 an effectiveness test was performed, which showed that the hedging was highly effective.

22) FINANCIAL ASSETS HELD TO MATURITY

22.1 Financial assets held to maturity comprise:

(In thousands of RSD)

	2014	2013
Receivables per discounted bills of exchange	604,380	153,738
Impairment allowance	(19,906)	(55,926)
Balance on December 31	**584,474**	**97,812**

As of December 31, 2014 receivables per discounted bills of exchange of RSD 604,380 thousand represent investments with maturities of up to a year and at a discount rate equal to 1-month BELIBOR-plus 1.25% to 4.5% annually.

22.2 Movements on the account of impairment allowance of financial assets held to maturity during the year are provided in the table below:

(In thousands of RSD)

	Individual level		Group level	
	2014	2013	2014	2013
Balance on January 1	(55,316)	(56,438)	(610)	-
Impairment loss				
Charge for the year	-	1,122	(3,044)	(610)
Write-offs	39,064	-	-	-
Total impairment allowance	**39,064**	**1,122**	**(3,044)**	**(610)**
Balance on December 31	**(16,252)**	**(55,316)**	**(3,654)**	**(610)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23) LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.1 Loans and receivables due from banks and other financial institutions include:

(In thousands of RSD)

	2014	2013
Foreign currency accounts held with		
Other banks within UniCredit Group	1,311,071	1,487,887
Other foreign banks	148,340	92,951
Total foreign currency accounts	**1,459,411**	**1,580,838**
Overnight deposits		
In foreign currencies	7,985,754	2,342,342
Guarantee foreign currency deposit placed for purchase and sale of securities	4,838	4,586
Short-term loans		
in RSD	1,171,829	29
Long-term loans		
in RSD	1,363	8,014
Receivables from NBS per repo transactions in RSD	0	11,002,322
Secured letters of credit and other foreign currency sureties	39,196	32,759
Cheques in foreign currencies	0	2,494
Other foreign currency loans	1,915	1,601
Impairment allowance	(32,498)	(1,607)
Balance on December 31	**10,631,808**	**14,973,378**

23.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

(In thousands of RSD)

	Individual level		Group level	
	2014	2013	2014	2013
Balance on January 1	-	-	(1,608)	(1,661)
Impairment loss				
Charge for the year	-	-	(30,692)	(6)
Foreign exchange effects	-	-	(198)	59
Total impairment allowance	**-**	**-**	**(30,890)**	**53**
Balance on December 31	**-**	**-**	**(32,498)**	**(1,607)**

24) LOANS AND RECEIVABLES DUE FROM CUSTOMERS

24.1 Loans and receivables due from customers include:

(In thousands of RSD)

	2014	2013
Short-term loans		
in RSD	31,204,251	32,503,301
in foreign currencies	3,233,568	905,774
Total short-term loans	**34,437,819**	**33,409,075**
Long-term loans		
in RSD	134,359,267	109,273,447
in foreign currencies	9,076,141	11,467,708
Total long-term loans	**143,435,408**	**120,741,155**
Receivables in respect of acceptances, sureties and payments made per guarantees		
in RSD	368,890	680,679
in foreign currencies	4,818,742	4,595,739
Total	**5,187,632**	**5,276,418**
RSD factoring receivables	388,265	390,957
Other RSD loans and receivables	-	343
Impairment allowance	(18,466,721)	(15,183,846)
Balance on December 31	**164,982,403**	**144,634,102**

24.2 Breakdown of loans and receivables due from customers is provided below:

(In thousands of RSD)

	2014			2013		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	7,991,971	(64,421)	7,927,550	5,500,524	(39,470)	5,461,054
Corporate customers	128,752,730	(15,938,788)	112,813,942	115,831,533	(13,096,767)	102,734,766
Retail customers	46,704,423	(2,463,512)	44,240,911	38,485,891	(2,047,609)	36,438,282
Balance on December 31	**183,449,124**	**(18,466,721)**	**164,982,403**	**159,817,948**	**(15,183,846)**	**144,634,102**

24.3 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

(In thousands of RSD)

	Individual level		Group level	
	2014	2013	2014	2013
Balance on January 1	(14,672,198)	(9,734,944)	(511,648)	(478,672)
Impairment loss				
Charge for the year	(2,476,382)	(4,859,431)	(312,766)	(33,313)
Foreign exchange effects	(839,832)	(72,934)	18,907	337
Interest income adjustment	(114,775)	(130,820)	-	-
Write-offs	441,973	125,931	-	-
Total impairment allowance	**(2,989,016)**	**(4,937,254)**	**(293,859)**	**(32,976)**
Balance on December 31	**(17,661,214)**	**(14,672,198)**	**(805,507)**	**(511,648)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24) LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

24.4 Corporate loans were mostly approved for maintaining daily liquidity, financing working capital, imports and investments. Short-term loans were approved for periods ranging from 30 days to a year, and long-term loans for periods from 2 to 10 years. Interest rate applied to long-term loans was defined as equal to either 1-month, 3-month or 6-month EURIBOR increased by 5.53% on the average per annum, in accordance with the bank's other expenses and interest rate policy.

In 2014, the bank approved loans to entrepreneurs and small entities for working capital and investments at subsidized interest rates of 3.45% to 5.45% annually.

Retail housing loans were approves for periods of 5 to 30 years, at the nominal interest rates ranging from 6-month EURIBOR plus 4.59% to 6.19% annually.

Long-term RSD cash loans were approved to retail customers for periods of up to 7 years and up to 10 years for loans with insurance (insurance covering the following: job loss, temporary inability to work, legal successor insolvency, severe diseases and permanent disability). In 2014 the bank offered cash loans at fixed interest rates over the entire loan term, with repayment periods from 6 to 60 months, with and without insurance, at interest rates ranging from 16.5% to 22%.

Further, the Bank continued sales of cash loans approved to pensioners with life insurance at either a fixed interest rate of 17.9% or a rate equal to 3-month BELIBOR plus 5.7% annually.

In 2014, interest rates applied to investment funding of small entities and entrepreneurs equaled 3-month EURIBOR plus 7.5%, while interest rates applied to short-term financing up to 12 months equaled 3-month EURIBOR plus 7%. Interest rates applied to RSD loans equaled 1-month BELIBOR plus maximum 7%.

All collateralized and impaired loans were adjusted to their recoverable amounts with impairment allowance apportioned as a reduction of loans and receivables due from customers.

24.5 The concentration of total short-term and long-term loans approved by the Bank was as follows:

(In thousands of RSD)

	2014	2013
Corporate customers		
Mining industry and energy	6,789,826	1,135,117
Agriculture	4,486,061	2,316,739
Construction industry	6,509,234	7,536,210
Industry	51,102,938	42,893,569
Trade	20,122,461	17,821,993
Services	16,220,788	14,925,672
Transportation and logistics	16,615,872	17,897,839
Other	6,905,550	11,304,394
	128,752,730	**115,831,533**
Public sector	7,991,971	5,500,524
Retail customers		
Private individuals	44,625,692	37,425,710
Entrepreneurs	2,078,731	1,060,181
	46,704,423	**38,485,891**
Total	**183,449,124**	**159,817,948**
Impairment allowance	(18,466,721)	(15,183,846)
Balance on December 31	**164,982,403**	**144,634,102**

The Bank' management structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to the geographic and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Exposure to credit risk is managed by the regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral.

25) FAIR VALUE ADJUSTMENTS OF RISK HEDGED ITEMS

Fair value adjustments of risk hedged items include:

(In thousands of RSD)

	2014	2013
Loans and receivables due from customers as risk hedged items	97,950	-
Balance on December 31	**97,950**	**-**

As a hedge against the interest rate risk inherent in loans approved in CHF at fixed interest rates, the Bank implemented macro fair value hedging. As of December 31, 2014 an effectiveness test was performed, which showed that the hedging was highly effective.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26) INTANGIBLE ASSETS

26.1 Intangible assets, net:

(In thousands of RSD)

	2014	2013
Intangible assets	753,617	837,139
Investments in progress	165,978	75,088
Balance on December 31	**919,595**	**912,227**

26.2 Movements on the account of intangible assets in 2014 are presented in the table below:

(In thousands of RSD)

	Nematerijalna ulaganja	Nematerijalna ulaganja u pripremi	Ukupno
Cost			
Balance on January 1, 2014	2,393,307	75,088	2,468,395
Additions	274,427	91,295	365,722
Disposal and retirement	(266,550)	(176)	(266,726)
Other	-	(229)	(229)
Balance on December 31, 2014	2,401,184	165,978	2,567,162
Accumulated amortization and impairment losses			
Balance on January 1, 2014	1,556,168	-	1,556,168
Amortization for the period	356,199	-	356,199
Disposal and retirement	(264,800)	-	(264,800)
Balance on December 31, 2014	1,647,567	-	1,647,567
Net book value on December 31, 2014	**753,617**	**165,978**	**919,595**
Net book value on January 1, 2014	**837,139**	**75,088**	**912,227**

Movements on the account of intangible assets in 2013 are presented in the table below:

(In thousands of RSD)

	Intangible Assets	Investment in Progress	Total
Cost			
Balance on January 1, 2013	2,180,846	50,000	2,230,846
Additions	213,119	25,088	238,207
Disposal and retirement	(658)	-	(658)
Balance on December 31, 2013	2,393,307	75,088	2,468,395
Accumulated amortization and impairment losses			
Balance on January 1, 2013	1,230,992	-	1,230,992
Amortization for the period	325,823	-	325,823
Disposal and retirement	(647)	-	(647)
Balance on December 31, 2013	1,556,168	-	1,556,168
Net book value on December 31, 2013	**837,139**	**75,088**	**912,227**
Net book value on January 1, 2013	**949,854**	**50,000**	**999,854**

27) PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

(In thousands of RSD)

	2014	2013
Buildings	607,390	618,493
Equipment and other assets	443,044	396,204
Leasehold improvements	121,026	117,725
Investments in progress	14,969	2,089
Balance on December 31	**1,186,429**	**1,134,511**

27.2 Movements on the account of property and equipment in 2014 are presented below:

(In thousands of RSD)

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance on January 1, 2014	668,752	1,184,345	379,969	2,089	2,235,155
Additions	-	-	-	230,561	230,561
Transfer from investments in progress	2,282	173,869	41,530	(217,681)	-
Disposal and retirement	-	(30,048)	(44,321)	-	(74,369)
Balance on December 31, 2014	671,034	1,328,166	377,178	14,969	2,391,347
Accumulated depreciation and impairment losses					
Balance on January 1, 2014	50,259	788,141	262,244	-	1,100,644
Depreciation for the period	13,385	124,247	36,856	-	174,488
Disposal and retirement	-	(27,266)	(42,948)	-	(70,214)
Balance on December 31, 2014	63,644	885,122	256,152	-	1,204,918
Net book value on December 31, 2014	**607,390**	**443,044**	**121,026**	**14,969**	**1,186,429**
Net book value on January 1, 2014	**618,493**	**396,204**	**117,725**	**2,089**	**1,134,511**

27.3 Movements on the account of property and equipment in 2013 are presented below:

(In thousands of RSD)

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Total
Cost					
Balance on January 1, 2013	668,752	1,063,877	378,272	3,627	2,114,528
Additions	-	-	-	168,381	168,381
Transfer from investments in progress	-	161,464	8,455	(169,919)	-
Disposal and retirement	-	(43,264)	(6,758)	-	(50,022)
Other	-	2,268	-	-	2,268
Balance on December 31, 2013	668,752	1,184,345	379,969	2,089	2,235,155
Accumulated depreciation and impairment losses					
Balance on January 1, 2013	36,884	697,400	228,263	-	962,547
Depreciation for the period	13,375	111,196	40,739	-	165,310
Disposal and retirement	-	(22,704)	(6,758)	-	(29,462)
Other	-	2,249	-	-	2,249
Balance on December 31, 2013	50,259	788,141	262,244	-	1,100,644
Net book value on December 31, 2013	**618,493**	**396,204**	**117,725**	**2,089**	**1,134,511**
Net book value on January 1, 2013	**631,868**	**366,477**	**150,009**	**3,627**	**1,151,981**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28) INVESTMENT PROPERTY

Movements on the account of investment property in 2014 are presented below:

(In thousands of RSD)

	Investment property	Investments in progress	Total
Cost			
Balance on January 1, 2014	1,642	-	1,642
Additions	-	-	-
Disposal and retirement	-	-	-
Balance on December 31, 2014	1,642	-	1,642
Accumulated depreciation and impairment losses			
Balance on January 1, 2014	147	-	147
Depreciation for the period	32	-	32
Balance on December 31, 2014	179	-	179
Net book value on December 31, 2014	**1,463**	**-**	**1,463**
Net book value on January 1, 2014	**1,495**	**-**	**1,495**

29) DEFERRED TAX ASSETS AND LIABILITIES

29.1 Deferred tax assets and liabilities relate to:

(In thousands of RSD)

	2014			2013		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	31,930	-	31,930	36,977	-	36,977
Deferred tax assets in respect of unrecognized expenses	10,662	-	10,662	15,443	-	15,443
Deferred tax assets in respect of unused tax credits for capital expenditures	-	-	-	20,416	-	20,416
Deferred tax assets in respect of tax loss carryforwards	-	-	-	97,000	-	97,000
Deferred tax assets in respect of actuarial losses	320	-	320	-	-	-
Deferred tax assets in respect of available-for-sale securities valuation	-	-	-	-	(593)	(593)
Total	**42,912**	**-**	**42,912**	**169,836**	**(593)**	**169,243**

29.2 Movements on temporary differences during 2014 are presented as follows:

(In thousands of RSD)

	Balance on January	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	36,977	(5,047)	-	31,930
Deferred tax assets in respect of unrecognized expenses	15,443	(4,781)	-	10,662
Deferred tax assets in respect of unused tax credits for capital expenditures	20,416	(20,416)	-	-
Deferred tax assets in respect of tax loss carryforwards	97,000	(97,000)	-	-
Deferred tax assets in respect of actuarial losses	-	-	320	320
Deferred tax assets in respect of available-for-sale securities valuation	(593)	-	593	-
Total	**169,243**	**(127,244)**	**913**	**42,912**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30) OTHER ASSETS

30.1 Other assets relate to:

(In thousands of RSD)

	2014	2013
Other assets in RSD		
Fee and commission receivables calculated per other assets	187,832	175,646
Advances paid, deposits and retainers	8,121	11,519
Other receivables from operations	430,723	345,327
Assets acquired in lieu of debt collection	4,927	4,927
Trade receivables	0	11,843
RSD receivables from employees	3,621	3,196
Other investments in associates	4,992	12,061
Accrued other income receivables	4,258	4,055
Deferred other expenses	74,865	69,308
Total	719,339	637,882
Other assets in foreign currencies		
Fee and commission receivables calculated per other assets	8,761	10,472
Advances paid, deposits and retainers	1,563	121
Foreign currency receivables from employees	4,338	4,659
Other receivables from operations	17,911	10,771
Accrued other income receivables	17,593	17,430
Deferred other expenses	49,200	109,713
Total	99,366	153,166
Impairment allowance	(264,815)	(244,684)
Balance on December 31	**553,890**	**546,364**

30.2 Movements on the impairment allowance accounts of other assets are provided in the table below:

(In thousands of RSD)

	Individual level		Group level	
	2014	2013	2014	2013
Balance on January 1	(244,077)	(137,700)	(607)	(3,747)
Impairment loss				
Charge for the year	(28,524)	(112,992)	(1,701)	3,140
Foreign exchange effects	(507)	41	-	-
Write-off	10,601	6,574	-	-
Total impairment allowance	**(18,430)**	**(106,377)**	**(1,701)**	**3,140**
Balance on December 31	**(262,507)**	**(244,077)**	**(2,308)**	**(607)**

30.3 Other investments in associates comprise equity investments of up to 10% in the following companies:

(In thousands of RSD)

	2014	2013
FAP Priboj a.d.	4,737	4,737
Fund for Supplementary Education of Young Farmers	147	147
Tržište novca a.d. [Money Market, shareholding company]	108	108
RTL TV d.o.o.	-	7,069
Balance on December 31	**4,992**	**12,061**

Investments in associates totaling RSD 4,992 thousand were impaired in full. In 2014 the bank sold its equity interest held in RTL TV d.o.o. and realized a net gain on the sale in the amount of RSD 60 thousand.

31) FINANCIAL LIABILITIES CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS, HELD FOR TRADING

Financial liabilities carried at fair value through profit and loss, held for trading include:

(In thousands of RSD)

	2014	2013
Instrument types		
Currency swaps and forwards	-	2,276
Interest rate swaps	207,354	336,752
Balance on December 31	**207,354**	**339,028**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32) LIABILITIES PER FINANCIAL DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Liabilities per financial derivatives designated as risk hedging instruments include:

(In thousands of RSD)

	2014	2013
Instrument types		
Interest rate swaps	454,559	159,313
Balance on December 31	**454,559**	**159,313**

The Bank uses interest rate swaps to protect itself from the exposure to the changes in the fair value of EUR bonds with fixed return rates and loans extended in CHF at fixed interest rates (Note 21 and 25).

33) DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

33.1 Deposits and other liabilities due to banks, other financial institutions and the central bank include:

(In thousands of RSD)

	2014	2013
Demand deposits		
in RSD	3,171,854	7,935,188
in foreign currencies	981,169	3,092,796
Total demand deposits	**4,153,023**	**11,027,984**
Overnight deposits		
in RSD	1,443,578	270,848
in foreign currencies	1,665,534	-
Total overnight deposits	**3,109,112**	**270,848**
Short-term deposits		
in RSD	2,798,837	1,710,730
in foreign currencies	1,598,344	883,246
Total short-term deposits	**4,397,181**	**2,593,976**
Long-term deposits		
in RSD	100,024	-
in foreign currencies	4,725,822	2,434,228
Total long-term deposits	**4,825,846**	**2,434,228**
Long-term borrowings		
in foreign currencies	53,604,214	74,390,606
Other financial liabilities		
in foreign currencies	209,721	157,921
Balance on December 31	**70,299,097**	**90,875,563**

RSD demand deposits of other banks were placed with the Bank at interest rates of up to 4.5% per annum.

RSD short-term deposits of other banks were placed with the Bank for a period of up to a year at interest rates ranging from 5.25 % to 6.5 % annually. Short-term deposits of other banks in other currencies were placed with the Bank for a period of up to a year at interest rates of up to 0.5% annually.

33.2 Breakdown of foreign borrowings from banks is provided below:

(In thousands of RSD)

	2014	2013
European Bank for Reconstruction and Development (EBRD)	9,117,581	9,616,056
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	6,865,845	5,142,818
European Investment Bank, Luxembourg	1,726,540	3,151,171
International Financial Corporation, Washington	4,985,540	6,458,198
Deutsche Investitions und Entwicklungsgesellschaft mbH, Germany (DEG)	403,569	764,278
UniCredit Bank Austria AG, Vienna	24,496,906	44,692,057
European Fund for Southeast Europe, BV, Netherlands (EFSE)	6,008,233	4,566,028
Balance on December 31	**53,604,214**	**74,390,606**

The above listed long-term borrowings were approved to the Bank for periods from 5 to 15 years at nominal interest rates ranging from 0.332% to 4.079% per annum.

34) DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

34.1 Deposits and other liabilities due to customers comprise:

(In thousands of RSD)

	2014	2013
Demand deposits		
in RSD	25,108,990	19,043,149
in foreign currencies	36,266,344	28,964,007
Total demand deposits	**61,375,334**	**48,007,156**
Overnight deposits		
in RSD	2,606,167	2,395,012
in foreign currencies	93,260	56,562
Total overnight deposits	**2,699,427**	**2,451,574**
Short-term deposits		
in RSD	17,724,214	11,198,823
in foreign currencies	32,177,217	28,812,025
Total short-term deposits	**49,901,431**	**40,010,848**
Long-term deposits		
in RSD	232,159	18,399
in foreign currencies	11,523,150	7,048,199
Total long-term deposits	**11,755,309**	**7,066,598**
Long-term borrowings		
in foreign currencies	8,697,774	7,159,040
Other financial liabilities		
in foreign currencies	30,271	81,742
Balance on December 31	**134,459,546**	**104,776,958**

34.2 Breakdown of deposits and other liabilities due to customers:

(In thousands of RSD)

	2014	2013
Public sector	1,635,029	1,077,410
Corporate customers	77,536,553	59,112,055
Retail customers	46,590,190	37,428,453
Long-term borrowings (Note 34.3)	8,697,774	7,159,040
Balance on December 31	**134,459,546**	**104,776,958**

RSD demand deposits of corporate customers accrued interest at the annual rate of 2.67% while term RSD deposits accrued interest at the rates of as much as up to 7.88%. Interest rates applied to foreign currency demand deposits of corporate customers ranged from 0.1% to 1.93% annually, depending on the currency.

In 2014 short-term foreign currency deposits of corporate customers were placed at annual interest rates ranging between 1.61% and 1.93% annually, depending on the currency.

Demand RSD savings deposits of retail customers were placed at the annual interest rates of up to 0.6%, while foreign currency retail demand deposits accrued interest at the rates from 0.1% to 0.3% annually. Funds held on the current account accrued interest at the annual rate of 0.1%.
In 2014 short-term foreign currency deposits of retail customers were placed at interest rates ranging from 0.7% to 2.3% annually, depending on the period of placement, including favorable terms offered during the "Savings Week." Annual interest rates applied to medium-term deposits (18 to 25 months) were in the range between 1.9% and 2.30%.
Short-term RSD deposits of retail customers accrued interest at the rates ranging from 5.5% to 5.8% annually, depending on the period of placement, including favorable terms offered during the "Savings Week."

RSD deposits placed by small entities and entrepreneurs were deposited at annual interest rates between 5% and 5.9%, while foreign currency deposits of these customers accrued interest at the rates ranging from 1.4% to 1.6% annually.

34) DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (Continued)

34.3 Breakdown of foreign borrowings from customers is provided below:

(In thousands of RSD)

	2014	2013
NBS - European Investment Bank, Luxembourg	7,920,075	6,377,236
BA CA Leasing (Germany) GmbH, Bad Hamburg	685,052	669,783
NBS Revolving Credit Fund	30,749	40,355
Government of the Republic of Italy	61,898	71,666
Balance on December 31	**8,697,774**	**7,159,040**

Long-term borrowings obtained from customers were approved to the Bank for periods from 6 to 11 years at nominal interest rates ranging from 0.35% to 2.153% per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35) SUBORDINATED LIABILITIES

Subordinated liabilities relate to:

(In thousands of RSD)

	2014	2013
UniCredit Bank, Czech Republic	-	860,845
UniCredit Bank Austria AG, Vienna	2,698,019	2,567,572
Balance on December 31	**2,698,019**	**3,428,417**

As on December 31, 2014 subordinated liabilities in foreign currencies in the amount of RSD 2,698,019 thousand pertain to the subordinated long-term borrowing received from UniCredit Bank Austria AG in the amount of CHF 26,830,000. This loan was approved to the Bank for a period of 12 years at the interest rate equal to 3-month CHF LIBOR increased by 2.93%. The loan is securitized with collateral and all the liabilities arising from this loan agreement are considered subordinated, i.e. in the event of the Bank's liquidation or bankruptcy, such liabilities will be settled only after settlement of liabilities to all other creditors.

In 2104 the Bank settled its subordinated liability to UniCredit Bank, Czech Republic. The Bank had no interest liabilities outstanding or any other non-compliance with the contractual provisions on subordinated liabilities during 2014 and 2013.

36) PROVISIONS

Provisions relate to:

(In thousands of RSD)

	2014	2013
Individual provisions for off-balance sheet items	188,674	14,491
Group provisions for off-balance sheet items	106,431	42,780
Provisions for other long-term employee benefits	37,024	43,571
Provisions for potential litigation losses	92,060	48,570
Provisions for other liabilities	23,634	-
Balance on December 31	**447,823**	**149,412**

Movements on the accounts of provisions during the year are provided below:

(In thousands of RSD)

	Individual Provisions for Off- Balance Sheet Items	Group Provisions for Off- Balance Sheet Items	Provisions for Long-Term Employee Benefits	Provisions for Potential Litigation Losses	Provisions for Other Liabilities	Total
Balance, January 1	14,491	42,780	43,571	48,570	-	149,412
Charge for the year	174,183	63,651	11,991	50,996	23,634	324,455
Release of provisions	-	-	(5,324)	-	-	(5,324)
Reversal of provisions	-	-	(13,214)	(7,506)	-	(20,720)
Balance, December 31	**188,674**	**106,431**	**37,024**	**92,060**	**23,634**	**447,823**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37) OTHER LIABILITIES

Other liabilities include:

(In thousands of RSD)

	2014	2013
Advances received, deposits and retainers		
in RSD	198,418	4,289
in foreign currencies	109,383	30,687
Accounts payable		
in RSD	91,735	90,824
in foreign currencies	188,743	152,959
Other liabilities		
in RSD	170,673	127,251
in foreign currencies	277,503	327,073
Fees and commissions payable per other liabilities		
in RSD	5,132	-
in foreign currencies	22,181	16,070
Accrued other income		
in RSD	110,615	121,606
in foreign currencies	47,251	9,134
Accrued other expenses		
in RSD	200,621	137,169
in foreign currencies	7,209	6,168
Liabilities per managed funds	11,995	-
Taxes and contributions payable	6,369	18,131
Balance on December 31	**1,447,828**	**1,041,361**

38) RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES WITH CREDITORS AND DEBTORS

In accordance with the Law on Accounting, the Bank reconciled its balances of payables and receivables with its debtors and creditors. The balance reconciliations were made as of October 31, 2014. Out of the total amount of receivables for which the Bank delivered outstanding item statement forms for balance reconciliation, unreconciled balances totaled RSD 56,282 thousand, while balance confirmation requests for receivables not responded to amounted to RSD 25,277,160 thousand. Out of the total amount of liabilities for which the Bank requested balance confirmation, unreconciled balances totaled RSD 4,906 thousand, while balance confirmation requests for liabilities not responded to amounted to RSD 37,316,381 thousand. As for off-balance sheet items, the unreconciled balances amounted to RSD 88,427 thousand and confirmation requests totaling RSD 283,026,071 thousand were not responded to.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39) EQUITY

39.1 Equity is comprised of:

(In thousands of RSD)

	2014	2013
Issued capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	5,464,805	3,831,533
Reserves	25,623,656	22,523,470
Balance on December 31	**55,258,237**	**50,524,779**

As of December 31, 2014 the Bank's share capital totaled RSD 23,607,620 thousand and comprised 2,360,762 common stock (ordinary) shares with the individual par value of RSD 10,000. All shares issued by the Bank are ordinary shares.

Ordinary shareholders are entitled to dividend payment pursuant to the relevant decision on profit distribution enacted by the Bank's Supervisory Board and to one vote per share in the Bank's Shareholder General Meeting.

UniCredit Bank Austria AG, Vienna is the sole (100%) owner and shareholder of the Bank.

Reserves from fair value adjustments relate to the net cumulative changes in the fair values of securities available for sale.

39.2 Earnings per Share:

The basic earnings per share totaled RSD 2,315 in 2014 (2013: RSD 1,623).

Diluted earnings per share are equal to the basic earnings per share given that the bank has no contingent shares, i.e., shares embedded in other financial instruments or contracts that may entitle their holders to the ordinary shares of the Bank.

39.3 Breakdown of other comprehensive income after taxes is provided in the table below:

(In thousands of RSD)

	2014	2013
Actuarial losses per defined employee benefits	(1,810)	-
Net fair value adjustments of financial assets available for sale	(729,537)	885,744
Other comprehensive income, net of taxes	**(731,347)**	**885,744**

40) CASH AND CASH EQUIVALENTS

Breakdown of cash and cash equivalents as reported within the statement of cash flows is provided below:

(In thousands of RSD)

	2014	2013
In RSD		
Gyro account	12,676,531	19,572,418
Cash on hand	886,490	799,788
	13,563,021	**20,372,206**
In foreign currencies		
Foreign currency accounts	1,459,411	1,580,838
Cash on hand	588,435	524,746
Other cash funds	41,052	37,028
	2,088,898	**2,142,612**
Balance on December 31	**15,651,919**	**22,514,819**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41) CONTINGENT LIABILITIES AND COMMITMENTS

41.1 Litigation:

As of December 31, 2014 there were 104 legal suits filed against the Bank (including 8 labor lawsuits) with claims totaling RSD 346,781,776, which amount does not include the labor lawsuits. In 5 of these proceedings plaintiffs are legal entities, while in the remaining 91 private individuals appear as plaintiffs.

The Bank made provisions of RSD 92,060 thousand in respect of the legal suits filed against it. The aforesaid amount of provisions does not include the labor lawsuits.

For certain lawsuits, provisions were not made in the exact amount of the claim, primarily based on the estimate of the outcome of such suits as favorable for the Bank, i.e. the estimate that the Bank will incur no outflows in respect of those legal suits or that there are minor contingent liabilities at issue, which require no provisioning.

The Bank is involved in a number of lawsuits against third parties, primarily for collection of outstanding receivables.

41.2 The Bank's commitments for operating lease liabilities for business premises are provided below:

(In thousands of RSD)

	2014	2013
Commitments due within one year	424,632	363,366
Commitments due in the period from 1 to 5 years	682,733	767,584
Commitments due in the period longer than 5 years	171,744	97,160
Total	**1,279,109**	**1,228,110**

41.3 The Bank's contingent liabilities are provided in the table below:

(In thousands of RSD)

	2014	2013
Contingent liabilities		
Payment guarantees		
in RSD	8,148,731	9,336,651
in foreign currencies	8,445,433	5,496,059
Performance bonds		
in RSD	26,298,074	24,223,369
in foreign currencies	3,553,069	2,708,909
Letters of credit		
in RSD	15,966	267,780
in foreign currencies	1,896,413	4,075,814
Irrevocable commitments for undrawn loans	10,772,443	19,129,454
Other irrevocable commitments	725,750	687,853
Balance on December 31	**59,855,879**	**65,925,889**

41.4 Breakdown of irrevocable commitments is provided below:

(In thousands of RSD)

	2014	2013
Commitments		
Current account overdrafts approved	1,127,034	1,094,106
Unused portion of approved credit card loan facilities	1,324,777	1,568,254
Unused framework loans	6,806,214	14,917,448
Letters of intent	1,514,418	1,549,646
Other irrevocable commitments	725,750	687,853
Balance on December 31	**11,498,193**	**19,817,307**

41.5 Undrawn foreign loan facility funds as of December 31, 2014 amounted to RSD 7,741,331 thousand (2013: RSD 6,728,345 thousand).

42) RELATED PARTY DISCLOSURES

The Bank is under control of UniCredit Bank Austria AG, Vienna, domiciled and registered in Austria, which is the sole owner of the Bank's common stock shares (100%). In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities and derivative instruments. Related party transactions are performed at arm's length.

Balances of receivables and payables from related party transactions as of the year-end are provided in the table below:

(In thousands of RSD)

	2014	2013
Balance sheet – statement of financial position		
Loans and receivables due from banks and other financial institutions		
UniCredit Bank Austria AG, Vienna	8,889,811	3,171,756
UniCredit Bank AG, Munich	9,030	27,894
UniCredit Bulbank, Sofia	23	22
UniCredit S.P.A. Milano	19,211	411,241
UniCredit Banka Slovenia, Ljubljana	239	185
Zagrebačka banka d.d.	1,274	1,342
UniCredit Bank Hungary Z.r.t., Hungary	34,866	28,147
UniCredit Bank ZAO Moscow	11,721	113,897
	8,966,175	**3,754,484**
Loans and receivables due from customers		
The Bank's Management Board	11,453	27,419
UniCredit Rent d.o.o.	135,614	140,000
	147,067	**167,419**
Other assets		
UniCredit S.P.A. Milan	3,554	521
UniCredit Bank Austria AG, Vienna	69,501	55,410
UniCredit S.P.A. Rome	-	5,727
UniCredit S.P.A. Zweigniederlassung, Vienna	-	51
Zagrebačka banka d.d.	319	425
UniCredit Bank BIH	6	6
UniCredit Business Partner S.C.P.A., Milan	708	-
UniCredit Banka Slovenia, Ljubljana	4	3
UniCredit Bank ZAO Moscow	6	6
UniCredit Leasing Srbija d.o.o	208	44
	74,306	**62,193**
Deposits and other liabilities due to banks, other financial institutions and the central bank		
UniCredit Bank Austria AG, Vienna	28,251,870	47,049,618
UniCredit Leasing Srbija d.o.o	816,791	2,102,742
UniCredit Partner d.o.o	154,109	132,123
UniCredit Bank AD Banja Luka	3,050	802
Zagrebačka banka d.d.	26,153	48,500
UniCredit Bank AG, London	48	48
UniCredit Banka Slovenia, Ljubljana	12,918	4,590
UniCredit Bank AG, Munich	71,449	7,748
UniCredit CAIB AG, Vienna	-	7
UniCredit Bank Hungary Z.r.t., Hungary	19	131
UniCredit Bulbank, Sofia	2	2
UniCredit S.P.A. Milan	4,143	11,480
UniCredit Bank Czech Republic	324	6,863
UniCredit Bank ZAO Moscow	12,385	10,347
	29,353,261	**49,375,001**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42) RELATED PARTY DISCLOSURES (Continued)

(In thousands of RSD)

	2014	2013
Deposits and other liabilities due to customers		
The Bank's Management Board	20,945	11,159
UniCredit Rent d.o.o	84,604	520,222
UniCredit CAIB AG, Vienna	64	54
BA CA Leasing Deutschland GmbH, Germany	722,940	670,707
Ambassador Park Dedinje d.o.o.	3,468	22,031
CA IMMO d.o.o.	7,617	4,681
CA IMMO SAVA CITY d.o.o. Beograd	64,510	44,180
UCTAM D.O.O.	109,493	190,211
	1,013,641	**1,463,245**
Subordinated liabilities		
UniCredit Bank Austria AG, Vienna	2,697,681	2,567,191
UniCredit Bank Czech Republic A.S.	-	859,816
	2,697,681	**3,427,007**
Other liabilities		
UniCredit Bank AG, Munich	3,318	963
UniCredit Bank Austria AG, Vienna	2	2
UniCredit Bank BIH	-	7
UniCredit Bank Hungary Z.r.t., Hungary	130	167
UniCredit S.P.A. Milan	157,125	130,463
UniCredit Rent d.o.o.	429	500
Unicredit CAIB Slovenia	-	1,041
UBIS G.m.b.H, Vienna	10,402	2,109
UniCredit Business Integrated Solutions S.C.P.A, Czech Republic	2,111	1,786
UniCredit Banka Slovenia, Ljubljana	9,636	9,668
Zagrebačka banka d.d.	-	11
	183,153	**146,717**
Liabilities, net as of December 31	**24,060,188**	**50,376,818**

The following table summarizes income and expenses from related party transactions:

(In thousands of RSD)

	2014	2013
Income statement		
Interest income	6,117	19,470
Interest expenses	(1,536,573)	(2,091,795)
Fee and commission income	108,808	97,351
Fee and commission expenses	(376,716)	(369,684)
Expenses, net as of December 31	**(1,798,364)**	**(2,344,658)**

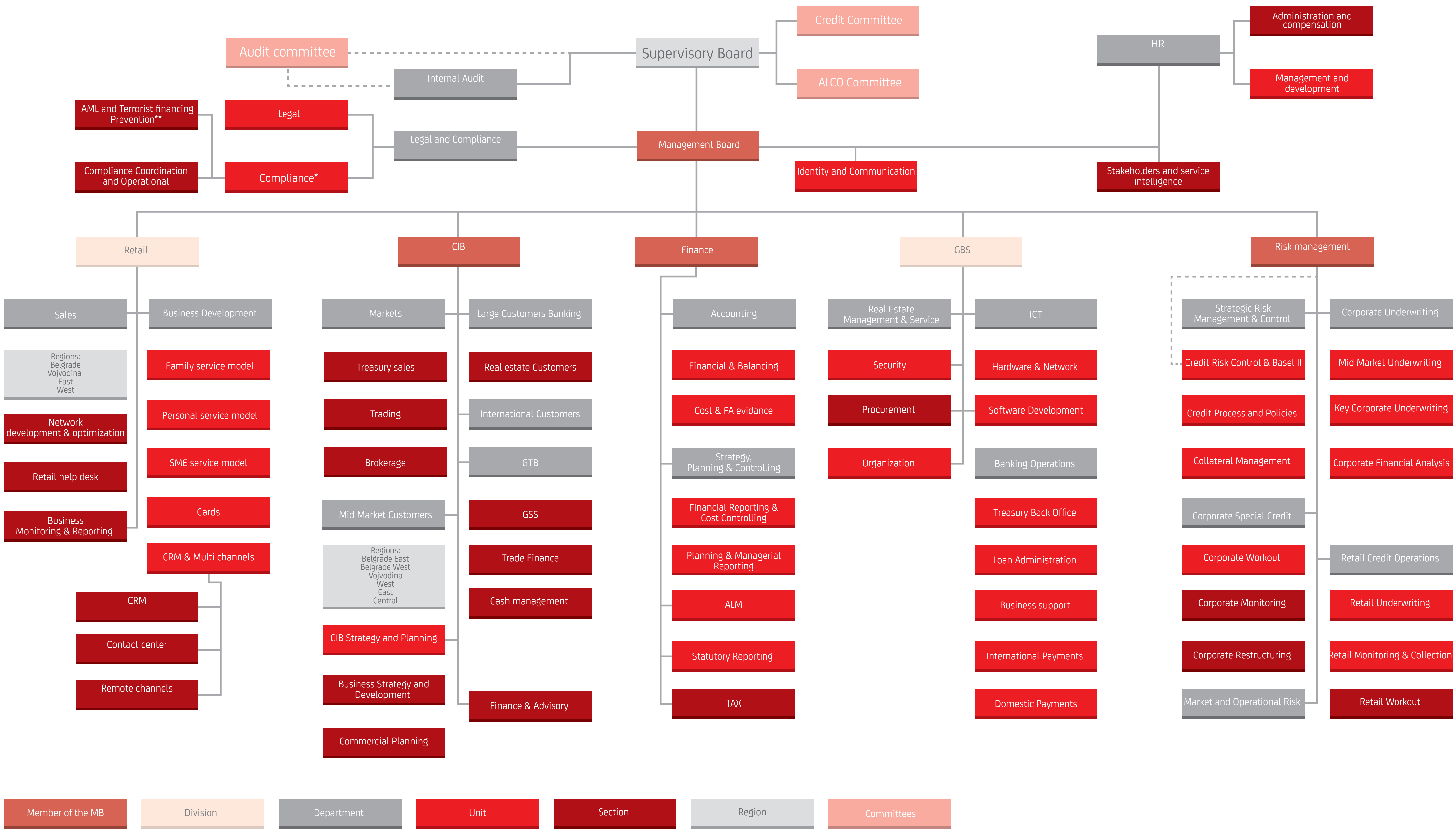
Total gross salaries and other remunerations of the Bank's Management Board members amounted to RSD 27,510 thousand (2013: RSD 32,581 thousand).

43) EVENTS AFTER THE REPORTING PERIOD

There were no events from the balance sheet date up to these financial statements issue date that would require any adjustments to (adjusting events) or additional disclosures in the accompanying financial statements.

ORGANISATIONAL STRUCTURE

ORGANISATIONAL STRUCTURE



*Compliance section- Reporting to the Audit committee and Management Board and Supervisory Board if needed

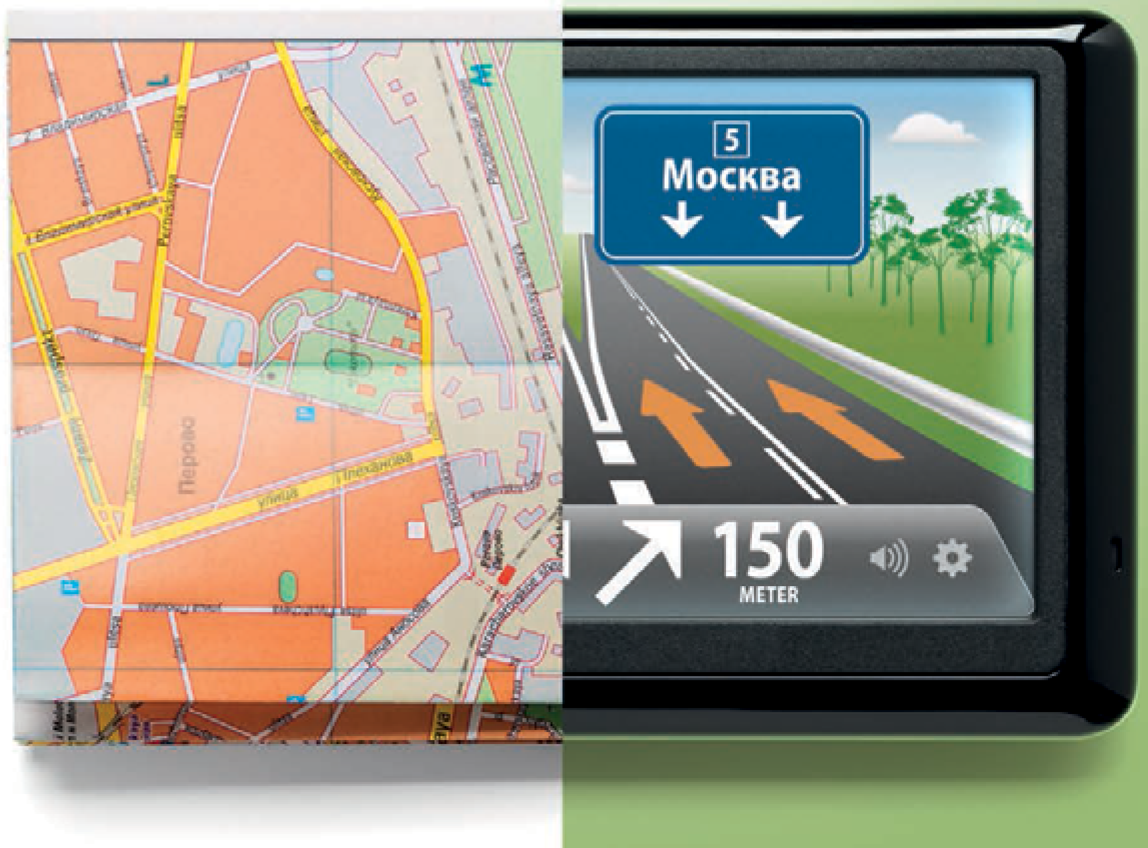
**AML section- Reporting to the CEO

There is a whole world to discover.

Better discover it now.

At home when you're abroad.

Together, we can go far.
UniCredit has more than 8,500 branches and over 147,000 employees in roughly 50 markets across the world. That means we have the tools, the knowledge and the manpower to help your business go international. Our **UniCredit International Centers** gather our most experienced cross-border experts into a single, powerful network that can provide your business with the information and services it needs to succeed abroad. From evaluating investments, to identifying optimal financial solutions and, of course, providing basic banking services, UniCredit is always with you, anywhere you choose to be.



MANAGING BODIES

	Members of Supervisory Board
Erich Hampel	Chairman
Heinz Tschiltsch	Vice Chairman
Martin Klauzer	Member
Simone Marcucci	Member
Boris Begović	Member
Svetlana Kisić Zajčenko	Member
	Members of Management Board
Claudio Cesario	Chairman
Alen Dobrić	Member
Ljiljana Berić	Member
Enrico Verdoscia	Member

Belgrade, February 25, 2015
Signed by the management of UniCredit Bank Serbia JSC Belgrade:

Claudio Cesario
Management Board Chairman

Ljiljana Berić
Management Board Member, CFO

Mirjana Kovačević
Head of Accounting Department